

**Housing Revenue Account  
Budget Framework 2020 to 2024  
26 February 2020**

**Report of Cabinet**

**PURPOSE OF REPORT**

To present Cabinet's final budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2020/21 and update its financial strategy to 2024.

This report is public.

**RECOMMENDATIONS:**

- (1) That Cabinet's recommendation to approve the council housing rent levels for 2020/21, as set in accordance with statutory requirements, be noted.
- (2) That the Housing Revenue Account budgets and future years' projections be approved, as set out in *Appendix A*.
- (3) That the revenue growth proposals as set out at *Appendix B* be approved.
- (4) That the Council Housing Capital Programme be approved, as set out in *Appendix C*.
- (5) That the minimum level of HRA unallocated balances be retained at £500,000 from 01 April 2020, and that the full Statement on Reserves and Balances as set out at *Appendix D* be approved.
- (6) That Council notes the Section 151 Officer's advice regarding robustness of budget estimates, the adequacy of reserves and balances and the affordability of borrowing.

**1 Introduction**

- 1.1 Following its meeting on 11 February, Cabinet has now finalised its budget framework proposals for the Housing Revenue Account (HRA). These are all now reflected in the recommendations of this report.

## 2 Rent Policy and 30-Year Business Plan Impact

- 2.1 The Council has a legal requirement to maintain a separate ring-fenced account for the provision of local authority housing, known as the Housing Revenue Account (HRA). This covers the maintenance and management of the Council's housing stock.
- 2.2 From 2020/21 the Rent Standard within the Social Housing Regulations as set by the HCA "Rent Standards Guidance" applies to all Local Authorities. In previous years the Council has adhered to this aspect of the regulations voluntarily, as a matter of good practice, and as such our approach to rent setting remains largely unchanged.
- 2.3 The financial year 2020/21 sees Local Authorities released from the restrictions within the government's four-year rent setting policy to reduce social housing rents by 1% per annum to 2020. From 2020 the Council has the freedom to increase rent by a maximum of CPI+1% for the next five years. For rent setting purposes for 2020/21, the September 2019 CPI figure of 1.7% is used, with forecast CPI used thereafter.
- 2.4 Taking the above points into account, the Council's current rent policy is summarised as follows:

For general properties, average rent of £73.54 applies for 2020/21, representing a 2.7% year on year increase.	For sheltered and supported properties, average rent of £68.64 applies for 2020/21, also representing a 2.7% year on year increase.
Following relevant properties becoming vacant, they will be re-let at 'formula rent'.	
<u>For 2021/22 onwards</u> , it is assumed that council housing rents will increase by 3.0% year on year for a period of four years and 2.4% thereafter, subject to annual review of inflation forecasts, and any future determinations that may be issued by Government from time to time.	

- 2.5 The 30-year business plan covers the period from 2012/13 to 2042/43, and the updated position over the remaining life of the plan is a cumulative surplus of £24.0M. Should the growth items in section 3 be approved then the combined level of reserves will be reduced to £8.9M by the end of the term.
- 2.6 It should be reinforced that the cumulative balance is primarily driven by Government's decisions on future rent policy. For simplicity, the business plan now assumes that rents will continue to increase by CPI plus 1% per year from 2020/21 for five years and CPI thereafter, but this is by no means certain. The risks surrounding this assumption must be appreciated.

## 3 Revenue Budget

- 3.1 The HRA revenue budget statement is attached at **Appendix A**.

3.2 Despite the rent policy uncertainties, Cabinet remains committed to improving services to its housing tenants, and it also recognises the ongoing challenges that tenants face in the wake of ongoing welfare and other potential social housing reforms.

3.3 Against the financial pressure of four consecutive years of 1% rent decreases the Council has continued to deliver a responsive, ambitious service through the HRA. Across household and tenancy management, sheltered housing, allocations and lettings, as well as repairs and maintenance, a number of notable successes have been delivered in 2019/20. For example:

- Sustained improvements to voids performance; current empty property turnaround time at Q3 19/20 is 23.99 days. This compares to 66.31 days at the same point in 17/18 and delivers significant additional rental income. Current voids in process (at Q3 19/20) is around 30, compared to over 100 at the same point in 2017/18.
- Reduced the amount of current tenant rent arrears by almost 30% (from £308,000, Quarter 3 2018/19 to £222,000 as at Quarter 3 2019/20). Proactive early intervention and support saw recourse to court action reduce significantly; a 50% reduction on court applications against tenants year on year.
- Provided over one hundred disabled adaptations within Council properties to support tenants to remain independent in their own home.
- Summer community events held at Branksome, Carnforth and Ryelands, with sustained positive involvement from residents.
- Contacting 72 residents over the age of 80 in non-sheltered accommodation as part of a Winter Welfare visit service before Christmas to facilitate support over this period and beyond where required.
- Developed a more robust approach to hoarding: more positive outcomes for extreme cases, and about to launch a new Hoarders Support Group.
- Introduced more convenient repair appointments for tenants e.g. before / after school run time.
- Undertook preventative river-bank erosion works at Artlebeck, Caton – installing over three hundred tonnes of rock and vegetation.
- Installed energy efficient movement sensor ‘Dull-down’ LED light replacements to communal areas.
- Commenced replacement of the Repairs and Maintenance vehicles with Electric Vehicles.

