

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – TUESDAY, 8 DECEMBER 2020



Title of Report	DRAFT HOUSING REVENUE ACCOUNT BUDGET PROPOSALS FOR 2021/22	
Presented by	Councillor Nicholas Rushton Corporate Portfolio Holder	
Background Papers	Corporate Scrutiny Draft Minutes – 11 November 2020	Public Report: Yes
		Key Decision: Yes
Financial Implications	This report sets out the draft budget for the Housing Revenue account, which is expected to deliver a balanced budget in 2021/22 with a small surplus of £229k and a £3.7m transfer to the capital programme.	
	The council will also pay the first two HRA loans that fall due 2021/22, totalling £13m. This will be paid from the loan redemption reserve.	
Legal Implications	Signed off by the Section 151 Officer: Yes	
	None	
Staffing and Corporate Implications	Signed off by the Monitoring Officer: Yes	
	Proposals within this budget will increase the headcount by 17 staff: <ul style="list-style-type: none"> • 11 operatives for our in-house repairs team and 5 posts for our commercial services team – all linked to the larger home improvement programme. • 1 additional tenancy management officer, which was approved by Cabinet on 10 November 2020. 	
Purpose of Report	Signed off by the Head of Paid Service: Yes	
	For Cabinet to approve 2021/22 Housing Revenue Account budget proposals for consultation.	
Reason for Decision	Required to enable officers to consult with tenants on the changes to the HRA budgets.	
Recommendations	THAT CABINET: <ol style="list-style-type: none"> 1) NOTE THE ASSURANCE STATEMENT BY THE S151 OFFICER; AND 2) APPROVE THE DRAFT HRA BUDGET PROPOSAL, INCLUDING THE 1.5% RENT INCREASE, AS 	

1.0 BACKGROUND

- 1.1 This report seeks Cabinet approval to consult on the draft Housing Revenue Account (HRA) budget for 2021/22 and the associated changes to rents and services charges. The outcome of the consultation exercise will be fed back into the subsequent reports to Cabinet and Council to seek approval for the final budget.

2.0 UPDATE ON THE CURRENT YEAR (2020/21) FINANCIAL POSITION

- 2.1 The HRA, by virtue of having a stable revenue stream, remains in a strong financial position despite the disruption caused by the pandemic. The HRA's surplus for 2020/21 is currently forecast to be £2.6m against a budgeted surplus of £2.8m, an adverse variance of £144k.
- 2.2 It is estimated that the net impact of Covid-19 will be an adverse variances of £219k, which includes the budgeted surplus on the In-house repairs team £658k, the unrealised savings target from the journey to self-sufficiency programme of £225k. Covid-19 has also been attributed to some savings, including spend on repairs falling by £395k. There have also been net savings of £70k that are not related to Covid-19.

3.0 OVERVIEW OF THE 2021/22 BUDGET

- 3.1 The draft 2021/22 budget surplus is £229k, which is significantly lower than the budget surplus for 2020/21 of £2.8m. This is caused by the increase in the revenue contribution to capital outlay from £0.9m to £3.7m this year. This increased contribution will ensure the ambitious capital programme, which is outlined in the capital budget report, is fully funded. A summary of the HRA budget can be found in Appendix A.
- 3.2 At the end of the 2021/22 financial year the first two of the HRA's self-finance loans become due, totalling £13m. The HRA's loan redemption reserve will be used to repay these loans in full. The HRA retains reserves of £6.6m, £1m of which is retained as a minimum balance. Cabinet has previously agreed to use these reserves flexibly in response to opportunities such as funding the capital programmes or to further repay debt in the future.

4.0 THE IMPACT OF COVID-19

- 4.1 Currently, it is difficult to quantify with any real certainty the likely ongoing impact the COVID-19 pandemic will have on the Council's revenue income and expenditure throughout the remainder of the 2020/21 and into the new 2021/22 financial year.
- 4.2 The impact of the pandemic on the HRA to date has largely impacted the HRA's in-house repairs team, which is accounted for in a trading account within the HRA. The effect of social distancing requirements impacting productivity, along with lower requests for repairs from residents, has moved the trading account into a forecast deficit of £373k. To date, the Housing Revenue Account has received nil funding from central government.

