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MANCHESTER
CITY COUNCIL

Resources and Governance Scrutiny Committee

Date: Tuesday, 12 January 2021
Time: 10.00 am
Venue: Virtual Meeting - Webcast at - https://vimeo.com/event/570221

This is a **Revised Agenda** with an amended order of business and containing additional items of business that were not listed on the main agenda (items 5 & 8).

Advice to the Public

The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020

Under the provisions of these regulations the location where a meeting is held can include reference to more than one place including electronic, digital or virtual locations such as internet locations, web addresses or conference call telephone numbers.

To attend this meeting it can be watched live as a webcast. The recording of the webcast will also be available for viewing after the meeting has concluded.

Membership of the Resources and Governance Scrutiny Committee

Councillors - Russell (Chair), Ahmed Ali, Andrews, Clay, Davies, Lanchbury, B Priest, Rowles, A Simcock, Stanton, Wheeler and Wright

Revised Agenda

1. Urgent Business
To consider any items which the Chair has agreed to have submitted as urgent.

2. Appeals
To consider any appeals from the public against refusal to allow inspection of background documents and/or the inclusion of items in the confidential part of the agenda.

3. Interests
To allow Members an opportunity to [a] declare any personal, prejudicial or disclosable pecuniary interests they might have in any items which appear on this agenda; and [b] record any items from which they are precluded from voting as a result of Council Tax/Council rent arrears; [c] the existence and nature of party whipping arrangements in respect of any item to be considered at this meeting. Members with a personal interest should declare that at the start of the item under consideration. If Members also have a prejudicial or disclosable pecuniary interest they must withdraw from the meeting during the consideration of the item.

4. Minutes 5 - 14
Minutes of the meeting held on 1 December 2020 attached

5. Provisional local government finance settlement 2021/22 15 - 22
Report of the Deputy Chief Executive and City Treasurer attached

This report updates on the main announcements from the provisional local government finance settlement 2021/22 announced 17 December 2020, with a focus on the impact on Manchester.

6. Corporate Core Budget Proposals 2021/22 – Previously Circulated

7. Capital Investment Priorities and Pipeline – Previously Circulated

8. Housing Revenue Account 2021/22 to 2023/24 23 - 36
Report of the Strategic Director (Growth and Development) and Deputy Chief Executive and City Treasurer attached

This report presents members with details on the proposed Housing Revenue Account (HRA) budget for 2021/22 and an indication of the 2022/23 and 2023/24 budgets.

9. The Council's HRA and Housing Investment Reserve and Governance of the potential work to bring Housing ALMO back in house and other Housing PFI schemes – Previously Circulated

10. Our Manchester Strategy Reset – Previously Circulated.

11. Overview Report – Previously Circulated

Further Information

For help, advice and information about this meeting please contact the Committee Officer:

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This revised agenda was issued on **Thursday, 7 January 2021** by the Governance and Scrutiny Support Unit, Manchester City Council, Level 3, Town Hall Extension (Lloyd Street Elevation), Manchester M60 2LA

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Resources and Governance Scrutiny Committee

Minutes of the meeting held on Tuesday, 1 December 2020

This Scrutiny meeting was conducted via Zoom, in accordance with the provisions of the The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020.

Present:
Councillor Russell (Chair) – in the Chair
Councillors Ahmed Ali, Andrews, Clay, Davies, Lanchbury, B Priest, A Simcock, Stanton, Wheeler and Wright

Also present:

Councillor Leese, Leader
Councillor N Murphy Deputy Leader
Councillor Rahman, Executive Member for Skills, Culture and Leisure
Councillor Hitchen, (Minute RGSC/20/56 only)

Apologies: Councillor Rowles

RGSC/20/51 Minutes

Decision

The Committee approves the minutes of the meeting held on 3 November 2020 as a correct record.

RGSC/20/52 Government Spending Review

The committee considered a report of the Deputy Chief Executive and City Treasurer, which detailed the main announcements from the Spending Review with a focus on those impacting the City Council's budget.

Key points and themes within the report included:-

- A 3% increase in Council Tax Adult Social Care precept (the referendum limit for the Council Tax precept remained at 2%);
- Nationally, an additional £300m social care grant (£150m of this was new funding);
- The New Homes Bonus scheme would continue for 2020/21 for additional homes delivered;
- Some additional support for COVID-19 losses;
- Nationally, unringfenced £670m in relation to Council tax losses including the impact of the increase in numbers receiving Council Tax Support
- 75% of irrecoverable 2020/21 Collection Fund losses would be reimbursed by the Treasury resulting in a smaller deficit to be smoothed over three years;

- The 100% Business Rate Pilots would continue for another year (including Greater Manchester) and there would be no Business Rates reset in 2021/22;
- Funding for Troubled Families scheme of £165m would continue on a roll over basis;
- Funding of £254m nationally was announced to reduce rough sleeping and Homelessness;
- Pay rises in the public sector would be restrained with only nurses, doctors and others in NHS receiving a pay rise next financial year;
- Due to the fact this was a one-year Settlement and many of the announcements were for one-off funding the position for 2022/23 would still remain extremely challenging with an anticipated gap remaining of c£120m; and
- The Council will also need to deliver around £50m of cuts in for 2021/22 to achieve a sustainable position for the future.

There were no questions in relation to this report.

Decision

The Committee notes the report.

RGSC/20/53 Setting of the Council Tax Base and Business Rates Shares for Budget Setting Purposes 2021/22.

The Committee considered the report of the Deputy Chief Executive and City Treasurer that advised on the methodology of calculating the City Council's Council Tax base for tax setting purposes and Business Rates income for budget setting purposes for the 2021/22 financial year, together with the timing of related payments and the decision on business rates pool membership. The Chair of the Committee would be requested to exempt various key decisions from call in.

Clarification was sought on how many properties were included in the Council Tax base for 2020.

The Deputy Chief Executive and City Treasurer advised that the Council tracked the number of council tax properties in each council tax band and the number of properties that were exempted from council tax which meant that the calculation was complex and the figure would only be confirmed in January 2021.

Decisions

The Committee: -

(1) Note that the Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Human Resources, has delegated powers to:

- Set the Council Tax base for tax setting purposes in accordance with the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2013;

- Calculate the Business Rates income for budget setting purposes in accordance with the Non-Domestic Rating (Rates Retention) Regulations;
- Agree the estimated council tax surplus or deficit for 2020/21;
- Agree the estimated business rates surplus or deficit for 2020/21;
- Determine whether the Council should be part of a business rate pooling arrangements with other local authorities;
- Set the dates of precept payments to the Greater Manchester Combined Authority.

(2) Note that the Chair of the Scrutiny Committee will be requested to exempt various key decisions from the call in procedures.

