

**Housing Revenue Account
Budget Framework 2020 to 2025
24 February 2021**

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 2021/22 and update its financial strategy to 2025.

This report is public.

RECOMMENDATIONS:

- (1) That Cabinet's recommendation to approve the council housing rent levels for 2021/22, 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 additional budget 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 2021, 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 9 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 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 2021/22 is the second of five years where the Council has the freedom to increase rent by a maximum of CPI+1% (CPI is the Consumer Price Index). For rent setting purposes for 2021/22, the September 2020 CPI figure of 0.5% 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 £74.87 applies for 2021/22, representing a 1.8% year on year increase.	For sheltered and supported properties, average rent of £70.00 applies for 2021/22, also representing a 2.0% year on year increase.
Following relevant properties becoming vacant, they will be re-let at 'formula rent'. ¹	
<u>For 2022/23 onwards</u> , it is assumed that council housing rents will increase by 3.0% year on year for a period of three years and 2.0% 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 has been updated to cover the period to 2050/51, and the updated position over the life of the plan is a cumulative surplus of £19.7M. Should the additional budget proposal items in section 3 be approved then the combined level of reserves will be reduced to £19.1M 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 2021/22 for four 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**.

¹ Letting 'new' lets at formula rent is in adherence to Government rent settings guidance. This raises the overall average rent across all stock, hence why the figures above (1.8% and 2.0%) are in excess of the published rent increase of CPI + 1% (1.5%).

3.2 In a year dominated by the Covid-19 pandemic the council housing team provided support to the corporate emergency response, whilst continuing to provide services to council tenants in line with Covid-19 safety guidance. At times, projects and ambitions envisaged at the start of the year had to be paused or amended. Nevertheless, the following achievements were still delivered in line with service objectives, and the wider council priorities, despite the challenging landscape.

3.3 Key achievements:

- The Income Management Team have continued to perform well, supporting tenants and residents with financial issues, and rent arrears prevention. At Quarter 3 the current tenant arrears figure was £178K, a 20% improvement on the same point in 19/20, and with no recourse to legal action.
- In addition, between April 2020 and January 2021 the team have realised increased income for tenants of £324K in total through Discretionary Housing Payments applications and benefit claim maximisation – an average gain of £1,900 per case.
- Housing Quality Network (HQN) accreditation – the Income Management Team retained accreditation as of 13th October 2020, and presented as an example of good practice within the housing sector at the HQN annual conference in the same month.
- Significant work towards Tenants Participation Advisory Service (TPAS) accreditation carried out, as at mid-Jan 2021 the outcome is still outstanding.
- During July 2020 Residents from Kingsway Court Independent Living Scheme were moved to a local hotel for a week to allow for remedial works following a leak within the boiler tank.
- In May 2020 a significant fire took place on the Marsh estate. The Housing team (working with partner agencies) attended swiftly, and worked with residents to ensure the health and safety of all involved: assisting with the clean-up effort, and supporting affected residents into alternative accommodation
- Two partnership estate clearance events took place; on the Marsh estate, and then a follow up event on Ryelands. Fire safety was the focus, with Estate Teams, Repairs and Maintenance and Public Realm staff working with the fire service to deliver a whole-estate door knock and a rubbish clearance effort (with 13.6 tonnes cleared from the Marsh, and 21 tonnes from Ryelands).
- In the early months of the Covid lockdown, support phone calls were made to every council tenant. Advice around finances, Covid support, benefits, health services, and other information was provided, and tenants were referred and signposted where appropriate. Additionally, the team have written to all tenants four times throughout the pandemic offering an update on service delivery and offering help and support.
- Significant (and Covid safe) consultation took place with Mainway residents, working with the Beyond Imagination team at Lancaster University, to establish options for a major redevelopment of the estate. Consultation included several 'events', door knocking, and the establishment of the MyMainway Hub – a customer facing shop on Owen Road which allowed staff and tenants to be able to interact and develop ideas and ambitions for the project.

- Two-year programme being developed to upgrade 14 Independent Living schemes from analogue alarm and monitoring equipment to digital.
- 117 residents over the age of 75 in non-sheltered accommodation (out of a total of 188) contacted as part of a Winter Welfare visit service during December and January 20/21: to facilitate support over this period and beyond where required.
- 7,000 day-to-day repairs carried out in a Covid-safe way.
- Re-roofed 110 properties, installed 200 A-rated gas boilers, fitted 400 external doors, installed 50 disabled adaptations, installed solar PV to 35 sheltered bungalows, repaired 215 void (empty) properties.
- Achieved EPC 'A' standard on two sheltered conversions in Hala.
- Replaced composite fencing on Marsh, and about to proceed on Ryelands, to reduce fire risk.
- Appointed an Energy Support Officer to support new and existing tenants around their energy bills and carbon footprint.

3.4 Despite the expected impact of the pandemic over the course of the coming year – the service continues to be ambitious. Looking ahead - key examples of ongoing service delivery and future planning developed in line with the Corporate Plan and in line with the Council priorities can be found within the Cabinet report.

3.5 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:

- To open an Ideal Choice Homes customer facing office in a shop unit on King Street
- To confirm an increase in the salary resource for Ideal Choice Homes
- To convert vacant properties to supported housing.

