



**AGENDA ITEM: 11**

**CABINET: 13 January 2015**

**EXECUTIVE OVERVIEW &  
SCRUTINY COMMITTEE:  
29 January 2015**

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**Report of: Assistant Director Housing and Regeneration**

**Relevant Managing Director: Managing Director (Transformation)**

**Relevant Portfolio Holder: Councillor Houlgrave**

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**SUBJECT: HOUSING ACCOUNT – REVENUE AND CAPITAL PROGRAMME**

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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 2015-16 be noted, and consideration given to the budget issues set out in this report.

2.2 That the use of the Assistant Director Housing and Regeneration's delegated authority in relation to rent and service charge increases be noted.

2.3 That this report be used for consultation purposes prior to the Council considering this matter in February 2015.

2.4 That the Housing and Transformation Portfolio Holder be given delegated authority to submit firm proposals to Council on 25 February 2015 to enable the budget to be set.

2.5 That call in is not appropriate for this item as it is to be submitted to the next meeting of the Executive Overview and Scrutiny Committee on 29 January 2015.

### **3.0 RECOMMENDATIONS TO EXECUTIVE OVERVIEW AND SCRUTINY COMMITTEE**

3.1 That the budget position be considered and that any comments agreed by the Committee be submitted to the Housing and Transformation Portfolio Holder in advance of the Council meeting to be held on 25 February 2015.

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### **4.0 BACKGROUND**

4.1 The Council must set a budget for its Housing Account before the start of each financial year, and this budget will set out the financial basis for the delivery of services. The budget that is set must enable Council and tenant priorities to be delivered but must also be affordable. In addition it should comply with best practice requirements on budget setting, and meet statutory and accounting regulations. The Council meeting on the 25<sup>th</sup> February will provide all Members with the opportunity to debate and agree this budget.

### **5.0 RENTAL INCOME**

5.1 The Government introduced 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 into line with Housing Associations so that tenants would pay 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.

5.2 This Government framework was based on rent convergence taking place in 2015-16 based on rental growth of RPI +0.5% plus £2. However, the Government decided that the transitional formula to reach convergence would end in 2014-15 removing the £2 additional uplift in 2015-16. To compound matters the Government also decided to change the inflation factor from RPI +0.5% to CPI + 1% (which produces a smaller increase). This means that there will be a significant number of properties that will not have achieved the Government's target rent by April 2015, and that the rent income generated is less than what could have been achieved with an adverse impact on the overall business plan position. It is the Council's policy to charge target rents on all re-let properties, and consequently all properties will eventually move to the target rent level, but this may take some time to fully achieve.

5.3 The Government's rent restructuring guidance provided that from 2015-16 the expected increase in rents would be set at CPI plus 1% based on September inflation rates. In September 2014 CPI was reported by the Office of National Statistics as 1.2%. Therefore the annual increase expected by the government

will be 2.2%, and I intend to use my delegation to set the rent increase at this level.

5.4 There are a number of other factors that will influence the rent levels achieved including:

- In 2013-14 the Council sold 48 properties under Right To Buy legislation (RTB). However, despite government initiatives to stimulate RTB sales, in 2014-15 the Council have only sold 20 properties by the end of November. Consequently a reduction in RTB sales from 50 to 40 dwellings per annum has been factored into the attached estimates and the HRA Business Plan.
- Void levels and the time it takes to relet can have an adverse impact on income levels. In 2014-15 a major drive has been undertaken to relet high cost, mothballed, and hard to let properties. It is estimated that void levels should return to more normative levels at 2% in 2015-16 and beyond
- Universal Credit is being rolled out to West Lancashire as part of the Government's Welfare Reform agenda, and this could potentially have an impact on rent collection rates and levels of bad debts, and consequently this is an area that will need to be monitored closely going forward to assess its impact

## 6.0 OTHER CHARGES

6.1 A general principle is applied to service charges that they should be calculated to ensure that they are sufficient to recover the cost of services provided to tenants. In keeping with this principle I intend to use my delegated authority to increase the level of service charges next year by 2.2% (in line with the rent increase) except as stated below.

6.2 On 6 November 2014 Cabinet resolved in relation to a number of leased properties located at Beacon Crossing:

*That the Assistant Director Housing and Regeneration be requested to review service charges in the light of the current under charging arrangements and introduce increases on a phased basis.*

6.3 In overall terms the expenditure incurred on these properties is significantly in excess of the income generated through the current level of service charges by almost £1,000 per property. In accordance with the authority delegated to me by Cabinet I am proposing to phase increases in service charges over a three year time frame and have written to the tenants concerned that their charges will increase by £7 per week from 2015-16. To assist with this transition I have instructed our Money Advisers to work with tenants affected by these changes.