RGSC/20/54 Discretionary Housing Payments

The Committee considered a report of the Deputy Chief Executive and City Treasurer, which provided an update on the Council's Discretionary Housing Payment scheme and the potential impact of anticipated budget cuts

Key points and themes in the report included:-

- The officer proposal that was being considered as part of the budget consultation was to remove £1.5m of the £2m additional Council contribution to the Discretionary Housing Payment Scheme Budget;
- The Council's contribution has supported the policy objective to sustain tenancies and avoid further intervention and support costs;
- Taking money out of the system would mean that decisions would have to be carefully managed to ensure that the Council could continue to support its most vulnerable residents;
- The Council could if required, reduce the budget and still provide valuable, additional support to residents in the city that need extra support with rent costs with a reduced contribution of between £500,000 and £1m; and
- The impact of which would depend upon what the government did with the, at present, temporary changes to Universal Credit and Local Housing Allowance.

Some of the key points that arose from the Committees discussions were:-

- Why had the percentage of cases relating to Registered providers increased significantly;
- It was suggested that when referring to under occupancy in the report this needed to be clear that this was a bedroom tax introduced by the previous coalition government to target the least well off;
- There was concern that the potential cuts to this budget would impact on potential further homelessness incidents and as such any decision should be put on hold until the next financial year;
- There was a need from Government to commit to the £20 payment in regard to Universal Credit;
- If the DHP budget was reduced, what contingencies would be in place to put more money in to the budget if pressures increased during the course of the next financial year;

- What processes were in place to handle, in a timely manner, housing benefit claims for temporary accommodation;
- Was there enough resources to support the level of homelessness being presented in the city;
- Members did not feel it was appropriate to remove £1.5m of the £2m Council contribution to DHP and the Chair proposed instead that the Council made a contribution to this budget at £1m in order to maintain the current level of service.

The Head of Corporate Assessments advised that the number of cases per registered providers had increased in large part due to the proportions of the payments being made, as the proportion paid to homelessness cases had reduced by some extent which had in turn increased the proportion being paid in to registered providers.

The Leader, whilst acknowledging the point being made, advised that reference to under occupancy being referred to as a bedroom tax was a political terminology, which was not appropriate for Officers to be using when producing reports. He also advised that he recognised the point being made around the potential impact of cutting this budget would have on the number of homelessness cases, but to maintain the current level of intervention would result in an over budget of between £0.5m and £1m and this was not appropriate to do. He added that whilst the budget could be reduced for 2021/22, in subsequent years there may be the need to increase it again due to the uncertainty of changes to Universal Credit and Local Housing Allowance

The Committee was advised that the Council would always maintain an unallocated contingency budget for instances where pressures for services became higher than anticipated.

The Head of Corporate Assessments advised that there were fortnightly meetings with colleagues in Homelessness to try and address the issues arising with making timely and successful benefit claims for those in temporary accommodation. It was acknowledged that this was a difficult area to overcome the issues that currently existed but was something that Officers were continually working on. The Chair suggested a follow up note to Members on this would be beneficial.

The Leader commented that the Government's Spending Review had identified additional funding to address homelessness but the precise details and allocation had not been released.

The Leader commented that he would be comfortable supporting the proposal for the Council to provide a £1m contribution to the service, which was in line with the current costs of maintaining the existing level of service and suggested that a deeper analysis of how other local authorities were supporting this service area via other routes.

Decision

The Committee recommends that the Council keeps its contribution to this budget at £1m in order to maintain the current level of service.

RGSC/20/55 New Customer Service Centre Delivery Model

The Committee considered a report of the Deputy Chief Executive and City Treasurer, which outlined the proposed new delivery model for face-to-face services currently delivered by the Customer Service Organisation (CSO).

Key points and themes of the report included:-

- An overview of the pre Covid Customer Service Centre (CSC) offer,
- Current arrangements as a result of the COVID19 pandemic; and
- Further detail on the piece of work to look at what a future operating model could look like and deliver for the Council and its residents.

Some of the key points that arose from the Committees discussions were:-

- There was a need to be clearer on what was meant by a signing service, if this was in reference to BSL;
- Would consideration be given to offering the video conferencing service in more libraries than just the three referred to in the report;
- What impact would the proposals have on non-staffing related budgets;
- What level of staffing was being proposed for the delivery of the new model of service;
- It was felt that the service currently provided by the Council was superior to organisations providing a comparable service;
- Further clarity was sought on the co-browsing proposals;
- What model had been used to identify the three pilot areas;
- It was felt that there was still a need to provide a direct face to face homelessness services for those who needed it in the Town Hall;
- Was there enough capacity to deal with any increase in demand on the service, including homelessness triage when the current hold on evictions due to the COVID19 pandemic comes to an end;
- The Committee had understood the report to be indicating that there would be face-to-face services in the libraries, but was this not in fact the case;
- It was requested that information be provided to the Committee on the number of residents requesting face to face appointments and subsequently getting these appointments and what follow up is being done to ensure residents are getting the support they require

The Director of Customer Services and Transactions acknowledged the point made around signing service but advised that there was a range of different signing languages that people used so a collective reference was currently being used but this could be changed to something more appropriate if required.

The Committee was advised that the three libraries were just being used as a pilots for the video conferencing service. If this was well received then consideration would be given to implementing this in other libraries across the city as the cost/physical infrastructure requirements for implementing were not insignificant.

The Director of Customer Services and Transactions advised that there were currently 18 staff in the CSC. There had been no face to face service offered since March 2020 due to the COVID19 pandemic and this new model only provided a face to face service at the CSC in the Town Hall, staffed by six employees, who would undertake a meet and greet function and any appointments that were required to be face to face at an appropriate location for the customer, which would include home visits if needed. Elsewhere would be via video conferencing.

In terms of the co-browsing proposal, this would allow for Council staff to provide real time digital support and view what the resident was looking at on their screen or having difficulty in completing.

The Deputy Leader advised that the three pilot areas had been identified on geographical grounds, representing the north, central and south of the city where a library had a large enough interview room that could comply with COVID19 spacing requirements.

The Director of Customer Services and Transactions advised she would speak to the Director of Homelessness in regard to the point made around the need to retain a face to face service. There was no plan to do this in libraries. In terms of increase demand on the service in relation to benefit claims, it was explained that any new benefit claimants would tend to be made by phone and the co-browsing proposals would support this. In relation to concerns around any possible increases in homelessness triage, this too would need to be passed to the Director of Homelessness for an appropriate response.

Decisions

The Committee:-

(1) Note the content of this report.
(2) endorse the proposed approach to developing and implementing a new operating model for face-to-face Council Services.
(3) Requests the officers take into account the comments made by the Committee when developing and implementing the new operating model.

RGSC/20/56 Withdrawal from school catering provider market

The Committee considered the report of the Strategic Director, Neighbourhoods that informed the Committee of the current financial and operating position of Manchester Fayre, which provided catering services to 80 sites across the City. The report outlined the forecast cost of the service in the current year and the additional budget requirement that will be needed to continue operating the service.

The main points and themes within the report included: -

- Providing an introduction and background to Manchester Fayre;

- Describing the current operating position;
- Detailing the current budget position;
- Staffing implications; and
- Proposed transition arrangements.

