

# Waverley Borough Council

**Report to:** Executive

**Date:** 28 November 2023

Ward(s) affected: All

**Report of Director: Transformation & Governance**

**Author:** Candice Keet, Senior Accountant

**Tel:** 01483 523059

**Email:** [candice.keet@waverley.gov.uk](mailto:candice.keet@waverley.gov.uk)

**Executive Portfolio Holder/ Lead Councillor responsible:** Councillor  
Mark Merryweather & Councillor Paul Rivers

**Email:** [mark.merryweather@waverley.gov.uk](mailto:mark.merryweather@waverley.gov.uk)  
[paul.rivers@waverley.gov.uk](mailto:paul.rivers@waverley.gov.uk)

**Report Status:** Open

**Key Decision:** No

## Housing Revenue Account Mid Year Review

### 1. Executive Summary

- 1.1 This report outlines the latest projections for the Housing Revenue Account 30 (HRA) Year Business Plan. It highlights the emerging pressures on the HRA revenue and capital budgets and estimates their impact on HRA service delivery and long-term forecast.

## **2. Recommendation to Executive/ Committee/ Council**

The Executive is asked to recommend:

That the Council:

- 2.1 Notes the 2023/24 forecast outturn position for the Housing Revenue Account;
- 2.2 Notes the emerging pressures and risks set out in the report;
- 2.3 Notes the position regarding the HRA capital programme and New Development Scheme.

## **3. Reason(s) for Recommendation:**

- 3.1 The annual Housing Revenue Account budget is a major decision for the Council. The uncertain economic climate necessitates a review of the HRA and Capital budget in the light of its financial impacts on the long term sustainability of the HRA Business Plan
- 3.2 Scrutiny of the HRA budget and capital budgets through a Mid-Year Review demonstrates transparency and good governance.

## **4. Exemption from publication**

No

## **5. Purpose of Report**

- 5.1 The HRA Business Plan is a key financial planning document which takes account of all the various currently known factors and influences that may impact on the Council's Housing Revenue Account for the forthcoming financial years, the HRA business plan is a 30 year plan.

5.2 These factors are both within and beyond the Council's control and include; general macro-economic conditions, Government restriction on rent increases, current expenditure patterns, inflation, changing demand for services and new legislation impacting how we deliver the landlord services.

5.3 The HRA business plan looks forward over the next 30 years to anticipate the spending pressures faced by Waverley. In light of the changing economic picture, planning now to meet expected and known financial changes in the future provides greater opportunity to mitigate the impact.

## **6. Strategic Priorities**

6.1 Having a robust, sustainable HRA budget is essential to deliver multiple aspects of the Corporate Plan. The report supports the Council's Corporate commitment to promote "Good quality housing for all income levels and age groups" and aim to "be the best council landlord in the South East and to be acknowledged so by our tenants."

## **7. Background**

### **7.1 Outturn Position 2022/23**

- Summary of the Housing Revenue Account outturn was reported to members in the Q4 performance report in July 2022. In total, there was a net underspend of £12k. However, following some year-end postings since this position was reported, the underspend has increased to £50k.
- Rent income was £370k under budget for 2022/23. This was due in part to an error when setting the budget but also an increase in void loss and long term voids. The long term voids are due to delays within the New Build programme as all schemes were paused during the Strategic Review in 2022/23. The budget errors were corrected in 2023/24 budget setting.
- The service charges and other income budgets both overachieved expected income. This was due to the release of some historic

- balances relating to water charges on the HRA balance sheet and an increase in the service charges to the leaseholders. These service charges will offset spend with the repairs and utility budgets.
- Interest receipts from the Treasury Management investments overachieved by £399k in 2022/23. This was due to the increase in interest rates.
  - On the expenditure side, cost of operations and support service recharges both had overspends totalling £644k. This was primarily due to inflation increases that were not budgeted for on utility and staff costs. This has been addressed in the 2023/24 and an inflation provision have been created.
  - Responsive Repairs and Staffing both came in under budget. Staff savings were due to careful budget management throughout the year and increased vacancy savings. The responsive repairs savings were due to savings in the Cyclical Maintenance budgets caused by some delays by contractors and some budgets being set too high and not deliverable. The issues with these budgets were rectified for the 2023/24 budget setting.

