

To: All Members and Substitute Members of
the Overview and Scrutiny - Resources
(Other Members for Information)

When calling please ask for:

Kisi Smith-Charlemagne, Democratic Services
Officer

Legal & Democratic Services

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Date: 28 October 2022

Membership of the Overview and Scrutiny - Resources

Cllr Stephen Mulliner (Chairman)	Cllr Chris Howard
Cllr Joan Heagin (Vice Chairman)	Cllr Peter Martin
Cllr Jerome Davidson	Cllr John Neale
Cllr Brian Edmonds	Cllr Peter Nicholson
Cllr David Else	Cllr George Wilson

Substitutes

Cllr Christine Baker

Members who are unable to attend this meeting must submit apologies by the end of Tuesday, 1 November 2022 to enable a substitute to be arranged.

Dear Councillor

A meeting of the OVERVIEW AND SCRUTINY - RESOURCES will be held as follows:

DATE: MONDAY, 7 NOVEMBER 2022

TIME: 7.00 PM

PLACE: COUNCIL CHAMBER, COUNCIL OFFICES, THE BURYS,
GODALMING

The Agenda for the Meeting is set out below.

Please note that due to current Covid restrictions, seating in the public gallery is extremely limited. The meeting can be viewed remotely via [Waverley Borough Council's YouTube channel](#) or by visiting www.waverley.gov.uk/webcast.

Yours sincerely

Stephen Rix,
Executive Head of Legal & Democratic Services (Interim) & Monitoring Officer

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Waverley Corporate Strategy 2020 - 2025

Vision

Our vision is that Waverley will be environmentally, economically and financially sustainable with healthy, inclusive communities and housing available for all who need it.

Our strategic priorities:

- ✓ Local, open, participative government
- ✓ Supporting a strong, resilient local economy
- ✓ Taking action on Climate Emergency and protecting the environment
- ✓ Good quality housing for all income levels and age groups
- ✓ Effective strategic planning and development management to meet the needs of our communities
- ✓ Improving the health and wellbeing of our residents and communities
- ✓ Financial sustainability

Good scrutiny:

- is an independent, Member-led function working towards the delivery of the Council's priorities and plays an integral part in shaping and improving the delivery of services in the Borough;
- provides a critical friend challenge to the Executive to help support, prompt reflection and influence how public services are delivered;
- is led by 'independent minded governors' who take ownership of the scrutiny process; and,

- amplifies the voices and concerns of the public and acts as a key mechanism connecting the public to the democratic process.

NOTES FOR MEMBERS

Members are reminded that contact officers are shown at the end of each report and members are welcome to raise questions etc in advance of the meeting with the appropriate officer.

AGENDA

1 **APOLOGIES FOR ABSENCE AND SUBSTITUTES**

To receive apologies for absence and note any substitutions

2 **DECLARATIONS OF INTERESTS**

To receive Members' declarations of interests in relation to any items included on the agenda for this meeting, in accordance with Waverley's Code of Local Government Conduct.

3 **MINUTES** (Pages 5 - 10)

To confirm the Minutes of the Meeting held on 27 September 2022 and published on the Council's website.

4 **QUESTIONS FROM MEMBERS OF THE PUBLIC**

The Chairman to respond to any written questions received from members of the public in accordance with Procedure Rule 10.

The deadline for receipt of written questions is 5pm on Wednesday 2 November 2022.

5 **QUESTIONS FROM MEMBERS**

The Chairman to respond to any questions received from Members in accordance with Procedure Rule 11.

The deadline for receipt of written questions is 5pm on Wednesday 2 November 2022.

6 **MTFP MID-YEAR REVIEW** (Pages 11 - 32)

Review the progress of the Medium-Term Financial Plan 2022/23 – 2025/26.

7 **HOUSING REVENUE ACCOUNT BUSINESS PLAN STRATEGIC REVIEW**
(Pages 33 - 48)

Review the financial plan for the Council's housing.

Officer contacts:

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WAVERLEY BOROUGH COUNCIL

MINUTES OF THE OVERVIEW AND SCRUTINY - RESOURCES - 27 SEPTEMBER
2022

(To be read in conjunction with the Agenda for the Meeting)

Present

Cllr Stephen Mulliner (Chairman)
Cllr Joan Heagin (Vice Chairman)
Cllr Roger Blishen

Cllr Jerome Davidson
Cllr John Neale
Cllr Peter Nicholson

Apologies

Cllr David Else, Cllr Chris Howard, Cllr Peter Martin and Cllr George Wilson

Also Present

Councillor Brian Edmonds (via zoom) Jerry Hyman and Councillor Mark Merryweather

1 APOLOGIES FOR ABSENCE AND SUBSTITUTES (Agenda item 1)

Apologies for absences were received from Councillor Peter Martin, Councillor Chris Howard, Councillor David Else and Councillor George Wilson. Apologies were also received from Mark Mills Scrutiny Officer.

2 DECLARATIONS OF INTERESTS (Agenda item 2)

There were no declarations of interest.

3 MINUTES (Agenda item 3)

The minutes were approved for the meeting held on 20 June 2022.

4 QUESTIONS FROM MEMBERS OF THE PUBLIC (Agenda item 4)

There were no questions from members of the public.

5 QUESTIONS FROM MEMBERS (Agenda item 5)

There were no specific questions from members of the Council. However, Councillor Jerry Hyman attended the meeting to ask questions relating to item 6 Corporate Performance, item 9 Business Transformation and item 14 Property Investment Advisory Board update.

6 CORPORATE PERFORMANCE REPORT Q1 (Agenda item 6)

Louise Norie, Policy Manager, introduced the Q1 performance report noting that the Heads of Service were in attendance to answer any questions. She informed the Committee that there had been a significant improvement in the performance indicators for the Q1 compared to the previous 2 quarters and highlighted that for

the first time the report included Capital Monitoring. The Chair discussed the performance indicators on page 23 and noted the reduction of red indicators had decreased from 53 to 39. The Chair brought the Committees attention to the General Fund Account Summary on page 27 of the papers and noted that the Finance and Property treasury income had shown a sharp improvement because of the hike in interest rates, equating to £472,000 of income. However, there had been an adverse impact on General Funding due to the inflation on contracts and utility bills. He also noted that Planning had faced challenges due to higher costs and lower income.

Councillor Heagin welcomed the extra Capital Monitoring information element of the performance report and sought further information on the cancellation of the Broadwater Lake project. Responding to the query, Peter Vickers, Head of Finance and Property addressed the Committee. He advised the Committee that the Broadwater Lake project was an unsuccessful CIL bid from the Parks Department for improvements, which would not be taken forward. The Chair noted the issue with responding to complaints, highlighting the poor performance against targets. He noted that the council had performed above its targets responding to media queries, he informed officers that he hoped to see an improvement in responding to both level 1 and level 2 complaints.

Moving to the Housing Operations Service Dashboard, the Chair discussed the progress on the overdue housing maintenance jobs, he informed the Committee that this had been partly due to recruitment and software compatibility issues. Annalisa Howson, Housing Service Improvement Manager, responded to the comment advising the Committee that there was an interface between Ian Williams and the Housing Team, and the council were trying to enhance the interface to provide more live data and information which would improve the service. She noted that the project was underway and expected to complete within 6 months. Councillor Edmonds raised a query regarding the order of priority of outstanding jobs. Annalisa Howson advised the Committee that the Council did have an emergency and routine repairs system to prioritise jobs when residents contacted Housing Services.

The Chair decided to combine section 8 of the service dashboard on Housing Delivery and Communities with agenda item 12 on the Housing Development update, because of the imminent Housing Strategic Delivery Review. The Chair recommended the review be brought to the O&S Resources committee on 7 November. The Chair noted that all projects apart from Ockford Ridge (Site C) were on hold. Andrew Smith, Head of Housing and Communities, confirmed that the Chair was correct. He also confirmed that the review and report would go to the O&S Resources Committee on 7 November.

The Chair invited Councillor Hyman to address the Committee. Councillor Hyman raised queries regarding the variances between the approved budget and the forecast outturn throughout the report. The Chair noted that there was a difference in the figures, Peter Vickers confirmed that it was Q1 and there was no overspend reported at this stage. Councillor Hyman raised a query regarding the redevelopment of Rowleys, responding to the query Andrew Smith informed the Committee that this was incorrect, he noted that there were plans to replace the roof.

7 COMMITTEE WORK PROGRAMME (Agenda item 7)

The Committee noted the work programme, the Chair confirmed that the Housing Revenue Strategic Business Plan Review together with the MTFP, would be brought to the extra O&S Resources meeting on 7 November. He confirmed that there would be a meeting at the end of November for regular Committee business. The Chair informed the Committee that the task and finish group on Housing Allocation Policy had finished and the Housing Revenue Account working group has been overtaken by the strategic review.

8 COLLABORATION WITH GUILDFORD (Agenda item 8)

The Joint Chief Executive Tom Horwood addressed the Committee, he confirmed that since the last meeting the Joint Management Team had been formed and the structure would be in place as of 1 October. He noted that all but two roles were filled, and the council would be going out to recruitment, in the meantime interim arrangements would be put in place. Tom Horwood advised the Committee that once the Joint Management Team were in place, the next phase of the project will begin, which would be to bring forth business cases for further collaboration to the Corporate Management Board, Executive and Councillors for further discussion.