It was also reported that the Council was not required to provide a school meals service and the subsidy now required to continue to operate the service to a minority of Manchester schools was significant. This subsidy would have a consequential impact on other service reductions that would be required. It was also commented that the market for school meal providers in Manchester was competitive and alternative providers could service the demand without the subsidy that would be required for Manchester Fayre.

Some of the key points that arose from the Committees discussion were:

- Rebutting the assumption that the jobs and employment terms and conditions of staff would be protected under TUPE (Transfer of Undertakings (Protection of Employment) Regulations 2006) arrangements if transferred to alternative providers, and noting that the limitations within those legal protections meant that in the current economic climate, TUPE was highly unlikely to be effective and might actually incentivise redundancy;
- Did any other local authorities in Greater Manchester have a service that was not loss-making, and if so, how had that been achieved;
- What consultation had been undertaken with Trade Unions, noting that concerns had been expressed by the Trade Unions regarding the consultation process, and suggesting that industrial relations were not being adequately maintained;
- Expressing the need to explore every option to protect the jobs and wages of the lowest paid workers, with more than one member commenting that it was a service predominantly staffed by relatively low paid, female workers;
- Noting that this proposal had been made repeatedly over a number of years, and questioning whether the communications strategy to sell the service was adequate;
- Noting that Manchester Fayre had been independently identified as a very good service, providing high quality and nutritious food and noting the importance of this for the children of Manchester;
- Commenting that the proposals amounted to an outsourcing of services;
- The Council should give consideration to using capital funding to deliver this service;
- Questioning the argument regarding the inability to deliver the service at economy of scale, noting that other providers had expressed an interest in delivering this service;
- Seeking clarification on the cost charged by Manchester Fayre to provide a school meal, commenting that there were different figures on the Council’s website;
- Had consideration been given to delivering a Greater Manchester service to schools; and

- What was the actual budget of the service, commenting that the loss incurred during the pandemic should be disregarded as it has been for other Council services.

The Director of Commercial and Operations responded to the comments and questions from the Committee by stating that consultations had been undertaken with local Trade Unions in accordance with agreed protocols and process. He advised that staff would be transferred to any new provider under TUPE arrangements. He stated that the service could not compete with alternative providers due to the economy of scale, noting that approximately six schools per year were opting out of the service and the financial loss incurred by the service next year was anticipated as a minimum of £600k. He further clarified the cost to a school for a meal provided by Manchester Fayre, however the cost charged to the pupil was determined by the individual school, commenting that the information on the Council's website would be revised to ensure the information provided was correct.

The Director of Commercial and Operations stated that discussions had been undertaken with other local authorities, and that Salford had a more profitable service, but that school finances were arranged differently in Salford. Due to the different local funding arrangements and each school managing their own budget for this function in Manchester, this presented a significant challenge. He stated that previous attempts to re-recruit schools had stopped as the tactics used were not proving successful. The conversations would continue in addition to the local service manager and nutritionist promoting the Manchester Fayre service to Manchester schools, noting the positive comments on the service identified by the independent report.

The Deputy Chief Executive and City Treasurer confirmed that in some cases capital receipts could be used to fund transformation programmes where there was a financial payback. However caution needed to be taken when using capital funding to finance a transformation project and some local authorities had got into difficulties from it. , It was also noted that it was the schools and their governing bodies that had decided to opt for alternative providers to deliver schools meals as they retained and managed this budget.

The Executive Member for Skills, Culture and Leisure addressed the Committee and stated that the report did not propose any job losses and did not impact on the provision of Free School Meals. He stated that the budget to provide school meals had been delegated to individual schools and it was their decision as to how they procured this service, commenting that of the 185 schools in Manchester 110 of these had opted for alternative arrangements. He stated that the financial situation was such that it was unjustifiable to continue to subsidise this service. He stated that the report detailed the alternative options that had been considered and reiterated the point that this report did not propose any job cuts. He concluded that the money saved by not continuing to subsidise this service could be used to protect jobs and services when considering the broader budgetary pressures the Council was experiencing.

The Leader stated that the decision had been taken some time ago by the Council to delegate this budget to individual schools, noting that any surplus achieved was retained by the school. He commented that 63% of schools currently procured school meals from other providers and nutritional standards had not deteriorated, adding that in many cases the menu variety had improved, and produce had been procured from local providers. He stated that there was no evidence to indicate workers' pay and conditions for those who had transferred to other providers had been adversely affected in his ward. He concluded by stating that the Council could not afford to continue to subsidise this service.

Decisions

The Committee: -

(1) Recommends that the proposals described within the report are not progressed.
(2) Accepts that Manchester Fayre may not be sustainable in its current form but recommends that alternative options are considered to maintain the offer of Manchester Fayre and protect jobs, including delivering a service with other Greater Manchester local authorities to achieve economies of scale and be a competitive provider of school meals.

RGSC/20/57 Overview Report

The Committee considered a report of the Governance and Scrutiny Support Unit which contained key decisions within the Committee's remit and responses to previous recommendations was submitted for comment. Members were also invited to agree the Committee's future work programme.

Decisions

The Committee:-

(1) Note the report.
(2) Note that the Chair will finalise the Work Programme for the February and March 2021 meetings in consultation with Officers.

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Manchester City Council
Report for Information

Report to: Resources and Governance Scrutiny Committee – 12 January 2021

Subject: Provisional local government finance settlement 2021/22

Report of: Deputy Chief Executive and City Treasurer

Summary

This report updates on the main announcements from the provisional local government finance settlement 2021/22 announced 17 December 2020, with a focus on the impact on Manchester.

Recommendation

The Committee is recommended to note the report.

Wards Affected: None directly

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city
The budget reflects the fact that the Council has declared a climate emergency by making carbon reduction a key consideration in the Council's planning and budget proposals.

Manchester Strategy outcomes	**Summary of the contribution to the strategy**
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The effective use of resources underpins the Council's activities in support of its strategic priorities as set out in the Corporate Plan which is underpinned by the Our Manchester Strategy.
A highly skilled city: world class and home grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	

A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The report sets out the announcements in the provisional local government finance settlement 2021/22 and the impact on Manchester City Council.

Financial Consequences – Capital

None directly arising from this report.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Spending Review on 25 November release
Settlement 17 December release
COVID related funding announcements

1 Introduction

1.1 As a result of additional demand for services and impact on the Council's income linked to the COVID-19 pandemic (as set out in the November reports to Executive and scrutiny committees) the Council is facing a significant budget gap for 2021/22 onwards. Prior to the Spending Review the 2021/22 gap was forecast at around £100m. The Spending Review announced 25 November recognised the COVID-19 pressures continuing to impact on next year and announced support for losses in local tax collection. As reported to this committee on 30 November it was expected that following the funding announcements, savings in the region of £50m, as previously identified, would be sufficient for 2021/22.

