



CABINET: 14 January 2020

**EXECUTIVE OVERVIEW & SCRUTINY
COMMITTEE: 30 January 2020**

Report of: Corporate Director of Place & Community

Relevant Portfolio Holder: Cllr J. Wilkie

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SUBJECT: HOUSING ACCOUNT – REVENUE AND CAPITAL BUDGET SETTING

Wards Affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To provide a summary of the Housing Account's financial position.

2.0 RECOMMENDATIONS TO CABINET

- 2.1 That the financial position be noted and consideration given to the budget matters set out in this report.
- 2.2 That the use of the Corporate Director of Place & Community's delegated authority in relation to rent and service charge changes be noted and endorsed.
- 2.3 That this report be used for consultation purposes prior to the Council considering this matter in February 2020.
- 2.4 That the Housing and Landlord Services Portfolio Holder be given delegated authority to submit firm proposals to Council on 26 February 2020 to enable the budget to be set.
- 2.5 That call in is not appropriate for this item as it is to be submitted to the next meeting of the Executive Overview and Scrutiny Committee on 30 January 2020.

3.0 RECOMMENDATIONS TO EXECUTIVE OVERVIEW AND SCRUTINY COMMITTEE

- 3.1 That the budget position be considered and that any comments agreed by the Committee be submitted to the Housing and Landlord Services Portfolio Holder in advance of the Council meeting to be held on 26 February 2020.

4.0 BACKGROUND

- 4.1 The Council must set a budget for its Housing Revenue Account (HRA) before the start of each financial year, and this budget will set out the financial basis for the delivery of services. The budget that is set must enable Council and tenant priorities to be delivered but must also be affordable. In addition it should comply with best practice requirements on budget setting and meet statutory and accounting regulations.
- 4.2 The financial year 2020/21 represents a return to a rent setting policy by the Government of allowing rent increases of up to CPI +1% per annum, though smaller increases are also allowed. This will aid business planning in the medium term by providing more certainty, ensuring that the real value of rent levels is maintained and could provide funds for further investment in the housing stock. The policy over the last four years of a 1% reduction pa added pressure to the HRA but policy options agreed by Council in July 2016 and October 2016 delivered sufficient savings and efficiencies to secure the HRA's financial position over that period.
- 4.3 The Government published an updated policy statement on rents for social housing in February 2019 and announced that Local Authorities with housing stock will be regulated by the Regulator of Social Housing from 1 April 2020. Members will remember that they were invited to comment on the consultation on a new rent standard between May and July 2019. It is anticipated that the new regulatory regime will be more robust than previously. WLBC also took part in the pilot scheme during 2019/20 to make the transition to the new standard and regulator as smooth as possible.
- 4.4 The organisational review, (SORP), undertaken by the Council during the last year has created a significantly different organisational structure and working approach. While the HRA itself remains a ring-fenced account for Council house rents and services, changes in the organisational structure have led to changes in the budget structure too.

5.0 RENTAL INCOME

- 5.1 As part of the rents pilot mentioned in paragraph 4.3 a thorough review of data relating to formula rents has been undertaken during 2019/20 aimed to ensure

correct application of the policy and standard and so aid as smooth a transition to the new regime as possible.

5.2 With this in mind and in line with our standard practice, the Director of Place & Community will use her delegated authority to increase the majority of tenant rents by 2.7%, (being September CPI of 1.7% plus 1%), from April 2020.

5.3 To ensure compliance with the specific rules of the new rent policy and rent standard, a number of specific rules will also be applied to WLBC rents:

- To ensure strict adherence to the maximum rent increase that is allowed of CPI + 1%, all rents with this increase will be rounded down to the nearest penny. The effect in any individual year is negligible and penny differences over time will be corrected each time a property is re-let
- Around 5% of properties will have an increase in rent of between 0% and 1.7%, (being September 2019 CPI), rounded down if applicable

5.4 There are a number of other factors that influence the rent budget:

- The number of properties within the Housing Stock which will be influenced by Right to Buy Council house sales (which is outside the Council's control), the number of homes built or purchased, and the number of homes demolished as part of revival and development projects
- Void levels are assumed to be around 1%
- The full roll out of Universal Credit continues to be an area requiring close monitoring but the effect so far has been a relatively modest increase in arrears which in turn means a modest increase in the contribution to the bad debt provision. This can be accommodated within a budget for contribution to bad debts of £160k.

6.0 OTHER CHARGES

6.1 A general principle is applied to service charges that they should be calculated to ensure that they are sufficient to recover the cost of service provision. In addition the Government has advised, but not directed, that it would expect service charge increases to be limited to CPI + 1% unless there is a very clear rationale.

