



**AGENDA ITEM: 19**

**COUNCIL: 24 February 2016**

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

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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 enable the Council to set its Housing Revenue Account (HRA) budget and capital investment programme for the next financial year 2016/17.

**2.0 RECOMMENDATIONS**

- 2.1 That the Rent and Service charges set within delegated authority, as detailed in section 4 of the report be noted and endorsed.
- 2.2 That a delegated authority be given to the Interim Director Housing and Regeneration in consultation with the relevant Portfolio Holder to set rent levels for new tenancies in Sheltered Housing in accordance with relevant regulations once these are in place.
- 2.3 That the comments of Tenants and Residents as set out in Appendix D of the report be considered.
- 2.4 That the HRA budget and capital investment programme be approved based on the proposals to be presented at the Council Meeting by the Housing Portfolio Holder.
- 2.5 That delegated authority be given to the Interim Director Housing and Regeneration to take all necessary action to implement the decisions of Council.
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### **3.0 BACKGROUND**

- 3.1 The Council has a statutory duty to set a budget for its Housing Account before the start of the financial year, and this budget will set out the financial basis for the delivery of services. The budget that is set must enable the 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.
- 3.2 The HRA budget has been the subject of recent reports to Cabinet, Executive Overview and Scrutiny Committee and Landlord Services Committee. Tenants have also been consulted on the HRA budget position. These reports identified that there was a budget gap of £1,396,000 in 2016/17 between the expenditure required to deliver agreed service levels and investment plans, and the resources available. This gap was primarily as a result of new government rules that require rent levels to be reduced by 1% per year rather than being increased in line with a target rent formula.
- 3.3 The HRA is facing a challenging medium term financial position. It is intended that detailed work on assessing potential policy options will be undertaken over the next few months to identify how this position 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.

### **4.0 RENTS AND SERVICE CHARGES**

- 4.1 Based on the new government rules I have used my delegated authority to reduce rent levels by 1% for most Council properties. However in recent weeks it has been announced that the rules will not apply to certain categories of supported accommodation in 2016/17, including sheltered housing, while a government review is carried out on this area. Consequently I have used my delegated authority to apply the previous target rent approach of CPI inflation plus 1% to sheltered housing, which means that rents for this type of property will increase by 0.9% in 2016/17. This change should generate additional income of around £50,000 more than was previously anticipated and consequently will have the effect of reducing the budget gap to £1,346,000.
- 4.2 Recent amendments to the Welfare Reform and Work Bill, which is currently passing through parliament, would provide the Secretary of State with powers (by Regulations) to allow rent setting for new tenancies in supported housing at up to 10% above the rate for general needs housing. Current and future reductions in supporting people grant funding mean that Sheltered Housing has a challenging financial position, and moving to a higher rent level would contribute towards maintaining the level and quality of sheltered housing services that could be provided. A delegated authority is sought to enable this approach to be put in place subject to the relevant legislation and regulations being enacted. This will not affect existing tenants and it will take a number of years for all sheltered housing to be re-let and for the full rental income benefit to be realised. There are around 1,100 sheltered housing properties in the housing stock and a 10% rise would on average mean a rent increase of around £7.60 per week.

4.3 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 have used my delegated authority to increase the general level of service charges next year by 0.9% (based on CPI inflation plus 1%) in line with our standard practices. This is a permissible approach as service charges are not subject to the 1% rent reduction rules that will be applied to most tenant rents.

4.4 There will be a number of exceptions to this general approach including:

- a) An analysis of Leaseholder service charges has identified that the costs of service provision are currently under-recovered. Service charge increases will be implemented in a phased manner over the next 3 years to rectify this position;
- b) District Heating charges will remain at current levels pending a review that will take place during the course of the 2016/17 financial year;
- c) The rent levels for garages will be increased by 0.9% in line with the general service charge increase where they have benefitted from recent improvement works but will remain frozen for other garages.

## **5.0 CURRENT REVENUE ESTIMATES AND CAPITAL PROGRAMME**

5.1 The base assumptions used for the HRA budget estimates have been previously reported to Cabinet and Executive Overview and Scrutiny Committee. The budget estimates shown at Appendix A set out a provisional budget for the Housing Revenue Account covering all areas of revenue expenditure and income for 2016/17. These estimates include increases in the base budget required to roll forward agreed service levels but do not allow for any service improvements or budget issues. These figures also allow for the changes in rents and other charges as set out above. The estimates have been reviewed to ensure that they are robust for the purposes of the budget calculation in accordance with statutory and accounting requirements. The Appendix shows that there is a budget gap of £1,346,000 based on the roll over budget position and capital programme.

