



CABINET: 12 January 2021

**EXECUTIVE OVERVIEW & SCRUTINY
COMMITTEE: 28 January 2021**

Report of: Head of Finance, Procurement and Commercial Services

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 Director of Place & Community's delegated authority, in consultation with the Landlord Services Portfolio Holder, 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 2021.
- 2.4 That the Housing and Landlord Services Portfolio Holder be given delegated authority to submit firm proposals to Council on 24 February 2021 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 28 January 2021.

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 24 February 2021.

4.0 BACKGROUND

- 4.1 The Council must set a budget for its Housing Revenue Account (HRA) before the start of each financial year, setting out the financial basis for the delivery of services. The budget set must enable both 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 Local Authorities with housing stock are now regulated by the Regulator of Social Housing from 1 April 2020. Members were invited to comment on the consultation on a new rent standard between May 2019 and July 2019. It is anticipated that the new regulatory regime will be more robust than previously around compliance with rent standard rules and consumer standards. 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.
- 4.3 The Covid pandemic has had a substantial operational impact for WLBC during 2020/21, particularly in relation to the delivery of services and collection of rents. This coincided with the new SORP organisation structures and working methods from 1 April 2020.
- 4.4 Policy options agreed in 2016 created the required reserves and funding to see the HRA through the four years of Government policy to reduce tenant rents by 1% per annum. These reserves, the budget savings and efficiency reserve, have now been used. There is therefore no general reserve remaining for funding additional budget issues.

5.0 RENTAL INCOME

- 5.1 In line with our standard practice, the Director of Place & Community will use her delegated authority to increase the majority of tenant rents by 1.5%, (being September CPI of 0.5% plus 1%), from April 2021.
- 5.3 To ensure compliance with the specific rules of the new rent regulator, 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 2% of properties will have an increase in rent of between 0% and 0.5%, (being September 2020 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.
- 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 that, in turn, has meant a modest increase in the contribution to the bad debt provision. This and the effects of lockdown can be accommodated within the existing budget for contribution to bad debts of £160k p.a.
- As indicated in the 2020/21 HRA mid-year forecast, the current weekly rent roll for tenant rents means that the rental budget can be increased by £100k in addition to the uplift of 1.5%. This is a technical adjustment and will not have any effect on tenants.

6.0 OTHER CHARGES

6.1 The general principle applied to service charges is that they should be calculated to ensure that they are sufficient to recover the full 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 1.5% (based on the September CPI rate of 0.5% 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 2021/22 will be calculated based on estimated cost. This means that different charges will apply to different residents. Wholesale gas prices have reduced in recent months. In addition the heating account overall remains in surplus, so all residents will have their heating charge reduced by 10%, except for around 275 residents who will receive a lower reduction or will have their heating charge unchanged.
- As in 2020/21, garage rents will be increased by CPI, (0.5%)

- The sheltered tenant charge that relates to the Intensive Housing Management offer will be unchanged in 2021/22 because total income raised from this service is covering costs. The previous offer to category 1 sheltered tenants, that they could receive a category 2 level of service if they pay the additional charge, has been successful. The budget has been increased to recognise the additional income generated of over £100k. This is a great example of providing more customer choice, and this actually leading to greater value for money for our residents.
- All sheltered tenants will still see an increase of 1.5% (CPI plus 1%) for their property maintenance charge.

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 2021/22 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 2021/22 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, significant contractual uplifts, as well as changes in rents and service charges as highlighted above. They also address the following factors:

- Recharges have generally been increased by 1%; this may vary as budget setting continues. The recharge budget for Grounds Maintenance has increased by £145k, reflecting costs charged to the HRA in 2020/21, uplifted by 1%.
- Savings of £50k in HRA base running costs have been removed from the budget, being £25k not required in delivering planned revenue works; around £18k in staff car allowance budgets no longer required; and around £7k in other running costs.
- Contractual uplifts have been budgeted for when required, for example the revenue boiler servicing contract has been increased by 3%
- After finalising the 2019/20 year end accounts, around £5.2k remained in the budget savings and efficiency reserve at 31 March 2020. This will be released in 2021/22.
- 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. Budget issues identified by officers 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 Further revenue budget issues can be funded by flexing the revenue contribution to capital. This means that additional budget issues and initiatives will in effect need to be funded from borrowing because the amount of HRA contribution available to fund the capital programme will need to be reduced to ensure a balanced HRA budget. Alternatively, additional savings or income opportunities would need to be identified.
- 7.5 The Capital Investment Programme for the next 3 years is shown in Appendix D along with initial profiling. These are the remaining 3 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 2020/21 mid-year budget agreed at the December 2020 Council meeting has been included.
- 7.6 In order to manage resourcing and delivery of the required works, the current Housing Investment Plan was initially profiled equally throughout the five years to remove peaks and troughs in the expected renewal dates for different components. The 2021/22 and 2022/23 budgets reflect the capital programme re-profiled during 2020/21, primarily due to the Covid situation. It is likely that the remaining three years may require some further re-profiling forwards and backwards due to reflect:
- The evolving situation in regard to the Covid pandemic;
 - The outcome of asset reviews to assess the financial viability of individual stock;
 - Delivery contracts due to be tendered for a 2022/23 start;
 - Local knowledge from Council staff and findings once particular works actually commence; and
 - Contractual uplift obligations and changes in stock levels.

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 £20k before taking into account the new budget issues included in Appendix C.
- 8.2 Further revenue budget issues identified will require either further savings to be identified, or a reduction in the revenue contribution to fund the capital programme described in paragraph 7.4.
- 8.3 Officers will work with Members across all political groups and will consult with tenants to consider this position and how the budget should be balanced and the budget issues that 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; and
 - 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.

11.0 HEALTH AND WELLBEING IMPLICATIONS

11.1 There are no health and wellbeing implications arising from this report.

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 - 12 January 2021 (Executive Overview & Scrutiny Committee only)

APPENDIX A

KEY BUSINESS PLAN ASSUMPTIONS FOR THE NEXT FIVE YEARS – 2021/22 TO 2025/26

| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|-------------------------------|---------|---------|---------|---------|---------|
| General Factors | | | | | |
| CPI Inflation | 0.50% | 0.50% | 2% | 2% | 2% |
| RPI Inflation | 1.10% | 1.50% | 3% | 3% | 3% |
| Stock Numbers | -0.12% | -0.07% | -0.05% | -0.10% | -0.86% |
| | | | | | |
| Income | | | | | |
| Dwelling rents | 1.50% | 1.50% | 3% | 3% | 3% |
| Service charges | 1.50% | 1.50% | 3% | 3% | 3% |
| Garage rents | 0.50% | 0.50% | 2% | 2% | 2% |
| Heating charges | 0% | 2% | 2% | 2% | 2% |
| Other income | 0.50% | 0.50% | 2% | 2% | 2% |
| | | | | | |
| Expenditure | | | | | |
| Employee related | 2.75% | 2% | 2% | 2% | 2% |
| Repairs, maintenance & energy | 0% | 1.50% | 3% | 3% | 3% |
| Other expenditure | 0% | 2% | 2% | 2% | 2% |

Notes

(1) Void rates are not expected to change over the period of the business plan and as 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 2021/22 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.

(5) Temporary factors that are included in the 2020/21 budget for one year only are set at nil from 2021/22 onwards.