Councillor Edmonds queried the management place for the combining systems. Tom Horwood confirmed that Governance was in place in the form of an Inter Authority Agreement, which sets out how the two councils relate to each other. He noted that councillors also set up a Joint Governance Committee which would review the risk assessment. Tom Horwood advised the Committee that there was still work to be done, including how systems work with each other, he added that some of that work would be addressed by business cases on a service-by-service basis.

9 BUSINESS TRANSFORMATION (Agenda item 9)

Ian Doyle, Joint Strategic Director of Transformation and Governance addressed the Committee and introduced the report, he advised the Committee that the format of the dashboard had been updated, as per the chair's request, however the latest version was not included within the report. He confirmed that officers would circulate the amended template version to the Committee members after the meeting. Ian Doyle informed the Committee that the Business Transformation programme with Guildford was the evolution of the current Business Transformation programme and led by the Head of Organisational Development who would start on the 1 October.

Ian Doyle confirmed that it would be the next stage of what the Committee had observed and would be brought to the Committee for regular scrutiny in the same manner as the earlier programme. Member welcomed the new format for the progress report and queried the merging of Waverley and Guildford IT systems and the related benefits. Ian Doyle advised the Committee that it was a major part of the programme and a high priority, but it was too early to advise on the details. Councillor Edmonds raised a query regarding the Planning Review savings and Building Control Savings. The Chair confirmed that the savings came from staff savings and Peter Vickers noted that a restructure took place due to a retirement and the service was more resilient going forward.

Councillor Hyman queried the savings to date, highlighting staff travel saving and queried if there were other elements that should be included. The Chair felt that these were questions to be answered by David Allum at the next meeting. Councillor Heagin wondered if the cost of living would drive more people to work from the council offices. Ian Doyle advised that it would be difficult to predict but felt that fuel/petrol increases may discourage some staff. Councillor Follows addressed the Committee and noted that the topic had been discussed at the Cost of Living working group and at a similar meeting with Surrey County Council it was noted that 10% of staff were using foodbanks.

10 WORK FORCE PROFILE UPDATE (Agenda item 10)

The Chair and the Committee welcomed the report. Sally Kipping, HR Manager addressed the Committee and advised that the report was a supplementary report to the Workforce report submitted to the Committee in June 2022, she noted that the report in front of the Committee focused on recruitment and retention. She noted that the pandemic was one of the biggest upsets to the employment market. Councillor Neal queried the indicators regarding reasons for leaving the council and if there were any reasons relating to the improvement of IT Systems. Councillor Edmonds queried the reasons for staff leaving on page.108. Robin Taylor, Head of Policy and Governance, addressed the Committee and noted that lack of career opportunities was not a reason given at any of the exit interviews.

Sally Kipping noted that the Cost of Living did effect staff members, and it was evident in the survey results, specifically as one of the top three reasons for leaving the council. Robin Taylor advised the Committee that officers would look at the exit interview questions during the next review of recruitment and retention. Councillor Heagin welcomed the report and wanted further clarity on the final recommendation section regarding ongoing support and reassurance and what form it would take. Responding to the query Sally Kipping advised that there was an active managers group with a communications plan which allows the group to regularly communicate with messages or support and reassurance. She noted that the group was led by Annie Righton, and it was the primary source of support.

The Chair noted the report on the Gender Pay Gap, Sally Kipping advised the Committee that the deep dive provided more detail behind the pay gap. The Chair raised a query regarding the mean gender “bonus” gap. Sally Kipping responded to the query, advising the Committee that this related to the long service award/bonus, and most had been female and the reason for the percentage in the report. Councillor Edmonds queried if the gender pay gap was reflective of graduate and non-graduates as salary rates could be significantly different. Sally Kipping advised the Committee that the review looked at salaries across job grades. She noted that she was very delighted with the JMT structure and that there were a number of women in very senior roles at the council.

11 ANNUAL COMPLAINTS REPORT (Agenda item 11)

Louise Norie addressed the Committee and introduced the Annual Complaints Report. She noted that the Social Care and Local Government Ombudsman looked at 20 complaints and 11 were closed after initial inquires. She noted that only 4 detailed investigations were carried out and only 2 were upheld. Louise Norie noted that they are still waiting on the Housing Ombudsman final report and the figures

were from the Waverley data. She also noted the changes to the Housing Tenants Complaints Panel as of the 1 October 2022. Louise Norie explained that the last section of the report related to complaints dealt with under the Waverly complaints process, where there had been 290 level 1 & 2 complaints. She noted that 51 percent were not upheld, 28 percent were upheld, and 21 percent were partly upheld. She also noted that 84 percent of all complaints were responded to on time but failed to reach its target of 95%.

The Chair noted that it would be helpful to view the outcome of complaints closed data year on year and suggested that a 3- 5 year comparative table would be useful. Councillor Neal queried the 'Satisfactory remedy provided by the organisation' outturn of 0 on p.125 of the report pack. Louise noted that some Councils offer remedies whilst the case is still being investigated and that this was something that Waverley do not do. The Chair felt that the overall performance of 84 percent was an area of concern, and the council should be working towards improvements.

12 HOUSING DEVELOPMENT UPDATE (Agenda item 12)

Discussed a part of item 6.

13 EXCLUSION OF PRESS AND PUBLIC (Agenda item 13)

The meeting commenced at 7.00 pm and concluded at 8.46 pm

Chairman

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WAVERLEY BOROUGH COUNCIL

RESOURCES OVERVIEW & SCRUTINY – 7 NOVEMBER 2022

EXECUTIVE – 29 NOVEMBER 2022

COUNCIL – 13 DECEMBER 2022

Title:

MEDIUM TERM FINANCIAL PLAN (MTFP) MID-YEAR REVIEW 2022/23

Portfolio Holder: Cllr Mark Merryweather, Portfolio Holder for Finance, Assets & Commercial Services

Head of Service: Peter Vickers, Executive Head of Finance

Key decision: Yes

Access: Public

1. Purpose and summary

1.1 This report outlines the latest projections for the MTFP. It highlights the emerging pressures on the General Fund Revenue budget which have been identified at the time of writing and estimates their financial impact on the Council's services and finances.

1.2 This report is authored in the context of extraordinary economic uncertainty, volatility. The risks facing the General Fund finances (to the extent that they've been identified) are presented to alert members to further threats to achieving the MTFP. For completeness, it should also be noted that, while the scope of this report doesn't extend to either the HRA or the Council's corporate "capital" projects these are subject to the same economic factors and are being monitored separately.

1.3 This report contains the following Annexes:

- Annexe 1 – Q2 Performance Summary
- Annexe 2 – Inflation Position Statement
- Annexe 3 – Updated General Fund MTFP

2. Recommendation

2.1 That the Executive:

- i. note the 2022/23 forecast position General Fund
- ii. note the emerging pressures and risks set out in the report
- iii. note the position regarding the General Fund capital programme and individual capital projects

3 Reason for the recommendations

3.1 The annual General Fund budget is a major decision for the Council and setting a balanced budget is a statutory requirement. The worsening economic climate necessitates a review of the MTFP in the light of its financial impacts on the

council: the Council must act quickly to ensure the risk of a net budget shortfall is addressed so that the Council can continue to function.

3.2 This report follows up on actions identified in the outturn report agreed by Executive in July. Scrutiny of this MTFP through a Mid-Year Review demonstrates transparency and good governance.

4 Waverley's General Fund Medium Term Financial Plan 2022/23 – 2025/26 (MTFP)

4.1 The Medium-Term Financial Plan (MTFP) is Waverley's key financial planning document which takes account of all the various currently known factors and influences that may impact on the Council's General Fund for the forthcoming financial years up to and including 2025/26. These factors are both within and beyond the Council's control and include; general macro-economic conditions, Government funding plans and restrictions, current expenditure patterns, inflation, planned changes to service delivery, changing demand for services, and changes affecting our sources of independent income etc. The MTFP also includes the identification of the risks that the Council has identified that it faces.

4.2 The MTFP looks forward over the next four years to anticipate the spending pressures faced by Waverley. In light of the changing economic picture, planning now to meet expected and known changes in the future provides greater opportunity to mitigate the impact.

5 Outturn Position 2021/22

5.1 A summary of the General Fund revenue outturn was reported to members in July 2022. In total, there was a net underspend of £452k after allowing for agreed budget carry forwards. That underspend equates to a 3% movement from the net General Fund service budget of £15million or less than 2% of the gross General Fund revenue budget excluding the Housing Benefit that we merely administer on behalf of the Government.

5.2 The service-by-service outturn analysis was also included in the Q4 performance report to O&S in June accompanied by commentaries from the S151 Officer and the Heads of Service. In preparing this 2022/23 mid-year review the key matters arising in the 2021/22 have been reviewed further and matters particularly impacting on the MTFP are noted below.

