



COUNCIL: 27 February 2019

Report of: Director of Housing and Inclusion and Borough Treasurer

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SUBJECT: HOUSING ACCOUNT – REVENUE AND CAPITAL PROGRAMME

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.

2.0 RECOMMENDATIONS

2.1 That the Rent and Service Charges set within delegated authority, as detailed in sections 4 and 5 of the report, be noted and endorsed.

2.2 That the comments of Tenants and Residents as set out in Appendix E of the report be considered.

2.3 That the HRA budget and capital investment programme be approved based on the proposals to be presented at the Council meeting by the Housing and Landlord Services Portfolio Holder.

2.4 That delegated authority be given to the Director of Housing and Inclusion, in consultation with the Housing and Landlord Services Portfolio Holder, to utilise one for one capital receipt funding together with HRA borrowing to acquire new properties subject to there being a satisfactory business case.

2.5 That the Reserves Policy set out in Appendix C be approved.

2.6 That delegated authority be given to the Director of Housing and Inclusion to take all necessary action to implement the decisions of Council.

3.0 BACKGROUND

- 3.1 The Council must set a budget for its HRA 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.
- 3.2 The financial year 2019/20 represents the final year of the government's four year rent setting policy to reduce social housing rents by 1% per annum to 2020. This policy continues to progressively add pressure to the HRA over this period. However, the Policy Options agreed by Council in July 2016 and October 2016 have delivered sufficient savings and efficiencies to secure the HRA's financial position over the medium term.
- 3.3 In the five year period from 2020/21 to 2024/25, rent policy will revert to the previous approach of an increase of up to CPI plus 1% per year. This will aid business planning in the medium term by providing more certainty, ensuring that the real value of rent levels is maintained, and could provide funds for further investment in the housing stock.
- 3.4 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 small draft budget surplus in 2019/20 between the resources available and the expenditure required to deliver agreed service levels and investment plans with some further work still required.

4.0 RENTAL INCOME

- 4.1 As a consequence of the government policy highlighted in paragraph 3.2 and in line with our standard practice, the Director of Housing and Inclusion will use her delegated authority to reduce rent levels by 1% from April 2019 for all properties.
- 4.2 Rental income is the main funding source for the Housing Account. The 2019/20 rent reduction means that the overall level of rental income will reduce next year, although there are a number of other factors that will influence this position including:
- The number of properties within the Housing Stock which will be influenced by Right to Buy Council house sales (which is outside the Council's control), the number of homes built or purchased, and the number of homes demolished as part of revival and development projects
 - Current void levels are assumed to continue at slightly lower than 2%
 - The full roll out of Universal Credit continues to be an area requiring close monitoring but the effect so far has been a relatively modest increase in

arrears which in turn means a modest increase in the contribution to the bad debt provision. This can be accommodated within a budget based on 1% of rent arrears.

4.3 Weekly rent and service charge billing is always carried out on a Monday; as a consequence, every few years there are 53 Mondays, (53 rent weeks), in a calendar year rather than 52. The implications of this for the HRA business plan and individual tenants have been considered as follows:

- Tenants who pay by monthly direct debit will see what seems to be an increase in their monthly direct debit that is more than the expected percentage change. This is because 49 charging weeks will be split between twelve months rather than the usual 48 weeks. As an example, the 1% reduction in weekly rents will seem like a 1.1% increase in 2019/20 if paid monthly. As this is just a timing difference the same tenants will see what appears to be a smaller increase in their rent and service charges in 2020/21 than the expected increase as this levels out again the following year. Tenants who pay weekly will not be affected and will see their weekly charges changing by the expected amounts.
- Tenants who receive Universal Credit are those who are most likely to be disadvantaged by the additional charging week due to DWP rules. It is proposed to use reserve money held for hardship payments to alleviate the additional week of pressure for UC customers in hardship.

5.0 OTHER CHARGES

5.1 A general principle is applied to service charges that they should be calculated to ensure that they are sufficient to recover the cost of service provision. In keeping with this principle it is proposed to increase the general level of service charges next year by 3.4% (based on the September CPI rate of 2.4% plus 1.0% in line with our standard practices). In general, the service charges apply to communal properties such as sheltered stock and flats as well as residents who receive the Council's furnishing service.

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

- The heating charge for each property in 2019/20 will be calculated based on estimated useage and estimated cost. This means that different charges will apply to different residents. The heating account overall remains in surplus so all residents will have a reduction in their heating charge of 5%, except for 35 residents who will receive a lower reduction or will have their heating charge unchanged.
- As in 2018/19, garage rents will be increased by CPI (2.4%).
- CAT2 sheltered scheme service charges for communal maintenance work have been reviewed through 2018/19 and this found that most schemes would require an increase in excess of CPI + 1%. In order to provide consistency for these tenants their charges will be capped at 3.4% in

2019/20. There is one site where an increase of 1.4% is required, and in addition there is one site where a reduction of 9.9% will be implemented.