6.2 In keeping with this principle it is proposed to increase the general level of service charges next year by 2.7% (based on the September CPI rate of 1.7% plus 1.0% in line with our standard practices). In general, the service charges apply to communal properties such as sheltered stock and flats as well as residents who receive the Council's furnishing service.

6.3 There will be a number of exceptions to this general approach including:

- The heating charge for each property in 2020/21 will be calculated based on estimated usage and estimated cost. This means that different charges will apply to different residents. The heating account overall remains in surplus so all residents will have a reduction in their heating charge of 5%, except for around 270 residents who will receive a lower reduction or will have their heating charge unchanged.
- As in 2019/20, garage rents will be increased by CPI (1.7%)
- The 2017/18 painting charge of 14p per week had the standard CPI + 1% uplift applied in 2018/19 but it didn't change the level of the charge to tenants. It is therefore proposed to increase the charge to 15p per week from April 2020. While this is more than 2.7%, the 1 pence increase factors in 2019/20 as well as 2020/21.

7.0 DRAFT ESTIMATES AND CAPITAL INVESTMENT PROGRAMME

7.1 The base assumptions used in the HRA Business Plan and for the HRA Estimates are detailed in Appendix A. The HRA Business Plan sets out projections of expenditure and income over a 30 year period to enable forward planning and long term investment decisions to be made. The HRA Estimates for 2020/21 then provide more detailed information that sets out the financial basis for how HRA service objectives will be achieved in the next year.

7.2 The draft estimates for 2019/20 are shown in Appendix B and provide a provisional HRA budget covering all areas of revenue expenditure and income. These estimates take account of the budget assumptions in Appendix A and significant contractual uplifts, as well as changes in rents and service charges as highlighted above, but they do not allow for any service improvements. The SORP changes in organisational structure mentioned in paragraph 4.4 mean that there are likely to be further amendments to the draft budget estimates in Appendix B as budgeting continues. The draft estimates in Appendix B do however address the following factors:

- The new response maintenance ppp, (price per property) and voids ppp contract goes live 1 April 2020 and both budgets have been adjusted to accommodate the projected cost. The voids budget has reduced and the responsive repairs budget increased. The total increase in budget, including once off pre-commencement costs of £59k, is around £625k. However, £96k of unrequired planned maintenance budget has been vired to offset this as well as £82k of budget contingency. A further £69k would have been contractual uplift if we had remained with the previous contracts.
- As a consequence of the point above, budget contingency has been reduced to £260k, around 1% of total HRA expenditure net of recharge income.

- Since the Government introduced the 1% pa rent reductions many of the HRA savings each year were allocated to the budget and efficiency savings reserve. Now that rents are increasing again the remaining balance in the reserve will be released. In addition, £460k of the projected favourable budget variance in the current financial year will be used to support the budget position in 2020/21 This helps balance the 2020/21 budget and frees-up funding that no longer needs to be held in reserve. Any future surpluses that are not required against particular reserves can be held in HRA balances.
- To ensure that the HRA budget reflects the new operating and reporting structure, several services have been moved out of the HRA to central services, with a proportion then recharged back to the HRA. The effect is a large reduction in the HRA salary budget, (direct staff), and a large increase in recharges to the HRA for central services.
- As part of the policy options approved in 2016, HRA money set aside annually to repay borrowing when it falls due was postponed. 2020/21 represents the end of that period so the budget includes £338k towards debt repayment.
- The budget for in-year staff savings due to vacant posts and staff churn has been increased to 4% of staff budget.
- In anticipation of cheaper insurance rates £28k has been removed from various insurance budgets.
- Various other virements and adjustments as required.

7.3 In addition to the roll over budget in continuing services, it is also important to consider new budget issues and areas for development. Appendix C comprises a list of budget issues that officers have identified and that should be considered as part of the budget process. Members will need to carefully consider those options, and any others that may emerge through the budget process and determine which proposals to include in the final budget to meet service objectives.

7.4 The Capital Investment Programme for the next 4 years is shown in Appendix D along with initial profiling. These are the remaining 4 years from the five year programme approved by Council in February 2019. The next five year tranche is also included, for information purposes only at this stage. Re-profiling from the 2019/20 mid-year budget agreed at the December Council meeting has been included as have other previously approved housing capital budgets.