5.3 While income performed as expected overall with only a few areas of concern, a number of the budgets set in 2021/22 were adjusted for assumptions on how Covid-19 would impact, and many of these assumptions held well throughout the year. Key items to note are as follows:

- Commercial
 - Building Control income fell short of budget by £110k. This appears to be a temporary issue, possibly due to Covid-19 impacts, as forecasts for the 2022/23 year are broadly in line with budgets.
- Environment
 - Car Park income performed much better than the approved budget in 2021/22. This was due to the combined effect of rate increases mid-year (as per the Council approval in September 2021) while the reduction in volumes due to that uplift not materialising to the degree forecast.

- Finance
 - Investment property income targets were not met within the 2021/22 outturn, with difficulty in letting void property assets in year due to Covid-19 impacts. The Council is proactively adapting to the market where it is recovering and the £190k property income target remains in the budget for 2022/23.
- Planning
 - Planning income outturn in 2021/22 fell £270k short of budget and recognising that recovery was likely also unachievable the 2022/23 the budget was reduced by £250k and therefore this should not remain a material issue going forward.
- Other
 - Establishment spend was carefully managed and monitored throughout the financial year and delivering a final saving for General Fund of £345k.
 - The majority of contracts were delivered as usual throughout the financial year with only the Leisure Centre management contract heavily impacted. Due to closure periods and falls in customer numbers the contractor was financially impacted. The contractual position required the Council to support the contractor through this period, and instead of receiving management fees of £0.5m, payments were made to the contractor. This arrangement came to an end at the end of the financial year, and Waverley has returned to the original position of receiving contractual management fees from April 2022.

6 2022/23 Budget and emerging pressures on the MTFP

6.1 Waverley is now six months into the new financial year, and eight months have passed since the Council set its 2022/23 budget. Officers have reviewed the latest position and, even though inflationary pressures are materially higher than expected, there are sufficient compensating measures identified to currently forecasting that General Fund should remain in an overall balanced budget position in 2022/23.

6.2 Despite this position, there remain pressures on the current and longer term outlook for Waverley's financial plans. The latest updates on these are summarised below:

- **Impact of inflation on Waverley's budgets – pay, contracts, IT, utilities**
At present, £463k adverse variance is projected in 2022/23 for General Fund inflation. Consumer Price Inflation (CPI) is currently 9.9% (September 2022). Many of the Council's contracts are linked to February and March CPI (6-7%) whilst budgeted inflation was between 3-4%, which has led to costs incurred beyond the original budget.

Thus far, this has been offset by greatly improved treasury yield, with Bank of England base rate increases, buoyant income in car parks and plus robust management of staff costs.

Unfortunately, despite being under control in the current year, the impact of inflation will have further negative impact in future years as inflation compounds, and current forecasts for inflation remain higher than usually anticipated. Bank of England forecasts suggest inflation could rise further in Q4 of the current financial

year, fall slightly for the following year, then fall sharply back to the 2% target rate in two years time. Officers have built increased inflation forecasts into the updated Inflation Schedule (Annexe 2) and Updated MTFP (Annexe 3), however these rates remain unknown with more uncertainty than is usual.

- **Cost of living and its economic impact on Waverley's community, businesses and residents**

Officers are beginning to see the impacts of the cost of living. Some services are beginning to see an uptake in support needs, with officers supporting through funds such as Household Support Fund where possible.

There is a foreseen need to provide more support, active debt management and potentially more utilisation of the hardship funds set up through the 2022/23 process to support vulnerable tenants than has been experienced to date.

Presently, financial impacts to the Council are relatively small and within overall current budgets, however this will need to be monitored closely through the coming months.

- **Key Income**

Key Income overall is performing well, mainly due to treasury investment income and car park income. However, some areas are struggling to achieve budgeted income and budgets relating to these areas going forward will need to be carefully considered in budget setting.

- Green Waste – numbers of subscribers are reducing, assumed reason being cost of living concerns. Alongside this, the budget assumed growth in numbers, which has meant an underachievement of budgeted income by £147k
- Careline – numbers of customers are down on usual levels, unsure for the reasons behind this at this stage. Income increase targets were included in the budget, therefore the service is now short on budget by £69k.

- **External funding**

Waverley approved a new post to support the generation of new funding for revenue and capital across all services. This post is now recruited to and working on key projects such as the UK Shared Prosperity Fund and Wilmer House.

Within the revenue budgets, some external funding is at risk, with government consultation having taken place regarding homelessness grants which will likely see reductions in Waverley's grant allocation in future years.

- **Leisure Centres**

The 2022/23 management fee has now returned to a receipt to the Council, however some activities are still not at pre-Covid-19 levels.

Early indications for the new contract starting in July 2023 following the major tender exercise are mixed. This is before the planned capital improvements which will help to improve the revenue position.

In addition to these concerns, energy costs are having a large impact on leisure providers with leisure centres being a heavy user to maintain service provision. The contractor is seeing much higher costs impacting their ability to deliver the contract and open conversations to attempt to mitigate these impacts both parties will be undertaken in the coming months.

- **Recruitment and retention**

The employment market is currently competitive and both retaining and recruiting staff has been a challenge this financial year. Interim support where needed for hard to fill vacancies is at a particularly high cost due to the active market, therefore careful management by managers is helping to minimise these costs and keep them within approved staffing budgets to date. At this stage this is not of concern as officers are managing the impact on service budgets and in depth regular monitoring is taking place to ensure variances are kept to a minimum.

- **Updates on measures to balance the General Fund budget**

The MTFP includes various saving/efficiency programmes in place to address the forecast budget shortfall. These are particularly important to identify given the uncertainty in the estimates and local economy caused by the pandemic and rising costs. Some updates included in this MTFP review include:

- Commercial Strategy
 - Expected savings from The Edge being handed back to SCC when the lease ends in June 2023.
 - Inclusion of forecast inflation impact on fees and charges if applied as per cost inflation forecasts
- Business Transformation
 - The additional income target for rental of The Burys top floor is not expected to be achieved following the ongoing impacts of Covid-19 and low demand for office space.
- Asset Management
 - Ref profiling of Wey Court East incomes due to expected rent free periods as per industry standards

- **Other new items identified since February Council;**

- Surrey County Council have communicated a likely return of verges grass cutting and off-street parking permit administration back into their management
- External Audit Fees will be uplifted by the Public Sector Audit Appointment body, early indications suggest average uplift could be 150%
- Triennial Pension Review – unknown impact at this stage

7 MTFP Forward Look

7.1 Looking forward to 2023/24 and beyond, a budget gap remains in our MTFP totalling £11.9m. After identified measures to mitigate this gap, the overall budget shortfall is £3.4m.

7.2 Inflation rates applied on the costs range between 8.6% and 11% which are applied dependant on the contractual agreements in place or expectations on general market inflation. The breakdown of the current forecast inflationary position can be see at Annexe 2, table 2.

7.3 During the budget setting period officers will work with services and members to cover the 2023/24 £806k projected shortfall. And, in addition, look to improve the future years financial position. Options to be considered could include;

- Reductions in Revenue Contributions to Capital
- Additional savings targets
- Income targets

8 Capital Programme Review

8.1 Capital projects are also experiencing significant contractor driven adverse cost and timing pressures.

- Where projects are funded from elastic sources, measures can be taken to mitigate these pressures. For example, projects that will be funded from future income streams may be recalibrated so that the future income streams are increased to compensate for increased costs.
- However, projects – including those that had previously been “secure” - that are to be funded from inelastic sources are more threatened as additional or alternative funding will need to be identified to reassure their delivery.

8.2 Officers have undertaken a review of the current years capital programme to identify savings. A number of projects which are funded by revenue contributions have been identified, which can therefore give flexibility of £174k if required in the General Fund revenue budget if required. These savings include:

- Central Offices – a saving of £30k has been released where works to the Burys offices are being minimised in light of forthcoming redevelopment plans
- Bus Shelters – a saving of £24k has been identified while options and a strategy are considered
- Weydon Road Car Park – patching of this car park has been undertaken rather than a resurface due to an upcoming development project, therefore releasing £120k of savings.

8.3 Other projects are experiencing an inflationary impact on tender returns. Officers are updating feasibility assessments on these projects and where possible seeking additional funding to try and ensure they can go ahead.

8.4 In the upcoming budget setting process, projects will continue to be assessed against corporate priorities and have full feasibility assessments undertaken. Officers will be bringing a 5 year indicative capital programme to provide additional future capital planning information to members.

9 Risk

9.1 In addition to the issues identified above, there are a range of risks associated with the delivery of the 2022/23 budget and forward financial plan aims. A summary of the key risks to Waverley’s finances is included below:

9.2 We do not have significant non-earmarked reserves:

- Limited ability to fund change in the Corporate plan, zero carbon, structural deficit
- One off adverse impacts such as planning appeals, judicial reviews are not provided for

9.3 Adequacy of reserves:

- Business rates – under the current retention system we carry some of the cost of appeals, including backdated refunds, plus reducing total rateable value in the Borough, for example the impact of permitted development on commercial premises, therefore it is appropriate to hold a reserve to mitigate the costs if they come through
- Housing benefit overpayment recovery – will be limited in future due to Universal Credit however a reserve is still held to mitigate this risk
- Investment property voids – investment property income is an important revenue stream to the Council and where properties are empty, the loss of income is covered by the void provision to minimise immediate impacts on the revenue budget

9.4 Negative Government grant:

- Still on the agenda – decision deferred to upcoming Fair Funding Review which further delays have been confirmed until next government spending review.