- After consultation with residents in CAT 1 sheltered schemes, a significant number have opted to request a higher level of support previously offered to CAT2 residents. This means that in 2019/20 these CAT1 residents will pay the same service charge as all CAT2 residents.
- A small number of tenants still pay a separate carpet charge but these are due to end in 2019/20. These charges are not therefore going to be increased.

6.0 REVENUE ESTIMATES AND CAPITAL INVESTMENT PROGRAMME

6.1 The base assumptions used in the HRA Business Plan and for the HRA Estimates have previously been reported to Cabinet and Executive Overview and Scrutiny Committee. The HRA revenue estimates for 2019/20 are shown in Appendix A and provide the detailed information that sets out the financial basis for how HRA service objectives will be achieved. They cover all areas of revenue expenditure and income and include changes in the base budget required to roll forward agreed service levels, such as pay and contract inflation, but do not allow for any service improvements.

6.2 The HRA estimates reflect a range of factors including:

- The reductions in rents and changes in service charges set out above
- The response maintenance and voids contract delivery model report that went to Cabinet on 8 November 2018 sought delegated authority for the Director of Housing and Inclusion to put in place an interim contract arrangement for 2019/20, pending a new outsourced delivery model. The report also committed to addressing the financial implications of negotiating the interim contract. £167,000 has been added to the budget in anticipation of the renegotiation, and of this £118,000 is the amount that would have been added to the existing budget for contractual uplift.
- It is intended that the current pre-painting budget will be used more flexibly as a revenue planned maintenance budget to pick up the revenue works identified in the stock condition survey and other revenue planned works.
- £29,000 has been transferred from the revenue budget for HRA digital expenditure to capital. This recognises that some of the HRA digital plans have a capital element as well as revenue elements. It is proposed to combine this transferred budget with the existing budget of £21,000 approved for Digital Inclusion in 2019/20, to create an ongoing central HRA Digital Initiatives budget.

- It is assumed that £1.1m of the projected favourable budget variance in the current financial year will be used to support the budget position in 2019/20.
 - The HRA budget report that went to Cabinet and Executive Overview and Scrutiny advised that work would continue on finalising the HRA budget for February Council. The final draft estimates in Appendix A reflect the further work and show a budget surplus of £0.251m.
- 6.3 The Capital Investment Programme for the next 5 years is shown in Appendix B along with initial profiling, and is intended to ensure that our housing stock meets the decent homes standard. The 5 year budget reflects the value in today's terms from the comprehensive asset survey work that has been carried out to maintain that standard and improve the condition of the stock itself for the long term. The survey indicates that for the next five years £34.7m of capital works will need to be invested, as well as some revenue works undertaken. Re-profiling from the 2018/19 mid-year budget agreed at the December Council meeting has been added to this figure to provide a total five year Housing Investment Plan of £35.4m. Within this total, roofing accounts for 31% of the expected Housing Investment Plan for the next five years.
- 6.4 In order to manage resourcing and delivery of the required works, the Housing Investment Plan has been profiled equally throughout the five years to remove peaks and troughs in the expected renewal dates for different components. The 2019/20 budget reflects what can realistically be delivered and this fits with anticipated component renewal dates. Years two to five are likely to require some re-profiling forwards and backwards due to:
- The outcome of asset reviews to be carried out during 2019/20 to assess the financial viability of individual stock
 - Three or four year delivery contracts due to be tendered during 2019/20 for a 2020/21 start
 - Local knowledge from Council staff and findings once particular works actually commence
 - Contractual uplift obligations and changes in stock levels
- 6.5 In addition to the Housing Investment Plan there are other standard Council housing capital budgets included in Appendix B for disabled adaptations, sheltered upgrades, contingency/voids and professional fees. The 2019/20 budget for Fire Risk Assessment works approved in February 2018 has been covered by the budget in the new capital investment plan.
- 6.6 This budget report does not cover the impact of setting up a new development company, which is the subject of a separate report elsewhere on the agenda.

- 6.7 The Council is able to retain part of the proceeds of Right to Buy Council House Sales but these funds must then be used to finance new house building or house purchases and must be used within 3 years. These one for one capital receipts can be used to part fund 30% of the cost of building or purchasing houses but the balance of funding must then be provided by the HRA. If the receipts aren't used within 3 years they must be repaid to the government with interest.
- 6.8 To ensure that these receipts can be fully utilised it is proposed to provide the Director of Housing and Inclusion with a delegated authority, in consultation with the Portfolio Holder for Housing and Landlord Services, to use these funds with match funding provided from HRA borrowing to acquire homes subject to their being a satisfactory business case. The criteria that would be used in acquiring these properties would be that one for one receipts need to be used promptly before the deadline for their return or else they would be lost, that any purchases would respond to council house waiting list demand, and that they have a satisfactory Net Present Value and would support the HRA Business plan. Details of any use of this delegated authority would be reported to Members in the next regular HRA budget report to Cabinet and / or Council.

