REPORT TITLE: HRA BUSINESS PLAN AND BUDGET OPTIONS

20 NOVEMBER 2024

REPORT OF CABINET MEMBER: CLLR CHRIS WESTWOOD – CABINET MEMBER FOR HOUSING

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WARD(S): ALL

PURPOSE

Despite continuing budget challenges faced by the council's housing service, this report offers budget options to maintain the council's policy objectives to go greener faster, address the cost-of-living crisis and maintain the commitment to deliver 1000 new homes.

Continuing inflationary building supply and construction pressures, and stubbornly high Public Works Loan Board (PWLB) interest rates mean that new homes viability remains challenging. To address this significant rise in building costs and maintain the commitment to delivering 1000 new homes, the previous business plan was rebalanced with a new homes acquisition strategy to prioritise purchase of new homes from developers, where costs are currently significantly lower, and to continue to develop schemes where the business case is proven to be viable and demand for the new homes exists.

Further budgetary pressures arising, particularly around repairs & maintenance, have put further pressure on the HRA budget.

The budget options contained in this report support the council's commitment to increase investment in customers' homes to go greener faster and to deliver the 1000 new homes programme by 2032/33.

To achieve these policy objectives and set a viable and sustainable HRA business plan, several budget options have been identified for consideration, development and consultation with customers. Subject to the development and consultation those options will be decided by Cabinet when the Housing Revenue Account budget is considered in February 2025.

RECOMMENDATIONS:

1. Note the draft HRA Business 30-year Plan for 2024-25 to 2053-54 metrics shown in Appendix 3 and current 5 year projection at Appendix 1
2. To note the business plan pressures identified in the 2024/25 business planning exercise as outlined in paragraphs 11.26 and 11.36, totalling £1.986m
3. To approve the budget options outlined within this report and detailed at Appendix 2 as a basis for consultation to inform the February budget setting.
4. To approve the reallocation of £0.25m from the one off investment budget set in the previous business plan to meet actions arising from our self assessment of our consumer standards compliance and service improvements identified.
5. Note the continuing strategy for New homes based upon a mixture of actively acquiring s106 affordable housing directly from developers alongside future development with grant funding and using Right to Buy resources.
6. Note the current financial viability assessment for new build from para 11.15 to 11.25
7. Note that a revenue savings target of £2m has been set to assist with bridging the forecast gap in financing future capital expenditure.
8. Note the proposed timescale for asset disposals, and that Barnes House disposal has been reconsidered for proposed use as Temporary Accommodation
9. Note that based on the September 2024 CPI figure of 1.7% that the average formula rent increase for 2025-26 for all affordable and social housing will be 2.7%
10. Note that the budget in October announced a consultation for future rent settlement between now and December, which indicates preference for CPI+1 for 5 years into the future, and approve the application of this principle in the business plan model to mitigate the cost of new build developments and reduce long term debt burden to the HRA once the outcome of the consultation is known.
11. To approve continuing full cost recovery in tenant service charges in 2025/26 and note that charges will generally reduce following a softening of energy prices,
12. Note that there is an ongoing workstream on the re-procurement of the repairs and maintenance contract. The Business plan provides for this to happen over the following two years at a provisional one-off cost of £0.4m in 2024/25, and estimated £0.3m in 2025/26.

13. Note that, following implementation of options, the draft HRA Business 30-year Plan is viable and sustainable and has the capacity to support the council's ambitious delivery of 1,000 new affordable homes by the end of 2031/32

IMPLICATIONS:

1. COUNCIL PLAN OUTCOME

1.1. Providing good quality housing and new affordable homes is a strategic priority for the council. Effective management of the resources available to the council enable it to take advantage of new opportunities and ensuring tenant satisfaction in relation to their home and community.

1.2. Tackling the Climate Emergency and Creating a Greener District

Carbon reduction measures will be accelerated across the existing housing stock and included within the design and construction of new properties and included within the feasibility assessment when considering the purchase of properties. This includes the council's retrofit programme for existing properties, for which £40.2m is allocated between 2024/25 and 2030/31 within this year's plan.

1.3. Homes for all

Assist with the increase of affordable housing property stock across the Winchester district and meet the council's objective to provide a range of tenures to meet demand.

1.4. Vibrant Local Economy

Deliver affordable accommodation which allows people to live and work in the district and contribute to the local economy.

1.5. Living Well

The wellbeing of residents is considered within the design of new properties and new homes are designed to be both energy efficient and to meet tenants' needs. Any substitute properties are assessed according to these criteria.

1.6. Your Services, Your Voice

Housing tenants are directly involved in decisions regarding service provision, both through the work of Tenants and Council Together (TACT), the council's tenant involvement group and through regular tenant and leaseholder digital surveys, capturing wider tenant views. The service continues to review options to provide an improved customer experience, increase opportunities for engagement, and to ensure satisfaction with services provided by the council.

2. FINANCIAL IMPLICATIONS

2.1. Financial implications are detailed within section 11 of the report and in the accompanying appendices

3. LEGAL AND PROCUREMENT IMPLICATIONS

3.1. Under Part VI of the Local Government and Housing Act 1989 any local authority that owns housing stock is obliged to maintain a Housing Revenue Account. The HRA is a record of revenue expenditure and income in relation to an authority's own housing stock. The items to be credited and debited to the HRA are prescribed by statute. It is a ring-fenced account within the authority's General Fund, which means that local authorities have no general discretion to transfer sums into or out of the HRA.

3.2. The council is required to prepare proposals each year relating to the income of the authority from rents and other charges, expenditure on repairs, maintenance, supervision and management of HRA property and other prescribed matters. The proposals should be made on the best assumptions and estimates available and designed to secure that the housing revenue account for the coming year does not show a debit balance and is sustainable in the long term. The report sets out information relevant to these considerations.

