

Housing Revenue Account Budget Framework 2022 to 2026

23 February 2022

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 2022/23 and update its financial strategy to 2026.

This report is public.

RECOMMENDATIONS:

- (1) That Cabinet's recommendation to approve the council housing rent levels for 2022/23, 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 be approved, as set out in section 3.5.**
- (4) That the Council Housing Capital Programme be approved, as set out in *Appendix B*.**
- (5) That the minimum level of HRA unallocated balances be retained at £500,000 from 01 April 2022, and that the full Statement on Reserves and Balances as set out at *Appendix C* 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 8 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 2022/23 is the third 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 2022/23, the September 2021 CPI figure of 3.1% 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 £78.24 applies for 2022/23	For sheltered and supported properties, average rent of £73.49 applies for 2022/23
Following relevant properties becoming vacant, they will be re-let at 'formula rent' in line with previously approved policy.	
<u>For 2023/24 onwards</u> , it is assumed that council housing rents will increase by 3.0% year on year for a period of two 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 2051/52, and the updated position over the life of the plan is a cumulative surplus of £25.6M. Should the additional budget proposal items in section 3.5 be approved then the combined level of reserves will be reduced to £12.8M by the end of the term.
- 2.6 It should be noted that the annual self-financing repayment of £1.041M ends from 31st March 2042.
- 2.7 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 2022/23 up to and including 2024/25 with primarily 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 In 2021/22 the council housing team provided support to the corporate emergency response to Covid-19, 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:

- 2021/22 has seen continued guidance and support to tenants around rent arrears prevention and management. Having ended 2020/21 with record low current tenant arrears of £113K the team continue to perform at the highest level with arrears at the end of Q3 of £137K: a reduction of 23% on the same week in the previous year.
- Rent arrears success has been achieved with a supportive, pro-active approach, with almost no recourse to legal action. No new housing possession applications have been made since March 2020 and as at Q3 2021/22 only one warrant application has been made.
- In September the Income Management Team were awarded Best Service Team: Construction and Building Services from the Association of Public Sector Excellence (APSE) for this approach. The team were also shortlisted for Team of the Year in the Chartered Institute of Housing Northern Awards and achieved accreditation from the Housing Quality Network (HQN) in the category of MIST – Maximising Income, Sustaining Tenancies.
- In conjunction with other work across the Housing Service the service also won Council of the Year at the North West Energy Efficiency Awards 2021.
- Tenancy success activities continue to be developed, including property condition flags and tenancy and post allocation visits to identify tenants in need of support, tenancy health checks for all new tenants, and a service-wide ‘eyes wide open’ approach to promoting successful tenancies.
- Over 180 tenancy health checks have been completed up until the end of Q3, helping to support tenants in sustaining a new tenancy and realising an increase in tenant income of £124K through income and benefit maximisation work.
- In addition, service chargeable furniture packages for new tenants were introduced during Q2. As at Q3, fifty-one Universal Credit and Housing Benefit eligible packages have been taken up.
- In opening the King Street One-Stop-Shop and continuing to run the Mainway Hub the housing team were able to provide two face-to-face customer service options for tenants and residents.
- Two members of staff – a Stores Operative and a Customer Voice Officer - were successfully employed within the housing team through the government’s kickstart programme, aimed at supporting individuals learn skills and gain experience along a path to long term sustainable employment.
- A newly recruited Energy Support Officer joined the housing team in September to support tenants with advice and guidance around all home energy related matters and in support of the climate agenda. During Q3 a total of 133 home visits were carried out, where advice and signposting was provided on a range of energy related topics including the warm home discount, affordable and green energy tariffs, and efficient use of household appliances.
- The project to deliver whole house improvements and energy upgrades to homes on Mount Avenue, Lancaster, was established and delivered a total of 19 refurbished homes during phase 1 in 2021. The project will be completed over three years and will deliver renovation of over 50 homes, including kitchen and bathroom upgrades and significant thermal efficiency measures.