4 **The Council Housing response to the Climate Emergency**

4.1 In response to the ongoing climate emergency, and the commitments set out by the Council in response, the Council Housing service has developed programmes of significant investment and activity in a number of areas which can be seen within the Cabinet Report. All of these areas of investment are built into the business planning and budgeting as outlined in this report.

5 **Capital Programme**

5.1 The proposed Council Housing capital programme is included at **Appendix C**.

5.2 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.

5.3 The 2021/22 capital programme includes no provision for any major refurbishment works on the Mainway Estate due to ongoing consultation and investigation of the future of the estate (see section 6 for further detail).

5.4 Further to this, it is worth noting the following:

- The kitchen replacement programme has been slipped by 12 months, to minimise works carried out inside tenanted properties during the pandemic
- Within energy efficiency, an increase of £2.6M over nine years to make improvements to bring all properties with a SAP rating of 'D' to 'G' up to a minimum standard of 'C'.

5.5 Taking account of the above points, the total draft five-year programme for 2020/21 onwards now stands at £21.9M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement.

6 Mainway Project

6.1 The Mainway project is a significant, Housing-led project with the potential to transform the Mainway estate in Lancaster. A comprehensive consultation with residents took place in 2020/21.

6.2 Cabinet will be asked to consider significant proposals in relation to the project. Depending on decisions made by Cabinet, it is anticipated that it may be necessary to draw on the Business Support Reserve to fund project related costs during 2021/22 such as for additional staffing requirements and design costs, etc.... These costs could include, for example, architectural and design costs; project costs such as staffing resources and resident consultation; and other feasibility costs.

6.3 None of these costs are included in this report, pending consideration of the separate Mainway report which is currently being finalised.

6.4 In addition, no major capital works in relation to Mainway are included in this report. Cyclical maintenance costs within dwellings continue to be included in the current budgeting process.

7 Provisions, Reserves and Balances

7.1 A formal review of the HRA's Balances, Reserves and Provisions has been undertaken, the outcome of which is reflected in **Appendix D**.

7.2 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 2021, to support the budget forecasts as part of the overall medium term financial planning for the HRA.

7.3 As at 31 March 2021, HRA Balances are forecast to be £3.335M (prior to growth items), which is £2.835M above the recommended minimum level.

7.4 All other surplus resources are held in the Business Support Reserve. As at 31 March 2021, around £7.8M 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.

8 Details of Consultation

- 8.1 Consultation with tenants took place through the District Wide Tenants Forum (DWTF) held virtually on 20 January 2021. 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. Four tenants attended the meeting along with two Councillors and a number of Council Officers.
- 8.2 The group was provided with headlines of the HRA Cabinet report, with a focus on the proposed rent increase of 1.5%, the proposal to freeze garage rents for 2021/22, and the principles of service charge setting.
- 8.3 Council Officers presented the proposed Capital Programme to the group, focussing on 2021/22, with key areas of spend also highlighted for subsequent years. Particular focus was given to the Council Housing response to the climate emergency, and the activities over the coming years which will contribute to this.
- 8.4 Officers also highlighted the principles of place-based working and identified particular areas of HRA spend which deliver projects and outcomes at a neighbourhood level: where through working with local residents, local priorities can be set and delivered on.
- 8.5 The view of the DWTF is summarised as follows:-
- The group was broadly supportive of the Council's proposed rent increase, and the spending plans and projects outlined during the meeting, although it was felt that feedback from residents within retrofitted properties should be gained
 - The group agreed that a review of garage sites and rents take place during 2021/22, to ensure best use of council land and property is delivered through garage sites.

9 Options and Options Analysis (including risk assessment)

- 9.1 Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2021/22 balances and fits with its approved rent levels, which Council cannot change.
- 9.2 With regards to the additional budget proposals, Council should consider the costs and benefits of the proposals and whether they are affordable, in particular over the medium to longer term.
- 9.3 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.
- 9.4 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.

- 9.5 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.

Option 1: To note Cabinet's recommendation to approve the council housing rent levels for 2021/22; 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.

Advantages: Completion of the Housing Revenue Account's budget setting process for 2021/22, allowing the updating of the Council's associated financial strategy.

Disadvantages: None.

Risks: The HRA budget set out in this report is sustainable in the long term. The risk associated with Option 1 relates to any future Mainway project (as referred to in section 9, above) and any borrowing or use of reserves in relation to this.

Option 2: To note Cabinet's recommendation to approve the council housing rent levels for 2021/22 but to propose alternatives to those outlined in Section 9 above, noting the following:

Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2021/22 balances and fits with its approved rent levels, which Council cannot change.

Council may adjust its capital investment and financing proposals taking account of spending commitments and priorities, but its proposals for 2021/22 must balance.

Advantages: Non-approval of growth items may lead to greater HRA surpluses over the life of the 30-year business plan.

Disadvantages: 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.

Non-approval of growth items would cause a scaling back of ambitions.

Risks: Delay to the completion of the Housing Revenue Account's budget setting process for 2021/22. Inability to maximise service provision and deliver on Council, and housing related ambitions. Impact on housing service and council housing tenants unknown.

10 Conclusion

- 10.1 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 2021/22 and update its financial strategy to 2025.

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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