- 4.3 Of the estimates proposed as part of this draft budget, several have been varied to take account of the likely effect of the pandemic. These includes the reductions to service charges to reflect reduced services, and thus costs, as a result of the pandemic in 2020/21 (paragraph 5.4) and proposed changes to how we support residents (paragraph 6.8).

5.0 2021/22 INCOME BUDGETS

Annual Rents

- 5.1 The vast majority of the HRA's income comes from the rent received from our tenants. How much we can vary our rents by is limited by the Ministry for Housing, Communities and Local Government to 1% more than inflation, as measured by the Consumer Price Index in the September before a financial year. For 2021/22 this means rents can increase by 1.5%.
- 5.2 As with previous years, the council is proposing to increase rents by the maximum that it can, 1.5%. As a result rental income is budgeted to increase by £139k, which can be reinvested back into our properties and the services provided to tenants.
- 5.3 This will increase the average rent on our social rented properties by £1.22 per week to £83.56. Average rent for our affordable rent properties will rise by £1.66 per week to £113.19. Our rent policy remains that no rents will exceed the Local Housing Allowance rates, which means all of our rents could be covered by housing benefit or universal credit, should a tenant be eligible for such support.

Other Charges

- 5.4 The HRA also benefits from some additional income from fees and charges that we set for additional services provided to tenants and others. Additional services provided to tenants through their rental agreement form our service charges, which are listed in Appendix D. The charges are set at a level to recovery the council's costs of delivering those services, and the 2021/22 budget includes income of £541k, down by £20k (3.5%) from the previous year. Key changes include:
- **A 14.7% fall in grounds maintenance charges.** The grounds maintenance service was temporarily paused in response to the pandemic, resulting in a cost saving which can be passed on to tenants. This reduces the HRA's income by £16k.
 - **Utility costs for common areas are falling by 5%.** This is the result of invoices being lower in 2020/21 than anticipated, and will reduce income by £2k.
 - **The income from the administration fee is falling by 5.37%.** As the administration fee is set at 15% of chargeable services, the overall reduction in service charges leads to a lower administration fee, reducing HRA income by £3k.
 - **Fire extinguisher servicing costs increasing by 7.5%.** This is because on analysis of the historic cost increases. Whilst the percentage increase is large, the value is very small, with just £64 additional income.
- 5.5 The HRA also sets a number of other fees and charges, which are for optional services we provide, such as contents insurance. This are included in Appendix C, with an overall reduction in income of £3k expected.

5.6 The HRA also earns interest on the cash reserves it holds. The pandemic has resulted in a significant fall in the interest the council can earn on its cash budgets, which

6.0 2021/22 EXPENDITURE BUDGETS

6.1 There has been a small increase in HRA budgeted expenditure of £28k compared to the 2021/22 budget, which is reflective of this year's budget approach to focus on the fundamentals within the Council Delivery Plan. The budget changes over £5k are categories into:

- Savings following review of existing budgets and deliverability.
- Staffing cost increases.
- Unavoidable cost pressures
- Service developments.
- Changes in income

6.2 In addition to these changes there are a number of de minimis changes which total £57k of additional expenditure. The pay freeze announced by government on 25 November 2020 has been incorporated into the budget and has reduced the increases in salaries and corporate recharges by £141k.

Savings

6.3 Officers reviewed key HRA budgets and, based on analysis of historic trends and other new information, identified £285k of savings from the previous year's budgets. This included:

- 6.3.1 Reducing the £1.5m responsive repairs budget by £100k. This follows sustained reductions in repair expenditure on our properties.
- 6.3.2 A £150k reduction in the painting programme, which is part of our cyclical maintenance work, as there is no painting programme due for 2021/22.
- 6.3.3 A £15k saving created by the consolidation of repairs budgets.
- 6.3.4 Savings of £14k generated from the re-procurement of the heating servicing contract.
- 6.3.5 Lower planned expenditure on professional fees, saving £6k.

Cost pressures

6.4 The largest cost pressure is £234k for 5 new roles within our commercial services team to facilitate the delivery of the larger home improvement programme, which is an increase contained within the capital budget report.

6.5 The larger home improvement programme will also require an additional 11 operatives to deliver the programme. This will reduce reliance on the use of agency staff (saving £90k) and overall will lead to the in-house repairs team generating an additional surplus of £55k during the year.