APPENDIX B

DRAFT HOUSING REVENUE ACCOUNT BUDGET ESTIMATES

| Budget 2021/22 | Employees £ | Running Expenses £ | External income £ | Total Cash £ | Support Services & Capital Charges £ | Net budget £ |
|---|------------------|--------------------------|-------------------------|--------------------|--|--------------------|
| General Expenses | | | | | | |
| Premises Related Expenses | 0 | 167,890 | 0 | 167,890 | 0 | 167,890 |
| Bad Debts Provision | 0 | 160,000 | 0 | 160,000 | 0 | 160,000 |
| Capital Programme Contribution | 0 | 0 | 0 | 0 | 7,550,000 | 7,550,000 |
| Debt Principal Repayment | 0 | 0 | 0 | 0 | 349,860 | 349,860 |
| Debt Charges | 0 | 0 | 0 | 0 | 3,056,990 | 3,056,990 |
| Sub-Total | 0 | 327,890 | 0 | 327,890 | 10,956,850 | 11,284,740 |
| Supervision, Management, Repairs & Maintenance | | | | | | |
| Central Administration | 127,900 | 858,270 | -411,600 | 574,570 | 3,152,290 | 3,726,860 |
| Income & Financial Inclusion | 643,630 | 101,770 | 0 | 745,400 | 148,770 | 894,170 |
| <u>Tenancy Services</u> | | | | | | |
| Allocations | 231,020 | 69,250 | -90 | 300,180 | 9,810 | 309,990 |
| Estate Management | 293,290 | 303,600 | -30 | 596,860 | 114,750 | 711,610 |
| Other Tenancy Services | 32,090 | 228,560 | -277,770 | -17,120 | 0 | -17,120 |
| Elderley & Disabled Support | 554,900 | 411,510 | -1,279,690 | -313,280 | 323,280 | 10,000 |
| Sub-Total | 1,111,300 | 1,012,920 | -1,557,580 | 566,640 | 447,840 | 1,014,480 |
| <u>Property Services</u> | | | | | | |
| Property Services Management | 548,380 | 1,096,800 | -210 | 1,644,970 | -137,330 | 1,507,640 |
| Caretakers | 304,240 | 140,520 | -49,180 | 395,580 | 13,130 | 408,710 |
| Maintenance of Grassed Areas | 0 | 866,840 | -30,200 | 836,640 | 0 | 836,640 |
| Responsive & Void Repairs | 348,260 | 3,563,140 | -57,360 | 3,854,040 | -13,840 | 3,840,200 |
| Planned Maintenance | 438,360 | 432,570 | -3,640 | 867,290 | -310,670 | 556,620 |
| Sub-Total | 1,639,240 | 6,099,870 | -140,590 | 7,598,520 | -448,710 | 7,149,810 |
| General Income | | | | | | |
| Customer & Client Receipts | 0 | 0 | -24,083,860 | -24,083,860 | 0 | -24,083,860 |
| Interest | 0 | 0 | 0 | 0 | -1,000 | -1,000 |
| Sub-Total | 0 | 0 | -24,083,860 | -24,083,860 | -1,000 | -24,084,860 |
| Transfers to/from Reserves | 0 | 0 | 0 | 0 | -5,200 | -5,200 |
| Grand Total | 3,522,070 | 8,400,720 | -26,193,630 | -14,270,840 | 14,250,840 | -20,000 |

Notes:

1. The estimates above reflect the latest position in budget setting.
2. Support service recharges between HRA services and with the GRA are currently assumed to be a 1% increase though final figures may vary up or down. The Grounds maintenance recharge has been increased by £145k to reflect estimated cost of Grounds Maintenance services to the HRA.
3. Staff budgets reflect the organisational establishment structure.
4. Salary costs have been increased at cost centre level by 2.75% in line with the WLBC GRA Medium Term Financial Strategy. Given latest Government statements on pay, the increase is being offset by a central HRA credit. If the 0% pay uplift is confirmed the central element can be moved to individual budgets if necessary.
5. Savings of £50k in HRA base running costs have been removed from the budget, being £25k not required in delivering planned revenue works; around £18k in staff car allowance budgets no longer required; and around £7k in other running costs.
6. Other amendments to the existing budget, for example significant contractual increases, will be updated as the process continues. The revenue boiler servicing budget has been increased by 3%.
7. The furniture service offered to HRA tenants is growing, so running costs associated with WLBC purchasing furniture, white goods, carpets and removal costs have been increased by £64k, matched by a £64k increase in budgeted income, to reflect current demand.
8. The HRA budget includes release of around £5,200 remaining in the budget and efficiency savings reserve after 2019/20 year end.
9. Other virements and technical adjustments have been done when necessary. For example, the rental income budget has been increased by £100k in addition to budgeted uplift; to reflect the current run rate. This was identified as being available in the 2020/21 HRA mid-year forecast.