3.3. Section 76 Local Government and Housing Act 1989 places a duty on local housing authorities: (a) to produce, and make available for public inspection, an annual budget for their HRA which avoids a deficit; (b) to review and if necessary, revise that budget from time to time and (c) to take all reasonably practicable steps to avoid an end-of-year deficit.

4. WORKFORCE IMPLICATIONS

4.1. There are potential staffing implications in the proposed budget options including the deletion of vacant posts in the New Homes delivery team, and potential invest to save proposals.

5. PROPERTY AND ASSET IMPLICATIONS

5.1. To meet one of the key principles of the council plan, the HRA is required to provide sufficient financial resources to both maintain existing stock to decent homes standard and to enable new affordable housing to be obtained to help meet local demands.

6. CONSULTATION AND COMMUNICATION

6.1. A meeting of the new TACT board took place on the 21st October to review the budget gap and savings proposals. Subject to the decision of cabinet on If the savings proposals within this report are accepted, they will be subject to consultation with all engaged tenants through a variety of means. The results of that consultation will be reported to Cabinet to take into consideration when agreeing the HRA budget at their meeting in February.

7. ENVIRONMENTAL CONSIDERATIONS

7.1. This year's proposed 30 year business plan ensures sufficient provision of resources to fund the fabric-first retrofit programme of works, with funding of £44m over the next 7 years. During 2023/24, a total of 358 houses were completed, with a further 48 completed during the first quarter of 2024/25; and delivery of the overall planned investment could lead to a reduction of 1666.22tCO_2 from customers' homes by 2030.

7.2. The Business Plan also funds the provision of five dedicated retrofit officers responsible for the delivery of the retrofit programme.

7.3. The Housing Service considers environmental factors when preparing and developing major projects e.g., working closely with Planning and Landscape Officers when considering new build developments to meet the required codes for sustainable housing.

8 PUBLIC SECTOR EQUALITY DUTY

8.1 This document is part of the budget consultation process, and the public sector equality duty is considered alongside any relevant budget options. The housing service holds data in respect of its tenants' protected characteristics. The impact of the proposals will be addressed in relation to tenants who have protected characteristics following consultation and consideration for reporting to cabinet at its February meeting. .

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 All proposals set out in this report and the Capital Programme will be subject to individual data protection impact assessments.

10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
Property That Council owned dwellings fail to meet Decent Home standards for the condition of social houses set out by the government.	An effective programme of future works and sound financial planning ensures that the Decent Homes standards are met and then maintained.	Self-Financing provides certainty around future resource allocations and facilitates better supply chain management
Community Support Lack of consultation will affect tenant satisfaction and cause objections to planning applications for new build developments.	Regular communication and consultation is maintained with tenants and leaseholders on a variety of housing issues.	Positive consultation brings forward alternative options that may otherwise not have been considered.

Risk	Mitigation	Opportunities
	The Council consults with local residents and stakeholders on proposed new build schemes.	
Timescales *Delays to new build* contracts may result in increased costs and lost revenue. .	New build contracts contain clauses to allow the Council to recover damages if the project is delayed due to contractor actions.	
Project capacity The HRA can borrow funds in addition to utilising external receipts and reserves, but it must be able to service the loan interest arising.	Regular monitoring of budgets and business plans, together with the use of financial assessment tools enables the Council to manage resources effectively.	The Council monitor's government announcements on the use of RTB receipts and potential capital grant funding.
Deliverables Risk that the council cannot deliver the programme of new build and meet the objective of 1000 homes in 10 years because of the lack of sites, the cost of development or the cost of financing this development.	The new homes is monitored on a regular basis and if appropriate could be delayed or re-profiled in light of the availability of these resources	Review the deliverable shape of the programme and its profiled delivery considering available resources and risk appetite
Staffing resources (not always in Housing) reduce the ability to push forward new schemes at the required pace.	Staffing resources have been reviewed to support the delivery of the new build programme.	Given the challenging nature of the delivery targets it may be necessary to review the resourcing requirements needed to successfully deliver this programme
Financial / VFM Risks, mitigation, and opportunities are managed through regular project monitoring meetings.	New build Schemes are financially evaluated and must pass financial hurdles and demonstrate VFM. Total Scheme Costs contain provision for contingency on build costs and on fees for	In addition, the HRA holds annual minimum levels of reserves based upon 5% of operating turnover and 10% new build costs.

Risk	Mitigation	Opportunities
Insufficient new build sites are identified to assign RTB 1-4-1 receipts financing to and RTB receipts are required to be repaid to Central Government with up to an estimated compounded 55% interest penalty based on current rates.	new build developments that take account of potential residual development and sales risk. RTB 1-4-1 are closely monitored so in-year targets for new builds are known.	
Financial Assessment Risk that the cost of developing new homes projects will fail to meet the financial hurdles required to be financially viable to develop/acquire within the HRA	The measures identified within this paper will help to mitigate against the increased costs of new homes by increasing the income available to fund increased borrowing costs and reducing the overall cost of delivery.	
Interest rate volatility Risk of volatile economic and fiscal environment for borrowing contributing to making external borrowing decisions difficult to take.	The HRA has cash reserves that allow it in the short term to effectively borrow from internal resources giving a period for interest rates to stabilise and reset and the fiscal environment to be more benign.	The use of internal borrowing can help to reduce the short-term cost of borrowing as well as delay the need to seek external finance and delivers better overall returns to the HRA
Future Social Rent Policy Uncertainty about long term rental income streams because of the end of the current agreement on rent setting in April 2025.	Rental income accounts for 93% of all the HRA annual income, and future potential uncertainty, government intervention or constraint has a significant impact on the future capacity of the HRA and deliverability of the plan	Sectorial lobbying of Government to seek future certainty will help to support better decision making. Engagement in government consultation process between now and Dec 2024
Legal The provision of social housing is a statutory requirement. Changing Government priorities place a greater emphasis on	Government statutory requirements and policy changes are being monitored to identify any	To create new housing developments within new guidelines and drawing on innovative thinking.