- 6.6 The empty home repair budget has had an inflationary increase of £48k. This figure is net of a saving of £26k that is expected through the addition of a tenancy sustainment officer, which features as a service development in paragraph 6.8.
- 6.7 As a result of changes to staff numbers, as well as cost changes within the General Fund report, the recharge from the general fund to the HRA for corporate services has increased by £57k.
- 6.8 The budget includes additional expenditure of £53k in respect to existing staff salaries. This has been budgeted on the basis of a pay freeze for staff earning more than £24,000, as announced by government on 25 November 2020. The total effect of the pay freeze has been to reduce increases in salaries and corporate recharges by £141k.

Service Developments

- 6.9 On 10 November 2020 Cabinet approved a new approach to managing arrears which included a proposal to recruit an additional tenancy support officer that would look to support tenants that fall into arrears, with advice and support on claiming benefits and financial management. This is expected to cost an additional £41k, but that is expected to be offset by £30k of savings through reduced empty homes costs.
- 6.10 An additional one-off budget increase of £19,000 within the income and systems team to bring in additional support whilst the new housing IT system is in its first year of operation.

7.0 CONSULTATION PROCESS

- 7.1 The Corporate Scrutiny Committee reviewed the planned changes to the HRA budget at its meeting on 11 November 2020. Whilst members of the committee asked a number of clarifications, no changes were suggested relating to the HRA. The draft budget will return to the committee on 7 January 2021.
- 7.2 On approval of this budget, we will launch a consultation with tenants during January. Following a suggestion from the Corporate Scrutiny Committee in January 2020, we will include an article about planned changes, including to rent and service charges, in the tenants' magazine, InTouch. This magazine is sent to all tenants, and we will invite tenants to provide any feedback via a short survey on our website.
- 7.3 We will also present the budget to the Tenants and Leaseholders Consultation Forum (the Council's main consultative body of tenants) to ask for their views.

8.0 ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

- 8.1 The Local Government Act 2003 requires the Council's Chief Financial Officer (Section 151 Officer) to comment on the robustness of the estimates and also on the adequacy of the proposed reserves. Members must have regard to these comments when making a decision on the budget proposals for the forthcoming year.
- 8.2 Taking into account identified risks, the Section 151 Officer considers that the estimates which form the Draft Housing Revenue Account Budget for 2020/21 are robust and prudent, and the proposals are deliverable.

8.3 The Section 151 Officer also considers that the overall level of Housing Revenue Account reserves are adequate.

Policies and other considerations, as appropriate	
Council Priorities:	Local people live in high quality, affordable homes
Policy Considerations:	The budget changes include a proposal to change our approach to rent arrears enforcement, which Cabinet considered in its November 2020 meeting.
Safeguarding:	None identified
Equalities/Diversity:	All of our tenants will be invited to participate in the consultation this year through an article in the InTouch magazine.
Customer Impact:	All of our tenants will be impacted by the changes in rents, whilst a large number will also be impacted by the changes in service charges.
Economic and Social Impact:	None identified
Environment and Climate Change:	This budget provides funding for the HRA Capital Programme, which includes initiatives to respond to the climate change emergency.
Consultation/Community Engagement:	<ul style="list-style-type: none"> • Corporate Leadership Team • Housing and Property Services Portfolio Holder • Corporate Scrutiny Committee.
Risks:	The Council sets a HRA budget, which is regularly monitored throughout the year to ensure services are delivered within budget. Risks are managed through the corporate risk management process.
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APPENDIX A

