



AGENDA ITEM:

COUNCIL: 24 February 2021

Report of: Head of Finance, Procurement and Commercial Services

Relevant Portfolio Holder: Cllr J. Wilkie

Contact for further information: Peter Quick (Extn. 5203)
(peter.quick@westlancs.gov.uk)

SUBJECT: HOUSING ACCOUNT – REVENUE AND CAPITAL BUDGET SETTING

Wards Affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To enable the Council to set its Housing Revenue Account (HRA) budget and capital investment programme for the next financial year 2021/22.

2.0 RECOMMENDATIONS

2.1 That the Rent and Service Charges set within delegated authority, as detailed in sections 4 and 5 of the report, be noted and endorsed.

2.2 That the comments of Tenants and Residents as set out in Appendix E of the report be considered.

2.3 That the HRA budget and capital expenditure budget be approved based on the proposals to be presented at the Council meeting by the Housing and Landlord Services Portfolio Holder.

2.4 That the Reserves Policy set out in Appendix C be approved.

2.5 That delegated authority be given to the Director of Place & Community to take all necessary action to implement the decisions of Council.

3.0 BACKGROUND

- 3.1 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.
- 3.2 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.
- 3.3 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 coming into place from 1 April 2020.
- 3.4 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.
- 3.5 The HRA budget has been the subject of recent reports to Cabinet, Executive Overview and Scrutiny Committee and Landlord Services Committee. Tenants have also been consulted on the HRA budget position. These reports identified that there was a small draft budget surplus in 2021/22 between the resources available and the expenditure required to deliver agreed service levels and investment plans with some further work still required.

4.0 RENTAL INCOME

- 4.1 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.
- 4.2 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 2% of properties will have an increase in rent of between 0% and 0.5%, (being September 2020 CPI), rounded down if applicable.

4.3 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.

5.0 OTHER CHARGES

5.1 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.

5.2 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.

5.3 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 wider customer choice, and providing 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.

5.4 There are a number of changes to service charges for leaseholders with some charges going up and others going down. As much as possible reductions in one set of charges have been offset against increases in the others, though some leaseholders will see an overall increase in their bill in excess of 1.5%. During 2020/21 budget setting it was advised that to avoid excessive increases in one year we would phase increases over two or three years in some cases, so some increases will continue to be phased in over 2021/22 and 2022/23. Overall there are 84 leaseholders with an annual increase more than £52 (£1 per week) for the coming year. These leaseholders have previously been advised that they were likely to see an increase.

6.0 REVENUE ESTIMATES AND CAPITAL INVESTMENT PROGRAMME

6.1 The base assumptions used in the HRA Business Plan and for the HRA Estimates have previously been reported to Cabinet and Executive Overview and Scrutiny Committee. The HRA revenue estimates for 2021/22 are shown in Appendix A and provide the detailed information that sets out the financial basis for how HRA service objectives will be achieved. They cover all areas of revenue expenditure and income and include changes in the base budget required to roll forward agreed service levels, such as pay and contract inflation, but do not allow for any service improvements.

6.2 The HRA estimates reflect a range of factors including:

- The changes in rents and service charges set out above.
- Recharges have generally been increased by 1%. 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 to ensure effective financial management.

6.3 The HRA budget report that went to Cabinet and Executive Overview and Scrutiny advised that work would continue on finalising the HRA budget for February Council. Budget issues in Appendix D have been updated to represent the current position. The capital programme has also been reprofiled, covered in the next paragraphs and Appendix B, and budget for purchases from Tawd Valley Developments Ltd. has been added.

6.4 The Capital Investment Programme for the next 8 years is shown in Appendix B along with initial profiling. These are the remaining 3 years from the five year programme approved by Council in February 2019 plus 2020/21 capital budget reprofiled at mid-year; as well as the next five years to March 2029. In the Cabinet report the five years from 2023 to 2029 were for information only though they did reflect the current stock condition information.

6.5 The capital investment plan budgets and most other housing capital scheme budgets in Appendix B have been reprofiled equally through the next eight years. This is to help manage resourcing and delivery of the required works by smoothing out the budget to avoid step changes up and down in resourcing. It also supports plans to procure longer term capital contractors. As the programme is delivered some re-profiling forwards and backwards between years may be required due to:

- The outcome of asset reviews to assess the financial viability of individual stock;
- Delivery contracts once tendered;
- Local knowledge from Council staff and findings once particular works actually commence; and
- Contractual uplift obligations and changes in stock levels

- 6.6 The HRA business plan includes provision and profiling for the purchase of affordable homes from Tawd Valley Developments Ltd., (whose updated plans are subject of a separate report to Council). WLBC housing budgets for TVDL homes, approved in February 2020 and subsequently, have been added to Appendix B for thoroughness, along with planned funding. Some schemes started on site in 2020/21 and some will go into 2022/23. For ease of review the budget totals are shown in 2021/22 and will be reprofiled forwards and backwards to reflect actual expenditure.