7.5 In order to manage resourcing and delivery of the required works, the current Housing Investment Plan has been profiled equally throughout the five years to remove peaks and troughs in the expected renewal dates for different

components. The 2020/21 budget reflects what can realistically be delivered and this fits with anticipated component renewal dates. There remains £28.44m of the current housing investment plan to deliver, broadly on track with the initial plan, though years two to four may require some re-profiling forwards and backwards due to:

- The outcome of asset reviews to assess the financial viability of individual stock
- Delivery contracts due to be tendered for a 2021/22 start
- Local knowledge from Council staff and findings once particular works actually commence
- Contractual uplift obligations and changes in stock levels

7.9 The previously approved Digital Initiatives budget of £50k per annum was set up to pay for digital projects that related to public sector housing and the HRA. The new organisational structure lends itself better to digital projects being managed centrally, so the £50k capital budget has been moved to the HRA as a £50k revenue contribution to pay for the HRA share of corporate digital capital schemes.

8.0 TOWARDS A BALANCED BUDGET POSITION AND LONG TERM PROSPECTS

8.1 The draft estimates contained in the appendices identify that there is a small surplus of £47k before taking into account the new budget issues included in Appendix C.

8.2 Officers will work with Members from the political groups and will consult with tenants to consider this position and how the budget should be balanced and what budget issues should be approved. In looking at finalising the budget for next year consideration will also need to be given to a number of different factors including:

- Tenants comments and feedback on the budget position
- The acceptance of the new budget issues set out in Appendix C
- The profiling of capital expenditure and borrowing across future financial years
- Remaining HRA reserves and balances

9.0 SUSTAINABILITY IMPLICATIONS

- 9.1 The Council with its Tenants wants to ensure that the future business plan allows properties to be brought up to a reasonable standard and that appropriate investment can be made at the appropriate time. Business plan modelling enables a well-informed investment plan to be developed in keeping with the requirements of an effective asset management strategy.

10.0 RISK ASSESSMENT

- 10.1 The formal consideration and reporting of the budget estimates is part of the overall budgetary management and control framework that is designed to minimise the financial risks facing the Council. This process is resource intensive for both Members and Officers but ensures that a robust and achievable budget is set. The draft HRA estimates contained in Appendix B will be reviewed early in the New Year and updated to take into account any new developments and more recent information.

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required. A formal Equality Impact Assessment will be produced if necessary when the Council agrees the budget at its meeting in February.

Appendices

- Appendix A – HRA Business Plan Key Assumptions
- Appendix B – Draft HRA Estimates
- Appendix C – Budget Issues
- Appendix D – Draft Capital Investment Plan
- Appendix E - Minute of Cabinet (Executive Overview and Scrutiny Committee only)
- To follow

APPENDIX A

KEY BUSINESS PLAN ASSUMPTIONS FOR THE NEXT FIVE YEARS – 2020/21 TO 2024/25

	2020/21	2021/22	2022/23	2023/24	2024/25
General Factors					
CPI Inflation	1.7%	2%	2%	2%	2%
RPI Inflation	2.4%	3%	3%	3%	3%
Stock Numbers	-1.2%	-0.9%	-0.9%	-0.9%	-0.9%
Income					
Dwelling rents	2.7%	3%	3%	3%	3%
Service charges	2.7%	3%	3%	3%	3%
Garage rents	1.7%	2%	2%	2%	2%
Heating charges	-5%	0%	3%	3%	3%
Interest income	0.75%	0.75%	0.75%	0.75%	0.75%
Other income	1.7%	2%	2%	2%	2%
Expenditure					
Employee related	2%	2%	2%	2%	2%
Repairs, maintenance & energy	0%	0%	3%	3%	3%
Other expenditure	0%	0%	2%	2%	2%

Notes

(1) As void rates have reduced, the rental income budget has been increased to account for 1% voids. Void rates are not expected to change over the period of the business plan and their impact is built into the starting budgets they do not need to be included above

(2) The average interest rate on existing borrowing of 3.47% will not change over the business plan period and so is not shown above

(3) Investment programme is based on survey information analysed in 2018/19 following a full stock condition survey

(4) For the 2020/21 budget the above assumptions have been applied - most notably 0% uplift on repairs and other expenditure budgets. This brings the approach more in line with that for the GRA. However where there is a contractual obligation for an inflationary uplift and it cannot be accommodated within the existing budget, then this will be built into the base budget

(6) The budget has been built so as to fully fund the updated capital programme from revenue contributions only, with borrowing only used to fund the providing of additional affordable homes

(7) Temporary factors that are included in the 2019/20 budget for one year only are set at nil from 2020/21 onwards