HOUSING REVENUE ACCOUNT SUMMARY	2020/2021		2021/2022
	Budget £	Forecast (p7) £	Estimate £
1. TOTAL REPAIRS & MAINTENANCE	5,540,720	4,859,920	5,323,102
SUPERVISION & MANAGEMENT			
2. General	2,100,630	2,042,990	2,168,888
3. Special / Supporting People	593,399	560,960	606,411
4.	2,694,200	2,603,950	2,775,299
5. PROVISION -DOUBTFUL DEBTS	100,000	100,000	100,000
6. CAPITAL FINANCING:-			
7. Depreciation - MRA & other	3,139,190	3,139,190	3,178,525
8. Debt Management Expenses	2,750	2,750	2,930
9. TOTAL CAPITAL FINANCE COSTS	3,141,940	3,141,940	3,181,455
10. IN-HOUSE REPAIRS TEAM NET (SURPLUS)/DEFICIT	(285,520)	372,940	(385,523)
11. DEPARTMENTAL ADMINISTRATION	0	(122,820)	0
12. TOTAL EXPENDITURE	10,966,340	10,955,770	10,994,333
13. RENT INCOME			
14. Dwellings	(17,306,320)	(17,273,120)	(17,445,770)
15. Service Charges	(556,770)	(518,370)	(541,340)
16. Garages & Sites	(65,920)	(48,900)	(49,350)
17. Other	(23,140)	(23,140)	(23,198)
18. TOTAL INCOME	(17,952,150)	(17,863,530)	(18,059,658)
19. NET COST/(SURPLUS) OF SERVICES	(6,347,790)	(6,907,760)	(7,065,325)
20. J2SS Cost Savings/Income increases	(225,000)	0	(225,000)
21. CAPITAL FINANCING - HISTORICAL DEBT	125,000	125,000	108,000
22. CAPITAL FINANCING - SELF FINANCING DEBT	3,257,170	3,257,170	3,257,170
23. INVESTMENT INCOME	(109,900)	(43,620)	(3,380)
25. TOTAL DEBT FINANCING COSTS	3,272,270	3,338,550	3,136,790
26. NET OPERATING EXPENDITURE/(SURPLUS)	(3,713,540)	(3,569,210)	(3,928,535)
27. REVENUE CONTRIBUTION TO CAPITAL	934,000	934,000	3,700,000
28. REPAYMENT OF HRA DEBT	0	0	13,000,000
29. TRANSFER FROM LOAN REPAYMENT RESERVE	0	0	(13,000,000)
29. NET (SURPLUS) / DEFICIT	(2,779,540)	(2,635,210)	(228,535)
<u>HRA BALANCES</u>			
30. Balance Brought Forward	(3,699,522)	(3,699,522)	(6,334,732)
31. (Surplus)/Deficit for Year	(2,779,540)	(2,635,210)	(228,535)
32. Transfer to Loan Repayment Reserve	0	0	13,000,000
33. HRA General Balance as at year end	(6,479,062)	(6,334,732)	(6,563,267)
34. Loan Repayment Reserve balance	(13,000,000)	(13,000,000)	0

HRA Budget Proposals over £5,000

*indicates a change since proposals were considered by the Corporate Scrutiny Committee

Reason for changing the budget	Proposal	One-off / reoccurring	Investment/ (Saving) Amount compared to 2020-21
Cost Pressures	Five additional posts in the commercial services staffing to deliver the larger home improvement programme	Reoccurring	£233,976
	Additional empty home repair costs as a result of inflation. This figure has been reduced by £30,000 as a result of savings expected through the additional tenancy sustainment officer service development.	Reoccurring	£48,354
	*Increase in corporate recharges from the General Fund	Reoccurring	£57,184
Increase/ Decrease in Income	Estimated additional surplus from the In-House Repairs team, in response to increasing home improvement work. This is net of additional staff costs from an additional 11 operatives required to deliver the programme, less £90k savings from reduced agency spend, with additional costs for materials and transport as a result of the higher workload. Included in this figure is £25k additional recharge costs associated with fleet vehicles.	Reoccurring	£-54,999
	*Rents are due to increase by 1.5% for 2020-21. However, the increase to expected income is offset by a higher than anticipated number of right to buys in the last quarter of 2019-20, which reduced the number of stock, and thus decreased our income.	Reoccurring	£-139,450
	*Income from fees and charges, which includes service charges, is expected to decrease. This is largely due to some services pausing during the pandemic, with cost savings being passed onto tenants in 2021/22.	One-Off	£22,686
	*Reduction in investment income due to lower returns since the pandemic.	Reoccurring	£106,520
Service Development	An additional Tenancy Sustainment Officer as a result of a new approach to managing rent arrears. This is part funded by a resulting saving in repairing empty homes	Reoccurring	£40,957
	Additional salary costs to allow continued development the new Housing IT System in its first year of operation.	One-Off	£19,000
Budget Saving	Savings through re-procuring our heating servicing contract and removed historic underspending from compliance budgets result in a net saving of £13,630.	Reoccurring	£-13,630
	Reduction in responsive repairs budget due to sustained improvement in performance by the responsive and minor works repairs teams.	Reoccurring	£-100,000
	Saving as a result of consolidating repairs budgets.	Reoccurring	£-15,380
	Reduction in the painting budget as there is currently no painting programme due for 2021/22	One-Off	£-150,000
	Lower planned expenditure on professional fees	Reoccurring	£-6,000
Total Impact compared to the 2020/21 budgets			£49,218