## **7.2 2023/24 Budget Management and emerging pressures on the Housing Revenue Account**

- Waverley is now six months into the new financial year, and eight months have passed since the Council set its 2023/24 budget. Officers have reviewed the latest position and following discussions with the budget managers have updated the forecasts for the year. The overall picture, as seen in Annexe 1 is a net underspend of £65k.
- **Increase in void rent loss**  
At present, £113k (September 2022) of void loss is projected against the 2023/24 budget. This equates to a void loss overall of approx. 1.35% against a budgeted target of 1%. This target will be reviewed in the 2024/25 and may need to be increased based on the previous year's outturn and current year predictions.
- **Increase of void repairs and void council tax costs**  
Void repairs has a current projected overspend of £105k. There have been a number of high cost voids in 2023/24 that are contributing to

this overspend. The service will keep this under review and are looking further into the data to gain a better understanding of this variance. The increase in void period and number of long term voids is also causing a forecast overspend of £100k on council tax. When one of our dwellings is void Waverley become liable for the council tax. As the number of voids have increased and long term voids have also increased this has caused council tax to increase from a predicted £100k in 23/24 to £200k.

- **Establishment Savings**

The current forecast is for HRA to overachieve the vacancy savings target by around £90k. There have been a number of vacancies throughout the year. However, the service has now worked on a new structure within the Housing Operations team which will see these vacancies now being filled so this trend is not expected to continue into 2024/25.

- **Overachievement of investment income**

The current forecast is for HRA to overachieve the investment income budget by £312k. This is due to the interest rate increases since the budget was set in February 2023.

### **7.3 HRA Business Plan Forward Look**

- The HRA Business Plan will be updated along with the 2024/25 budget proposal. During 2022/23 a strategic review was undertaken during which all assumptions within the Business Plan were reviewed and where necessary revised. One of the outcomes of this review was that additional borrowing of £26m would be needed over the next 12 years. This is due to the current debt repayment schedule not being affordable within current forecasts. This position will be reviewed, and, in light of current interest rates, action will be taken to try to reduce, and where possible delay, this borrowing need
- Annual rent increases are capped under the current rent standard by September CPI (Consumer Prices Index) + 1%. September CPI has not been released and was 6.7%. We will use this to refresh the assumption in the business plan. Rent is the main sources of income

for the Business Plan and any changes from the assumption used in the 2023/24 budget setting will massively impact the overall affordability of the plan.

- During the budget setting period finance officers will work with services and members to find savings, where possible, to mitigate the need for additional borrowing and cover any additional costs as a result of a number of risks identified in section 9.

#### **7.4 Capital Programme Review**

- The HRA Capital Programme is mostly being delivered as per budget, as show in Annexe 2.
- In early 2023/24 Waverley submitted a bid to the Social Housing Decarbonisation Fund. This bid was unsuccessful and as a result of this the capital budget of £102k is no longer required.
- The stock condition survey budget is forecast to have a saving of £85k in 2023/24, the total approved budget is £335k but only £250k will be required to complete the project.
- The roofing budget is currently forecast to save £100k this financial year. This will be reviewed in Q3 as discussions are continuing with contractor as to whether it will be possible for them to deliver the full programme
- The Energy Efficiency budget is forecast to save £150k in 2023/24. This is due to the post needed to deliver this programme being vacant. The aim is to have someone in this post in the next few months at which point spend against this budget will increase.
- The finance team meets with budget managers on a monthly basis to review the capital programme and this will continue for the remainder of the year.
- Inflation has been considered and a provision was provided for 2023/24 to mitigate the impact. This will be reviewed for 24/25 budget setting. The forecast is that inflation will have an impact of approximately £400k in 24/25.

- In the upcoming budget setting process, projects will continue to be assessed against corporate priorities and asset maintenance plans. Each bid for 2024/25 will require a supporting programme of works (where appropriate).

## **7.5 New Delivery Capital Programme Review**

- Annexe 3 details the forecasts for the New Delivery Capital Programme for 2023/24. There have been some delays to schemes resulting in approximately £7m of carry forwards being required.
- The Chiddingfold Sites require carry forwards of approx. £4.6m. Start on site is due later this year and works will continue into 2024/25. This forecast will be kept under review as the scheme progresses. Revised cash flows are provided when any changes in the programme are known, and this will be reflected in future forecasts.
- The Aarons Hill site is currently still in pre contract and works will continue into 2024/25. Once in contract a revised cash flow forecast will be provided, and this will be reflected in future forecasts.
- Catteshall Lane now has planning approval, but this was delayed which has led to a carry forward of approx. £2.1m being required. Works expected to start on site in Jan 24 which this work continuing into 2024/25.
- All other live schemes are currently forecast to spend their 2023/24 budget allocation in full.
- Within the 2023/24 financial year a number of schemes have had to be reviewed and budgets increased as a result of continued high inflation rates. The inflation risk is being reviewed and adequate provision made for all predevelopment and live schemes.
- Interest rate risk continues to be a factor in how we plan to finance New Build schemes. The current strategy is to borrow internally when appropriate, as our internal rate of return is lower than current market borrowing rates. When external borrowing is required, we will undertake short-term borrowing whilst rates remain high, switching to