1.2 The provisional local government finance settlement 2021/22 announced 17 December provided Local Authority level allocations for the majority of funding announcements. This was slightly better than expected and confirmed that the c£50m savings options is sufficient to deliver a balanced budget next year. It should be noted the announcements only cover 2021/22 and are for one year only.

1.3 As previously reported, the Spending Review included proposals for a 2% Council Tax referendum threshold and a 3% precept to fund the pressures in Adult Social Care. In advance of confirming the level of Council Tax increase to be included in the 2021/22 budget a short consultation was carried out to seek feedback from residents on the proposed increases. The consultation closed on 24 December and the outcome will be reported to Executive 20 January.

1.4 This note focuses on the forecast financial impact of the provisional finance settlement on the Council's budget.

2 Core Spending Power

2.1 At the national level the settlement proposals confirm an increase in Core Spending Power (CSP) for local authorities of 4.5% (£2.2bn). The stated increase for Manchester is 5%. Core Spending power is the government's preferred measure of the resources available to Council's. It should be noted the Core Spending power assumes all Council's take up the maximum Band D increases, and that tax base growth in line with average (by LA) since 2016/17. The funding streams included are listed below and the Council's allocations are detailed in the paragraphs which follow.

2.2 The following funding streams are included within Core Spending power:

- Settlement Funding Assessment
- Compensation for under indexing the business rates multiplier
- Council Tax Requirement
- New Homes Bonus
- Rural Services Delivery Grant (Not applicable to MCC)
- Social Care Grant

- Improved Better Care Fund
- Lower Tier Services Grant

2.3 **Settlement Funding Assessment** (SFA) is made up of Revenue Support Grant, Baseline Funding Assessment and tariffs and top-ups. Revenue Support Grant will increase by £13m nationally for a 0.55% inflationary increase. Government are not proposing to change the distribution of RSG from that used in 2020/21. As the Council is part of a 100% business rates retention pilot this is reflected in a reduced tariff being payable to government. This is a benefit of **£320k** to the Council.

2.4 **Compensation for under indexing the business rates multiplier** - The government will freeze the business rates multiplier in 2021/22. Local authorities will be compensated for the shortfall in income from freezing the multiplier, via the section 31 grant. This and associated changes to other Section 31 grants total **£0.752m.**

2.5 **Council Tax Requirement –** The settlement confirmed a core council tax referendum principle of up to 2% for shire counties, unitary authorities, London boroughs, the Greater London Authority (GLA) and fire authorities and a bespoke council tax referendum principle of up to 2% or £5, whichever is higher, for shire district councils. This equates to £3.4m for the Council, which had been assumed in the base budget.

2.6 In addition, the settlement confirmed an Adult Social Care (ASC) precept of 3% for authorities responsible for ASC, with the option to defer some or all of its use into 2022/23. This is worth **c£5.1m** to the Council. The potential Council Tax increases totalling 4.99% were subject to consultation which closed 24 December, the outcomes will be reported to Executive 20 January 2021. If the 3% precept increase is approved it is proposed the **£5.1m** raised is added to the Adult Social Care Pooled budget.

2.7 A referendum principle of £15 was set for police and crime commissioners. There are no council tax referendum principles for Mayoral Combined Authorities.

2.8 **New Homes Bonus** (NHB) - The Government is proposing a new round of NHB payments (year 11 payments) in 2021/22 which will not attract new legacy commitments in future years. The allocations for 2021/22 will be funded through a £622m top slice of RSG. The methodology will be the same as in 2020/21 with payments calculated as new housing and houses brought back into use (above a payments baseline of 0.4%), multiplied by the average band D council tax payment, with an additional payment made for affordable homes. Legacy payments associated with year 8 (2018/19) and year 9 (2019/20) will also be paid. The base budget reflected the expected legacy payments (£4.7m) the unanticipated 2021/22 grant is **£4.1m.** The Government is inviting views on a replacement for NHB.

2.9 **Social Care Grant** - There is an additional £300m grant for social care. £240m of this has been equalised to account for each authority's ability to generate income from the ASC Council Tax precept. The Council will receive **£6.3m** and it is proposed this is included in the Adult Social Care pool. This is one-off and will not be included in the base for the next Spending Review. All other existing social care funding will continue at 2020/21 level including Improved Better Care Fund.

2.10 **Lower tier services grant.** This is a new one off unringfenced grant which will allocate £111m to local authorities with responsibility for lower tier services. The proposed grant methodology is two-fold. £86m will be allocated based on relative needs (last assessed in 2013/14). The balance includes a one-off minimum funding floor to ensure that no authority sees an annual reduction in Core Spending Power (CSP). This funding is in response to the current exceptional circumstances and is a one-off. The Council will receive **£1.2m.**

3 One off support for COVID-19 related pressures in 2021/22

3.1 Government is providing an additional £1.55bn of grant funding to local authorities to meet additional expenditure pressures as a result of Covid-19, for the first few months of 2021/22 (this is separate from Core Spending Power). This will be allocated based on the COVID RNF which was developed for Tranche 3. This is unringfenced and one off, the Council's allocation is **£22.2m**.

3.2 The Covid-19 sales, fees and charges reimbursement scheme will also be extended for a further 3 months until the end of June 2021

4 Collection Fund

4.1 **Local Council Tax Support grant** (£670m) is a new unringfenced grant outside core settlement which will fund authorities for the expected Council tax losses, including the impact of the increase in numbers receiving Council Tax Support. The Council will receive **£5.7m**, it is expected this will support the Council's overall budget position.

4.2 **Local Tax Income guarantee scheme** – local authorities will be compensated for 75% of irrecoverable loss of council tax and business rates revenues in 2020/21. The government has already mandated that 2020/21 deficits must be spread over 3 years. The methodology has been released and officers are working through the implications. The Council's current forecast deficit is a combined deficit of £34.6m, at £11.5m a year 2021/22 to 2022/23. The 2021/22 budget impact at 75% of this would be in the region of **£8.6m**.

4.3 The compensation will be by way of a S31 grant within the General Fund. As the compensation relates to 2020/21 it is expected that such amounts will have to be accrued in 2020/21. This would be held in reserve to partly offset the deficits in the years they are recognised.

4.4 **Business Rates 100% Retention Pilot -** Local authorities in 100% business rates retention Devolution Deal areas (including Greater Manchester) will continue to benefit from the 100% business rates retention pilot in 2021/22. The baseline budget had assumed a move the 75% retention (as previously planned by government). Retention of the pilot improves the budget position by **£5.1m.**

4.5 The government has decided not to proceed with a reset of business rates baselines in 2021/22. The fundamental review of the business rates system will report in the spring. The Government will seek to find a new consensus for broader reforms for local government (including Business Rates Retention Scheme and Fairer Funding Review) when the post-COVID-19 future is clearer. -19 future is clearer.

5 Other announcements from the Spending Review and Settlement affecting the budget available to Local Government

5.1 **Pay Awards -** If the pay freeze announced in the Spending Review applies to local government the savings on the Council's budget would be **c£7.5m** alongside the lower than expected increase to the National Living Wage (**£2.5m**).

