



AGENDA ITEM: 12

CABINET: 14th January 2014

**EXECUTIVE OVERVIEW &
SCRUTINY COMMITTEE:
30th January 2014**

Report of: Assistant Director Housing and Regeneration

Relevant Managing Director: Managing Director (Transformation)

Relevant Portfolio Holders: Councillor Mrs V. Hopley and Councillor A. Owens

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SUBJECT: HOUSING ACCOUNT – REVENUE AND CAPITAL PROGRAMME

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To provide a summary of the budget position for the Housing Account for the next financial year.

2.0 RECOMMENDATIONS TO CABINET

2.1 That the financial position for 2014-15 be noted, and consideration given to the budget issues set out in this report.

2.2 That the Assistant Director Housing and Regeneration be given delegated Authority to set garage rents at a level to maximise income for the HRA.

2.3 That the Assistant Director Housing and Regeneration be given delegated Authority to set service charges at levels that recover the costs of service provision.

2.4 That this report be used for consultation purposes prior to the Council considering this matter in February 2014.

- 2.5 That the Housing Finance Portfolio Holder be given delegated authority to submit firm proposals to Council on 26 February 2014 to enable the budget to be set.
- 2.6 That call in is not appropriate for this item as it is to be submitted to the next meeting of the Executive Overview and Scrutiny Committee on 30 January 2014.

3.0 RECOMMENDATIONS TO EXECUTIVE OVERVIEW AND SCRUTINY COMMITTEE

- 3.1 That the budget position be considered and that any comments agreed by the Committee be submitted to the Housing Finance Portfolio Holder in advance of the Council meeting to be held on 26 February 2014.
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4.0 BACKGROUND

- 4.1 The HRA moved to a new self financing system at the end of March 2012. This involved making a payment to Government of £88.212m, which was financed by a range of fixed maturity loans with repayment periods ranging between 15 and 50 years, and an average interest rate of 3.47%. This new system has led to an improved financial position for the Housing Account as the debt costs of the borrowing are less than the subsidy payments of over £6m per year that had to be made to the Government under the previous system.
- 4.2 The experience of self financing to date has been one of clarity in respect of the financial arrangements, as the housing subsidy system was complex and unpredictable. This is enabling a longer term outlook in stock management issues and asset management to be developed with a better informed capital investment needs profile.

5.0 RENTAL INCOME AND SERVICE CHARGES

5.1 RENTAL INCOME

- 5.1.1 The Government has had a policy that authorities should aim to achieve what is known as target rents by 2015. Target rents were set to broadly bring Local Authority rent in line with Housing Associations so that Tenants were paying a similar rent for similar properties within each locality. The target rent is based on the value of the property, the size of the property and the average regional earnings.
- 5.1.2 The Government's Self-Financing debt settlement was based on rent convergence taking place in 2015 based on rental growth of RPI +0.5% plus £2.
- 5.1.3 However, the Government has recently announced that rent convergence will be achieved by April 2015 and that from April 2015 the rent increase formula will be Consumer Price Index (CPI) +1.0%. During the economic downturn CPI has

been around 0.5% below RPI but this will be compensated by a real increase of 0.5% in the formula uplift.

- 5.1.4 In the final year of convergence, I propose to use my delegated authority to increase rents in accordance with the Government target rents formula, which is equivalent to Retail Price Index (3.2%) plus 0.5% plus £2 a week. This will mean that the overall average rent increase will be 4.31% next year.
- 5.1.5 The change in the government's timetable and removal of the £2 addition from the formula in 2015 will mean that not all properties will achieve convergence by April 2015 and will reduce future income to the Authority by around £300,000 pa.
- 5.1.6 Two factors that heavily influence the level of income to the authority are Right to Buy's (RTB's) and Void levels and relet times. The government's increase in RTB discount in 2012-13 has meant that sales are expected to double. This has the benefit of making more receipts available for capital investment but has the adverse effect of reducing HRA rent and service charge income. Increased RTB sales have been factored into our HRA estimates. Void levels and the time it takes to relet can have an adverse impact on income levels. In 2012-13 a number of factors contributed to increased void loss. However, management action has been taken and this is less likely to be a problem in 2014-15.
- 5.1.7 From April 2015, the Council will need to determine its own rent policy considering a range of different factors including government guidance and the impact of Universal Credits.

5.2 SERVICE CHARGES IN RESPECT OF LEASEHOLD FLAT, COUNCIL FLATS WITH COMMUNAL AREAS AND SHELTERED ACCOMMODATION

- 5.2.1 Overall, service charges should cover the cost of services provided to tenants. Having reviewed this area it is proposed that charges are increased by RPI + 0.5% (3.7%) to maximise income in line with the policy framework.
- 5.2.2 Work was commissioned in 2013-14 to look at the individual cost of service charges for leasehold flats, council flats with communal areas, and sheltered accommodation. This work has identified a need to regularise income and expenditure to meet actual cost of service provision which I propose to commence in 2014-15. Accordingly, I am seeking a new delegated authority to amend service charge levels, as appropriate, to realign actual costs of service provision with service charge income received.
- 5.2.3 In respect of Hall Green Close I intend to undertake an option appraisal in 2014/15 to determine the scope for site wide improvements as this scheme is significantly underutilised and is no longer fit for purpose in terms of some of the units for rent. I will report back on any developments options in due course.

