



AGENDA ITEM: 11

CABINET: 12th January 2016

**EXECUTIVE OVERVIEW &
SCRUTINY COMMITTEE:
28th January 2016**

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

Relevant Managing Director: Managing Director (Transformation)

Relevant Portfolio Holder: Councillor J. Patterson

**Contact for further information: Mr M. Taylor (Extn. 5092)
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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 2016-17 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 changes be noted.
- 2.3 That this report be used for consultation purposes prior to the Council considering this matter in February 2016.
- 2.4 That the Housing Portfolio Holder be given delegated authority to submit firm proposals to Council on 24 February 2016 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 28 January 2016.

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 Portfolio Holder in advance of the Council meeting to be held on 24 February 2016.
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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 24th February will provide all Members with the opportunity to debate and agree this budget.
- 4.2 A report was presented to the September Cabinet meeting that outlined the anticipated impact of recent Government announcements on rental policy and welfare reform. It was estimated that these changes would cause the HRA business plan position to deteriorate by £1.5m in 2016-17 and cumulatively by £11.3m over the next 4 years. This report also estimated a cumulative impact of £260m over the 30 year HRA business plan period, although subsequent work has identified that this figure was overstated. These projections have now been updated and this latest report contains a detailed set of budget estimates for next year as well as revised business plan estimates.

5.0 RENTAL INCOME

- 5.1 For a number of years it has been Government policy that authorities should aim to achieve what is known as target rents. 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. The target rent level is now charged for most HRA properties but there are still a significant number of properties where this has not been achieved. 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 will take some time to achieve.
- 5.2 In the Summer the Government announced a change in its approach and that rent levels should reduce by 1% per year over each of the next 4 years. This is a significant change as the HRA business plan had assumed that rent levels would increase by around 3% per year (based on CPI inflation plus 1%). By the end of the 4 year period this would mean that rents will have reduced by 4% rather than increased by 12%, giving a 16% difference in rent levels compared to business

plan assumptions. This issue is the single most important factor in explaining the deterioration in the HRA business plan.

- 5.3 In line with our standard practices the Assistant Director Housing and Regeneration will use his delegated authority to reduce rent levels by 1% from April 2016 for all properties. For properties that are not currently at the target rent level, if they become empty during the year they will be re-let at target rent level less 1%.
- 5.4 There are a number of other factors that will also influence the rent income achieved going forward including:
- The HRA business plan assumes that 30 Right to Buy Council house sales will take place during the year, but that an additional 42 new houses will be built as part of the Firbeck Revival project
 - Void levels and the time it takes to relet can have an adverse impact on income levels. It is estimated that void levels will continue at their existing 2% level into 2016/17
 - The Welfare Reform agenda, including Universal Credit, will affect tenant's income and consequently their ability to pay their rents. This is likely to have a negative impact on 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
 - It is anticipated that the Government will introduce measures that require the Council to sell off "high value" properties when they become vacant. It has not been possible to assess the impact of this issue at this time due to a lack of detail on how this will be implemented

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 it is proposed to increase the general level of service charges next year by 0.9% (based on the September CPI rate of -0.9% plus 1% in line with our standard practices) except as stated below.
- 6.2 Work is currently taking place to review service charges to ensure that they reflect the cost recovery principle as set out above. The work that has been completed to date has identified that there may be a number of areas where service charges are being under recovered including leaseholders, tenants in general needs flats and tenants living in sheltered accommodation. Consequently an issue that now needs to be given consideration is how a realistic process for recovering the cost of service provision can be introduced.
- 6.3 It has been recognised for some time that there is a relatively high level of garages that are empty and that are difficult to let, and to address this situation an investment programme for garages has been put in place. Given this position it is proposed to increase the charges on garages that have been improved by 0.9% next year in line with the general service charge increase, but to freeze the rent level for other garages.

- 6.4 The District Heating account is currently in surplus and consequently it is not proposed to make any changes in the level of heating charges at this time. In compliance with EU Directives the Council is installing, where possible, individual property heat meters and additionally we are continuously reviewing other energy efficiency measures that are available in the market place to drive down heating costs and lower carbon emissions. It is proposed to review District Heating charges during the course of the 2016/17 financial year in this context, and a report will be brought back to Cabinet when this work is completed.

7.0 DRAFT ESTIMATES AND CAPITAL INVESTMENT PROGRAMME

- 7.1 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 2016-17 then provide more detailed information that sets out the financial basis for how HRA service objectives will be achieved.
- 7.2 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 change in rents and other charges as set out above. These figures currently show that there is a budget gap of £1,396,000 based on the roll over budget position and the previously agreed capital programme. Longer term business plan projections are also included in this Appendix.
- 7.3 The draft 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. The proposed rent and service charges will also be reviewed to ensure there will be no benefit subsidy implications.
- 7.4 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 and that should be considered as part of the budget process. Given the financial position facing the HRA though any new budget issues that are agreed will need to be funded by matching savings made in other service areas. Consequently 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.
- 7.5 The Capital Investment Programme is agreed on a medium term multi year basis and consequently there is already a planned set of capital schemes in place for the 2016/17 year. The total value of these schemes is £13,433,000 as set out in Appendix D, and this will be funded by a revenue contribution of £9,250,000 and

by borrowing of £4,183,000. This appendix also identifies some proposed net nil changes to the capital programme to address electrical issues that have been identified during the course of the year.

8.0 TOWARDS A BALANCED BUDGET POSITION AND LONG TERM PROSPECTS

8.1 In considering the financial situation for next year it is essential that the identified budget gap of £1,396,000 is addressed. A draft set of proposals on how this could be achieved is set out in Appendix E, which would minimise the impact on services and tenants. Officers will work with Members from both political groups, and consult with tenants, to consider this position. These draft proposals have been provided to assist in setting the final version of the budget which is, however, a matter for Members to determine.

8.2 In looking at finalising the budget for next year consideration will need to be given to a number of different factors including:

- The deterioration in the financial position facing the HRA over the medium term
- Tenants comments and feedback on the budget position
- The acceptance of the new budget issues set out in Appendix C
- Potential changes to service charge levels
- How to proceed with the £2.996m Beechtrees Revival scheme which has previously been planned to be delivered over the next few years
- The profiling of capital expenditure across future financial years

8.3 It is proposed that detailed work on assessing potential policy options will be undertaken over the next six months to identify how the medium term financial position facing the HRA can be addressed. The results of this work will then be reported to the July Council meeting and will follow the established framework used for the GRA policy options process.

9.0 SUSTAINABILITY IMPLICATIONS / COMMUNITY STRATEGY

9.1 The Council with its Tenants wants to ensure that the future business plan allows properties to be brought up to a reasonable standard and that appropriate investment can be made at the appropriate time. 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.

10.0 RISK ASSESSMENT

- 10.1 The formal consideration and reporting of the budget estimates is part of the overall budgetary management and control framework that is designed to minimise the financial risks facing the Council. This process is resource intensive for both Members and Officers but ensures that a robust and achievable budget is set.
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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 – HRA Business Plan Key Assumptions
- Appendix B – Draft HRA Estimates
- Appendix C - Budget Issues
- Appendix D - Draft Investment Plan
- Appendix E – Towards a Balanced HRA Budget Position
- Appendix F - Minute of Landlord Services Committee (Cabinet Working Group) – 7 January 2016
- Appendix G – Minute of Cabinet – 12 January 2016 (Executive Overview and Scrutiny Committee only)