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CITY OF
WOLVERHAMPTON
C O U N C I L

Council Meeting

Wednesday, 25 January 2023

Dear Councillor

COUNCIL - WEDNESDAY, 25TH JANUARY, 2023

I am now able to enclose, for consideration at Wednesday, 25th January 2023, meeting of the Council, the following reports that were unavailable when the agenda was printed.

Agenda No Item

- 6a **Report on the Conservative Group Amendment - Housing Revenue Account 2023/2024 (Pages 3 - 14)**
[To consider the alternative Housing Revenue Account 2023/2024]

If you have any queries about this meeting, please contact the democratic support team:

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Officer Advice to Council on the Conservative Group Amendment – Housing Revenue Account 2023/2024

Agenda Item No: 6a

Advice from the s151 Officer

Senior finance support has been provided to assist the Conservative Group to formulate an alternative budget that reflects their policy priorities.

The Alternative Budget proposed by the Conservative Group would be a legal, balanced Housing Revenue Account for 2023-2024, as per the changes set out in this report.

However, the s151 officer has advised that, in her opinion, the HRA reserve should be maintained at £7 million in order to manage risks associated with the HRA. The proposal to reduce the reserve by £1.13 million reduces the ability of the Council to respond to problems if they arise.

Advice from the Monitoring Officer

This proposed amendment is a lawful amendment and is within the scope of the Council Procedure Rules.

Proposed Conservative Group Amendment to the Housing Revenue Account Report 25 January 2023

Amend - The recommendations as follows:

1. Revise recommendation 1 to insert reference to a revised Appendix 1(attached to this proposed amendment) to read

1. *Adopt the Business Plan set out at revised Appendix 1 to the Cabinet report as the approved Housing Revenue Account Business Plan*

2. Revise recommendation 3 to insert the following wording at the end of the sentence "*subject to a 12-month reduction in Tenant's Service Charges (Heating) such that overall net rents and charges for tenants are reduced to the equivalent of a 6% increase of rents. Delegated authority is given to the Director of Finance, in consultation with the Cabinet Members for City Assets and Housing and Resources and Digital City, to agree the proportionate and appropriate rates of Service Charges commensurate with the approved reduction and to make necessary consequential amendments*". - to read

3. Approve the rates for garage rents and service charges for tenants set out in Appendix 3 to the report and formally notifies tenants, subject to a 12-month reduction in Service Charges (Heating) such that overall net rents and charges for tenants are reduced to the equivalent of a 6% increase of rents. Delegated authority is given to the Director of Finance, in consultation with the Cabinet Members for City Assets and Housing and Resources and Digital City, to agree the proportionate and appropriate rates of Service Charges commensurate with the approved reduction and to make necessary consequential amendments.

3. Revise recommendation 6 to insert the following wording at the end of the sentence "*inclusive of ring-fenced funding from the supported service charge intervention, to ensure that where tenants are not eligible for the Heating Service Charge reduction, they are entitled to receive equivalent support.*" to read

6. Delegate authority to agree a financial assistance scheme for tenants experiencing financial hardship to the Cabinet Members for City Assets and Housing and Resources and Digital City in consultation with Director of Finance and Director of City Housing and Environment to be in place by 1 April 2023, inclusive of ring-fenced funding from the supported service charge intervention, to ensure that where tenants not eligible for the Heating Service Charge reduction, they are entitled to receive equivalent support.

4. Insert the following additional recommendations, namely recommendations 8 and 9 together with any consequential amendments needed:

8. Approve the use of £1.13 million from the Housing Revenue Reserves to supplement the 2023/24 Housing Revenue Account budget.

