



AGENDA ITEM: 15

CABINET: 15 January 2013

**EXECUTIVE OVERVIEW &
SCRUTINY COMMITTEE:
31 January 2013**

Report of: Assistant Director Housing and Regeneration

Relevant Managing Director: Managing Director (Transformation)

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

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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 2013-14 be noted, and consideration given to the budget issues set out in this report.

2.2 That this report be used for consultation purposes prior to the Council considering this matter in February 2013.

2.3 That the Housing Finance Portfolio Holder be given delegated authority to submit firm proposals to Council on 27th February 2013 to enable the budget to be set.

2.4 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 31st January 2013.

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 27th February 2013.
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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 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 Consequently in line with previous years 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 (2.6%) plus 0.5% plus £2 a week. This will mean that the overall average rent increase will be around 5.3% next year.
- 5.1.4 The Council will make a significant investment in installing new kitchens in properties over the next few years. To assist with the funding of this investment programme it is proposed that where a new kitchen is installed for a tenant, that

their rent level should be moved immediately to target level. While this means that the tenants rent level may increase above the government guideline, the tenant will be receiving a direct significant benefit for this additional increase, and it is only bringing forward the date that the target rent is achieved.

- 5.1.5 After 2015, when the Council should have achieved the individual target rent levels, then it will need to determine its own policy considering a range of different factors including government guidance and the impact of Universal Credits.

5.2 SERVICE CHARGES

- 5.2.1 Overall, service charges should cover the cost of services provided to tenants. Consequently following the custom and practice of previous years, it is proposed that service charges should be increased by the September RPI measure of 2.6%.

- 5.2.2 However work has been commissioned to look at the individual cost of service charges for blocks of flats, as some blocks are being subsidised by others and we need to move to a fairer charging policy. The service charge policy will need to identify winners and losers and the methodology of moving towards a more equitable charge for services. A report will be brought back to Cabinet on this issue once this work has been completed.

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. In the Chancellor's Autumn Statement increases in working-age benefits are to be capped to 1% a year for three years from 2014/15 and the State pension increase would increase by 2.5% in 2013/14. Whilst Officers are endeavouring to clarify how this might impact on our tenants, Members need to be aware the Chancellor's actions may adversely affect the Council's Business Plan cause difficulty for some tenants meeting these increases and the Council in collecting income.

6.0 HEATING CHARGES

- 6.1 The Council procures its Gas and Electric through a bulk purchasing arrangement with the Yorkshire purchasing organisation, which is used by many other authorities. This ensures that we receive the best possible price for our energy requirements. However the cost of Gas and Electric has risen and continues to do so.
- 6.2 Significant investment has been made by the Council in some blocks where solar panels, biomass, and air source heat pumps have been installed and heating systems changed from electric to gas. The recommendation needs to charge an appropriate charge for each individual scheme which is appropriate and that a

small levy is made on those schemes where investment has already been made which reduces the heating charge to provide capital sum to benefit the schemes where future investment is necessary and proportionately their heating charges are more expensive.

- 6.3 Work is still ongoing to determine a suitable policy at this time. A further report will be brought back to Cabinet when the review has been completed.
- 6.4 The Council's energy costs have increased by around 12%. However, in view of the Chancellor's Autumn Statement and the current level of Heating Reserve held by the Council I propose to limit the increase to 2.5% for 2013/14 pending the outcome of the Heating Charge review being considered above in paragraph 6.2.

7.0 GARAGES

- 7.1 Currently, we let 71.7% of garages which produces an income which benefits the HRA of around £359,000. There are 350 garages which remain empty and therefore there could be a significant risk involved in increasing garage rents this year, given this vacancy level.
- 7.2 Now that the asset management work of houses has been completed, it would seem an opportune time to carry out a similar study of garages. This could determine which garages should remain and which garages are surplus to requirement, where an alternative use should be considered. Tenants have recently been carrying out a review of garages which will be considered by Cabinet when the review is completed. I am therefore recommending no garage rental increases this year pending the outcome of this review which will result in a new garage strategy being developed.

8.0 REVENUE EXPENDITURE AND SAVINGS

- 8.1 Draft estimates for next year have now been prepared at Appendix A that set out a provisional budget for the Housing Revenue Account covering all areas of expenditure and income for 2013/14. 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 have been 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.
- 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. Officers have been considering these matters and have identified the following areas that will need to be considered as part of the budget process:
1. Trainee surveyors
 2. Senior Housing Options Advisor
 3. Void Budget

4. Scanning Housing Register files
5. Day to Day Property Repairs
6. Asbestos Management
7. Size Criteria / Welfare Reform
8. Admin Support Sheltered Housing
9. Additional Change to Staff Resource
10. Annual Cleaning of Carpets / Soft furnishings – Sheltered Housing Schemes
11. Smarterbuys & the Store Scheme
12. Finlock Gutters
13. Impact of Council Tax reform
14. ICT Development Programme
15. Financial Inclusion
16. Call Monitoring Upgrade in sheltered housing
17. Additional Resources for Tenure Reform

Details of which are shown in Appendix C – Draft List of Budget Issues

- 8.3 Members will need to carefully consider these options, and any others that emerge through the budget process, and determine which proposals to include in the final budget to meet service objectives.
- 8.4 Members will recall that as part of the debt settlement the Housing Account has access to around £11.8m in reserves held by the GRA and around £3.8m in headroom borrowing it can call on for one off investment. Additionally Members approved the creation of a regeneration reserve of £97,000 in 2011-12 and a investment reserve in 2012-13 of £800,000. Members will need to consider how much of these Housing Account resources that should be used for one off investment.
- 8.5 Savings and efficiencies will be developed and analysed during 2013/14 and part of this review will involve the OR process and also management scrutiny and formulation of plans. These will be compiled and considered appropriately with Officers and Members as this strategy develops and takes shape.

9.0 CAPITAL INVESTMENT

- 9.1 Savills have produced a report detailing capital investment required to the housing stock. This has been used to form the basis of a draft plan over the next 5 years and is included as appendix B. In December tenders were opened in respect of Kitchens and Bathrooms. Appendix B includes provisional savings that may be achieved as a consequence of tendering 5 year contracts. More detailed investment plans for 2013/14, which will be informed by tender evaluation, will be included as an update in the report to Council in February.
- 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 The investment priorities set out in Appendix B are kitchens, bathrooms, efficient heating systems, windows and doors, and at the end of the 5 year period we will have invested around £54.3m (excluding the previously approved investment in Findon & Firbeck) which will bring the stock up to a good modern standard.
- 9.4 We need to ensure our properties are sustainable and have a positive effect on the business plan. Therefore investment on 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 4 and 5. 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.
- 9.5 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.
- 10.2 The community strategy has highlighted that local people should receive good quality homes for a fair and appropriate rent. The move towards the business plan in April 2013 will ensure that the business plan takes into account these issues and if further funding is necessary then as part of the plan, this issue will be addressed.

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

1. Draft HRA Estimates
2. Draft 5 Year Investment Plan
3. Draft List of Budget Issues
4. Minute of Landlord Services Committee (Cabinet Working Group) 9 January 2013 (to follow)