5.3 GOVERNMENT POLICY CONSIDERATIONS

- 5.3.1 In considering the above recommendations Members should be aware that the Council can determine its own rent and service charge policy and strategy. However, Members should remember that the majority of our tenants are in

receipt of some form of housing benefit, and that the Government can limit the increases in benefit that tenants may receive. Additionally, Members are also reminded that Government decisions may adversely affect the Council's Business Plan causing difficulty for some tenants meeting these increases and the Council in collecting income.

6.0 HEATING CHARGES

- 6.1 District heating charges have recently been reviewed during 2013-14 and I used my delegation to increase some charges where I deemed it appropriate by 10%.
- 6.2 A fundamental review of the District Heating Service is currently underway looking at amongst other things consumption patterns, tenant practices, and investment needs.
- 6.3 I propose to regularise the charges for district heating upon completion of the review and will implement these changes in accordance with my delegation.

7.0 GARAGES

- 7.1 Currently, we let 71.7% of garages which produces an income which benefits the HRA to around £359,000. Garage charges have not been increased for several years and void levels are largely attributable to factors other than the rate being charged. A pilot scheme is currently underway to look at how we should manage and maintain our portfolio of garages. As part of this pilot scheme I propose to move to a flexible approach to garage rental charges and I therefore seek authority to set garage charges on a site by site basis. Because of this I am seeking delegation to set garage charges on the basis of setting these at market levels to maximise the benefits for the HRA.
- 7.2 Additionally a sum of £50,000 has been included within the HRA budget Issues at Appendix C to continue with the implementation of a Garage Strategy to maximise the utilisation of current garages and develop alternative proposals for low demand units within the context of the Asset Management arrangements and professional input from the Estates and Regeneration Team within the Division.

8.0 REVENUE EXPENDITURE AND SAVINGS

- 8.1 The base assumptions used in the HRA Business Plan and for the HRA Estimates are detailed in appendix A. The HRA business Plan sets out projections of expenditure and income over a 30 year period to enable forward planning and long term investment decisions to be made. The HRA Estimates for 2014-15 provide more detailed information that set out the financial basis for how the HRA service objectives will be achieved.
- 8.2 The Draft HRA Estimates set out at Appendix B provide a provisional budget for the Housing Revenue Account covering all areas of expenditure and income for 2014-15. Those estimates include increases in the base budget required to roll

forward agreed service levels but do not allow for any service improvements. Those figures also allow for the increase in rents and other charges as set out above. Those estimates will be reviewed to ensure that they are robust for the purposes of the budget calculation in accordance with the requirements of the Local Government Act 2003. Subject to the review of estimates, the latest figures will be presented to Council at its meeting on 26 February 2014.

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

9.0 CAPITAL INVESTMENT

- 9.1 Savills produced a report detailing capital investment required to the housing stock. This was used in 2013-14 to form the basis of a draft plan over 5 years which was approved by Council in February 2013.
- 9.2 The first year of the investment plan has been reviewed in November 2013 and amended in the light of tenders achieved. The estimates attached at appendix D detail the revised plan in the light of the above review and incorporate a number of changes to reflect the latest available information...
- 9.3 Members will recall that earlier in the year we were approached by the kitchen contractors to consider a three year programme as opposed to a contract of 5 years duration. Officers are currently in discussion with the two kitchen contractors (Lovell's & Wates) to see whether significant savings can be achieved by them accelerating the replacement kitchen programme. The contractors will be confirming their stance by early 2014.
- 9.4 There is a need to link the rent policy into the investment strategy in order to develop a robust business plan. This is because the investment strategy can only be delivered if the rental income levels that are projected are actually achieved. Agreeing the investment strategy will therefore effectively produce a commitment to the rental policy. Members need to understand the strong link between rents and investment.
- 9.5 We need to ensure our properties are sustainable and have a positive effect on the business plan. Therefore investments in properties that have a negative effect on the business plan need careful consideration. Work on some of these properties is included within the investment plan in years 3 and 4. These properties will undergo an option appraisal prior to this investment being carried out. This will involve working with tenants and Members in these areas bringing reports back to Council at appropriate times.

- 9.6 A fully worked up set up of budget proposals will be brought back to Council in February highlighting all the financial and resource implications both in terms of revenue and capital which will support the Housing Revenue Account Business Plan. These proposals will take into account the consultation with residents that will take place as part of the budget process.

10.0 SUSTAINABILITY IMPLICATIONS / COMMUNITY STRATEGY

- 10.1 Clearly the Council with its Tenants will want to ensure that the future business plan ensures that properties are brought up to a reasonable standard and that appropriate investment is able to be made at the appropriate time. The further modelling of the business plan will enable a well informed investment plan to be developed that takes into account the priorities of Tenants, the investment needs in the stock which have been considered as part of a well thought out asset management strategy. It will ensure that the rent levels reflect the needs and requirements of the stock and meet Tenant priorities.

11.0 RISK ASSESSMENT

- 11.1 The formal consideration and reporting of the budget estimates is part of the overall budgetary management and control framework that is designed to minimise the financial risks facing the Council. This process is resource intensive for both Members and Officers but ensures that a robust and achievable budget is set.

Background Documents

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

Equality Impact Assessment

A formal Equality Impact Assessment will be produced when the Council agrees the budget at its meeting in February.

Appendices

Appendix A – Key Assumptions

Appendix B – Draft HRA Estimates

Appendix C – Budget Issues

Appendix D – Draft 4 Year Investment Plan

Appendix E – Minute of Landlord Services Committee (Cabinet Working Group) held on 9 January 2014

Appendix F – Minute of Cabinet – 14 January 2014 (Executive Overview and Scrutiny Committee only)