9. Approve the formation of a cross-party Housing Revenue Account Scrutiny Review Group from May 2023, to consider best value for residents and the implications, risks, sustainability, affordability, viability and long-term options relating to spending, reserves, the Capital Programme and the existing and future Capital Financing Requirements (CFR) being funded annually via the Housing Revenue Account. It is noted that the CFR is projected to rise from the current £300million to £600million, with the projected average debt per property projected to increase from £14,100 to £29,300 in 5-years. Delegated authority is given to the Chief Operating Officer and Director of Finance, in consultation with the Cabinet Members for City Assets and Housing and Resources and Digital City, to agree the terms of reference. The group shall report its findings and recommendations by 1st December 2023, to inform the 2024/25 Housing Revenue Account.

Report on the Conservative Group Amendment – Housing Revenue Account 2023/2024

1. Background

1.1 The paper below sets out the policy priority areas for the Conservative Group in relation to the Housing Revenue Account (HRA) for 2023/2024. These are not exhaustive of the Group's priorities but represent a pragmatic approach to both tackling key issues of public concern for the forthcoming financial year and further scrutinising options for the HRA moving forward. The options presented below strike a balance struck between service delivery, forward planning and reducing the financial ask on residents for the forthcoming financial year.

1.2 The amendment presented this year takes account of the pressures currently facing household finances, growing demands in relation to repairs and maintenance, continuing pressures as the country emerges from the Covid-19 pandemic relating to day-to-day repairs, maintenance and management issues and concerns relating to the long-term sustainability, viability and affordability for tenants and taxpayers in respect of the Capital Programme and the projected growth in the Capital Financing Requirement over the coming years.

1.3 It is noted that the Government has capped social rent rises to 7% for the upcoming financial year, which protects residents from the impact of higher inflation currently. It is also the case that in relation to the HRA, the final level of rent and service charges are a matter for the Local Authority and local decision makers based on their individual circumstances.

1.4 It is further noted that within Wolverhampton, around 65% of the rents are funded via benefits. As such, any increase in rent not only falls on tenants directly paying rents, but also on the wider taxpayer.

1.4 The Conservative Group is conscious of the need to invest in the City's housing stock and long-term capital programme and has sought to preserve these options, subject to detailed review moving forward. However, given the pressures households face currently, the Conservative Group has also sought to limit the impact of increasing costs on tenants for the forthcoming financial, provide additional in year resource to aid in tackling residual backlogs with repairs and maintenance to seek a more equitable and fairer deal for residents.

1.4 The three priority areas for amendment are:

- Reducing tenant's Service Charges for 12-months (limiting the overall nett cost increase to the equivalent of approximately 6% of rents)
- Providing additional budget for Repairs and Maintenance (and associated management)
- Form a Housing Revenue Account Scrutiny Review Group to allow a detailed review of debt and Capital Financing Requirements and value for money for residents