- Conversion of a former shop in Galgate allowed the team to deliver the Council's first EPC A-rated home: a three bed, fully accessible energy efficient home including measures such as solar panels, air source heat pump and under floor heating, and high levels of insulation.
- Through the Neighbourhood Project fund a number of community projects have been funded, including a street youth work project on the Ridge (Street Speak) in partnership with Active Lancashire, Lancaster BID and Happy Healthy Holidays. More than 260 hours of face-to-face youth work was delivered.
- Approximately 10,500 responsive repairs (to year end) were carried out, and 300 vacant dwellings (voids) were refurbished to the lettable standard.
- We reduced the risk of spread of fire in rear gardens by removing composite (plastic) low maintenance fencing and replaced with traditional timber panels in response to fire events and identified risk. This led to recognition by Lancashire Fire and Rescue Service as a good practice approach taken and shared with other social housing providers.

3.4 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 Alongside setting council housing rents, Cabinet is also requested to make recommendations regarding budget proposals for consideration by Council. Through the business planning process, the following budget proposals within the HRA have been identified:-

Additional budget proposals	2022/23	2023/24	2024/25	2025/26
Tenant Liaison Officer	27,900	34,400	35,900	38,300
CBL Support (MEX) 0.5FTE	10,700	13,100	13,700	14,600
Communications Officer 0.5FTE	13,300	16,600	16,900	18,200
Compliance Team and catch-up work	526,000	136,900	143,100	148,600
CBL Locata project (£72K funded from ICT & Systems Improvement Reserve)	0	0	0	0
System Replacement (pre-project work) (£212K funded from ICT & Systems Improvement Reserve)	0	0	0	0
Independent Living scheme equipment upgrade – digital (£250K funded from Sheltered Support Grant Maintenance Reserve)	0	0	0	0
Accelerated Mainway Phase 1 (£4M funded from Business Support Reserve) ¹	0	0	0	0
Total of all budget proposals	577,900	201,000	209,600	219,700

¹ Refer to separate Mainway report as considered by Cabinet on 8th February 2022

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 B**.

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 2022/23 capital programme includes no provision for any major refurbishment works on the Mainway Estate due to the ongoing project work and master planning for the future of the estate (see section 6).

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
- Two significant property conversions have been slipped by 12 months, due to design and planning permission negotiations.

5.5 Taking account of the above points, the total draft five-year programme for 2022/23 onwards now stands at £20.2M, 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. None of these costs are included in this report, pending consideration of the separate Mainway report, as considered and approved by Cabinet on 8th February 2022.

6.2 For clarity, no major capital works in relation to Mainway are included in this report, with the exception of the £4.0M growth item above (see section 3.5). 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 C**.

- 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 2022, HRA Balances are forecast to be £2.433M (prior to growth items), which is £1.933M above the recommended minimum level.
- 7.4 All other surplus resources are held in the Business Support Reserve. As at 31 March 2022, around £6.961M is expected to be available in this reserve. The £4.0M growth item for Mainway is requested to be funded by this reserve so a significant reduction is expected in the forthcoming years. 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 A meeting was held with tenants from the District Wide Tenants' Forum on 27th January 2022, where the Neighbourhood and Support Services manager presented the contents of this report and answered questions.
- 8.2 The 4.1% rent increase was noted by tenants in the context of rising cost of living costs. A discussion took place around affordability for tenants. Explanation was provided as to how the increase translates into improved service delivery in the coming years. It was noted that financial and other support for tenants is a central part of housing service delivery and will only increase in view of current challenges.
- 8.3 The group were in agreement around the importance of significant spend in the coming years in certain key areas – particularly the energy efficiency works built into the capital programme, and work around building safety and compliance.
- 8.4 The additional budget proposals (section 3.5 above) were all viewed as positive, resident focussed additions to service delivery.
- 8.5 In conclusion, the group were supportive of the proposals outlined in this budget report.

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 £0.5M 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 2022/23; 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 2022/23, 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 2022/23 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 2022/23 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 2022/23 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 2022/23. 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 2022/23 and update its financial strategy to 2026.

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 has been consulted and has no further comments to add.

BACKGROUND PAPERS

Equality Impact Assessments for budget proposals.

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