| 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 | 8,800,000 | 8,800,000 |
| 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 | 12,195,023 | 12,517,963 |
| Supervision, Management, Repairs & Maintenance | | | | | | |
| Central Administration | 224,160 | 954,290 | -436,900 | 741,550 | 2,877,309 | 3,618,859 |
| Income & Financial Inclusion | 585,480 | 88,770 | -10,000 | 664,250 | 147,300 | 811,550 |
| <u>Tenancy Services</u> | | | | | | |
| Allocations | 223,490 | 73,250 | -90 | 296,650 | 9,710 | 306,360 |
| Estate Management | 279,420 | 291,370 | -30 | 570,760 | 113,610 | 684,370 |
| Other Tenancy Services | 32,470 | 164,560 | -213,770 | -16,740 | 0 | -16,740 |
| Elderly & Disabled Support | 547,390 | 406,060 | -1,303,550 | -350,100 | 320,070 | -30,030 |
| Sub-Total | 1,082,770 | 935,240 | -1,517,440 | 500,570 | 443,390 | 943,960 |
| <u>Property Services</u> | | | | | | |
| Property Services Management | 502,320 | 1,086,570 | -210 | 1,588,680 | -134,390 | 1,454,290 |
| Caretakers | 299,420 | 140,190 | -39,000 | 400,610 | 13,000 | 413,610 |
| Maintenance of Grassed Areas | 0 | 716,590 | -29,800 | 686,790 | 0 | 686,790 |
| Responsive & Void Repairs | 337,390 | 3,563,140 | -57,160 | 3,843,370 | -13,460 | 3,829,910 |
| Planned Maintenance | 425,670 | 462,570 | -3,640 | 884,600 | -302,320 | 582,280 |
| Sub-Total | 1,564,800 | 5,969,060 | -129,810 | 7,404,050 | -437,170 | 6,966,880 |
| 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 | 3,457,210 | 8,270,300 | -25,719,080 | -13,991,570 | 13,660,682 | -330,888 |

APPENDIX C – BUDGET ISSUES

| | Budget Issues | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 |
|---|--|-----------------|-----------------|-----------------|
| | Capital Expenditure | | | |
| | | | | |
| | Sub Total | | | |
| | Revenue Expenditure | | | |
| | | | | |
| 1 | Extend the Allpay DD Bureau Service | 0 | 19 | tbc |
| 2 | Capital & Repairs satisfaction through Voicescape | 20 | | |
| | | | | |
| | Sub Total | 20 | 19 | tbc |
| | | | | |
| | Total | 20 | 19 | tbc |

Appendix D – DRAFT CAPITAL PROGRAMME UNTIL 2023/24

| Scheme | 21/22 £000's | 22/23 £000's | 23/24 £000's | 5 Years 2024-29 £000's |
|--|-----------------|-----------------|-----------------|------------------------------|
| Roofing | 2,794 | 2,794 | 2,169 | 1,073 |
| External Works | 1,314 | 1,314 | 1,005 | 3,031 |
| Kitchens | 949 | 949 | 632 | 3,332 |
| Heating | 823 | 823 | 821 | 4,344 |
| Windows & Doors | 822 | 822 | 549 | 1,392 |
| Electrics | 744 | 744 | 637 | 506 |
| Bathrooms | 744 | 744 | 500 | 1,719 |
| Walls | 410 | 410 | 278 | 2,452 |
| Fire Safety Works | 271 | 271 | 269 | 0 |
| Communal Services | 186 | 186 | 119 | 576 |
| Housing Capital Investment Plan | 9,057 | 9,057 | 6,979 | 18,425 |
| Carbon Neutral Dwellings | 475 | 475 | | |
| Salary costs & Professional Fees | 600 | 600 | 600 | |
| Disabled Adaptations | 533 | 533 | 439 | |
| Contingency | 300 | 300 | 300 | |
| Change in Standard for Smoke Detection | 300 | 300 | 300 | |
| Environmental Programme | 364 | 364 | 200 | |
| Sheltered Housing Upgrades | 140 | 140 | 140 | |
| Lifts | 35 | 35 | | |
| Solar PV Battery Storage | 25 | 25 | | |
| Other Housing Schemes | 2,772 | 2,772 | 1,979 | |
| Total Expenditure | 11,829 | 11,829 | 8,958 | |

Notes

- (1) The three years, (2021/22 to 2023/24), above are those remaining from the updated, (five year), housing capital programme approved by Council in February 2020.
- (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 3 to 10 budgets are expressed in 2021/22 terms, contractual uplift and changes in stock levels will be considered each year as part of budget setting.
- (4) It is anticipated that years 4 and 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) 2020/21 budget of £4.933m re-profiled at mid-year has been equally profiled into 2021/22 and 2022/23.