Risk	Mitigation	Opportunities
social housing which must be monitored and considered within planning of future new build projects.	new risks or opportunities that they may bring.	
Reputation Failure to complete major housing projects due to lack of resources would have a direct impact on both customer satisfaction and the Council's reputation.	Business planning tools with regular updates are utilised to make sure resources are available to complete projects.	
Other – Environmental regulation such as that by Natural England on mitigating Phosphates	This delays the ability to bring forth schemes with planning permission and delays increase the cost and viability of schemes.	

11 SUPPORTING INFORMATION:

Executive Summary:

11.1 The HRA Business planning process is completed annually and all assumptions are revisited and undertaken a fresh every year. To set a viable and sustainable business plan for the next 30 years has been extremely challenging this year.

11.2 The key challenges in the HRA specifically in 2024/25 arises from the increased cost of repairs and maintenance, following the determination that cumulative RPI was not being applied correctly and subsequent assessment on costs, combined with increasing demand for repairs, driving an increase in R&M costs of £1.1m. In addition to this:

- Service pressures of £0.3m,. The key service pressures include the cost of regulation £0.045m, increased cost of services charged by the General Fund £0.15m, anticipated additional cost of insurance, and other minor service pressures.

- An additional £0.36m estimate of the required transfer from revenue to the Major Repairs Reserve, based on depreciation. While the HRA does not lose this sum, it restricts its use to capital purposes and therefore reduces flexibility.

- The significant increases in cost of construction seen since 2020 are now baked in and continue to increase broadly in line with inflation in 2024/25.

- Interest on borrowing remains high and is not expected to decrease significantly in the near term.

- Potential pressures of £0.25m arising from to meet actions arising from our self assessment of our consumer standards compliance and service improvements identified.

- The October budget confirmed an increase in National Insurance employers contributions, which would generate additional pressure on staffing costs from April 2025. The budget indicates that the public sector would be reimbursed, however it is not yet clear how this will be calculated or allocated. The potential impact cannot yet be quantified therefore, and has not yet been factored into the business plan.

If no action were to be taken to address these pressures, there would be insufficient resources within the business plan. Accommodating these pressures would require an overall reduction in the CFR of £42m to reduce borrowing costs over the next 5 years to maintain minimum working balances over the life of the business plan.

The business plan has therefore been built up to identify the level of savings needed to meet the pressures identified and deliver commitments of 1000 homes and retrofit programmes by 2031/32, and build sufficient capacity to repay debt after 2031/32.

The level of saving required to maintain current spending plans and working balance in the short term, and increase capacity in the long term, is £2m.

Further rent increases after 2027/28, if allowed, will support future housebuilding beyond 2031/32, additional investment in the housing stock or opportunity to redeem debt.

<u>Economic Outlook and cost pressures:</u>

11.3 The Budget for 2024-25 was set against a background of high interest rates designed to tackle inflationary pressures. CPI inflation has since fallen and reached 1.7% at September 2024, below the Bank of England’s target of 2%. However, this does not mean that costs have fallen, it means that the pace of increase has slowed down, and key cost drivers to the HRA such as energy and building materials continue to remain significantly high.

11.4 Bank of England base rate rises continued into the early part of 2024/25 and stabilised through the spring, prior to a small reduction in base rate in August and maintained at 5% in September. Although further base rate reductions are likely, it is unlikely that interest rates will be as low as they were prior to 2021. Measures were taken in the 2023/24 business plan to increase capacity for borrowing in the business plan, but with no allowance to reduce debt overall.

Cost of construction

11.5 The investment required for new homes continued to increase in 2024/25. Construction cost inflation during 2024 to date have been in line with inflation, and costs identified through the development of business cases for new build have varied from £4,800 to £5,100 per square metre (including 15% allowance for oncosts); making the cost of construction (excluding land) for an average 90sqm 3-bedroom property now in excess of £430,000. At the same time the cost of borrowing that the council can access remains high, whilst new affordable rents have increased only in line with inflation plus 1% in recent years.

Rent Increases

11.6 The council must set its rents in line with the Rent Standard and central Government's Regulator of Social Housing's rent setting guidelines. The current basis of rent setting is CPI+1% for 2025/26. The October budget confirmed the government's intention to consult on future social rent policy between now and December 2024. The indication within the consultation would be for CPI + 1% for 5 years. The business plan currently assumes that the current level of CPI+1% will continue into 2025/26, 2026/27 and 2027/28. Based on September CPI of 1.7%, the rent increase in 2025/26 would be 2.7%.

Repairs and maintenance

11.7 Annually the council looks at the capital costs of maintaining the existing housing stock at decent homes standard and its investment here is based upon an asset management plan. This identifies the investment requirement profiled over the thirty-year plan based upon the lifecycle replacement costs of key components. To bring the housing stock up to the required energy efficiency standard of EPC C identified by 2030-31, the business plan allows for £40.2m on capital works. The Council continues to see pressure on reactive and cyclical maintenance in the revenue budget and this is expanded on at para 14.2.

Interest on borrowing

11.8 Interest rates are a key cost driver in the HRA business plan and as at 31 March 2024 the HRA had a Capital Financing requirement of £215m, of which £159m is external debt (fixed at PWLB interest rates averaging 3.2%) and the balance of £55.8m is internally borrowed (offset against reserve balances and working capital). PWLB rates are not directly linked to the Bank of England base rate but are set at a margin over government gilt yields, which analysts believe are likely to fall slightly in the medium term but remain higher than the period of historically low rates following the 2008 financial crisis. The current cost of financing this external debt is £5.5m per annum.

11.9 This debt largely came about through self-financing and was originally taken out in 2012. A proportion of this existing external debt (£100m) will need to be refinanced over the next 15 years, with a need to refinance £30m of it within the next five years. The HRA, unlike the General Fund, has no requirement to set aside funding for debt repayment, albeit that the depreciation charge is set aside to finance capital expenditure. In previous versions of the business plan, all underlying debt is refinanced. However, where there is capacity, the model assumes repayments to reduce debt burden in the long term, and in the current iteration, £90m debt would be repaid by the end of the period.