2. Reducing Service Charges for 12-months

- 2.1 The Government has capped social rent rises to 7% for the forthcoming financial year, to shield tenants from higher rents in line with inflation. This can place financial pressures on the Housing Revenue Account as to the level of revenue that can be generated. However, the final level of rents and service charges is a decision for the Local Authority assessing its local circumstances.
- 2.2 Equally, it is noted that variation in any rent or service charge levels will have compound effects in future years, likely impacting potential Capital investment.
- 2.3 The Councils proposed HRA projects that over the next 5-years, the Capital Finance Requirement will double from the current level of circa £300 million to over £600million. This is equivalent to the level of debt attributable against each Council dwelling increasing from circa £14,000 to £29,000.
- 2.4 The Councils projected payments on debt interest are set to rise from £14million to over £21million over 4-years. The Councils HRA projects for 2023/2024 that over 25% of the £105million income generated from rent and charges will be paid on debt interest, and capital funding/debt repayment. The proportion spent on Repairs and Maintenance will decrease by 0.45% (from over 29%, to less than 29%), with projected further declines in the proportion spent on repairs and maintenance in subsequent years, being less than 27% in 2027/28. Supervision and Management costs are set to remain around 22% of the HRA budget in the forthcoming financial year.
- 2.5 The Council must repay debt interest and pay down borrowing sufficiently to enable it to borrow more money. This is required to also meet the Capital Funding Requirements, unless HRA revenue is used to directly invest in the Capital Programme.
- 2.6 The overriding consideration for the Conservative Group is whether this current proportional breakdown is fair and equitable for tenants, residents and taxpayers. However, it is also recognised that major changes cannot necessarily be made without potentially impacting wider capital investment, which in itself needs more detailed review.
- 2.7 The Councils Housing Reserves currently totals £7million, noting that prior to 2018/2019, reserves sat at £5million.
- 2.8 The Conservative Group considers that whilst there are pressures and risks facing the HRA, the current circumstances dictate that it is incumbent on elected officials to implement solutions to limit the financial impact of rising costs in the forthcoming financial year where able to do so. Equally, the Conservative Group believes that where the Capital Programme is being delivered and is successful, this should be further limiting or reducing local risks.
- 2.9 As such, the Conservative Group proposes that the Tenant's Service Charges relating to Heating Maintenance (at Appendix 3) should be proportionally reduced for a 12-month period, such that it reduces the overall increase in costs for tenants to the equivalent of approximately 6% of rents (as opposed to 7%), for the forthcoming financial year. This equates to an average saving of up to £50. The proposed £300,000 financial support package would also be retained and implemented.
- 2.10 The proposed in year reduction would be funded by a £930,000 draw down from the Housing Reserves.
- 2.11 The specific service charges targeted for the reduction are near universal across relevant households. A small minority of households are not eligible for this

service charge and as such, it is proposed that the residual funding for non-eligible households would be ring-fenced and used to provide equivalent support to those not eligible to pay that service charge.

- 2.12 Delegated authority would be given to the Director of Finance to revise the service charges set out in Appendix 3 for 2023/2024 to achieve the appropriate proportionate reduction in costs and ring-fencing of residual funds to support non-eligible households.
- 2.13 Looking ahead, it is projected that this is a direct intervention to help keep rent and service charges lower for 12-months than would otherwise be the case. For medium term budgeting purposes, it would be projected that service charges would return to pre-existing levels and rise in line with wider projected rent increases in subsequent years. Compound budgeting pressures would be avoided (assuming Capital Finance Requirements and debt interest payments grow as projected and are a necessary commitment) and this ensures there is no current financial impact on the HRA Capital Investment Programme; however, the Conservative Group is concerned about long-term viability of the borrowing and debt interest and the fairness and equitability for tenants and residents.
- 2.14 The HRA is agreed for 1-year only and is approved by Council annually; the Conservative Group proposes a detailed scrutiny review process to increase transparency and assess best value for tenants and residents. This in turn will inform the future level of rents and charges in subsequent years, which must also consider affordability for bill payers.
- 2.15 In this context, there will be scope to consider medium-term and longer-term rents and service charges, levels of reserves and debt and borrowing levels for subsequent years, to ensure that the HRA budget is manageable and ensuring it best reflects resident needs and priorities, seeking to make rents and charges as affordable as possible. Additionally, at final accounts closure in 2023, should any underspend against the projected 2022/23 budget be identified, the best use of this money can be considered, including for reserves.
- 2.16 Given the pressures residents face financially, the Conservative Group consider this proposal to be both fair and sustainable, with a greater focus on resident needs.
- 2.17 A revised Appendix 1 is attached to this amendment, which revises Tables 1 and 3 to show the amended income and expenditure proposals.

3. Providing additional budget for Repairs and Maintenance (and associated management)

- 3.1 Covid-19 placed unique pressures on day-to-day services and service delivery. During this period, a number of repairs and maintenance issues were delayed, however, reports for repairs and maintenance continued to be made. Inability to complete delayed works, risks faults or defects worsening and impacts the ability to address new reports.
- 3.2 Residents cannot control this, nor the number of backlogs or length of time it is taking to address repairs; however, they do expect their rents and charges amounting to an over £100million budget, to fund both timely and effective repairs and maintenance.
- 3.3 Additionally, there are issues that may become highlighted within the year, that may place additional pressures on resources. Such issues may relate to tackling

damp issues, which is a key area of concern nationally, and/or issues with tenancies and management.