APPENDIX C

COMPARISON OF 2020/21 AND 2021/22 HOUSING CHARGES								
Chargeable Service	2020/21		2021/22			Notes	Basis for Change	Charging Policy
	FORECAST 2019/20	Notes	Estimates 2020/21	Increase/ (Decrease)	Percentage Change			
Service Charges	£561,027	See Appendix D	£541,340	-£19,686	0.44%	See Appendix D	Based on assessment of all chargeable services	Full Cost Recovery
Central Heating	£66,640	0 Bed: £6.27pw 1 Bed: £7.57pw 2 Bed: £8.68pw 3 Bed: £9.99pw	£63,310	-£3,330	-5.00%	0 Bed: 6.27pw 1 Bed: £7.57pw 2 Bed: £8.68pw 3 Bed: £9.99pw	Based on revised estimate of usage and forecast energy prices for 2021/22.	Full Cost Recovery
Garage & Garage Site Rent	£49,100	Garage: £7.09pw Garage Site: £4.54pw	£49,350	£250	0.50%	Garage: £7.09 per week Garage Site: £4.54 per week	Charges increasing by inflationary increase.	Profit generating
Tenants Contents Insurance	£44,590	Premiums from £0.28 to £6.23pw	£44,590	£0	0.00%	Premiums from £0.28 to £6.23pw	No increases expected this year from supplier.	Profit generating
Lifelines (East Midlands Housing Association)	£16,200	Various depending on scheme but range from £1.91 to £3.18 pw	£16,280	£80	0.50%	Various depending on scheme but range from £1.92 to £3.20 pw	Based on inflationary increase	Service development
Total Services	£737,557		£714,870	-£22,686	-3.08%			

APPENDIX D

COMPARISON OF 2020/21 AND 2021/22 SERVICE CHARGES					
Chargeable Service	2020/21	2021/22			Comments
		Estimates 2021/22	Increase/ (Decrease)	Percentage Change	
Cleaning of shared/common parts	£65,759	£66,088	£329	0.50%	Contractual inflationary increase.
New Cleaning Contract Blocks	£30,280	£30,431	£151	0.50%	Contractual inflationary increase.
Repairs to shared/common parts	£4,755	£4,755	£0	0.00%	Continuation of freeze of these costs since 2018/19.
Grounds maintenance of shared/common parts	£109,985	£93,817	£-16,168	-14.70%	Reduction due caused by the suspension of the grounds maintenance service during the early stages of the pandemic.
Utility costs of shared/common parts (Electricity)	£69,678	£66,194	£-3,484	-5.00%	Decrease as a result of planned budgetary savings.
Door entry systems	£1,565	£1,560	£-5	-0.32%	Based on falling actual costs.
Repairs and replacement of items in laundry room	£22,790	£22,904	£114	0.50%	Contractual inflationary increase.
Repair and replacement of items in common room/kitchen	£623	£608	£-15	-2.41%	Based on analysis of actual costs.
Support Officer checks in Schemes including fire alarms	£6,383	£6,559	£176	2.75%	Based on forecast salary increases for 2021/22
Servicing of fire extinguishers	£850	£914	£64	7.52%	Based on average of past 6 years actual charges
Maintenance of Control Centre link equipment	£34,709	£34,883	£174	0.50%	Contractual inflationary increase.
Older Persons Service Charge	£161,544	£163,321	£1,777	1.10%	RPI increase based on September RPI figure weekly charge to increase from £3.09 to £3.18 pw
Administration fee	£52,106	£49,306.87	£-2,799	-5.37%	15% of chargeable services
Total Services	£561,027	£541,340	£-19,686	-3.51%	