3.4 As a result of the business planning process, strategies are being developed to address identified issues and drawing on this, as set out in **Appendix B**, there are a number of growth areas included in Cabinet’s HRA budget proposals:

- Creation of a separate budget for Neighbourhood Projects, to allow collaborative working with residents to deliver community projects
- To increase the resources of the Estate Management and Income Management teams
- Creation of an Energy Support Officer post
- RMS Development Plan Phase 3
- To continue the exploration of new build feasibility
- To convert vacant general needs properties to supported housing
- Following the approval of growth bids for the General Fund, the resulting impact of the HRA of job evaluation, electric vehicles and savings on car allowances.

- 3.5 These items represent a committed reinvestment into our communities, people and places, and aspire to improve the district as a whole, whilst contributing to improved housing standards, climate change initiatives plus other Council priorities.
- 3.6 This growth should also be seen in the context of wider organisational development work taking place Council wide which aims to develop modern, cost focussed, efficient working practices. In addition, several of the growth items above would be expected to deliver increased income and wider social value outcomes.

#### **4 Capital Programme**

- 4.1 The proposed Council Housing capital programme is included at **Appendix C**.
- 4.2 Future years' programmes are set in line with the HRA Business Plan wherever possible. Drawing on this, the draft programme should enable current housing stock to be maintained to the appropriate standards, meeting the Council's obligations under Decent Homes, and compliance with any other statutory regulations.
- 4.3 The 2020/21 capital programme includes no provision for any major refurbishment works on the Mainway Estate. This is due to the proposed major capital project for a transformational refurbishment of the estate so any works undertaken may be seen as being wasteful.
- 4.4 The scheme will look to incorporate the highest standards of thermal efficiency practicable thus contributing to the council's priorities around renewable energy and reducing our carbon footprint.
- 4.5 The project is still at feasibility stage and it is hoped that over the forthcoming year a proposed project will be developed and reported back to Cabinet and Council as required for subsequent approval. The total project value is not included in the current Capital programme as this is dependent on the project options. However, it is anticipated that the cost of repair and the attendant upgrading will ultimately require us to draw substantially on reserves and borrowing; potentially £10M+, with significant further preparatory work within 2020/21, and a start date within 2021/22.
- 4.6 2020/21 will also see an increase in the Council's adaptations budget from £250,000 to £300,000. By providing adaptations the Council is able to assist tenants in remaining independent in their own homes; by increasing the budget provision this vital service continues to meet this aim, in the context of a known ageing population within the district.
- 4.7 Taking account of the above points, the total draft four year programme for 2020/21 onwards now stands at £16.6M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement.

#### **5 Provisions, Reserves and Balances**

- 5.1 A formal review of the HRA's Balances, Reserves and Provisions has been undertaken, the outcome of which is reflected in **Appendix D**.
- 5.2 In terms of Balances, after reviewing the Housing Revenue Account in comparative terms and considering the key issues, assumptions and risks underlying the budget projections, the Section 151 Officer has advised maintaining the minimum level of

HRA Balances at £0.5M from 01 April 2020, to support the budget forecasts as part of the overall medium term financial planning for the HRA.

- 5.3 As at 31 March 2020, HRA Balances are forecast to be £1.840M (prior to growth items), which is £1.340M above the recommended minimum level.
- 5.4 All other surplus resources are held in the Business Support Reserve. As at 31 March 2020, around £8.1M is expected to be available in this reserve. The first spending priority is still to support existing commitments over the lifetime of the 30-year Business Plan, but the Government's changes to the rent policy from 2020/21 (for at least five years) should give more flexibility to the service and its future sustainability.