- 3.4 As stated above, for the forthcoming financial year, the proportion spent on Repairs and Maintenance is projected to decrease.
- 3.5 Therefore, the Conservative Group propose to amend the HRA budget to provide an extra in year resource allocation of £400,000 to support Repairs and Maintenance (and associated management). An addition of £400,000 of funding for Repairs and Maintenance is equivalent to maintaining spending on this element at 29% of the budget.
- 3.6 This will be funded with £200,000 from Housing Reserves (such that the total reduction in reserves will be limited to £1.13million) as well as £200,000 of minor adjustments to the budget in terms debt repayments (recouped in 2024/2025), depreciation of fixed assets and provision for bad debt (noting the additional service charge support proposed in this amendment).
- 3.7 Given the scope of review in to the HRA in subsequent years and given the over £100million annual budget, this extra resource allocation is seen as manageable and focuses on a key priority of tenants and residents.
- 3.8 A revised Appendix 1 is attached to this amendment, which revises Tables 1 and 3 to show the amended income and expenditure proposals.

4. Housing Revenue Account Scrutiny Review Group

- 4.1 The Conservative Group believes that given the over £100 million budget to manage Council housing stock, with revenues generated primarily from rents and service charges, transparency on the use of this money is critical.
- 4.2 As stated above, the current HRA projects that over the next 5-years, the Capital Finance Requirement will increase from the current level of circa £300 million to over £600million. This is equivalent to the level of debt attributable against each Council dwelling increasing from circa £14,000 to £29,000.
- 4.3 For the forthcoming financial year, payments towards borrowing and debt interest will make up 25% of the budget, with money spent on day-to-day repairs and maintenance set to fall as a proportion of the budget under the Labour-run Councils proposals.
- 4.4 It should also be the case, that should the Capital Programme be successful, the city should be seeing declining local risks in relation to ageing housing stock. However, bill payers are facing ever rising costs in this regard and all tenants should be able to share in the benefits. Financial risks include the potential level of borrowing and interest payments on debt.
- 4.5 The fundamental questions at the heart of the HRA is whether the Capital Programme and its financing requirements are realistic, affordable, proportionate, as well as the timing of this investment and whether implementation is fair and equitable for tenants, residents and taxpayers.
- 4.6 The Conservative Group therefore proposes that a HRA Scrutiny Review Group be formed to consider the sustainability and risks relating to the Capital Financing Requirements and current and proposed debt levels. The overarching ambition is to understand and justify whether the HRA budget and proposals in subsequent years offer value for money and are fair and equitable for bill payers and whether or not the break down of spending is meeting their priorities and the needs of Wolverhampton, as well as the implications for reserves.

- 4.7 Given it is tenants, residents and taxpayers who face rising rents and charges over the coming years and finance the HRA budget directly, this is a huge area of public interest. Appropriate decision-making on this critical issue requires much more detailed scrutiny and public transparency.
- 4.8 The Scrutiny Review Group would commence in May 2023 and report back with recommendations prior to 1st December 2023 to inform the HRA Budget for 2024/25.