11.10 In addition, the proposed plan will see HRA funding the building or acquisition of additional affordable homes, funded through a mixture of Right to Buy (RTB) 1-4-1 capital receipts; shared ownership sales; other discretionary asset disposals; grants and affordable housing s106 contributions; and borrowing. This will require additional prudential borrowing of £178m to finance this delivery. At present the cost of long-term government borrowing remains elevated and stands at circa 5% for 50 year borrowing at the time of writing. In the decade before 2006/07 the PWLB long term interest rate peaked at 9.42% but averaged 5%, and therefore the model continues to assume that the cost of borrowing in the plan will be 5% for the duration of the planning period.

11.11 The October budget confirmed that the preferential rate for HRA borrowing, which was due to expire on 30 June 2025, will be extended to the end of 2025/26. The impact of this has not been factored into the business plan at this stage but will be considered as part of the February budget report.

Management of the HRA

11.12 There is a need to modernise the provision of services to customers through the introduction of better digital access. The previous HRA business plan earmarked provisional revenue sums of up to £2m over the next two years to facilitate investment in systems to enable this objective to be achieved.

11.13 A feasibility study is ongoing to review whether the existing housing management system is still fit for purpose and to assess how well it will be able to facilitate the council's aspiration of improving digital services for customers. To date, investment requirement of £0.15m has been identified.

11.14 In addition, work on the re-procurement of the repairs and maintenance contract is ongoing as the current contract expires in 2026, and is subject to a separate report (CAB3473). The business plan allows for additional associated cost committed of £0.4m in 2024/25, and a further £0.3m estimated commitment in 2025/26.

Continuing High Costs of New Build Housing

11.15 Under the self-financing regime, the HRA is a purpose made vehicle for delivering new affordable homes and when both interest rates were low and stable and construction costs more affordable it was able to build, construct and acquire properties; financing this with rents at 70% of market rent or the Local Housing Allowance, whichever was the lower.

11.16 In delivering an ambitious programme of 1,000 new homes, the HRA business plan is now operating with much higher average build costs than in previous years, and no longer has the advantage of borrowing at historically low interest rates under self-financing from the government.

11.17 As at the beginning of 2024/25 a total of 268 properties had been completed out of the 1000 homes target for 2031/32; a further 4 LAHF purchases completed in July 2024, and 4 Council Tax buybacks were agreed in July 2024.

11.18 As a result of the ongoing high costs, the Council has followed a strategy of acquisition, and as a result been able to add to its housing supply between 2024/25 and 2028/29 through targeted acquisitions, including a number of buybacks (agreed by Cabinet in July 2024), and acquisitions of s106 affordable homes new build at Twyford (10 homes) and Kings Barton (147 homes), (currently to be agreed by Cabinet in November). In addition, business cases and negotiations on a further 212 properties for commissioning or acquisition are underway as at the time of writing.

11.19 The remaining 520 properties are currently included as an assumption in the business plan; No further new build is currently assumed in the business plan at this point in time.

11.20 Currently within the business plan, based on existing new build, and assuming the level of saving outlined in this report can be achieved, there is sufficient balance within the Major Repairs reserve to allocate to new build, reducing the level of initial debt build up and allowing sufficient capacity within the HRA business plan to allow for future debt repayment.

11.21 The primary financial assessment in the evaluation of new homes is a Net Present Value (NPV) calculation of all future income and expenditure over a typical 35-year period, discounted to current prices. This calculation uses the current cost of capital and a risk margin as the discount factor. In addition, the council's standard model includes the residual social value of the housing at year 35 on the basis that the asset has been well maintained and has a future use and value. There are other criteria such as gross income covering the interest cost of borrowing, but the NPV calculation is the key criteria. If it is positive then the scheme or development is worth undertaking as it adds value, if negative then it requires additional subsidy from within the HRA over and above external grant funding or available capital receipts.

11.22 Since the election of the Labour government a number of restrictions have been lifted from the use of Right to Buy receipts with a view to improving the viability of new builds. Examples of restrictions lifted include removing the 50% cap on the use of RTB to finance new build and acquisitions; temporarily removing the cap on acquisitions that RTB can be used to finance. Existing schemes are currently being reviewed in light of this and revised business cases to be taken forward.

11.23 The October budget statement has stated that RTB discounts will revert to pre-2021 levels, that Councils will be able to retain all RTB receipts to finance affordable housing and an additional £500m is to be made available to the existing 2021-2026 Affordable Homes Programme to finance new affordable housing provision. Further information on new investment to succeed the 2021 – 2026 programme will be forthcoming in the next government spending review.

11.24 In addition to the reduction in discounts, the cost floor applied to RTB sales of new build (which ensures purchase price does not fall below construction costs) will be extended from the current 15 years to 30 years. The impact of these changes is expected to reduce the number of sales in the longer term, however this has not yet been modelled. A wider consultation on the future of the RTB scheme is expected to take place in the near future.

11.25 Subject to the proposals in this report, the HRA business plan has capacity to fund delivery of 1,000 homes by 2032/33. At this stage the business plan does not assume further homes are delivered in the period between 2032/33 and the end of the business plan.