longer term borrowing once rates start to settle. Any decision to vary this strategy and borrow externally will be taken by the Executive Head of Finance (S151 Officer), based on forecast cash flow needs and in line with the Treasury Management Strategy

## **8. Consultations**

8.1 The Landlord Services Advisory Board and Resources Overview and Scrutiny Committee will scrutinise these proposals at its meeting in November.

## **9. Key Risks**

9.1 In addition to the issues identified above, there are a range of risks associated with the delivery of the 2023/24 budget and the HRA Business Plan. A summary of the key risks is included below:

9.2 Non-earmarked reserves not sufficient:

- Limited ability to fund change in the HRA Business Plan
- One-off adverse impacts such as emergency repairs and legal cost are not provided for

9.3 Rent increase capped by government and changes to rent standard:

- Currently the allowable increase for rent in 2024/25 will be CPI 1%, based on current forecasts this would be a maximum increase of 7.5%. However, for the 2023/24 rent setting government introduced a cap which restricted the allowable increase to below CPI+1%. There has been no announcement as to whether this will continue for 2024/25.
- As stated above the rent standard currently allows a maximum increase of CPI + 1%. The rent standard is due for an update in 2025/26 and any change to this will impact the current forecasts within the Business

Plan. If, for example, the increase was restricted to CPI only this would reduce the forecast income over the life of the business plan by £15m.

#### 9.4 Inflation:

- In the current financial year, the inflation provision is sufficient to cover impacts to the HRA budget. Going forward assumptions, of lower inflation rates, have been reflected throughout the business plan and changes to this will impact the affordability of the plan. Within the Housing Delivery budget build cost inflation will be a risk to those schemes not currently in contract.

#### 9.5 Changes to regulation:

- The Social Housing (Regulation) Act, which received Royal Assent in July 2023, introduced new consumer standard requirements to ensure tenants have good quality homes and services, prioritise tenants; safety, treat tenants with respect and be open and honest. To meet these requirements there will be an additional resourcing need, improvement in IT systems and other costs. There will be growth bids addressing this within 2024/25 budget setting.

#### 9.6 Interest rate risk:

- With the need for additional borrowing from 2025/26, based on forecasts used for the 2023/24 budget setting, high rates of interest will add further costs to the business plan. To mitigate this, we will need to try push the need to borrow to future years when the forecast is for interest rates to reduce.

## **10. Financial Implications**

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

## **11. Legal Implications**

11.1 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.

## **12. Human Resource Implications**

12.1 No direct impact.

## **13. Equality and Diversity Implications**

13.1 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.

## **14. Climate Change/Sustainability Implications**

14.1 There are no direct implications arising from this report. Implication of Climate Change and Sustainability are considered within all capital projects.

## **15. Summary of Options**

17.1 No decision is required; this is just an update based on the mid-year review of the HRA and Capital budgets.

## **16. Conclusion**

18.1 Within year the HRA budget is forecasting a saving. This will continue to be closely reviewed. The Capital Programme has identified a number of

savings, and the New Delivery Programme has several delays which will require budget carry forward

18.2 There have been several risks identified in this report. These will need to be considered and addressed by both officers and members in the 2024/25 budget setting process.

## **17. Background Papers**

19.1 HRA budget setting documents from Council February 2023.

## **18. Appendices**

20.1 Annexe 1 – 2022/23 HRA Outturn & 2023/24 Forecast

20.2 Annexe 2 – Capital Programme 2022/23 Outturn & 2023/24 Forecast

20.3 Annexe 3 – New Delivery Capital Programme 2022/23 Outturn and 2023/24 Forecast

Please ensure the following service areas have signed off your report.  
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Service	Sign off date
Finance / S.151 Officer	CK 02/11/23
Legal / Governance	
HR	n/a
Equalities	n/a
Lead Councillor	10/10/23
CMB	10/10/23
Executive Briefing/Liaison	17/10/23
Committee Services	