9.5 Further constraints on income:

- The unknown economic impact of inflation and interest rates

10 Relationship to the Corporate Strategy and Service Plan(s)

10.1 Having a robust, sustainable budget is essential to deliver all aspects of the Corporate Plan. The Corporate Strategy is reliant on financial sustainability and the MTFP is at the heart of its delivery.

11 Implications of decision(s)

Resource (Finance, procurement, staffing, IT)

All decisions made with regard to the budget will impact on Waverley's resources.

Risk management

Detailed in Section 9 above.

Legal

The report meets the duty to report on the robustness of the estimates provided, the adequacy of the financial reserves in place and the monitoring arrangements in line with Section 25 of the Local Government Act 2003. It is critical that the overall financial plans to deliver the Council's aims and objectives, and the proposals included in this report support this aim.

Equality, diversity and inclusion

There are no direct equality, diversity or inclusion implications in this report. Equality impact assessments of the detailed budget proposals will be carried out to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

Climate emergency declaration

There are no direct implications arising from this report. The annual budget includes £100k recurring budget for ongoing staffing costs and other resources and projects to support the climate change action plan delivery plus a one-off £100k contribution in 2022/23 to the Climate Change fund to support further pump priming of Climate Change projects.

Consultation and engagement

The Resources Overview and Scrutiny Committee will scrutinise these proposals at its meeting on 18 October.

Other options considered

Set out within the papers.

Governance journey

The detailed budget proposals and revised MTFP to Resources Overview and Scrutiny in January ahead of consideration by Executive and Council in February. The 2021/22 outturn was reported in July included in the Q4 performance report considered by O&S in June. The 2022/23 General Fund budget and MTFP mid-year review will be reported to O&S in November.

Background Papers

There are no background papers, as defined by Section 100D(5) of the Local Government Act 1972).

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Agreed and signed off by:
Legal Services:
Strategic Director:
Portfolio Holder:

General Fund - Q2 Performance Summary

	Approved Budget £'000	Forecast Outturn £'000	Forecast variance £'000	Adverse/ Favourable	% Variance
Audit					
Expenditure	212	212 -	0	-	0%
Income	- 173	- 173	-	-	0%
Audit Total	40	40 -	0	-	0%
Business Transformation					
Expenditure	5,386	5,376 -	10	Favourable	0%
Income	- 5,151	- 5,159	8	Favourable	0%
Business Transformation Total	235	217 -	17	Favourable	-7%
Collaboration					
Expenditure	115	115	-	-	0%
Income	-	-	-	-	-
Collaboration Total	115	115	-	-	0%
Commercial					
Expenditure	8,707	8,639 -	68	Favourable	-1%
Income	- 5,963	- 5,854	109	Adverse	-2%
Commercial Total	2,745	2,785	40	Adverse	1%
Environment					
Expenditure	13,366	13,342 -	24	Favourable	0%
Income	- 9,215	- 9,211	4	Adverse	0%
Environment Total	4,151	4,131 -	20	Favourable	0%
Finance & Property					
Expenditure	28,430	28,719	289	Adverse	1%
Income	- 27,827	- 28,759	932	Favourable	3%
Finance & Property Total	603 -	40 -	643	Favourable	-107%
General Fund Housing Ops					
Expenditure	282	282	-	-	0%
Income	- 282	- 282	-	-	0%
General Fund Housing Ops Total	- 1 -	1	-	-	0%
GF Funding					
Expenditure	265	728	463	Adverse	174%
Income	- 16,335	- 16,334	1	Adverse	0%
GF Funding Total	- 16,070 -	15,606	464	Adverse	-3%
Housing Delivery & Communities					
Expenditure	4,540	4,553	13	Adverse	0%
Income	- 2,203	- 2,207	5	Favourable	0%
Housing Delivery & Communities Total	2,337	2,345	8	-	0%
Management Board					
Expenditure	464	464	0	-	0%
Income	- 538	- 538	-	-	0%
Management Board Total	- 74 -	74	0	-	0%
Planning & Economic Development					
Expenditure	7,336	7,351	15	Adverse	0%
Income	- 4,468	- 4,432	35	Adverse	-1%
Planning & Economic Development Total	2,868	2,919	50	Adverse	2%
Policy & Governance					
Expenditure	7,146	7,166	20	Adverse	0%
Income	- 4,094	- 4,037	57	Adverse	-1%
Policy & Governance Total	3,052	3,129	76	Adverse	3%
Grand Total	0 -	41 -	41	Favourable	

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Inflation Position Statement

Table 1.

Inflation included in the February MTFP

	2022/23	2023/24	2024/25	2025/26
	3-4%	3%	2.5%	2%
Contracts				
Waste inc house number increases	261,274	226,594	204,793	180,599
Grounds Maintenance	39,106	30,502	26,181	21,469
Leisure Centres - no allowance, income	0	0	0	0
Other Contracts	106,254	21,935	18,827	15,639
Utilities	0	170,100	69,800	37,300
Staffing				
Pay increase assumption	441,000	441,000	367,500	294,000
Increment assumption	49,000	90,000	90,000	90,000
Members	12,529	12,905	11,077	9,083
	909,163	993,036	788,178	648,090

Table 2

Updated Inflation Position included in the MTFP

	2022/23	2023/24	2024/25	2025/26
	4-8%	8.6-11%	4%	2%
Contracts				
Waste inc house number increases	487,270	695,700	323,200	202,700
Grounds Maintenance	62,110	117,600	47,500	24,700
Leisure Centres - no allowance, income	0	0	0	0
Other Contracts	84,824	158,700	64,100	33,300
Utilities	334,320	170,100	69,800	37,300
Staffing				
Pay increase assumption	441,000	1,041,500	526,100	273,600
Increment assumption	0	90,000	90,000	90,000
Members	12,529	12,900	17,700	9,200
	1,422,053	2,286,500	1,138,400	670,800
Movement	512,890	1,293,464	350,222	22,710

Inflation Sensitivity Analysis

Table 3

Updated Inflation Position included in the MTFP

	8.6-11%	4.0%	2.0%
	2023/24	2024/25	2025/26
Contracts	972,000	434,800	260,700
Utilities	170,100	69,800	37,300
Staffing	1,144,400	633,800	372,800
	2,286,500	1,138,400	670,800

Table 4

If 1% higher in first year

	9.6-12%	4.0%	2.0%
	2023/24	2024/25	2025/26
Contracts	1,055,000	439,000	263,000
Utilities	185,000	70,000	38,000
Staffing	1,266,000	639,000	375,000
	2,506,000	1,148,000	676,000
Direct impact	219,500	9,600	5,200

Table 5

If 1% higher in each year

	9.6-12%	5.0%	3.0%
	2023/24	2024/25	2025/26
Contracts	1,055,000	531,000	363,000
Utilities	185,000	88,000	56,000
Staffing	1,266,000	776,000	522,000
	2,506,000	1,395,000	941,000
Direct impact	219,500	256,600	270,200