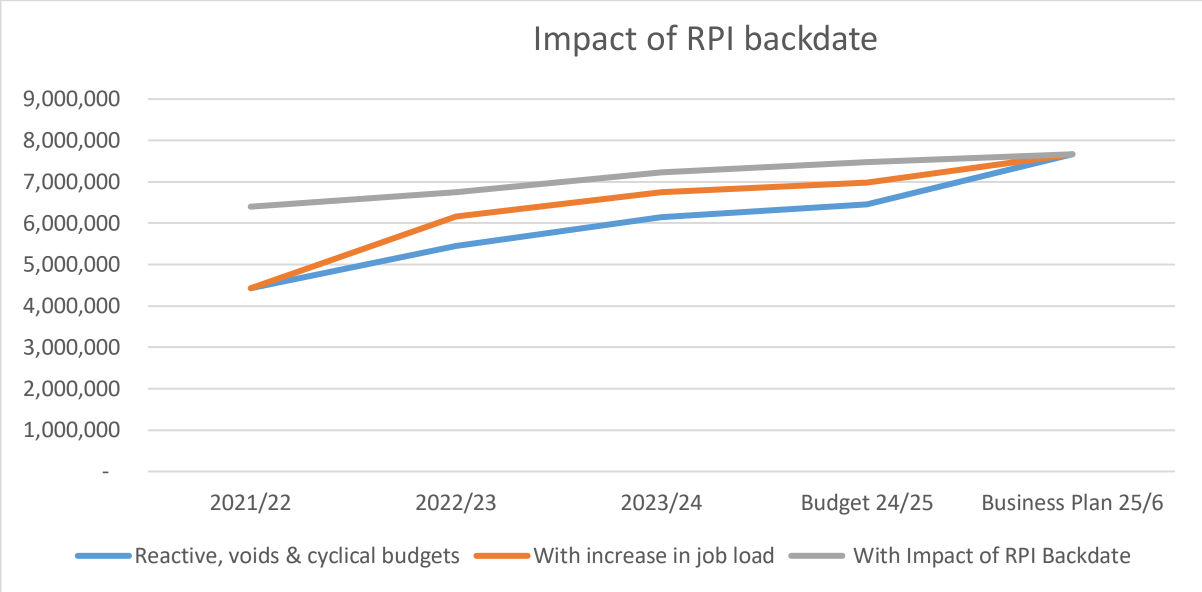
<u>Revenue Pressures</u>

11.26 In the process of closing the Council's 2023/24 HRA accounts, and through the standard monitoring processes, a number of revenue pressures have been identified and, where these are unavoidable, have built into the HRA business plan. The table below summarises the pressures facing the HRA currently:

Issue	**Pressure £'000**
Increase in R&M Expenditure accounting for historic RPI adjustment and growth in repairs volumes	1,076
Contribution to Major Repairs reserve - increased assumption based on 2023/24 outturn	365
Service pressures	295
Self assessment of consumer standards compliance and service improvements	250
Total pressures	**1,986**

11.27 The key pressure is the ongoing impact of repairs and maintenance costs. During the 2023/24 closedown, a historic issue was identified whereby RPI increases set out in the contract had not been cumulatively applied, resulting in an overspend of £2m on repairs. At that point in time, the impact of this on future years was not fully understood.

11.28 The cumulative nature of the RPI adjustment effectively means that the repairs budgets have been under-provided for a number of years. The diagram below demonstrates the existing budget trajectory and the corrected trajectory had RPI been correctly applied.



11.29 The correction of the cumulative RPI in year for 2024/25 was estimated to be £0.7m over and above the increases already budgeted for. The table below demonstrates how the budget has increased, and the actual increase required had the RPI calculation been implemented correctly. The budgets therefore require rebasing to allow for this, in addition to the standard RPI uplift assumption.

11.30 In addition to RPI adjustment, the Council has seen growth in demand for repairs over the last two years. Across the entire HRA, the volume of jobs completed and including work-in-progress has increased by approximately 30%; however this can be broken down across reactive repairs, cyclical maintenance, disabled adaptations and the capital programme, and more accurately assessed by taking only financially complete jobs as demonstrated in the following table:

	No of Financially Completed jobs
Increase in Reactive repairs Main contractor	8.23%
Increase in Voids	5%
Increase in cyclical maintenance	23.82%
Decrease in Disabled Adaptions revenue repairs (commensurate increase in capital)	-14.59%
Increase in Capital programme	50.59%
Increase in financially complete across HRA	**18.13%**

11.31 The level of reactive repairs completed and paid for in 2023/24 increased by approximately 8% in 2024/25. This is equivalent to 1,089 jobs at an average cost of £275; equating to £0.3m additional cost.

11.32 The repairs and maintenance contract is subject to a procurement exercise (report CAB3463 refers). The business plan does not make any allowance for any changes to the repairs and maintenance budget that may arise from the outcome of the procurement, however there is a risk that this may impact the estimates.

11.33 The Capital programme will invariably see changes in the number of jobs dependent on the level of planned repairs in a given year. The increase in capital jobs can largely be attributed to the increasing volume of work on retrofit.

11.34 Depreciation: The depreciation charge is notoriously difficult to estimate accurately, as the actual charge for the year is calculated based on both component cost of assets and valuation of properties. As the valuation for 2025/26 depreciation charge will not be undertaken until 31st March 2025, it is not possible to provide a perfectly accurate figure. However, recognising that depreciation charges have been significantly higher in recent years, the charge in the business plan has been increased accordingly.

11.35 The key service pressures include the cost of regulation following the introduction of a charge to registered providers to finance the increasing cost of regulation by the Regulator for Social Housing (RSH); increases in the cost of services provided by the general fund, and other minor service cost increases.

11.36 The business planning process has identified a need to increase capital resource for reactive capital compliance work. It is impossible to forecast this need as it will be reliant on the outcomes of risk assessments or changing regulation. Given this pressure, the business plan has built in £0.2m capital resource per annum for future years, recognising that this will need reprofiling as works are identified.

Revenue Savings Proposals

11.37 The previous business plan introduced a number of savings in order to increase the capacity of the HRA to finance the additional investment in retrofit. In order to maintain this borrowing capacity, and to ensure the HRA does not fall into deficit in the medium term, savings are therefore required to achieve this outcome.