Appendix 1
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MEDIUM TERM BUSINESS PLAN 2022-2023 – 2027-2028

Table 1 – Revenue Budget

2023-2024 to 2027-2028 refer to Years 1-5 in Table 1 below. 2022-2023 is shown for comparative purposes and is the forecast as at Quarter 3

REVENUE ACCOUNT	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
	Forecast	Budget	Forecast	Forecast	Forecast	Forecast
	£000	£000	£000	£000	£000	£000
Income						
Dwelling Rents	(93,085)	(99,026)	(103,647)	(105,200)	(109,161)	(111,896)
Other Rents	(564)	(600)	(617)	(633)	(651)	(663)
Service Charges	(6,057)	(5,219)	(6,392)	(6,398)	(6,526)	(6,656)
	(99,706)	(104,845)	(110,656)	(112,231)	(116,338)	(119,215)
Expenditure						
Repairs and maintenance	29,021	30,715	30,526	30,894	31,362	32,094
Supervision and management	21,953	23,819	26,004	26,317	26,716	27,340
Rents, rates and taxes	710	650	550	561	572	584
Financial Support	-	300	-	-	-	-
Increase in provision for bad debts	1,800	1,950	1,950	1,500	1,530	1,561
Depreciation of fixed assets	20,952	22,135	22,392	22,837	23,414	23,967
Contribution to Capital Funding and Debt repayment	14,036	11,663	11,755	10,683	11,325	12,682
Contribution from reserves	-	(1,130)	-	-	-	-
Interest Payable	11,234	14,743	17,479	19,439	21,419	20,987
Total expenditure	99,706	104,845	110,656	112,231	116,338	119,215
Balance	-	-	-	-	-	-

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Table 2 – Capital Account

Detail of capital programmes can be found at Appendix 2 of the Business Plan

CAPITAL ACCOUNT	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
	Budget	Budget	Budget	Budget	Budget	Budget
	£000	£000	£000	£000	£000	£000
Expenditure						
Capital Expenditure	72,240	131,111	142,117	106,290	77,630	70,498
	72,240	131,111	142,117	106,290	77,630	70,498
Financing						
Major Repairs Reserve	(20,952)	(21,796)	(22,042)	(22,429)	(22,998)	(23,542)
Grants, Contributions and Receipts	(10,495)	(11,499)	(7,010)	(4,810)	(4,810)	(4,810)
Borrowing	(40,793)	(97,816)	(113,065)	(79,051)	(49,822)	(42,146)
	(72,240)	(131,111)	(142,117)	(106,290)	(77,630)	(70,498)
Balance	-	-	-	-	-	-

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30 YEAR BUSINESS PLAN FORECAST 2023-2024 to 2052-2053

Table 3 - Revenue Account

REVENUE ACCOUNT	Years 1 - 5	Years 6-10	Years 11 - 15	Years 16 - 20	Years 21 - 25	Years 26 - 30
	£M	£M	£M	£M	£M	£M
Income						
Dwelling Rents	(529)	(590)	(631)	(682)	(743)	(845)
Other Rents	(3)	(3)	(4)	(4)	(5)	(5)
Service Charges	(31)	(35)	(39)	(43)	(48)	(55)
	(563)	(628)	(674)	(729)	(796)	(905)
Expenditure						
Repairs and Maintenance	155	168	180	194	212	230
Supervision and Management	130	143	153	165	180	195
Other charges to revenue account	12	11	12	14	15	17
Depreciation, capital financing and provision for debt repayments	173	187	190	193	214	286
Interest payments	94	119	139	163	175	177
Contribution from reserves	(1)					
	563	628	674	729	796	905
Balance	-	-	-	-	-	-

Appendix 1
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Table 4 – Capital Account

CAPITAL ACCOUNT	Years 1 - 5	Years 6-10	Years 11 - 15	Years 16 - 20	Years 21 - 25	Years 26 - 30
	£M	£M	£M	£M	£M	£M
Expenditure						
Capital Expenditure	528	323	333	305	249	258
Financing						
Major Repairs Reserve	(113)	(130)	(135)	(145)	(159)	(173)
Grants, Contributions and Receipts	(33)	(15)	(11)	(9)	(6)	(5)
Borrowing	(382)	(178)	(187)	(151)	(84)	(80)
	(528)	(323)	(333)	(305)	(249)	(258)
Balance	-	-	-	-	-	-