GENERAL FUND MEDIUM TERM FINANCIAL PLAN 2022/23 - 2025/26

	Ref.	2022/2023	2023/2024	2024/2025	2025/2026	Total	
		Change from 2021/2022 Base	Change from 2022/2023 Base	Change from 2023/2024 Base	Change from 2024/2025 Base		
		£000	£000	£000	£000	£000	
Anticipated Budget Variations							Changes from 2022/23 MTFP
Ongoing Covid19 impact - costs (scaled back from £126k in 2021/22)	Note A	0	-20	0	-106	-126	Delay in reduction of staffing budgets for Revenues due to cost of living service impacts & update to performance of Leisure Centres.
Ongoing Covid19 impact - income (scaled back from £2,651k in 2021/22)	Note A	-998	-551	-515	-475	-2,539	Reprofiled some income returning based on performance in the current year
Covid-19 Income Claim (none expected from 2022/23 onwards)		460				460	
Covid-19 LA grant (none expected from 2022/23 onwards)		457				457	
Inflation and contractual increases		959	2,287	1,138	671	5,055	Updated to reflect latest inflationary estimates - see Annexe 2 table 2 - rates ranging between 8.6 and 11%
NI impact - new social care levy		146	-146			0	1.25% NI change reversed from November 2022
Services Grant - one-off		-138	138			0	
Fair Funding Review - forecast impact on Waverley's retained business rates				700	700	1,400	The Fair Funding Review is delayed at least one further year.
One off capital receipts funding for Business Transformation team		220				220	
Borough Elections Reserve 2020/21 deferred contribution			30	-30		0	
Contingency for target achievement - removed in 2022/23		-111				-111	
Unavoidable Budget Adjustments	Note B	511	0	0	0	511	
Budget Growth Requests	Note C	883	-429	0	-40	414	
March 2020 Budget challenge (£194k target in 2021/22, of which £120k was one-year only)	Note D	121				121	
Lower Tier Service Grant from government		42	89			131	
New Homes Bonus from government		-636	1,613			977	
Covid-19 impact provision - contingency removed from base budget in 2022/23		-1,000				-1,000	
Use of reserves for covid-19 impact provision - contingency removed from base budget in 2022/23		1,000				1,000	
SCC - off street parking & Surrey verges			-25			-25	SCC has indicated wish to return these services - Waverley currently receives £10k for the parking permit work and funds the increased quality of the Surrey Verges work to the cost of £35k
Homelessness Grant			?	?	?	0	Risk of homelessness grant reductions - unknown value but consultation indicated reduction value between £289k and £20k - there will be transitional arrangements and services will be reviewed to mitigate impact. Current grant is £603k
Audit fee increase from the PSAA			?				PSAA have indicated an average 150% increase in audit fees. Current fee is £45k.
Triennial Pension review			?				Currently expect rates to go up from 17.2% - 20% but will have impact on backfunding to mitigate these additional costs.
Leisure Centre Energy Cost impact			?				High energy costs are impacting the leisure contractor, Places, and are not feasible for them to cover long term without support.
BID additional levy costs			?				Depends on outcome of BID ballots in Cranleigh, Godalming & Farnham. Maximum cost will be £44k.
Council tax collection fund adjustments including tax base changes, surplus/deficits etc.		-227	-50	-50	-50	-377	
Budget Shortfall		1,689	2,936	1,243	700	6,568	
		From 2022/23 Base	2,936	4,179	4,879		
		Total over MTFP period	2,936	7,115	11,994		
Measures							
Council tax increase - £5 at band D in 2022/23, 1.99% in future years		-282	-220	-220	-225	-947	
Treasury management interest, arising from revised capital strategy		-115	-1,040	200	200	-755	Uplift due to increased Bank of England base rates.
Car Parking Fees & Charges review - approved by Council in September 2021		-730	-220	-220		-1,170	
Head of Service Cost Review recurring savings identified	Note E	-23	-12			-35	
Commercial Strategy Savings	Note F	-128	-211	-74	-19	-432	Included inflationary forecasts on applicable fees & charges
Business Transformation Savings	Note G	-252	-92	-134		-478	Removed further savings in Office Review project due to increasing office costs
Asset Management Income	Note H	-10	-135	-315	-100	-560	Reprofile of incomes to latest known information
Collaboration Project Savings		-150	-200	-200	-150	-700	Savings are being delivered through JMT restructure as planned.
Ongoing base budget reductions		-1,690	-2,130	-963	-294	-5,077	
		From 2022/23 Base	-2,130	-3,093	-3,387		
		Total over MTFP period	0	-5,223	-8,610		
Budget Shortfall: recurrent deficit			806	280	406		
		Total over MTFP period	0	806	1,892	3,384	

Note - figures showing a minus sign indicate a favourable change from previous years budget

Estimated ongoing Covid-19 impact on pre-pandemic income and cost budgets

	2022/2023	2023/2024	2024/2025	2025/26	Total	
	Change from 2021/2022 Base	Change from 2022/2023 Base	Change from 2023/2024 Base	Change from 2024/2025 Base		
	£000	£000	£000	£000	£000	Changes from 2022/23 MTFP
Income						
Planning Income Pressure	-250				-250	
Leisure Centres	-395	-30	0		-425	Assumes recovery to contracted management fee but no profit share assumed will be achieved. New contract will be in place from July 2023.
Car Parks General	-265	-425	-450	-450	-1,590	Reprofiled income returning due due to expectations of future return of income and cost of living impacts.
Borough Hall	-25				-25	
Building Control		-46			-46	
Memorial Hall	-38				-38	
Careline		0	-25		-25	Reprofiled income returning due income in 22/23 not returned quickly as originally assumed.
Council Tax and Business Rates debt summons charges	-25	-25	-65		-115	
Green Waste Recycling					0	
Total Income Impact	-998	-526	-540	-450	-2,514	
					0	
Costs					0	
COVID-19 - PPE		-20			-20	
COVID-19 - Additional Staffing Revenues and Housing benefits			0	-106	-106	Delay in reduction of staffing budgets for Revenues due to cost of living service impacts.
Total Cost Impact	0	-20	0	-106	-126	
Current Budget Shortfall	-998	-546	-540	-556	-2,640	

Note - figures showing a minus sign indicate a favourable change from previous years budget

Unavoidable Budget Adjustments

2022/2023

Change from
2021/2022 Base Notes

£'000

Triennial Pension Review	46	Impact of Surrey Pension Funds review of assumptions
External Audit	15	Increased costs from national widening of audit scope, increased work requirements
Montrose House - income realignment	18	Site is not fully DDA compliant so unable to let part
HR Restructure costs	14	Increased support required through corporate projects and recruitment demand
Textile income - gate fees fallen	22	Material costs are not as high due to macro economic factors
Recycling credit - low gate fees	42	Material costs are not as high due to macro economic factors
Planning Income realignment	250	Unachievable planning income budget, current market demand is mainly through householder improvements, providing a high level of transactions but low value
Individual Electoral Registration grant	10	Removal of Government grant
Cleaning - Farnham Contract	26	Net loss of income from ending Farnham Town Council cleaning contract
Homelessness funding realignment	28	Adjustment to homelessness service cost to ensure grant is applied as per new requirements
Funding of project officer	67	Moving funding of project officer into mainstream revenue budget in line with funding requirements
SERVICE TOTAL		
	538	
Recharges update	-27	Internal staffing recharge update
TOTAL		
	511	

Note - figures showing a minus sign indicate a favourable change from previous years budget

Summary of Growth items

	2022/2023	2023/2024	2024/2025	2025/26
	Change from	Change from	Change from	Change from
	2021/2022 Base	2022/2023	2023/2024	2024/2025
	£'000	Base	Base	Base
		£'000	£'000	£'000
* GDPR project - data audit	50	-50		
Waste officer - 2 year role to support zero waste strategy		40		-40
ASB Officer - shared with HRA	20			
Car Park annual maintenance	250			
Economic Development	30			
* Boundary Review - systems adjustments	20	-20		
Information Manager	51			
Cyber security network scanning tool	8			
Business Support Resource	25			
Monitoring Officer Support	30			
Bid Funding Officer	50	-50		
* Thriving Communities	49	-49		
* Collaboration Costs	50	-50		
* Increased Revenue contribution to Capital	100	-100		
* Climate Change reserve contribution	100	-100		
* Council Tax Hardship Fund	50	-50		
TOTAL	883	-429	0	-40

* assumed one-off item, subject to New Homes Bonus allocations

Note - figures showing a minus sign indicate a favourable change from previous years budget

Budget Challenge Savings 2022/23

£'000

Target saving from 2021/22		-194
Commercial	WTS saving - restructure/income	-10
Planning	CPD use apprentice levy	-1
Business Transformation	Zoom licenses - 75% GF proportion	4
Policy & Gov	Your Waverley	-21
Environment	increase in garden waste subscribers	-30
	bottomline - DD system for green waste	8
GF Housing	Changes to community safety staff resource	-18
	Community Development budget	-5
Total Identified Ongoing Saving		-73
Difference		121

An additional savings target of £194,200 was set in the 2020/21 base budget which was achieved through a Head of Service budget challenge in this financial year. A number of these savings were only achievable for a single year, however the items detailed above are permanent changes made to the General Fund Revenue budget.

Note - figures showing a minus sign indicate a favourable change from previous years budget

Head of Service cost review

	2022/2023 Change from 2021/2022 Base £'000	2023/2024 Change from 2022/2023 Base £'000
Finance		
* Compensatory Grants - reduction	-14	-7
* Council Tax Support Grant - reduction	-9	-5
Total anticipated	-23	-12

* Continuation of previously Council approved tapering down of allocations

Note - figures showing a minus sign indicate a favourable change from previous years budget

Commercial Strategy Savings					
	2022/2023	2023/2024	2024/2025	2025/26	
	Change from 2021/2022 Base £'000	Change from 2022/2023 Base £'000	Change from 2023/2024 Base £'000	Change from 2024/2025 Base £'000	Changes from 2022/23 MTFP
Fees & Charges - proposed increases by inflation where applicable, not including car park charges	-72	-107	-39	-19	applied inflation as per forecasts for contracts
Farnham Park Car Park Charges		-10			
Memorial Car Park Charges	-10				
SCC verges removal from grounds maintenance contract	-26				
Net Planning Income increase- review of non-statutory Fees conditional on review & economic position	-20	-20			
Careline - new service and equipment offerings		-20			
The Edge - review operating model		-44	-15		Plan to hand The Edge site back to SCC to manage with school as main users from end of leisure contract (June 2023)
Waverley Training Services additional income		-10	-20		
Total anticipated	-128	-211	-74	-19	

Business Transformation Savings

	2022/2023	2023/2024	2024/2025	2025/26	
	Change from	Change from	Change	Change	
	2021/2022	2022/2023	from	from	
	Base	Base	Base	Base	Changes from 2022/23 MTFP
	£	£	£	£	
Customer Services Review	-19	-22	-50		
Staff Travel Review	-104		-44		
Scanning, Printing & Photocopying	-31				
Planning Review - efficiency savings	-50				
Building Control Review - income and efficiency savings	-18				
Office Review - saving in running costs	-30	0			No additional income forecast, wider site for project is ongoing
Enforcement Structure Review		-40	-40		
Digital Transformation		-30			
Total anticipated	-252	-92	-134	0	