## **6 Climate Emergency**

- 6.1 Council Housing service priorities and objectives, as underpinned by the budget requirements set out here, are set in the context of the Climate Emergency declared by the Council on 30 January 2019. Examples of service delivery which directly contribute to tackling the Climate Emergency include:
- Roll out of electric fleet vehicles across RMS (including provision of electric charging points located at sheltered schemes and for general use)
  - Installation of 'dull down' movement sensor LED communal area lighting
  - Growth Item: Energy Support Officer
  - Increased energy efficiency/boiler replacement within the five-year Capital Programme:
    - Energy saving and conservation measures pilot
    - Loft insulation programme
    - Extend energy efficient boiler programme
  - The capital programme 2020/21 includes provision for the refurbishment of four properties at Mount Avenue / Hill Road – this allows a small-scale programme to allow for learning followed by the provision for 56 properties to receive similar works in the following 2-3 years
  - Major capital project on Mainway Estate: to incorporate the highest standards of thermal efficiency practicable, contributing to the Council's priorities around renewable energy and reduction of carbon footprint.
- 6.2 Council Housing will continue to utilise the services of independent energy assessors to support in developing and measuring the effectiveness of a 'menu' of energy saving measures and specifications. Advice and support will also be gained from the newly appointed Climate Change Manager. It is important that a range of solutions are considered for different scenarios including solid wall properties, off gas areas, low SAP ratings, poor air tightness and low energy efficiency.
- 6.3 Through business planning, Council Housing will continue to seek opportunities to contribute to the priorities of the Climate Emergency declaration.

## **7 Details of Consultation**

- 7.1 Consultation with tenants took place through the District Wide Tenants Forum held at Ridge Community Centre on 22 January 2020. The meeting was openly advertised to all tenants through a variety of platforms, with personal invitations also provided to those tenants who have previously engaged in consultation activity with four tenants attending the meeting.

- 7.2 Tenants were reminded that 2019/20 is the final year of the annual 1% rent reduction and that a rent increase of 2.7% is proposed which would support us in maintaining stock condition but also with a new focus around reinvesting money back into communities and working more closely with residents for this.
- 7.3 Service charges were also discussed with tenants at this event, with the focus on the principle that these charges would be increased so that they would pay for themselves and not be subsidised from rents. Finally, it was discussed that a freeze in garage rents would be proposed to seek to guarantee this income stream for 2020/21.
- 7.4 Tenants views and Officers responses are summarised below:-
- A question was raised as to whether we planned to look at retrofitting further properties in the next year, it was confirmed we would seek to continue this work, and continue to learn and adapt with this programme.
  - The consensus of the Forum was that the proposed rent increases were reasonable.
  - The consensus of the Forum was that the growth items as set out were very positive and would help to deliver an improved service to tenants and residents across the district.

## **8 Options and Options Analysis (including risk assessment)**

- 8.1 Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2020/21 balances and fits with its approved rent levels, which Council cannot change.
- 8.2 With regards to the growth proposals, Council should consider the costs and benefits of the proposals and whether they are affordable, in particular over the medium to longer term.
- 8.3 The options available in respect of the Capital Programme are:
- i) To approve the programme in full, with the financing as set out
  - ii) To incorporate other increases or reductions to the programme, with appropriate sources of funding being identified.
- 8.4 The options available in respect of the minimum level of HRA balances are to retain the level at £500,000 in line with the advice of the Section 151 Officer or adopt a different level. Should Members choose not to accept the advice on the level of balances, this should be recorded formally in the minutes of the meeting and it could have implications for the Council's financial standing, as assessed by its external auditor.
- 8.5 Any risks attached to the above would depend on measures Members proposed, and their impact on the council housing service and its tenants. As such, a full options analysis could only be undertaken once any alternative proposals are known, and Officers may require more time in order to do this.

<p><b>Option 1:</b> To note Cabinet's recommendation to approve the council housing rent levels for 2020/21; to approve the revenue budgets and capital programme, all growth proposals and the provisions, reserves and balances position (and their use), as set out; to note the Section 151 Officer's advice.</p>
<p><b>Advantages:</b> Completion of the Housing Revenue Account's budget setting process for 2020/21, allowing the updating of the Council's associated financial strategy.</p>
<p><b>Disadvantages:</b> None.</p>
<p><b>Risks:</b> Proposed areas of growth, though sustainable in the long term, may increase the need for borrowing to deliver on new build ambitions.</p>
<p><b>Option 2:</b> To note Cabinet's recommendation to approve the council housing rent levels for 2020/21 but to propose alternatives to those outlined in Section 8 above, noting the following:</p> <p>Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2020/21 balances and fits with its approved rent levels, which Council cannot change.</p> <p>Council may adjust its capital investment and financing proposals taking account of spending commitments and priorities, but its proposals for 2020/21 must balance.</p>
<p><b>Advantages:</b> Non-approval of growth items may lead to greater HRA surpluses over the life of the 30-year business plan.</p>
<p><b>Disadvantages:</b> Depending on the nature of any alternative proposals put forward, Officers may need time to assess the risks and implications. This is to ensure that relevant considerations are taken into account, to support informed and lawful decision-making.</p> <p>Non-approval of growth items would cause a scaling back of ambitions.</p>
<p><b>Risks:</b> Delay to the completion of the Housing Revenue Account's budget setting process for 2020/21. Inability to maximise service provision and deliver on Council, and housing related ambitions. Impact on housing service and council housing tenants unknown.</p>

## 9 Conclusion

- 9.1 This report provides an update on the council housing budgetary position and seeks Council's approval of Cabinet's budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2020/21 and update its financial strategy to 2023.