7.0 CURRENT FINANCIAL POSITION

- 7.1 The HRA mid-year review projected that the budget targets for the year would be met and exceeded and that a favourable budget variance would be achieved. The latest third quarter monitoring has confirmed this position, albeit with a smaller favourable variance, primarily as a result of staffing vacancies generating a favourable budget variance on employee costs, planned revenue works and contingency budgets not being fully used, and rental income ahead of budget.
- 7.2 In accordance with best practice the levels of HRA balances and reserves have been reviewed during the budget process to ensure that they are currently sufficient and that they will remain adequate over the medium term. A draft reserves policy reflecting this position is attached at Appendix C.

8.0 BUDGET PROPOSALS

- 8.1 In addition to the roll over budget in continuing services, it is also important to consider new budget issues and areas for development. Appendix D indicates one budget issue that Officers have identified and that should be considered as part of the budget process. Members will need to consider this option, and any others that may emerge through the budget process and determine which proposals to include in the final budget to meet service objectives.
- 8.2 The views of tenants and residents have been considered through meeting with the tenant scrutiny group and reviewing the proposed HRA revenue and capital budgets as well as the new budget issue. Details of their comments are provided in Appendix E. Members are asked to consider these details when determining their final budget position.
- 8.3 The Portfolio Holder for Housing and Landlord Services has been given delegated authority to submit proposals for consideration at the Council meeting to enable the budget and capital programme to be set. It is anticipated that a set of budget papers will be circulated at the Council meeting to enable this to be achieved.

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.

11.0 HEALTH AND WELLBEING IMPLICATIONS

11.1 The health and wellbeing implications arising from this report will be dependent on the budget proposals put forward at the Council meeting. Details of any significant implications will be provided at the Council meeting if required.

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 direct impact on members of the public, employees, elected members and / or stakeholders is dependent on the proposals to be put forward at the Council meeting. Therefore no Equality Impact Assessment has been produced at this time. However, an Assessment will be produced and made available at the Council meeting if required.

Appendices

Appendix A – HRA Revenue Estimates
Appendix B – Capital Investment Plan
Appendix C – Reserves Policy
Appendix D – Budget Issues
Appendix E – Tenant Views on Budget Proposals

Appendix A

HOUSING REVENUE ACCOUNT

REVENUE ESTIMATES 2021/22

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
Elderly & 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. Support service recharges between HRA services and with the GRA are increased by 1%. The Grounds maintenance recharge has been increased by £145k to reflect estimated cost of Grounds Maintenance services to the HRA.
2. Staff budgets reflect the organisational establishment structure.
3. 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.
4. 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.
5. The revenue boiler servicing budget has been increased by 3%.
6. 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.
7. The HRA budget includes release of £5,202 remaining in the budget and efficiency savings reserve after 2019/20 year end.
8. 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 B - CAPITAL INVESTMENT PLAN UNTIL 2028/29

Scheme	21/22 £000's	22/23 £000's	23/24 £000's	5 Years 2024-29
Roofing	1,105	1,105	1,105	5,519
External Works	833	833	833	4,165
Kitchens	733	733	733	3,664
Heating	851	851	851	4,257
Windows & Doors	448	448	448	2,241
Electrics	329	329	329	1,644
Bathrooms	463	463	463	2,317
Walls	444	444	444	2,219
Fire Safety Works	101	101	101	507
Communal Services	133	133	133	667
Housing Capital Investment Plan	5,440	5,440	5,440	27,200 (5,440pa)
Carbon Neutral Dwellings	475	475		
Salary costs & Professional Fees	600	600	600	3,000
Disabled Adaptations	502	502	502	2,510
Contingency	300	300	300	1,500
Change in Standard for Smoke	300	300	300	1,500
Environmental Programme	364	364	200	1,000
Sheltered Housing Upgrades	140	140	140	700
Lifts	35	35		
Solar PV Battery Storage	25	25		
Other Housing Schemes	2,741	2,741	2,042	10,210 (2,042pa)
Properties from TVDL– Feb 2020	18,744			
Halton Castle – July 2020	1,920			
Purchase Homes from TVDL*	20,664			
Total Expenditure	28,845	8,181	7,482	37,410 (7,482pa)

Funded by	21/22 £000's	22/23 £000's	23/24 £000's	5 Years 2024-29
Revenue Contributions/borrowing	8,181	8,181	7,482	37,410
Borrowing for TVDL purchases*	17,934			
Homes England Grant – TVDL*	2,010			
Capital receipts (141) – TVDL*	720			
Total Funding	28,845	8,181	7,482	37,410