11.38 A savings target of £2m per annum has been established in order to mitigate the pressures outlined above. Officers have been meeting on a regular basis during 2024/25 to identify and quantify potential opportunities. The table at appendix 2 provides the detailed list of proposed savings, of which £1.6m is ongoing into future years and £0.4m one-off for 2025/26, and includes a current RAG rating against their current expected achievability.

11.39 Savings proposals have been designed to; reduce the cost of maintenance where possible without impacting on the quality of repairs; to reduce budgets for which there are no statutory requirements to provide; and to improve cost recovery where possible and to reduce budgets where historic underspend exists.

11.40 The scale of savings to be made inevitably means that there is a degree of associated risk. Savings proposals have been risk rated accordingly. Potential mitigations, if savings cannot be made immediately, are:

- Reducing the proposed investment budget (with potential consequences for service improvement)
- Reducing working balance (a one off increase is expected in 2024/25 due to capitalisation of EOT claim of £0.8m in 2024/25)
- Reducing the capital programme.

Asset disposals

11.41 Barnes House is vacant and has been used previously to provide temporary accommodation in the HRA. Cabinet agreed to the disposal of this asset in February 2024. However, this is being reconsidered at present as to whether to retain and use for TA to relieve pressure on homelessness prevention options. A viability assessment of costs of works required against the net rent generated shows that the property would not pay for itself. As homeless provision is not an HRA service it would not be appropriate for the HRA to subsidise the costs of works. Further consideration is required as to whether the Council’s general fund should appropriate the property as a means of offsetting temporary accommodation costs or if disposal takes place by year end.

11.42 The business plan also assumed two further strips of development land per year for the next eight years will be disposed. These sites, that are considered too small and uneconomic to develop within the HRA, have already been identified. These assets will be proceeding to auction during in late 2024/25.

11.43 Lastly, the business plan assumes that the HRA will identify and dispose of further surplus social housing assets every year for the following eight years. These assets will be identified by looking at their long-term fit in terms of demand/cost to maintain and suitability to retro fit to required standards, and work has commenced via a project group on identifying suitable assets. This is estimated that it will create additional capital receipts of £500k per year, but will be reprofiled within the business plan as and when specific sites and timescales are identified.

11.44 The capital receipts generated by asset sales will be reinvested back into the HRA capital programme. If sales receipts are not achieved, the borrowing requirement for the capital programme will increase.

Sewage treatment works

11.45 The HRA is responsible for the operation of a number of small sewage treatment works, septic tanks, and cesspools, which provide private sewage treatment connections for 394 council tenants and 367 private homes. The Sewage Treatment Works encompass 36 small sewage treatment works (including septic tanks), 19 pumping stations (9 are isolated and 10 within curtilage of treatment works) and 21 cesspools. The sewage treatment works range in size from small works serving 4 properties to larger works serving 85 properties. The septic tanks and cesspools serve between 1 and 8 properties.

11.46 There is currently an under-recovery by the HRA of the annual cost of operating these treatment plants.

11.47 The council should be seeking to fully-recover the total cost of providing sewage treatment services to private residents, so that these services are not subsidised by council tenants. The council is also taking action to reduce the running cost by investing in sites with high operating costs. This will reduce the cost to the HRA in the long term; the impact of this will be reflected int e plan when savings can be quantified.

11.48 The proposal for 2025/26 is to increase sewerage charges in line with proposed water charge increases to be confirmed by OFWAT, currently expected at 10% in 2025/26 and 44% by 2029, while further work takes place on options to move to full cost recovery. This will reduce subsidy in 2024/25 by £10k, increasing to £50k by 2029/30.

Rent increases and charges in 2025-26 and beyond

11.49 The current rent setting regime is based on annual rent increases of CPI+1% and this applies to 2025-26. The Government is launching a consultation on rent increase policy from 2026/27, to run until December 2024, but has indicated in the October budget statement that there is an intention to agree CPI plus 1% increases for at least the next five years.

11.50 The business plan currently assumes that the current rent policy will continue until 2027/28.

11.51 A CPI+1% rent increase would mean the average weekly social rent for existing tenants will be £126.87 a week, an increase of £3.48 per week. The average weekly affordable rent for existing tenants will be £197.63 a week. Although the average rent has gone up in line with CPI, the overall average has fallen and this is a result partially due to new homes coming onstream since 2023/24, and the impact of service charges (which forms part of the rent calculation for affordable rents). The impact of the increases is shown in table 1 below.

Table 1- indicative weekly rents in 2024-25 compared to 2023-24 for existing tenants

Social Rents

Size	Bedsit	Bedroom 1	Bedroom 2	Bedroom 3	Bedroom 4	Bedroom 5	Bedroom 6	Total
Avge Wkly Rent 2024-25	90.52	107.61	123.79	140.25	150.87	174.45	171.47	123.39
Avge Wkly Rent 2025-26	91.31	110.75	127.53	144.08	155.13	179.16	176.1	126.87
increase per week @ 2.7%	0.87%	2.92%	3.02%	2.73%	2.82%	2.70%	2.70%	2.82%

Affordable Rents

Size	Bedsit	Bedroom 1	Bedroom 2	Bedroom 3	Bedroom 4	Bedroom 5	Bedroom 6	Total
Avge Wkly Rent 2024-25		168.4	199.33	234.11	258.03	252.27	247.91	199.45
Avge Wkly Rent 2025-26		160.32	198.43	233.37	266.86	259.08	254.6	197.63
increase per week @ 2.7%		-4.80%	-0.45%	-0.32%	3.42%	2.70%	2.70%	-0.91%

11.52 The average HRA social rent for new tenants from April 2024 will be different and this reflects the fact that new tenants pay the formulae rent and that this wasn’t capped in 2023-24. Indicative average weekly rents for new social tenants are shown below in table 2. It is proposed that the rents for new affordable rent tenants will be let provisionally at 80% of market rent if the property meets the required minimum energy efficiency requirements.