5.2 **Homelessness Prevention Grant -** this replaces Flexible Housing Support Grant and the Homelessness Reduction Grant, allocations totalling £310m 2021/22 were announced 21 December 2020. The amount to be received by the Council in 2021/22 is £3.286m an increase of £723k from last year. This does not provide the Directorate with any additional responsibilities. It is proposed this is used to part fund the £7.5m 2021/22 increase to the Homelessness 2021/22 budget relating to ongoing COVID-19 costs. This will release **£723k** to support the Council's position.

6 Summary impact on budget

6.1 The changes impacting on the Council's budget are summarised below.

	2021 / 22
	£'000
Spending Power Changes:	
Revenue Support Grant inflation	320
Business Rates Adjustments	752
New Homes Bonus Scheme	4,104
Lower Tier Services Grant	1,236
One off COVID-19 support:	
COVID-19 Emergency funding - Tranche 5	22,229
Collection Fund Announcements:	
Local Council Tax Support grant	5,709
Local Tax Income guarantee scheme	8,637
Continuation of the 100% Business Rate Pilot	5,131

Other Announcements:	
Remove pay award assumption in 2021/22	7,500
Reduced contract cost of min wage	2,529
Homelessness Prevention Grant	723
Total Impact on council budget	**58,870**
Additional contribution to Adults pooled budget:	
Adult Social Care 3% precept	5,077
Social Care Grant (£300m)	6,313
Total impact on Adults pooled budget	**11,390**

6.2 The additional funding announced, alongside the proposed savings options will now enable a balanced budget to be delivered in 2021/22. In addition this will allow c£4.5m of planned reserves to close the budget gap to either mitigate the 75% Income Guarantee Scheme position (where the figure used is an estimate as the full detail is not available yet) or used to support the position in 2022/23 where there remains a significant budget gap.

	2021 / 22
	£'000
Forecast gap Pre-Spending Review/Settlement	**103,830**
Forecast impact of Settlement	(58,870)
Savings Options	(49,417)
Defer planned use of reserves to balance the budget	4,457
Remaining Gap	**0**

7 Conclusion

7.1 Overall the settlement announcements were towards the positive end of expectations, although the collection fund position is still to be finalised. It is expected that savings in the region of £50m, as previously identified, will be sufficient to balance the 2021/22 budget.

7.2 Due to the fact this is a one-year Settlement and many of the announcements are for one-off funding the position for 2022/23 is still extremely challenging with an anticipated gap remaining of c£40m if the proposed savings are taken forward. Therefore work will continue to achieve a sustainable position for the future.

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Manchester City Council
Report for Resolution

Report To: Resources and Governance Scrutiny – 12 January 2021

Subject: Housing Revenue Account 2021/22 to 2023/24

Report of: Strategic Director (Growth and Development) and Deputy Chief Executive and City Treasurer

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Purpose of the Report

This report presents members with details on the proposed Housing Revenue Account (HRA) budget for 2021/22 and an indication of the 2022/23 and 2023/24 budgets.

The report outlines a proposed average rent increase of 1.5% for all properties, which is in line with Government guidance.

It is also proposed that the City Council continue with the policy of where rent is not yet at the formula rent level, then the rent will be revised to the formula rent level when the property is re-let.

Given that the test of tenant's opinion has not yet been concluded at the time of preparing this report, the 2021/22 budget has been prepared on the basis that the current years management arrangements continue next year. Once the test of opinion has concluded in early January and the future management arrangements have been agreed then this will require a thorough review of the current proposed expenditure budgets, and any changes that require further approval will be brought back to Members.

Recommendations:

The Committee is invited to review and comment on the proposed HRA Budget and note that the Executive will be requested to consider the proposed HRA Budget at its meeting in February.

Wards Affected: Charlestown, Cheetham, Crumpsall, Harpurhey, Higher Blackley, Moston, parts of Ancoats and Clayton, Ardwick, Bradford and Miles Platting and Newton Heath

Manchester Strategy Outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	A healthy and fit for purpose affordable housing market will support a functioning local and sub regional economy.

A highly skilled city: world class and homegrown talent sustaining the city's economic success	Access to appropriate affordable housing and services will support residents to achieve and contribute to the city.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The supply of affordable good quality homes will provide the opportunity for Manchester residents to raise their individual and collective aspirations.
A liveable and low carbon city: a destination of choice to live, visit and work.	The right mix of affordable quality energy efficient housing is needed to support growth and ensure that our growing population can live and work in the City and enjoy a good quality of life.
A connected city: world class infrastructure and connectivity to drive growth	Affordable social housing plays an important part in ensuring that there are neighbourhoods where people will choose to live and their housing needs and aspirations are met.

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

Expenditure and income on the provision of Council housing must been contained within the Housing Revenue Account which is a ring-fenced budget separate to the Council's General Fund. Whilst HRA expenditure can exceed income in any given year, the HRA overall cannot go into deficit. The recommendations in this report will determine the financial plan for 2021/22 – 2023/24 and the impact on the overall financial model for the HRA over a 30-year period.

The HRA financial plan covers a rolling period of 30 years and is made up of rental income, Private Finance Initiative (PFI) grant and heating charges, which must be used for the purpose of funding the costs of managing and maintaining HRA assets. The amount of income in the HRA in 2021-22 excluding monies from reserves is forecast to be approximately £87m.

Financial Consequences – Capital

Within the proposed HRA budget a mandatory charge for depreciation is made, and this can be used to either fund capital expenditure or reduce housing debt. The 2021/22 HRA budget includes a forecast depreciation charge of £18m, which will be set aside to fund capital investment.

The assumptions on capital expenditure for the financial years 2021/22- 2023/24 are for expenditure (net of grants) in excess of £87m. This includes schemes that will help the Council to become carbon neutral by 2038.

For the years 2023/24 and 2024/25, the figures used are based average expenditure over the past three years by Northwards, plus planned expenditure on the retained element.

From 2025/26 onwards the HRA budget includes an annual capital budget of c£25m per annum which increases annually in line with CPI.

The HRA budget already allows for the costs and implications of the following new build programmes:-

- Brunswick PFI Extra Care Scheme (30 Units) (2020-21)
- Silk Street (68 properties) (2022-23)
- Collyhurst (130 properties) (2024-25)

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Background documents (available for public inspection):

None

1. Introduction

1.1. The purpose of this report is to approve the Housing Revenue Account (HRA) 2021/22 budget and provide members with recommendations for approval in respect of the 2021/22 tenants' rent, garage rents and communal heating charges.

1.2. This report sets out the HRA budgetary proposals for 2021/22, and the indicative position for 2022/23 and 2023/24. Furthermore, it highlights the current use of reserves, along with the risks that need to be managed going forward.

1.3. As Members are aware there is a review of the future management arrangements currently being considered, and a paper is scheduled to go to Executive later this month setting out more details. For budget setting purposes the current proposed HRA budget has been prepared on an 'as is' basis. If this changes it will not impact upon the proposed rent levels but could impact upon the proposed expenditure categories. Once a decision has been made, work will be done to rework the HRA budget, and this will be brought back to Members.