Notes

- (1) The eight years, (2021/22 to 2028/29), cover the remaining three years from the five year housing capital programme approved by Council in February 2019, 2020/21 capital budget of £4.933m re-profiled at mid-year, and the previously indicated five years from 2024/25 to 2028/29.
- (2) The Housing capital budgets from 2021/22 to 2028/29 have initially been re-profiled equally to support resource allocation and contract procurement as well as smooth out current pressures from Covid delivery, whilst also addressing the significantly smaller 2023 to 2029 five year programme indicated by previous stock condition survey information.
- (3) 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 budgets 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) *Planned acquisitions of new build affordable rent Council Homes from Tawd Valley Developments Ltd. have been added to the appendix to give a fuller picture of all HRA/housing capital expenditure commitments.
- (6) *TVDL budgets are those approved in February 2020 for schemes that are being delivered for the HRA, plus Halton castle which has been separately approved.
- (7) *Delivery of some of these schemes has started in 2020/21 and some will not be completed until 2022/23, however; for ease of presentation these are all shown in 2021/22 in the Appendix. Profiling forwards and backwards of this total will be required to reflect delivery profiling.
- (8) Initial funding plans have also been included. They indicate that the 'housing capital investment plan' and 'other housing schemes' will be funded from revenue contributions and borrowing as is standard practice. Acquisitions from TVDL will be funded from retained right to buy 141 capital receipts, Homes England contributions and HRA borrowing. The profiling of this will reflect the profiling of the purchases from TVDL. Existing HRA borrowing will be utilised first before additional borrowing is required.

APPENDIX C

HRA RESERVES POLICY

Reserves Protocol

- 1.1 For each reserve held by the Council there must be a clear protocol setting out:
- The reason for and purpose of the reserve;
 - How and when the reserve can be used;
 - Procedures for the reserve's management and control; and
 - A process and timescale for review of the reserve to ensure continuing relevance and adequacy.
- 1.2 Details for each HRA reserve are set out below. Each reserve is managed and controlled by a Chief Officer. The responsible officer can authorise amounts of up to £10,000 to be taken from a reserve provided that its use is in line with the stated purpose of the reserve.
- 1.3 In addition the responsible officer must also consult with the Housing and / or Finance Portfolio Holders before authorising uses from reserves in excess of £10,000.
- 1.4 Reserves are reviewed and updated as part of the annual budget preparation and as part of the closure of accounts process to ensure that they continue to be required and are adequate in size. Earmarked reserves represent money that has been set aside for a clearly defined purpose, and which is available to meet future expenditure in that area. Balances represent unallocated funds which have not been earmarked and consequently are available to support any service area.
- 1.5 The values shown below for each reserve reflect their current position. The process for closing down the accounts at the year-end will then allow for any outstanding in year commitments and contributions.
- 1.6 The underlying level of reserves is adequate and reflects the HRA's stable financial position.

Description	Purpose	How and When Used	Responsible Officer	Value £000
HRA BALANCES	Balances are held by every organisation and are used to cushion the impact of unexpected events or emergencies, uneven cash flows and to avoid temporary borrowing	Can be used as a general contingency and should be maintained at a level of at least £100 per property.	Head of Housing & Regulatory Services	620

HRA ELEMENT OF INSURANCE FUND	Funds held to meet the Council's self-insured liabilities where this is a more cost effective method of insuring than using an external company	Costs are incurred when insurance claims are settled. The level of the reserve is determined through actuarial reviews	Head of Finance, Procurement & Commercial Property	292
DISTRICT HEATING CHARGES RESERVE	This reserve holds the difference between the income raised from charges to tenants for the District Heating scheme and the cost of running this scheme (primarily gas charges).	It is Council policy to run this scheme on a cost recovery basis, and so it is necessary to maintain this reserve so that any surpluses that are achieved can be carried forward to fund lower charges to tenants in the future than otherwise would be possible	Head of Housing & Regulatory Services	182
REPAIRS RESERVE	This reserve is used to deal with demand led and other spending pressures on the response and void repairs budgets	Can be used as a general contingency for repairs expenditure and should be maintained at a level of at least 10% of the repairs budgets	Head of Housing & Regulatory Services	351
GENERAL SLIPPAGE RESERVE	This reserve is used to carry forward slippage on revenue and capital projects, where required	Enables the funding on schemes that are not completed at the financial year end to be carried forward so that the scheme can be completed in the next financial year	Head of Housing & Regulatory Services	30
BUDGET AND EFFICIENCY SAVINGS	This reserve is available to support the overall budget position	Used to deal with the financial challenges facing the HRA over a medium term period	Head of Housing & Regulatory Services	0

APPENDIX D

BUDGET ISSUES

	Budget Issues	2021/22 £000	2022/23 £000	2023/24 £000
	Capital Expenditure			
	Sub Total			
	Revenue Expenditure			
1	Capital & Repairs satisfaction through Voicescape	20		
	Sub Total	20		
	Total	20		

APPENDIX E

TENANT VIEWS ON BUDGET PROPOSALS 2021/22

Officers have met with the Tenant Scrutiny Group to review the overall HRA budget position and the budget issues proposed by officers, and answered tenant questions. Having scrutinised the budget proposals tenants are supportive of them.