Table 2 – Average formula rents for new tenants

Formula Rents

Size	Bedsit	Bedroom 1	Bedroom 2	Bedroom 3	Bedroom 4	Bedroom 5	Bedroom 6	Total
Avge Wkly Rent 2024-25	96.85	111.98	129.96	145.94	159.17	182.39	177.85	128.84
Avge Wkly Rent 2025-26	97.97	116.23	133.94	151.53	165.11	187.32	182.65	133.37
increase per week @ 2.7%	1.16%	3.80%	3.06%	3.83%	3.73%	2.70%	2.70%	3.52%

Service charges

11.53 In 2023/24, alongside the capped rent increase, the council approved a one-off discretionary limit on tenant service charge increases of 7%. Considering the budget pressures that the HRA investment programme faces and to align it with the general fund and the outcome of ongoing savings programmes, it is proposed to revert to full cost recovery from 2024-25, where this is possible.

11.54 The cost recovery exercise indicated a number of charges that would increase significantly, where this is the case it is proposed to phase or cap the increase to ensure increases are acceptable.

Shared ownership rents

11.55 The HRA business plan assumes that 30% of all future new homes development will be delivered as shared ownership. The Government have prescribed that any new shared ownership development that is either s106 or Homes England grant funded should have leases that base annual rent reviews on CPI+1% (where previously these were upward-only based on RPI+0.5%). The proposed changes will have a floor of 0% if the CPI is minus

1% or lower. It was agreed in 2024/25 that this methodology will be applied to all shared ownership properties.

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 The council could consider investing less in customers’ homes than is required to achieve the regulatory requirement of EPC C by 2030. This is not recommended as it would breach the regulatory requirements and in addition would not support the council’s policy objective of being greener faster.

12.2 The council could also seek increased revenue savings than those identified in this report so as to provide investment capacity in the HRA. At this time the level of revenue savings identified are achievable and will not lead to a reduction in the quality of service delivered. Investment in improving the digital access to services may generate efficiencies in the future that can be realised without detriment to services. Therefore, increased revenue savings are not recommended at this time.

BACKGROUND DOCUMENTS:-

CAB3477 (EXEMPT) Acquisition of affordable homes Hazely Rd Twyford

CAB3485 Acquisition of affordable homes at Kings Barton Winchester

CAB3473 Procurement of Repairs & Maintenance term contract

CAB3465 HRA Outturn 2023/24

CAB3445 HRA Budget 2024/25

CAB3432 HRA Business Plan and Budget Options – November 2023

Other Background Documents:-

None

APPENDICES:

Appendix 1 Summary Business Plan

Appendix 2 Savings Proposals

Appendix 3 Business Plan Metrics

Appendix 1

Summary Business Plan

	2024.25		2025/26	2026/27	2027/28	2028/29	2029/30
Income	**Budget £**	**HRA Business Plan £**	**HRA Business Plan £**	**HRA Business Plan £**	**HRA Business Plan £**	**HRA Business Plan £**	**HRA Business Plan £**
Net Dwelling Rents	34,481,320	34,502,857	34,957,908	36,687,507	39,770,669	42,039,681	43,847,531
Non Dwelling Rents	400,799	234,437	242,217	247,061	252,002	257,042	262,183
Charges, contributions for services and facilities	2,140,979	2,595,942	2,825,792	2,892,955	2,961,806	3,032,389	3,104,749
	37,023,098	**37,333,236**	**38,025,917**	**39,827,523**	**42,984,477**	**45,329,112**	**47,214,463**
Expenditure							
Repairs and maintenance	-6,579,400	-7,554,078	-7,815,589	-8,066,446	-8,313,534	-8,542,179	-8,773,798
Supervision and management	-10,213,008	-10,433,053	-10,755,187	-10,989,590	-11,229,261	-11,474,321	-11,724,897
Special services	-3,125,237	-2,375,609	-2,353,918	-2,439,560	-2,529,377	-2,664,601	-2,786,002
Sewerage		-504,583	-568,370	-567,693	-587,565	-608,003	-629,024
One off investments	-1,000,000	-1,000,000	-1,470,927	-295,437	-275,565	-278,159	-280,805
(Increase)/decrease in provision for bad or doubtful debts	-111,000	-111,000	-111,599	-115,216	-119,266	-125,383	-132,824
Depreciation and impairment of fixed assets	-9,973,000	-10,317,000	-10,573,633	-10,887,541	-11,245,612	-11,764,832	-12,199,372
Debt management costs	-9,243	-6,615	-6,654	-7,665	-9,150	-10,692	-11,576
Net cost of services	**6,012,210**	**5,031,298**	**4,370,040**	**6,458,375**	**8,675,147**	**9,860,942**	**10,676,165**
Net interest cost/Item 8	-7,716,520	-5,265,835	-6,346,419	-6,519,654	-7,737,791	-9,576,640	-10,561,442
Provision for repayment of loans		-230,944	-230,944	-230,944	-230,944	0	-230,944
Surplus / (deficit) for the year	**-1,704,310**	**-465,480**	**-2,207,323**	**-292,222**	**706,412**	**284,302**	**-116,221**
Current capital shortfall			**17,624,000**	**16,784,950**			
HRA Balance Brought Forward	14,095,000	14,095,000	13,629,520	11,422,196	11,129,974	11,836,386	12,120,688
HRA Balance Carried Forward	**12,390,690**	**13,629,520**	**11,422,196**	**11,129,974**	**11,836,386**	**12,120,688**	**12,004,467**