6.4 Work is on-going with regard to reviewing leasehold service charges and it is proposed that we consult with leaseholders on proposed changes during the course of 2015-16.

6.5 District Heating charges have recently been reviewed and due to the favourable state of the Heating Charge Account no increase was made in 2014-15. In

compliance with EU Directives the Council is installing, where possible, individual property heat meters and will be consulting with tenants shortly about how this will affect them. Additionally we are continuously reviewing other energy efficiency measures and alternative heating sources that are available in the market place to drive down heating costs and lower carbon emissions. I propose to review District Heating charges again in Autumn 2015 and will bring a report to Cabinet when this is concluded.

- 6.6 Currently, we let 72% of garages which produces an income which benefits the HRA by around £359,000 per annum. Due to the relatively low level of garages that are let, charges have not been increased for several years and additional funding was agreed in 2014-15 to develop and implement a garage strategy. Given the investment that is now taking place, I am proposing to increase the charges on garages that have been improved by 2.2% next year in line with the general rent increase, and freeze the rent level for other garages.
- 6.7 Next year it is anticipated that Lancashire County Council will reduce its Supporting People Grant funding by £194,000, and this will have a significant impact on this service area. This issue will be given specific consideration through the budget process, and a range of options will be assessed.

## **7.0 GOVERNMENT POLICY CONSIDERATIONS**

- 7.1 Members should be aware that the Council can determine its own rent and service charge policy and does not have to follow the Government's rent restructuring formula. Higher increases in charges will produce additional income for reinvestment in the housing stock. However there are a wide range of factors that need to be considered in making this decision. In particular the majority of our tenants are on low incomes and are in receipt of some form of housing benefit, and the Government can limit the increases in benefit that tenants may receive.

## **8.0 DRAFT ESTIMATES**

- 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 2015-16 then provide more detailed information that sets out the financial basis for how the HRA service objectives will be achieved.
- 8.2 The draft Estimates for next year are set out in Appendix B and provide a provisional budget for the HRA revenue account covering all areas of expenditure and income. These estimates include increases in the base budget required to roll forward agreed service levels but do not allow for any service improvements. These figures also allow for the increase in rents and other charges as set out above. These estimates will be reviewed prior to the Council meeting in February to ensure that they are robust for the purposes of the budget calculation in accordance with the requirements of the Local Government Act 2003. These figures currently show that there is £9.560m available for new

policy developments and capital investment, before consideration is given to borrowing and other sources of funding.

- 8.3 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 budget issues that Officers have identified that should be considered as part of the budget process. This includes consideration of Evenwood Court, which was considered by Cabinet in November and is now undergoing a full option appraisal.
- 8.4 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 There is a five year capital programme plan in place that sets out the investment that will be made in the housing stock to ensure that all properties meet a defined quality standard and to ensure effective asset management. This plan was considered as part of the 2014-15 mid-year review and a revised plan was approved by Council on 17 December 2014. The estimates attached at appendix D detail the 5 year proposed plan from 2015-16 through to 2019-20 and reflect the decision made at Council in December. These estimates also reflect the additional borrowing approval of £2.5m that has been provided by the Government to help build 39 new properties in Firbeck.
- 9.2 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.
- 9.3 We need to ensure our properties are sustainable and have a positive effect on the business plan. Therefore investment 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 2 and 3. However these properties will undergo an option appraisal prior to this investment being carried out.
- 9.4 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 HRA 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 allows properties to be brought up to a reasonable standard and that appropriate investment can be made at the appropriate time. The further modelling of the business plan will enable a well informed investment plan to be developed in keeping with the requirements of an effective asset management strategy. The community strategy has highlighted that local people should receive good quality homes for a fair and appropriate rent, and these issues are considered through the business plan process.

## **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.

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### **Background Documents**

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

### **Equality Impact Assessment**

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required. A formal Equality Impact Assessment will be produced 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 5 Year Investment Plan

Appendix E – Minutes of Landlord Services Committee (Cabinet Working Group) – 8 January 2015 (Cabinet and Executive Overview and Scrutiny Committee)

Appendix F – Minute of Cabinet 13 January 2015 (Executive Overview and Scrutiny Committee only)