Asset Management Additional Income

	2022/2023	2023/2024	2024/2025	2025/2026	
	Change	Change	Change	Change	
	from	from	from	from	
	2021/2022	2022/2023	2023/2024	2024/2025	Changes from 2022/23 MTFP
	Base	Base	Base	Base	
	£'000	£'000	£'000	£'000	
Brightwells income		-50	-50		income from SCC reprofiled to reflect projected opening in summer 2023
Red Cross building	-10				
Pumphouse		-34	-11		9 month rent free period
Wey Court East		-51	-154		Reprofiled for latest forecast including rent free periods
Asset Management Income target			-100	-30	£70k of target delivered by below schemes
69 High Street, Godalming				-70	New commercial lease
Total anticipated	-10	-135	-315	-100	

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WAVERLEY BOROUGH COUNCIL

COUNCIL 13 DECEMBER 2022

Title:

**Housing Revenue Account Business Plan –
Strategic Review**

Portfolio Holder(s): Cllr Nick Palmer, Co-Portfolio Holder for Housing (Delivery)
Cllr Paul Rivers, Co-Portfolio Holder for Housing (Operations)
Cllr Mark Merryweather, Portfolio Holder for Finance, Assets and Commercial Services

Head of Service: Andrew Smith, Executive Head of Housing

Key decision: Yes

Access: Public

1. Purpose and summary

1.1 This report sets out the revised Housing Revenue Account Business Plan strategy following the completion of the strategic review commissioned in February 2022.

This report contains the following Annexes:

- Annexe 1 – HRA Business Plan 2022/23 to 2052/53
- Annexe 2 – Housing Reserves
- Annexe 3 – Housing New Build Summary

2. Recommendation

2.1 It is recommended that the Executive, after considering the comments from the Landlord Services Advisory Board and Resources Overview and Scrutiny Committee, make the following recommendations to Council, that:

1. To approve the revised HRA business plan strategy set out in this report.
2. To approve the proposed movements, restrictions and purposes of reserves as set out in **annexe 2**.

3. Reason for the recommendation

3.1 To provide the resources to fund Waverley Borough Council's Landlord Services operations, maintenance programme, zero carbon commitments and building new affordable homes on a long-term financially sustainable basis.

4. Background

4.1. The annual update of the self-financing HRA 30-year Business Plan considered by Full Council on 22nd February 2022 included a recommendation to undertake a strategic review to address the challenges faced within the HRA business plan and return it to a sustainable financial footing. The outcome of this review is reported below.

4.2. The HRA and General Fund are not separate legal entities, the HRA is a ring fenced account within the General Fund restricting the use of income and management costs of the housing functions in compliance with the Housing Acts (Statute). The HRA Business Plan is a rolling 30-year self-financing plan reflecting the key long-term strategies to deliver the commitments within the Corporate Plan including managing, maintaining, and building new social and affordable housing for Waverley's tenants. The plan complies with and is affected by government statute and policy whilst being independent of any central government support. The HRA Business Plan adjusted to reflect the outcome of the strategic review proposals is presented on **annexe 1** and referred to in this report.

4.3. The Business Plan originated in 2012 to support the compulsory buy out of the government rent subsidy system costing the council £193m, funded from a schedule of borrowing to be repaid from the rent income over 30 years, whilst providing funding to build new homes. However, in the last 10 years, there have been changes to the statutory regulations such as lifting of the borrowing cap to facilitate new house building. Government rent control policy changes initially forcing a 4-year rent reduction then a 4-year capped increase and a long-term alignment with a common rent standard applicable to all Registered Providers including the council. More recently the Business Plan is being impacted by the economic shocks resulting from Covid, global supply issues and the Ukrainian war. These issues have presented challenges to contain the resulting inflationary spikes in cost and the need to resist passing the full effect of these short-term economic shocks onto the council's tenants in above long-term average annual rent increases.

Debt repayment and borrowing strategy

4.4. Over the next 18 years, the original business plan was set to repay the borrowing in tranches as a direct deduction from the rent income, with debt repayment ratcheting up each year from initially around £4m rising to £17m, and the business plan being free of borrowing after 18 years. The original business plan included an assumption of rent increases of 1% above the long-term HM Treasury

Consumer Prices Index (CPI) inflation target of 2% to provide sufficient rent income to cover debt repayment and housing maintenance. Due to subsequent changes in government rent policy, which forced a real rent reduction of 1% per year over 4 years (between 2016/17 and 2019/20) and the recent economic shocks, the plan to be debt free is no longer achievable because the annual rent income is not sufficient to cover debt repayment and maintenance. The council will now have to change its strategy and borrow to fund the contractual debt repayments over the next ten years to free up rent income to fund the housing maintenance and energy efficiency programme.

Funding the housing maintenance strategy

4.5. The council must not borrow more than is necessary to fund its maintenance programmes and there are statutory rules on what types of maintenance can be funded by borrowing. This is conventionally limited to maintenance that can be capitalised on the balance sheet and amortised over the life of the components reflecting the long-term replacement cycles of key housing components such as central heating, bathrooms, roofs etc. The amortisation of components funded by this strategy will be set aside for debt repayment, instead of being used to fund further maintenance works, to prevent the council from building up an unsustainable level of debt which would ultimately be funded from the rental income.

4.6. The amount of borrowing required to fund debt repayment as it falls due each year will depend upon the detail of the stock condition survey currently being commissioned to inform a revised asset management plan. This work will take up to two years to complete. The business plan that will be put to Full Council in February 2023 will reflect these logistics.

Staffing and management costs

4.7. The cost of managing the housing service must be funded from the rental income and there is a statutory prohibition on borrowing for such costs. There is a direct trade off between staffing and management costs and the funding of maintenance programmes. Every £1 increase in staffing and management costs reduces the rental income funding available for maintenance and therefore increases the need to borrow and ultimately the interest costs charged against the rental income. Staffing and management costs must therefore be optimised and achieve economies of scale through efficiencies and collaboration opportunities. It is recommended that these costs remain at the current approved budget for the next 4 years with an additional savings target supported by a strategy to deliver that reflects available efficiency opportunities. This detail will be worked up for the 2023/24 Business Plan due to be presented to Full Council in February 2023.

Rent Income

4.8. The original business plan assumed rent increases in line with HM Treasury long term inflation target of 2% plus 1%. For reasons already explained this has not held true. The government has set a maximum rent increase of CPI plus 1% for the next three years, in the current turbulent economic climate this policy does not work. It will generate significant rent increases resulting from what is predicted to be relatively short-term economic issues in a long term (30 year) business plan.

4.9. Rent increases need to be set with a long-term view and smoothed to reflect the actual long term inflation trend with appropriate weightings to iron out the short-term inflation spikes whilst ensuring the business plan is not unreasonably being deprived of resources. This is justified by the correlation of rent increases to the upward only year on year cost of living increase in staffing costs compared to the cost of maintenance and utilities which is much more fluid and flexible in a competitively tendered market.

Inflation pressures

4.10. Inflation within the HRA operational cost base has been assumed at 3% in the original Business Plan, this assumption has held reasonably true prior to the current economic challenges and has generally been benign. However, inflation is now a significant issue, and it is important that its impact on the different aspects of the Business Plan is understood beyond the broad media headline of CPI to ensure effective cost control strategies are implemented and rent increases are proportional to the long term inflation forecast. The table below demonstrates how inflation impacts different elements of the HRA cost base.

2022/23 budget	£x1000	%age	2022/23 Inflation impact
Salaries derived cost	4,448	24%	Pay award ~ 3%
Utilities	311	2%	Currently ~200%
Council tax	100	1%	Referendum principle ~2%
Responsive maint contract	6,104	33%	Between 1.5% - 11%
Debt interest	5,328	29%	No inflation
Other operational costs	2,328	13%	Contained within budget
Operational cost	18,619	100%	

4.11. Within the cost base there is scope to mitigate the impact of short-term inflationary pressures. Total salary costs can be contained within current approved budget, with the inflationary pressure managed through efficiency measures and delaying recruitment, where adverse service impact risk is low or acceptable. Utilities relate to the energy costs of voids and supported living schemes, where usage can be actively managed and service charges reviewed. Council tax is entirely the cost of void properties and proportionally insignificant. The responsive maintenance contract i volumes are flexible, careful risk-based prioritisation of repair work can reduce cost exposure. Whilst the core maintenance programme does not feature directly in the operational costs, it also is impacted by inflation, and there are options to manage inflation in this programme through careful management and prioritisation.

New homes building strategy

4.12. In the original business plan the Council's ability to borrow to build new homes was capped by the government. To facilitate the funding of a small build programme the repayment of the £193m debt was delayed 5 years to enable a new build reserve to be accumulated.