2. Background

2.1. Since the introduction of Self Financing in April 2012 the Council has had to manage its housing stock on a similar basis to Registered Providers. This has entailed developing a rolling 30-year business plan and reviewing the use of existing assets to ensure that benefits are maximised.

2.2. In developing the 30-year business plan it is essential that the Council considers all risks and ensures that any investment decisions are affordable both in the short and longer term.

2.3. In previous years there has been significant legislative change following the introduction of the Housing and Planning Act and Welfare Reform Act, in addition to this there have been policy changes that have affected the HRA budget, both in the short term, and in future years. In particular, the imposition of a 1% annual rent cut for four years from 1st April 2016 had a significant effect on available resources over the life of the business plan.

2.4. In February 2019, the Government released a policy statement on rents for social housing, which included a direction to the Regulator of Social Housing to have regard for the following when setting the rent standard for registered providers of social housing:

From 1 April 2020, registered providers may not increase rents by more than CPI (at September of the previous year) plus one percentage point in any year.

This followed a consultation paper in which the Government stated that the proposed direction "reflects our announcement in October 2017 that we intend to permit registered providers to increase their rents by up to CPI+1% each year, for a period of at least five years”.

2.5 This report is seeking approval for the 2021/22 HRA budget, but as part of the work the longer term (30 year) HRA business plan has been prepared. It should be noted that the longer term budget is based on forecasts and there are many variables that could impact upon the forecasts, in particular the level of future years rent increases. The current business plan shows a healthy level of reserves currently, but the forecasts shows that reserves fall below the c£60m level required to avoid having to pay increased interest charges on debt in 2030/31, and the reserves are forecast to run out by 2038/39. In order to support the desired investment and ongoing activity further savings over the short/medium term will have to be identified and work is ongoing to review all the income and expenditure in the HRA.

3. Statutory Duties in Determining the HRA Budget Strategy

3.1. The rules governing the maintenance of the HRA were established pursuant to the Local Government and Housing Act 1989 and provide that:

- The Council must formulate proposals in respect of HRA income and expenditure for the financial year which, on the best assumptions and estimates that the Council is able to make at the time, ensure that the HRA does not show a debit balance;
- The Council is required to keep a HRA in accordance with proper practice. The Council has the responsibility to determine a strategy that is designed to ensure that the HRA is in balance taking one year with another.
- The HRA continues to be a ring-fenced account, this means that it must, in general, balance on a year-to-year basis, so that the costs of running the Housing Service, which include debt charges, administration costs and maintenance expenditure must be met from HRA income.

4. Budget Position 2020/21

4.1. As at November 2020 the HRA is forecasting that expenditure will be £22.156m lower than budget, which would result in an in year surplus of £3.524m. This will be credited to the HRA reserve. The main reasons for this change are as follows:

- RCCO - £22.302m underspend – due to slippage and delays on a number of schemes, largely due to reduced access to properties and time delays because of the pandemic.
- Private Finance Initiatives - £0.65m underspend – The Brunswick extra care scheme has been delayed until January 2021 leading to reduced expenditure of £0.587m, inflation increases on the PFI contracts were lower than originally forecast and this resulted in net savings in year of £63k.
- Northwards Management Fee - £403k overspend largely due to a combination of the pay award being higher than forecast, additional costs

in respect of Covid support to suppliers and works on the Riverdale Estate.
- Other Income is forecast to be £362k lower than budget this is due to in reduced service charge income, and reduced monies from RSL's in respect of VAT savings on capital works undertaken.
- Other minor overspends totalling £31k.

5. Budget Strategy 2021/22 - 2023/24

5.1. The HRA financial plan has been prepared on the same basis as the current year but takes into account all known changes to housing stock numbers, proposed investment needs and inflationary assumptions in line with the City Council medium term financial plan. It also accounts for the potential impact of Covid-19 and Welfare Reform on rent collection levels through increasing the level of bad debt provision.

5.2. The HRA budget shows statutory compliance in that a surplus is forecast (before the use of reserves to fund capital works) at the end of each year within the three year budget strategy period. However, due to a number of factors including the Government's imposed 1% rent reduction over four years from 2016/17, the impact of the Grenfell Tower fire disaster, and the Council's ambition to become a zero carbon City, the HRA does not currently remain in surplus over the life of the 30 year business plan based on current assumptions. Costs are regularly reviewed in order that efficiencies can be identified to ensure that reserves are kept at a sufficient level to enable risk to be managed and resources to be available to fund future works required.

Management of Housing Stock and Implications of "Right to Buy"

5.3. The Council continues to own and manage approximately 15,500 properties within the HRA under various arrangements. These include three PFI schemes (c.2,600) and stock managed by either Northwards Housing (c.12,700) or other Registered Providers (RP's) (c200).

5.4. Residents in stock managed by Northwards Housing, the Council's Arms Length Management Organisation (ALMO), have had the opportunity to undertake a Test of Opinion on the current management arrangements of arrangements of the c12,700 properties. The test of opinion follows the report to Executive on 9th September 2020 informing of the outcome of the "due diligence" review of the ALMO, undertaken by Campbell Tickell. The test of opinion ended 4th January 2021, and the outcome will determine the future management arrangements for the stock and impact upon the level of savings that can be achieved in future years. For the purposes of the current business plan the assumption is that the existing arrangements continue, although savings identified by the ALMO as part of the initial due diligence work have been assumed. Once the test of opinion has concluded, and the future arrangements are agreed, the budget will be reworked if the current assumptions need to be revised.

5.5. In the current financial year Right to Buy Sales (RTB) have reduced due to the impact of the Covid-19 pandemic, and sales of around 80 properties are being forecast. This is less than half the number sold in 2019/20 and it is assumed that the number of sales will return to the level in 2019-20 (1.25%) for the next five years of the Business Plan, before dropping back to 1% for the remaining years of the plan. This will reduce the level of rent income achieved and the number of sales will continue to be closely monitored.

5.6. The table at Appendix 1 provides a detailed analysis of the overall proposed 2021/22 budget in order to ensure a balanced budget it is proposed that reserves of £19.495m are drawn down.

5.7 The key budget assumptions used in preparing the HRA budget are as follows:

Rent Income

5.8 Government guidance allows Local Authorities to increase rents by a maximum of CPI plus 1% for the five-year period 2020/21 to 2024/25. CPI at September 2020 was 0.5% and therefore this report seeks approval to increase tenants' rents for all properties will increase by 1.5% in April 2021.

5.9 For those properties where formula rent has not been achieved (app 1,000 properties), if the property becomes vacant the rent can then be increased to formula rent when the property is re-let.