APPENDIX B

DRAFT HOUSING REVENUE ACCOUNT BUDGET ESTIMATES

Budget 2020/21	Employees £	Running Expenses £	External income £	Total Cash £	Support Services & Capital Charges £	Net budget £
General Expenses						
Premises Related Expenses	0	162,940	0	162,940	0	162,940
Bad Debts Provision	0	160,000	0	160,000	0	160,000
Capital Programme Contribution	0	0	0	0	8,895,000	8,895,000
Debt Principal Repayment	0	0	0	0	338,033	338,033
Debt Charges	0	0	0	0	3,056,990	3,056,990
Sub-Total	0	322,940	0	322,940	12,290,023	12,612,963
Supervision, Management, Repairs & Maintenance						
Central Administration	395,590	895,630	-438,400	852,820	2,821,760	3,674,580
Income & Financial Inclusion	573,200	88,770	-10,000	651,970	152,930	804,900
<u>Tenancy Services</u>						
Allocations	218,780	73,250	-90	291,940	9,480	301,420
Estate Management	273,540	286,960	-30	560,470	110,500	670,970
Other Tenancy Services	31,770	164,560	-213,770	-17,440	0	-17,440
Elderley & Disabled Support	536,040	406,060	-1,303,550	-361,450	324,870	-36,580
Sub-Total	1,060,130	930,830	-1,517,440	473,520	444,850	918,370
<u>Property Services</u>						
Property Services Management	491,910	204,810	-210	696,510	-260	696,250
Caretakers	293,090	140,190	-39,000	394,280	13,400	407,680
Maintenance of Grassed Areas	0	721,590	-29,800	691,790	0	691,790
Responsive & Void Repairs	330,360	4,269,440	-57,160	4,542,640	-13,360	4,529,280
Planned Maintenance	416,800	696,490	-3,640	1,109,650	-301,910	807,740
Sub-Total	1,532,160	6,032,520	-129,810	7,434,870	-302,130	7,132,740
General Income						
Customer & Client Receipts	0	0	-23,624,930	-23,624,930	0	-23,624,930
Interest	0	0	0	0	-53,980	-53,980
Sub-Total	0	0	-23,624,930	-23,624,930	-53,980	-23,678,910
Transfers to/from Reserves	0	0	0	0	-1,511,190	-1,511,190
Grand Total	3,561,080	8,270,690	-25,720,580	-13,888,810	13,842,263	-46,547

Notes:

1. The estimates above reflect the latest position in budget setting. Support service recharges are currently assumed to be a 2% increase though actual figures are likely to vary up or down once they have been calculated
2. The HRA budget includes release of the remaining budget and efficiency savings reserve, around £1.051m.
3. Other amendments to the existing budget, for example significant contractual increases, will be updated as the process continues
4. Staff budgets reflect the organisational establishment structure which includes SORP and other changes.
5. Customer Experience (HRA) and Housing Operations Management have been removed as these services have either been taken from the structure or now sit outside housing. Recharges to the HRA still reflect the HRA share of costs.
6. Within Tenancy Services are the previous Housing Operations categories of Allocations; Estate Management; Elderly Support, (as well as the former Tenancy Services category which is now renamed Other Tenancy Services).
7. Property Services management includes Housing Compliance
8. Caretakers & Gardeners has been renamed Caretakers to reflect the previous restructure that moved HRA Gardeners to Clean & Green
9. District Heating Service has been moved to Central Administration to recognise where management of the budget is held.