4.13. The lifting of the borrowing cap four years ago has enabled a new strategy to be developed to fund the building of new affordable homes. The new strategy proposes that the construction/land costs are funded by a combination of Right to Buy sales receipts and borrowing. Financial viability is always challenging on new builds that are let at below market rent (i.e. affordable or social rent). Affordable rent on new homes does not usually cover the full annual cost of a home including the borrowing costs for quite a number of years and requires a subsidy to make up the shortfall. The solution is to subsidise the annual rent deficit (rent less costs) from the New Development Impact Reserve until the rent increase catches up with the annual costs (including fixed annual borrowing costs). This ensures the reserves funding can be utilised over a bigger number of new homes than the alternative to subsidise the build cost from the new build reserve to reduce the borrowing costs, which would quickly deplete the reserve. The pipeline of new build projects is demonstrated on **annexe 3**.

Reserves

4.14. A full review of HRA reserves has been completed as part of the strategic review. It is proposed that the New Affordable Housing Reserve and the Stock Improvement Reserves are consolidated into a New Development Impact Reserve which will be used to cover the revenue impact on the business plan from New Development Schemes.

4.15. It is a statutory requirement to maintain a HRA minimum working balance, there is no statutory prescription on how much this should be and the Chief Finance Officer (Section 151) considers £2m to be appropriate. The modelling of the HRA Business Plan therefore focusses upon maintaining at least £2m in the HRA working balance across the full term of the business plan.

4.16. The use of Right to Buy receipts are restricted to funding no more than 40% of the cost of a replacement home (whether through acquisition or new build) within 5 years of receipt or are due to be paid over to the government. To avoid clawback a pipeline of new builds is required, including the purchase of Affordable properties from developers under section 106 agreements.

4.17. The Unrestricted Capital Receipts reserve is a corporate reserve originally designated to support the new build programme prior to the borrowing restrictions being lifted. The requirement for this reserve now falls away under this new HRA Business Plan strategy and can be utilised to support other corporate capital project priorities.

Garages

4.18. Garages are currently accounted for within the HRA ringfence as they were originally provided by the Council under Housing Act powers in connection with the housing provided by the Council. However, over time these have mostly been let on a commercial basis to private tenants and no longer in connection with our HRA tenancy. Over 75% of garages are now rented privately by non-HRA tenants.

4.19. As the majority of the Council's garages are no longer rented by HRA tenants, they can no longer be considered to be required for housing purposes, and it is therefore proposed to appropriate them along with on-going maintenance liability and the income generated to the General Fund.

4.20. A separate report will follow on this including financial implications and recommendations.

Sensitivity analysis

4.21. A full sensitivity analysis has been completed to model the effect of different assumptions impacting upon the HRA Business Plan to ensure that the fundamental principles of the new strategy are viable. A full analysis of the sensitivities will be provided with the 2023/24 Business Plan due to be presented to Full Council in February 2023. Information on the sensitivity modelling can be seen on **annexe 1**.

Local Government Act 2003 – Financial Administration

4.22. The Local Government Act 2003 formally introduced several specific sections covering:

- 4.22.1. Budget calculations, report on robustness of estimates,
- 4.22.2. Adequacy of reserves and
- 4.22.3. Budget monitoring

4.23. Robustness of Estimates - Full account has been taken of potential costs and adequate provision has been made. A prudent assessment of income has been undertaken and only income that has a high level of certainty of being received is included within the Council's budgets.

4.24. The Council's HRA Business Plan, together with information presented at the Annual Member Finance Briefings and subsequent reports demonstrate the financial challenges to Waverley Borough Council and Landlord Service in the future.

4.25. In view of the level of awareness amongst Members and the action taken to produce the Council's budget in 2022/23, the S.151 Officer is satisfied with the robustness of the estimates presented.

4.26. Adequate reserves - are necessary to meet significant cost that could not reasonably have been foreseen in the preparation of the budget. The levels of the HRA working and repairs fund balances have been reviewed and the working

balance is at least £2m. **Annexe 2** shows the schedule of HRA balances and reserves.

4.27. Budget Monitoring - It is the view of Waverley's Section 151 Officer that the arrangements for budget monitoring, referred to above, satisfy the requirements of the Local Government Act 2003. Budget Monitoring in 2022/23 shows that the HRA is staying within budget on capital and revenue overall.

5. Conclusion

5.1. The team has completed a comprehensive strategic review of the Housing Revenue Account and proposes appropriate strategies to ensure income stream increases, capital works, improvements and new build budgeted programmes and the maintenance of healthy reserves to deliver the HRA Business Plan objectives.

6. Relationship to the Corporate Strategy and Service Plan

6.1. Waverley's landlord service deals with the management and maintenance of existing council homes and delivering housing. The Corporate Strategy aims to maximise the availability of housing that meets the needs of local people at all income levels and emphasises the value and worth of all residents. A viable business plan needs to be in place to aid delivery of these priorities.

7. Implications of decision

Resource (Finance, procurement, staffing, IT)

7.1. All decisions made regarding the budget will impact on Waverley's resources.

8. Risk Management

8.1. Risks inherent with the delivery of a sustainable Business Plan have been identified along with appropriate solutions within the report.

9. Legal

9.1. Section 24 of the Housing Act 1985 provides that a local authority may make such reasonable charges as they determine for the tenancy or occupation of their houses. The Council must review rents from time to time and make such charges as circumstances require.

9.2. Under Section 74 of the Local Government and Housing Act 1989, the Council is obliged to maintain a separate Housing Revenue Account and by Section 76 must prevent a debit balance on that account. Rents must therefore be set to avoid such a debit and the Council must set a balanced HRA budget.

10. Climate emergency declaration

10.1. The New Build contribution to the Council's environmental and sustainability objectives includes working with consultants to develop climate positive design and developing carbon off-set opportunities in materials used in construction

10.2. The consultant and contractor shortlisting / tender process supports the Council's ambition of being carbon neutral by 2030. Tender criteria are used to enable the Council to take account of the qualitative, technical and sustainability aspects of the tender as well as price when evaluating and reaching a contract award decision.

10.3. Demolition contractors are required to operate in an environmentally responsible manner with a firm commitment to recycle and reclaim the maximum materials recovered during the demolition and dismantling process.

10.4. Our build contractor appointment includes an assessment of responses in relation to minimise the carbon impact on delivery of schemes with specific references to addressing their environmental impact, pre-construction activity, build and post construction phases and management of their supply chain.

10.5. Contractors are required to demonstrate areas of innovation that they have developed, or suggest products and advise how they might be used in projects delivered with the council; having regard to the council's current Design Standards and Employers Requirements to deliver energy efficient and sustainable homes for existing and future tenants

10.6. The Waverley Borough Council Housing Design Standards were reviewed by the Housing Overview and Scrutiny Working Group and the resulting recommendations were formally adopted by the Executive in September 2021. The focus of the review was on opportunities and methods of delivery of carbon neutral / Passivhaus homes and value for money.

10.7. The development teamwork with other teams to identify ways the delivery of the Council's new build and regeneration programme can support delivery of other elements of the Council's Climate Change and Sustainability Strategy and Strategic Carbon Neutrality Action Plan.

10.8. Sustainability and reducing carbon are central to the review of the Asset Management Strategy, Responsive Repairs contract and capital works programmes.

10.9. Meeting the climate change emergency in respect of the council's housing stock is both financially and resource intensive. Detailed work will be done alongside the stock condition survey to understand the works required and how best to deliver them within the HRA Business Plan.

11. Consultation and engagement

11.1. The Portfolio Holders and the Landlord Services Advisory Board have been consulted on this paper prior to Resources Overview and Scrutiny committee. The Resources Overview and Scrutiny Committee scrutinised the HRA Business Plan Strategic review at their meeting on 7th November 2022.

12. Other options considered

Alternative rent increases have been included in the sensitivity analysis referenced in 4.21.

13. Governance journey

13.1. Landlord Services Advisory Board on 27th October 2022 and Resources Overview and Scrutiny 7th November 2022, Executive on 29th November and Council 13th December 2022.

Annexes:

Annexe 1 – HRA Business Plan 2022/23 to 2052/53

Annexe 2 – Housing Reserves

Annexe 3 – Housing New Build Summary

Background Papers

There are no background papers, as defined by Section 100D (5) of the Local Government Act 1972).