5.10 The budget has been prepared on this basis and would produce an average weekly rent (based on 52 weeks) of:

- General Needs £75.41
- Supported Housing £68.63
- PFI Managed £87.94

Other Income

5.11 Other income is forecast to be around £1.092m in 2021/22, and this is made up as follows:

- Non Dwelling Rents and Other Income includes:
  - Non Dwelling Rents – income from garage rents, rental income from shops and offices, ground rent and telecoms masts
  - Other Income and Contributions – Girobank charges, contributions towards grounds maintenance and solar panel income.
- Recharge to Homelessness – rental income in relation to HRA properties used by Homelessness
- HRA Investment Income – the HRA receives income on balances held within the Council's bank account
- Income from Leaseholders (e.g. contribution to heating, cleaning, and repairs to communal areas)

Private Finance Initiative Allowances

5.12 As part of the PFI negotiations for the Brunswick scheme, the Council agreed to make a capital contribution totaling £24m between 2014/15 and 2019/20 in order to realise longer term savings of c.£48m over the life of the PFI contract, through lower annual Unitary payments. Due to delays to the programme of refurbishment and construction of new dwellings, these payments were spread over a longer period than planned, the final installments are forecast to be completed by the end of March 2020.

5.13 The three stock management PFI schemes in total generate income for the HRA in that income from rents and PFI credits is greater than the unitary charge payments. This budget proposes to continue to charge PFI rents in line with the original rent policy.

5.14 “Smoothing” reserve funds had been established for all the PFI contracts, these are set up to smooth the costs of the PFI over the duration of the scheme. Following the introduction of self-financing and the removal of the subsidy system, PFI rental income and grant can be used to fund the annual unitary charge, which removed the ongoing requirement to contribute towards a smoothing reserve. The current PFI reserve will continue to remain frozen at £10m as at 31 March 2021 and will be used to part fund the outstanding HRA debt.

Communal Heating

5.15 In general, it is intended that gas charges are set to reflect the actual cost of gas consumed. However, there are reasons why in practice this is difficult to achieve:

- Charges are set based on anticipated charges for the following year and consumption from the previous year
- Some of the heating systems are not efficient in operation – work is ongoing to improve these.

5.16 Communal heating gas is sourced as part of the City Council overall gas contract. The existing wholesale gas contract expires shortly, and latest prices indicate that the current wholesale gas price will reduce by 10% with effect from April 2021. The gas supply to the 2-4 bed blocks are part of a separate contract, and the price has not yet been agreed. However, the number of properties affected is currently c100 and reducing as individual boilers are installed, therefore it is proposed that the same reduction in tariff is assumed.

5.17 In order to ensure that the costs of gas used are recovered through the tariffs charged for tenants and residents on a scheme by scheme basis, it would be necessary to apply a range of adjustments to current heating charges.

5.18 Work will continue to review the heating charges, and final figures will be included in the February report to Executive seeking approval.

5.19 There continues to be a programme of capital investment that looks to both improve energy efficiency of homes and reduce carbon. This will include upgrading or replacing existing communal heating equipment. The costs of gas used against the tariffs charged will continue to be monitored to ensure that the rates being charged are aligned.

Depreciation

5.20 Depreciation is a means of charging the cost of an asset to the revenue account over its remaining useful life. In accordance with accounting regulations, it is charged to the HRA as a transfer to Reserves where it can be used to fund capital expenditure or pay off debt. The depreciation charge in 2021/22 is forecast to be £18.435m and this is used to fund capital expenditure.

Debt Financing and Borrowing Costs

5.21 The 2020/21 opening HRA debt is anticipated to remain unchanged at £121.26m, and this is funded through a combination of market loans and c£60m internal funding through the use of reserves. This provides the benefit of reducing the interest costs of borrowing, but it is important that any future investment decisions are carefully considered because if the reserves fall below the level of internally funded debt, then interest charges will increase. This will be considered as part of any investment proposals that require use of the HRA reserves it the scheme appraisal would need to ensure that the increased costs of borrowing are factored into the project costs.

5.22 Following the removal of Councils' HRA debt caps, which means that there is no upper limit to the level of debt that can be held, the only restriction being that the HRA business plan must demonstrate that any debt can be serviced without going into deficit.

5.23 It is currently anticipated that the HRA reserves will fall below the £60m required to continue funding the proportion of debt in 2030/31, this results in an increase in the interest costs charged to the HRA. This assumes no additional capital expenditure over and above what is assumed in the business plan. Unless savings are identified to mitigate the rent reduction, the costs of borrowing within the HRA will increase.

5.24 The HRA is making provision only for the interest repayments in relation to the outstanding debt. Consideration will need to be given to refinancing the debts as and when the debts become repayable this will be considered as part of the treasury management strategy.

Provision for Bad Debts

5.25 Due to a combination of the continued roll out of Universal Credit and Covid 19 and the potential impact on residents' ability to pay their rent the business plan has made provision for an annual increased contribution towards the provision for bad debts. The 2020/21 actual required provision for bad debts is currently expected to be around 1% of rental income, this is in line with the approved budget. The forecast reduced rent collection related to universal credit have not yet materialised, this is in part because of the delays in the rolling out the Universal Credit scheme and also because of the good work undertaken with tenants to provide help and support in order to help tenants manage the impact. Despite the continuing good performance the provision will increase to 1.5% for 2021/22, and will then be increased annually by 0.5% until 2023/24 at which point it will peak at 2.5%, it is then planned to reduce by 0.5% per year until it levels out at 1.5% for the remainder of the plan. This is to reflect the ongoing work that will be done with residents to manage the impact of both the pandemic and welfare reform.

5.26 The full implications of Welfare Reform and the economic downturn and subsequent recovery will be kept under review and the bad debt provision requirements adjusted accordingly.

Northwards Management Fee

5.27 As part of the 2020/21 budget Executive approved an increase in the current financial years management fee to reflect the additional staffing costs that Northwards would incur during the year, which equated to a rise of 1.55%.

5.28 The amount payable for the management of stock currently managed by Northwards will change once the future arrangements have been agreed. For the purposes of the business plan, the fee for 2020-21 has been used, although this has been adjusted to reflect the initial savings identified by Northwards as part of the due diligence work when identifying options. If it is agreed that the future management arrangements change, then the budget will be revised and further approvals sought if necessary.

The other assumptions used for managements costs are:

- Increase to the Repairs and Maintenance budget of £4.2m per annum, rising by CPI inflation.

Other Expenditure

5.29 Details of other expenditure as shown in appendix 1 is as follows:

- Retained Stock Maintenance & Repairs – this covers repairs to offices, environmental works, and some lift maintenance
- Supervision & Management – this covers the City Council costs of managing the HRA, including the cost of staff in Strategic Housing (HRA related), corporate, central and departmental recharges, and other miscellaneous costs.
- Other management arrangements – stock management fee to the two Tenant Management Organisations (415 properties), Guinness Partnership (171 properties in West Gorton) and Peaks and Plains (11 properties in Alderley Edge)
- Council Tax – on properties held empty for demolition

- Insurance costs – The annual contribution to the HRA insurance reserve
- Revenue Contribution to Capital Outlay – this is where funds held within the HRA are set aside to contribute towards the cost of capital works (in addition to Depreciation).