Budget 2019/20	Running Employees	Expenses	External income	Total Cash	Support Services & Capital Charges	Net budget
	£	£	£	£	£	£
General Expenses						
Premises Related Expenses	0	162,880	0	162,880	0	162,880
Bad Debts Provision	0	240,000	0	240,000	0	240,000
Capital Programme Contribution	0	0	0	0	8,766,000	8,766,000
Debt Charges	0	0	0	0	3,056,990	3,056,990
Sub-Total	0	402,880	0	402,880	11,822,990	12,225,870
Supervision, Management, Repairs & Maintenance						
Central Administration	814,320	639,390	-89,300	1,364,410	1,794,920	3,159,330
Customer Experience (HRA)	405,410	156,230	0	561,640	38,110	599,750
<u>Housing Operations</u>						
Housing Operations Management	153,350	3,500	-91,070	65,780	125,730	191,510
Income & Financial Inclusion	595,440	28,210	-9,800	613,850	145,240	759,090
Allocations	223,610	73,930	-90	297,450	7,460	304,910
Tenancy Services	31,060	136,360	-185,470	-18,050	0	-18,050
Estate Management	245,150	345,710	-30	590,830	18,150	608,980
Elderly & Disabled Support	489,230	398,830	-1,152,450	-264,390	269,680	5,290
Sub-Total	1,737,840	986,540	-1,438,910	1,285,470	566,260	1,851,730
<u>Property Services</u>						
Property Services Management	612,590	114,600	-210	726,980	-206,470	520,510
Caretakers & Gardeners	267,510	141,010	-43,420	365,100	13,140	378,240
Maintenance of Grassed Areas	0	723,220	-23,100	700,120	0	700,120
District Heating Service	0	260,050	-260,050	0	0	0
Responsive & Void Repairs	406,590	3,517,560	-56,060	3,868,090	2,350	3,870,440
Planned Maintenance	464,630	764,200	-3,540	1,225,290	-364,320	860,970
Sub-Total	1,751,320	5,520,640	-386,380	6,885,580	-555,300	6,330,280
General Income						
Customer & Client Receipts	0	0	-23,149,480	-23,149,480	0	-23,149,480
Interest	0	0	0	0	-53,980	-53,980
Sub-Total	0	0	-23,149,480	-23,149,480	-53,980	-23,203,460
Transfers to/from Reserves	0	0	0	0	-1,100,000	-1,100,000
Grand Total	4,708,890	7,705,680	-25,064,070	-12,649,500	12,513,000	-136,500

APPENDIX C – BUDGET ISSUES

	Budget Issues	2020/21 £000	2021/22 £000	2022/23 £000
	Capital Expenditure			
1	Construct carbon neutral dwellings	400	400	400
2	Change in standard for smoke detection	300	300	300
3	Solar PV & battery storage on communals	50	-	-
	Sub Total	750	700	700
	Revenue Expenditure			
1	HRA contribution to Implementing IT Strategy	200	-	-
2	HRA contribution to Temp Business Development staffing	90	90	-
3	Additional caretakers for twelve months	40	-	-
4	Rent Sense extension - ongoing	11	12	14
5	Resident STAR survey – ongoing biennial	12	-	14
6	Manage Invasive Plants	5	5	5
	Sub Total	358	107	33
	Total	1,108	807	733

Appendix D – DRAFT CAPITAL PROGRAMME UNTIL 2023/24

Scheme	20/21 £000's	21/22 £000's	22/23 £000's	23/24 £000's	5 Years 2024-29 £000's
Roofing	2,169	2,169	2,169	2,169	1,073
External Works	1,144	1,004	1,004	1,005	3,031
Heating	823	823	823	821	4,344
Electrics	730	730	730	732	506
Kitchens	633	633	633	632	3,332
Windows & Doors	548	548	548	549	1,392
Bathrooms	501	501	501	500	1,719
Walls	280	280	280	278	2,452
Fire Safety Works	271	271	271	269	0
Communal Services	117	117	117	119	576
Housing Capital Investment Plan	7,216	7,076	7,076	7,074	18,425
Professional Fees	600	600	600	600	
Disabled Adaptations	439	439	439	439	
Contingency	300	300	300	300	
Environmental Programme	200	200	200	200	
Sheltered Upgrades	140	140	140	140	
Other Housing Schemes	1,679	1,679	1,679	1,679	
Total Expenditure	8,895	8,755	8,755	8,753	

Notes

- (1) The four years, (2020/21 to 2023/24), above are those remaining from the five year housing capital programme approved by Council in February 2019.
- (2) The budget highlighted in grey relates to the five years in the stock condition survey from 2024 to 2029, for information only at this stage.
- (3) Year 2 to 10 budgets are expressed in 2020/21 terms, contractual uplift and changes in stock levels will be considered each year as part of budget setting.
- (4) It is anticipated that years 3 to 5 will require profiling forwards and backwards to optimize use of available funds and resources, based on asset reviews as they are carried out, as well as local knowledge.
- (5) 2019/20 budget slipped at mid-year for external works (£140k) has been profiled into 2020/21. Disabled adaptations budget profiled into 2018/19 as part of outturn in July 2019 (£61k pa for four years) has been removed.

- (6) Professional Fees budget relates primarily to capitalised staff salaries to reflect their time in delivering the housing capital programme. Reorganisation savings in HRA staff has led to a reduced value being capitalised and £100k being removed from the fees budget. This budget still has leeway for other capitalisable professional fees if required.
- (7) The Digital Initiatives budget of £50k per annum has been transferred to HRA revenue as an HRA contribution for the HRA share of central digital projects under the new organisational structure.