Appendix 2 Proposed revenue savings 2025/26 onwards

Proposal	2025/26 Saving	Potential future year savings	One/off or ongoing	Risk rating
Review of General Fund recharges to the HRA	150		Ongoing	Amber
Sewage charges subsidy reduction. If OFWAT allow water utility bills to increase above inflation then Council policy is to mirror any increases and as such the subsidy provided will reduce commensurately	10	45	Ongoing	Amber
Review of Voids contracts provision Detailed review of voids costs suggests that in some cases costs can be reduced by procurement outside basket rates	350		Ongoing	Amber
Implementation of Repairs recharge policy. This is subject to implementation of repairs recharge policy which supports the repair and maintenance contract procurement. To be considered at the February cabinet committee housing	50		Ongoing	Amber
Damp and mould in house service - increase capacity. This is a nil cost proposal to set up an inhouse service to undertake mould wash and associated work rather than contract out. This will be costed and presented as part of February budget setting	0		Ongoing	Red
Discontinue Tenants incentive budget. This is a budget to reward customers for moving from a larger to smaller property. Many customers decide to make such a move without the incentive of payment and thus this budget can be withdrawn. If tenants face hardship in moved discretionary housing payments exist to help fund the move.	65		Ongoing	Green
Reduce Tenant involvement budget. This will reduce the funding for activity and events to involve tenants and residents	40		Ongoing	Green
Reduce Training budget. The training budget is regularly underspent by this level and as such existing training requirements can be met from the reduced budget	50		Ongoing	Green

To employ a Quantity Surveyor to drive cost control savings. This saving is the net after employment costs of a Quantity surveyor is employed to challenge contractors costs of works when invoiced.	100		Ongoing	Red
Reduce consultancy budget from New Homes. This will reduce the budget for feasibility on new development to be undertaken by the Council. This is consistent with the strategic move to acquisition of new homes and reducing direct development activity.	100		Ongoing	Amber
New Homes deletion of vacant posts. This is the deletion of funded vacant posts.	120		Ongoing	Amber
Discontinue white goods budget. This budget was used to purchase new white goods for tenants when they moved into homes if they were unable to finance themselves. In future customers facing this issue will be supported with recycled or white goods from charities.	25		Ongoing	Green
Disrepair process review. This reflects a more proactive approach to achieving agreement to disrepair cases early on so as to mitigate costs of fees for the Council.	0	50	Ongoing	
IT contingency budget reduction. This is reduction in budget due t the repair and maintenance contract procurement intending to seek IT solutions from suppliers as part of the contract.	400		One-off	Green
Voice scale end contract 2025/6 half year. This contract supports income recovery and the performance achieved to date does not require on going use of this service	20		Ongoing	Red
Service charge full cost recovery review. This reflects the costs of ensuring that full costs of service charges are recovered from those customers who enjoy them.	250		Ongoing	Amber
Increased charges for catering at Chesil Lodge. At present the HRA provides a significant subsidy to the cost of meals for those who enjoy them at Chesil lodge. This proposal aims to reduce that subsidy by passing more costs onto the Chesil lodge residents	20		Ongoing	Red
Rent convergence updated budget assumption. This reflects the modelling of	100		Ongoing	Green

the turnover of properties next year that will be let at formula rent levels.				
Reduction in postage. As the service moves towards digital communications with customers this budget can be reduced commensurately	20		Ongoing	Amber
Total	**1,870**	**95**		

Appendix 3 Key metrics in the business plan

Financial year	External Debt	Capital Finance requirement	Capital Charges	Debt repayment	Net Income	Revenue Expenditure	Capital programme	New Build	Capital funding shortfall	Working Balance
2024.25	185,912	170,067	5,272	231	37,223	32,185	17,389	8,130		13,630
2025.26	140,379	168,836	6,353	231	37,914	33,538	17,368	15,749	17,624	11,422
2026.27	169,148	188,143	6,527	231	39,690	33,224	17,571	23,687	16,785	11,130
2027.28	203,455	235,414	7,747	231	42,865	34,181	17,641	54,718		11,836
2028.29	250,726	251,954	9,587	-	45,204	35,332	16,608	23,793		12,121
2029.30	268,035	273,568	10,573	231	47,082	36,394	16,627	28,385		12,004
2030.31	289,649	298,277	11,732	231	49,910	37,555	13,931	35,355		12,397
2031.32	314,358	300,682	12,590	231	50,858	38,520	9,136	15,905		11,914
2032.33	316,763	300,451	12,877	292	52,299	39,508	8,857	11,404		11,537
2033.34	316,532	300,220	12,719	231	53,309	40,341	8,813			11,555
2034.35	316,301	299,989	12,479	279	54,334	41,208	9,956			11,923
2035.36	316,070	298,980	12,461	1,580	56,383	42,095	11,083			12,172
2036.37	315,061	298,187	12,215	985	56,376	43,002	12,269			12,346
2037.38	314,268	297,251	12,139	1,139	57,399	43,931	12,292			12,537
2038.39	313,332	296,008	11,842	1,472	58,440	44,881	9,225			12,783
2039.40	312,090	294,394	11,580	1,875	59,501	45,853	16,704			12,976
2040.41	310,475	292,445	11,302	2,241	60,581	46,848	10,115			13,166
2041.42	308,526	289,021	10,944	3,741	62,804	47,865	15,263			13,419
2042.43	305,102	286,403	10,767	2,982	62,800	48,907	14,274			13,563
2043.44	302,485	283,464	10,406	3,344	63,941	49,973	13,052			13,781
2044.45	299,545	280,120	9,999	3,794	65,103	51,064	13,369			14,027
2045.46	296,201	276,324	9,538	4,289	66,286	52,181	11,960			14,304
2046.47	292,405	272,032	9,053	4,836	67,491	53,324	14,294			14,582
2047.48	288,114	266,110	8,672	6,508	69,966	54,493	13,853			14,875
2048.49	282,191	260,839	8,100	5,924	69,968	55,691	11,925			15,128
2049.50	276,920	255,012	7,625	6,514	71,241	56,916	18,132			15,314
2050.51	271,093	248,674	7,190	7,060	72,538	58,171	15,923			15,431
2051.52	264,755	241,905	6,677	7,558	73,858	59,455	15,312			15,599
2052.53	257,986	233,409	6,259	9,343	76,566	60,769	16,983			15,794
2053.54	249,490	225,685	5,682	8,657	76,546	62,089	17,166			15,911