5.2 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 B. 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.

## **6.0 OTHER FINANCIAL MATTERS**

6.1 The Council must have a debt repayment policy in place that sets out the minimum level of funding that will be set aside for the repayment of borrowing each year, and this policy must be reviewed on an annual basis. The current policy is that debt will be repaid over the 75 year estimated useful life of the dwelling stock, and that these repayments will be index linked so that the real value of the repayments will be the same in each year. In addition for each council house sale above the level expected in the self financing settlement, £14,000 (the average amount of debt per property) will be set aside for debt repayment, up to a maximum of the

“debt” element of capital receipt funding received in the year. Members may wish to consider amending this policy as part of the budget process or alternatively could consider amendments as part of the work that will take place on developing policy options for the July Council meeting.

6.2 In accordance with best practice the levels of HRA balances and reserves have been reviewed during the budget process to ensure that they are currently sufficient and that they will remain adequate over the medium term. Details on the purpose and current level of reserves and balances are shown in the Reserves Policy in Appendix C. The changes that are proposed following this review are:

- To reduce the level of HRA balances from the current level of £783,000 to the minimum required level of £620,000;
- To delete the TV Aerial reserve once the current programme of work has been completed, which will free up £35,000 for reallocation;
- To create a new Budget and Efficiency Savings Reserve to assist in dealing with the medium term financial challenges facing the HRA. It is anticipated that a favourable budget variance will be achieved on the HRA in the current year and this reserve will be used to carry forward this surplus to help bridge the budget gap facing the HRA in future years.

6.3 In addition to the roll forward of the existing base budget position it is important to consider new issues and areas for service improvement as part of the budget process. The budget reports that have been previously considered by Members contained a list of issues for Asbestos Management (with an ongoing budget of £30,000 per year), and one off schemes for Pennington Avenue Sheltered Property (£30,000) and a contribution to a replacement corporate Customer Relations Management system (£112,000).

6.4 The Government have previously announced that it would introduce measures to force local authorities to sell high value properties when they become vacant. This position has now changed and the latest thinking is that the Government will charge authorities a levy instead based on a formula that is yet to be announced. Due to the lack of detail on this initiative it is not possible to quantify its financial effect at this time, and a report will be brought back to Members when this position becomes clearer. Similarly there is also a lack of detail at the current time on the Government’s proposed “pay to stay” initiative and consequently this will be the subject of a future report back to Members in due course.

6.5 To improve the robustness of the HRA Business Planning process it is intended that an external financial model will be procured. This will assist in providing accurate assessments of the HRA’s long term financial position and should also facilitate the modelling of different scenarios.

## **7.0 BUDGET PROPOSALS**

7.1 A series of meetings have been held with Tenants and Residents to consider the HRA budget and capital programme, and details on their comments are provided at Appendix D. Members are asked to consider these details when determining their final budget position.

7.2 The Portfolio Holder for Housing has been given delegated authority to submit proposals for consideration at the Council meeting to enable the budget and capital programme to be set. It is anticipated that a set of budget papers will be circulated at the Council meeting to enable this to be achieved.

## **8.0 SUSTAINABILITY AND COMMUNITY STRATEGY LINKS**

8.1 Rent and service charges together with appropriate housing supply are an important factor in the sustainability of local communities. The budget and charges proposed in this report will support the Council's strategy to bring all Council owned housing stock up to a good standard of maintenance and to achieve a good standard of service to tenants.

## **9.0 RISK ASSESSMENT**

9.1 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.

9.2 The rental changes for next year have been determined based on the current proposals contained in the Welfare Reform and Work Bill, and taking into account guidance issued by the Association of Retained Council Housing. However as the Bill has not yet been enacted there is a possibility that it could be amended in which case rent levels may have to be revisited.

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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 proposal to set rent levels for new tenancies in Sheltered Housing at a rate above that for general needs housing could have a significant impact on new tenants and consequently an Equality Impact Assessment is required. A formal equality impact assessment is attached as an Appendix to this report, the results of which have been taken into account in the Recommendations contained within this report.

### **Appendices**

Appendix A - Draft HRA Estimates

Appendix B – Current Capital Investment Programme

Appendix C – Reserves Policy

Appendix D – Tenant Views on Budget Proposals

Appendix E – Equality Impact Assessment