Inflationary Assumptions

5.30 The HRA budget includes inflationary assumptions in line with the Council's current assumptions in relation to pay and prices. The majority of inflation in the business plan is linked to the consumer price index rate (CPI), which the Office for Budget Responsibility has forecast will dip to 1.9 per cent in 2021, returning to the 2 per cent target thereafter. The business plan assumes a 2% CPI rate for each of the next 30 years.

This inflationary increase will only be applied to costs that are not already known, currently the rent income, the PFI unitary charges, and the Northwards management costs are known for 2021/22, so the 2% will only apply to a small proportion of the HRA costs.

6. Garage Rents

6.1 It is proposed that 2021/22 garage rents increase by 1.5% in line with the proposed increase for dwelling rents, and the impact of the increase is shown in the table below:

	Annual Charge 2020/21	**Weekly Charge 2020/21**	**Proposed Weekly Charge 2021/22**	**Proposed Weekly Increase**
Site Only	£98.80	£1.90	£1.93	£0.03
Prefabricated	£219.49	£4.22	£4.28	£0.06
Brick Built	£257.94	£4.96	£5.03	£0.07

7. Reserves Forecast

7.1 Current projections show the HRA will not generate sufficient annual surpluses over the duration of the business plan to service the debt and maintain a positive balance. Based on the current assumptions within the plan, the HRA continues to hold sufficient surpluses in its reserves to avoid paying an increased amount of interest for the next ten years, but after that it incurs additional costs and moves into an unsustainable position in 18 years time.

7.2 The table below sets out details of the anticipated HRA reserves position, over the next three years if there are no additional investment proposals above the approved amounts included for RCCO and the contribution towards Brunswick capital costs. Given the low interest rates payable on balances, the HRA is currently using around £60m of its own reserves to internally fund part of the HRA debt rather than take out external borrowing. This provides annual interest savings of around £2.4m per annum. The continuation of this arrangement will need to be considered if any investment proposals are to be funded using reserves. The current plan shows reserve levels falling to zero in 2038/39.

Reserves Forecast 2020/21 to 2023/24

7.3 The table below sets out the forecast reserves position for 2020/21 and the next three years. Based on the November 2020 forecast position the HRA closing reserves are forecast to be £116.8m, but these are forecast to reduce by over £19m in 2021/22 and further reductions in the following two years. The reductions in reserves relates predominantly to the ongoing capital investment proposals.

Reserve Description	2020/21 (Forecast) £000	2021/22 £000	2022/23 £000	2023/24 £000
General Reserve (including Major Repairs reserve)	80,789	61,294	46,365	50,621
Insurance Reserve	2,059	2,059	2,059	2,059
Residual Liabilities Fund	24,000	24,000	24,000	24,000
PFI Reserve	10,000	10,000	10,000	10,000
Total Reserves	**116,848**	**97,353**	**82,424**	**86,680**

7.4 The Residual Liabilities Fund was established to cover any potential environmental and other risks associated with the large and small scale voluntary transfers that have taken place during the past 15 years. There is no reason to change the level of reserve from that recommended in an independent report previously commissioned, and therefore the fund balance will be held at £24m for 2021/22.

7.5 Within the general reserve there is also a separately held HRA Insurance Reserve. This is required to ensure compliance with the ringfencing requirements. The balance required is determined by the likely liabilities arising from claims settled in any one year, there is an annual contribution to the reserve assumed within the current proposed HRA budget.

8. Conclusions

8.1. The proposals contained in this report seek to ensure that the HRA business plan provides a sound basis of managing the existing stock, whilst also identifying the potential risks that need to be monitored on an ongoing basis.

8.2. The budget proposals will allow for continued service delivery and investment within the existing stock and development of new HRA stock within the confines of the available resources.

8.3. Under the provisions of the Local Government and Housing Act 1989, the Authority must ensure that the HRA does not result in a debit balance. The proposed budget for 2021/22, together with the indicative budget for the following two years, is attached at Appendix 1 and shows this provision being met (before proposed use of reserves to fund capital works).

8.4. The HRA continues to hold a prudent level of reserves that enables continued savings on HRA costs through self-funding part of the HRA debt. There is also an increase in the planned level of capital works over the 2 year period 2021/22 – 2022/23 that is partly funded from the existing HRA reserves.

8.5. Based on forecasts, over the next three years the HRA can continue to fund existing debts, together with the ongoing management and maintenance costs whilst also maintaining a positive reserves position. The reserves provide longer term benefits to the HRA through debt financing, reducing the overall interest payable, and contributing towards increased resources available for further investment in the longer term.

9. Key Polices and Considerations

(a) Equal Opportunities

The rents have been set in line with the Government's guideline rent.

(b) Risk Management

Under the provisions of the Local Government and Housing Act 1989, the Authority must ensure that the Housing Revenue Account does not result in a debit balance. The proposed change in rents and identification of savings within this report, together with regular budget monitoring will assist in managing this risk over the short term. Work will continue to ensure that the HRA remains viable in the longer term.

(c) Legal Considerations

The City Solicitor has reviewed this report and is satisfied that any legal considerations have been incorporated within the body of the report.

Appendix 1 - Housing Revenue Account Budget 2020/21 – 2023/24

	2020/21 (Forecast) £000	2021/22 £000	2022/23 £000	2023/24 £000	See Para.
Income					
Housing Rents	(61,027)	(61,617)	(62,813)	(64,034)	5.8
Heating Income	(624)	(533)	(543)	(554)	5.15
PFI Credit	(23,374)	(23,374)	(23,374)	(23,374)	5.12
Other Income	(919)	(1,093)	(1,066)	(1,044)	5.11
Funding from General HRA Reserve	4,977	(19,495)	(14,929)	4,256	7.1
Total Income	**(80,967)**	**(106,112)**	**(102,725)**	**(84,750)**	
Expenditure					
Northwards R&M & Management Fee	21,603	25,720	23,609	23,989	5.27
PFI Contractor Payments	34,096	32,698	33,054	32,303	5.12
Communal Heating	607	532	542	553	5.15
Supervision and Management	5,233	5,256	5,323	5,392	5.30
Contribution to Bad Debts	547	930	1,263	1,610	5.25
Depreciation	17,371	18,435	18,602	18,790	5.20
Other Expenditure	1,192	1,103	929	950	5.29
RCCO	(2,461)	18,675	16,673	(1,539)	
Interest Payable and similar charges	2,779	2,763	2,730	2,702	5.21
Total Expenditure	**80,967**	**106,112**	**102,725**	**84,750**	
Total Reserves:					
Opening Balance	(111,871)	(116,848)	(97,353)	(82,424)	7.4
Funding (from)/to Revenue	(4,977)	19,495	14,929	(4,256)	
Closing Balance	**(116,848)**	**(97,353)**	**(82,424)**	**(86,680)**	