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Agreed and signed off by:

Legal Services:

Strategic Director:

Portfolio Holder:

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HRA Business Plan 2023/24 to 2052/53

	YR1 2023/24	YR2 2024/25	YR3 2025/26	YR4 2026/27	YR5 2027/28	YR10 2032/33	YR15 2037/38	YR20 2042/43	YR25 2047/48	YR30 2052/53
HRA WORKING BALANCE										
INCOME										
Net Dwelling Rent	-31,255,961	-32,506,199	-33,481,385	-34,485,826	-35,520,401	-41,177,880	-47,736,449	-55,339,628	-64,153,796	-74,371,832
Net Garage Rent	0	0	0	0	0	0	0	0	0	0
Service Charges	-389,844	-405,438	-417,601	-430,129	-443,033	-513,596	-595,399	-690,231	-800,166	-927,612
Cost Recovered	-355,937	-370,174	-381,280	-392,718	-404,500	-468,926	-543,614	-630,197	-730,571	-846,932
Other Income	-280,889	-292,125	-300,889	-309,915	-319,213	-370,055	-428,995	-497,323	-576,534	-668,361
Interest Receipts	-530,940	-366,550	-202,160	-202,160	-202,160	-202,160	-202,160	-202,160	-202,160	-202,160
Total Income	-32,813,571	-33,940,486	-34,783,314	-35,820,749	-36,889,306	-42,732,618	-49,506,617	-57,359,539	-66,463,227	-77,016,898
EXPENDITURE										
Cost of Operation	1,495,907	1,520,286	1,532,963	1,545,894	1,559,083	1,629,093	1,706,390	1,791,732	1,885,956	1,989,988
Operational Staffing	3,849,238	3,649,238	3,649,238	3,649,238	3,722,222	4,109,634	4,537,368	5,009,621	5,531,027	6,106,701
Support Service Charges	599,300	599,300	599,300	599,300	611,286	674,909	745,154	822,710	908,339	1,002,879
Back Funding Pension Cost	658,285	658,285	658,285	684,800	684,800	684,800	684,800	684,800	684,800	684,800
Responsive Maintenance	7,108,786	7,393,138	7,541,001	7,691,821	7,845,657	8,662,239	9,563,812	10,559,221	11,658,234	12,871,632
Corporate and Democratic Costs	682,595	709,898	724,096	738,578	753,350	831,759	918,329	1,013,910	1,119,438	1,235,950
Mortgage Interest	5,116,002	4,872,531	4,702,895	4,505,307	4,213,121	2,173,731	0	0	0	0
Revenue contribution to Mortgage Principal Repayment	8,561,000	9,485,000	4,700,000	5,540,000	9,540,000	15,180,000	0	0	0	0
Hardship Fund	30,000	30,000	30,000							
Total Expenditure	28,101,113	28,917,676	24,137,778	24,954,937	28,929,519	33,946,166	18,155,854	19,881,995	21,787,794	23,891,950
Net INCOME -/ Net EXPENDITURE +	-4,712,458	-5,022,810	-10,645,536	-10,865,811	-7,959,787	-8,786,452	-31,350,763	-37,477,544	-44,675,434	-53,124,948
CONTRIBUTIONS TO (+)/FROM (-) RESERVES										
Core Capital programme Contribution	8,086,513	10,104,579	10,653,638	10,866,710	7,962,066	8,790,764	9,705,714	10,715,893	11,831,211	13,062,613
Release part of Uninsured losses reserve	-561,700									
MOVEMENT IN YEAR ADDED (-)/REDUCED (+)	2,812,355	5,081,769	8,102	899	2,279	4,312	-21,645,049	-26,761,652	-32,844,223	-40,062,335
Opening Balance	-9,912,976	-7,100,621	-2,018,852	-2,010,751	-2,009,852	-2,007,775	-18,193,307	-133,058,090	-278,613,137	-456,778,885
CLOSING BALANCE (MIN £2m)	-7,100,621	-2,018,852	-2,010,751	-2,009,852	-2,007,573	-2,003,462	-39,838,356	-159,819,741	-311,457,359	-496,841,220
MAJOR REPAIRS RESERVE										
Opening Balance	-1,729,328	0	0	0	0	0	0	0	0	0
MOVEMENT IN YEAR ADDED (-)/REDUCED (+)	-8,086,513	-10,104,579	-10,653,638	-10,866,710	-7,962,066	-8,790,764	-9,705,714	-10,715,893	-11,831,211	-13,062,613
Core Capital programme	9,815,841	10,104,579	10,653,638	10,866,710	7,962,066	8,790,764	9,705,714	10,715,893	11,831,211	13,062,613
CLOSING BALANCE	0	0	0	0	0	0	0	0	0	0
Principal Repayment Financing										
Mortgage Principal Repayment	8,561,000	9,485,000	9,780,000	10,399,000	11,166,000	15,455,000	0	0	0	0
Revenue Contribution	8,561,000	9,485,000	4,700,000	5,540,000	9,540,000	15,180,000	0	0	0	0
Internal/external refinancing	0	0	5,080,000	4,859,000	1,626,000	275,000	0	0	0	0

Sensitivity Analysis 23/24	Assumption in business plan	change (- reduced)	2023/24	2024/25	2025/26	2026/27	2027/28	2032/33	2037/38	2042/43	2047/48	2052/53
Rent increase lower/higher by	4%		0	0	0	0	0	0	0	0	0	0
Inflation rate lower/higher by	11%		0	0	0	-0	-0	0	0	-0	0	0
RTB Sales	20		-	-	-	-	-	-	-	-	-	-
Total impact per year			0	0	0	-0	-0	0	0	-0	0	0
Total impact across business plan		-	0.00									

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Reserve	Opening balance	Proposed movements	Revised balance	Restrictions/Purpose
Major Repairs Reserve	-1,729,328	0	-1,729,328	The regulations require the MRR to be credited with an amount equivalent to the total depreciation charges for all HRA assets. This is then used to fund the core capital spend. It can also be used to fund repayments of principal of any amounts borrowed.
Uninsured Losses Reserve	-661,700	561,700	-100,000	To cover uninsured losses including excesses on claims. In light of the new insurance policies, taking into account current claims, this can be reduced down to £100k.
Capital Grants Unapplied Account	-42,554	0	-42,554	Thames Water bond for Ockford Ridge.
Stock Improvement Reserve	-4,958,357	4,958,357	0	Revenue reserve, historically used for Stock Improvement spend but there no restrictions on use of this reserve. Proposed to move this to New Development impact reserve
New Affordable Housing Reserve	-15,138,048	15,138,048	0	Revenue reserve, historically used for New Affordable Housing spend but there no restrictions on use of this reserve. Proposed to move this to New Development impact reserve
New Development impact Reserve	0	-20,096,405	-20,096,405	Reserve to be used to cover the revenue impact on business plan for New Development Schemes
Revenue Account Balances	-9,942,758	-561,700	-10,504,458	Working balances - Min balance - £2m
Water Charge Refunds - HRA	-1,888	0	-1,888	For Water Charge refunds, to be released in 22/23 if not used
Capital Receipts Unapplied*	-20,648,657	0	-20,648,657	Further detail on split of this reserve below
	-53,123,290	0	-53,123,290	

Capital Receipts Unapplied*	Opening balance	Proposed movements	Forecast closing balance	Restrictions/Purpose
Restricted 1-4-1 receipts (5 Year limit)	-2,500,500	0	-2,500,500	The use of these receipts is restricted to the building and acquisition of new properties. The percentage cost of a new home that Waverley can fund using Right to Buy receipts increases is 40%. 1-4-1 receipts must be spent within 5 years or returned to central government.
Unrestricted capital receipts	-18,148,157	0	-18,148,157	These are corporate capital receipts and can be used across both HRA and General Fund.
	-20,648,657	0	-20,648,657	

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Housing Development - Financial Analysis

Status	Scheme	Scheme Cost	Financing			NPV ⁴ (60 years)	Scheme deficit to be subsidised from business plan (up to the point the scheme contributes to BP)	Net revenue impact to business plan (30 years) ¹	Net revenue impact over life of asset (60 years) ¹	Revenue neutral from
			1-4-1 Receipts	Sales Receipts (Year 1) ³	Borrowing					
Contract signed ⁵	Ockford Ridge - Site C	8,115,890	1,298,542	600,000	6,217,348	369,099	1,921,500	196,095	-20,751,263	Year 17
Pre contract agreement	Aarons Hill	1,054,959	421,984	-	632,975	252,122	144,067	-119,926	-2,632,122	Year 15
Pre contract agreement	Hartsgrove	1,742,073	418,098	130,000	1,193,976	307,812	639,618	560,395	-2,136,905	Year 24
Pre contract agreement	Pathfield	3,390,913	863,141	222,500	2,305,271	371,307	809,147	369,339	-6,497,325	Year 19
Pre contract agreement	Queens Mead	2,494,711	498,942	222,500	1,773,268	470,931	1,362,215	1,361,780	-821,294	Year 32
Pre contract agreement	Turners Mead	889,794	355,918	-	533,876	401,457	142,811	-43,496	-2,008,700	Year 16
Tender evaluation	Riverside Court	333,146	133,259	0	199,888	-93,225	23,187	23,187	-271,977	Year 32
Acquisition	Catteshall Lane	2,845,500	1,138,200	0	1,707,300	509,630	240,679	-796,011	-8,614,850	Year 12
Total ²		20,866,987	5,128,083	1,175,000	14,563,903	2,589,132	5,283,223	1,551,363	-43,734,438	

¹ The net revenue impact figures shown are before subsidy from the business plan has been applied. Subsidy figures are shown in the "Scheme deficit to be subsidised from business plan (up to the point the scheme contributes to BP)" column.

² A minus (-) figure represents surplus/income

³ Sales receipts are from Shared Ownership sales

⁴ NPV's are calculated over 60 years in line with the life of the asset and assumed borrowing over 60 years.

⁵ Ockford Ridge is the only scheme currently in contract, all other schemes are in a pre contract stage.

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