**RELATIONSHIP TO POLICY FRAMEWORK**

The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

**CONCLUSION OF IMPACT ASSESSMENT**

(including Diversity, Human Rights, Community Safety, Sustainability etc)

No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc. Where appropriate, equality impact assessments have been produced and are available in connection with Cabinet's specific budget proposals.

**LEGAL IMPLICATIONS**

Legal Services have been consulted and are content with the report but will consider further the development and implementation of relevant budget proposals in due course to ensure legal aspects are fully considered.

**FINANCIAL IMPLICATIONS**

As set out in the report.

**OTHER RESOURCE IMPLICATIONS****Human Resources / Information Services / Property / Open Spaces:**

Various budget proposals have resource implications and these have been taken account of in Cabinet's consideration of budget options as far as possible at this stage. Their implementation would be in accordance with council policies and procedures, as appropriate. Furthermore, it is recognised that additional resource needs may be required and arrangements are in hand to assess and address these.

**SECTION 151 OFFICER'S COMMENTS**

The Local Government Act 2003 placed explicit requirements on the s151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves; this requirement is addressed below. Previous Cabinet reports have already included some relevant details of this advice, together with the risks and assumptions underpinning the budget process so far.

**Provisions, Reserves and Balances**

- Specific HRA earmarked reserves and provisions are satisfactory at the levels currently proposed.
- An unallocated minimum balance of £0.5M for the Housing Revenue Account is a reasonable level to safeguard the Council's overall financial position, given other measures and safeguards in place, taking a medium to longer term view.

The above advice regarding unallocated balances is dependent upon other provisions and reserves remaining broadly at proposed levels, unless a specific policy change indicates otherwise. It is dependent upon Council not varying substantially the budget proposals as set out.

As a very simple measure, the inherent value of the risks facing the Council by far exceeds the total of all reserves and balances. Whilst it is not the case that all these risks could fall due immediately, Members should appreciate the need for holding balances and reserves more generally, and using them wisely. It is inappropriate to view simply the level of funds held, without considering the reasons as to why those funds might be needed.



### **Robustness of Estimates**

A variety of exercises have been undertaken to establish a robust budget for the forthcoming year. These include:

- producing a base budget, taking account of service commitments, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks;
- reviewing the Council's services and activities, making provision for expected changes;
- reviewing the HRA Thirty Year plan, together with other corporate monitoring information produced during the year;
- undertaking a review of the Council's borrowing needs to support capital investment, in line with the Prudential Code.

These measures ensure that as far as is practical, the estimates and assumptions underpinning the base budget are robust, and the proposed HRA Thirty Year Business Plan presents a reasonable approach for the way forward. The Council has recognised the tendency for optimism bias regarding income forecasts particularly and this will be taken account of in the development of future key budget proposals and business cases. Furthermore, arrangements are in hand to assess capacity needs and programming to help ensure successful delivery of key projects. Coupled with sound programming, the Budget Support reserve provides scope to help address any shortfalls in capacity etc.

### **Affordability of Spending Plans**

In addition, the s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration.

In considering affordability, the fundamental objective is to ensure that the Council's capital investment remains within sustainable limits, having particular regard to the impact on housing rents for Council Housing investment. Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political and national influences.

The factors that have been (and should be) taken into account in considering capital investment plans include the following.

- availability of capital resources, including capital grants, capital receipts, etc
- existing liabilities, service needs, commitments and planned service / priority changes
- options appraisal arrangements (including the extent to which other liabilities may be avoided, through investment decisions)
- revenue consequences of any proposed capital schemes, including interest and debt repayment costs of any borrowing
- future years' revenue budget projections, and the scope to meet borrowing costs
- the likely level of government support for revenue generally

The HRA has a Capital Financing Requirement which reflects underlying need to borrow. This is reviewed periodically to ensure that borrowing is, at all times, affordable, sustainable and prudent and a minimum revenue provision charge is made to the HRA each year to reflect the cost of borrowing.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer reminds Council that the decisions (recommendations 1 and 2) fall within the Local Authorities (Standing Orders) (Amendment) (England) 2014 and Rule 19.7 of the Council Procedure Rules, and accordingly a recorded vote should be taken.

**BACKGROUND PAPERS**

Equality Impact Assessments for budget proposals.

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