7.0 CURRENT FINANCIAL POSITION

- 7.1 The HRA Mid-year Review projected that the budget targets for the year would be met and exceeded and that a favourable budget variance would be achieved. The latest third quarter monitoring has confirmed this position primarily as a result of staffing vacancies generating a favourable budget variance on employee costs, a more integrated and planned approach being taken with pre-painting works, the bad debt budget being only part-used and no further calls on budget contingency. Budgets are being controlled effectively and this puts the HRA in a strong position for dealing with its future financial challenges.
- 7.2 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. A draft reserves policy reflecting this position is attached at Appendix C.

8.0 BUDGET PROPOSALS

- 8.1 In addition to the roll over budget in continuing services, it is also important to consider new budget issues and areas for development. Appendix D comprises a list of budget issues that Officers have identified and that should be considered as part of the budget process. Members will need to carefully consider those options, and any others that may emerge through the budget process and determine which proposals to include in the final budget to meet service objectives.
- 8.2 The views of tenants and residents have been considered through meeting with the tenant scrutiny group and reviewing the proposed HRA revenue and

capital budgets as well as the list of new budget issues. Details of their comments are provided in Appendix E. Members are asked to consider these details when determining their final budget position.

- 8.3 The Portfolio Holder for Housing and Landlord Services 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.

9.0 SUSTAINABILITY IMPLICATIONS

- 9.1 The Council 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. Business plan modelling enables a well-informed investment plan to be developed in keeping with the requirements of an effective asset management strategy.

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.

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 direct impact on members of the public, employees, elected members and / or stakeholders is dependent on the proposals to be put forward at the Council meeting. Therefore no Equality Impact Assessment has been produced at this time. However, an Assessment will be produced and made available at the Council meeting if required.

Appendices

- Appendix A – HRA Revenue Estimates
- Appendix B – Capital Investment Plan
- Appendix C – Reserves Policy
- Appendix D – Budget Issues
- Appendix E – Tenant Views on Budget Proposals

Appendix A

HOUSING REVENUE ACCOUNT

DRAFT ESTIMATES 2019/20

Budget 2019/20	Running Employees Expenses	External income	Total Cash	Support Services & Capital Charges	Net budget
	£	£	£	£	£
General Expenses					
Premises Related Expenses	0	163,230	0	163,230	163,230
Bad Debts Provision	0	240,000	0	240,000	240,000
Capital Programme Contribution	0	0	0	8,766,000	8,766,000
Debt Charges	0	0	0	3,056,990	3,056,990
Sub-Total	0	403,230	0	11,822,990	12,226,220
Supervision, Management, Repairs & Maintenance					
Central Administration	792,940	639,400	-89,300	1,343,040	3,130,880
Customer Experience (HRA)	405,630	78,090	0	483,720	504,080
Housing Operations					
Housing Operations Management	153,360	3,480	-91,070	65,770	192,550
Income & Financial Inclusion	595,970	28,260	-9,800	614,430	764,360
Allocations	223,420	73,870	-90	297,200	306,890
Tenancy Services	31,080	136,360	-185,470	-18,030	-18,030
Estate Management	245,160	314,310	-30	559,440	579,600
Elderly & Disabled Support	488,640	398,300	-1,152,450	-265,510	44,770
Sub-Total	1,737,630	954,580	-1,438,910	1,253,300	1,870,140
Property Services					
Property Services Management	612,290	114,510	-210	726,590	518,440
Caretakers & Gardeners	267,230	140,940	-43,420	364,750	377,890
Maintenance of Grassed Areas	0	716,030	-23,100	692,930	692,930
District Heating Service	0	260,050	-260,050	0	0
Responsive & Void Repairs	407,000	3,517,610	-56,060	3,868,550	3,870,900
Planned Maintenance	464,840	764,210	-3,540	1,225,510	861,190
Sub-Total	1,751,360	5,513,350	-386,380	6,878,330	6,321,350
General Income					
Customer & Client Receipts	0	0	-23,149,480	-23,149,480	-23,149,480
Interest	0	0	0	-53,980	-53,980
Sub-Total	0	0	-23,149,480	-23,149,480	-23,203,460
Transfers to/from Reserves	0	0	0	-1,100,000	-1,100,000
Grand Total	4,687,560	7,588,650	-25,064,070	-12,787,860	12,537,070

*Up to £1,510k is available in the budget and efficiency savings reserve in addition to this budgeted surplus of £251,000 to fund budget issues identified in appendix C. An appropriate amount needs to be kept back to fund the HRA element of the SORP.

Notes:

1. The HRA forecast outturn for 2018/19 at mid-year was £1,146,000. The budget above utilises £1,100,000 of this to fund the 2019/20 HRA budget. The mid-year forecast is still considered realistic.
2. Staff budgets reflect the organisational establishment structure which includes changes that have occurred during 2018/19. Overall, employee budgets reflect uplifts on salary costs in line with the pay award.
3. Within Housing Operations: Furnished Homes; Tenants Expenses and General Community Facilities have been combined as Tenancy Services
4. Within Housing Operations: Estate Maintenance has been moved into Estate Management
5. Within Furnished Homes, the budget for expenditure on tenant furniture and the budget for expected total income from the furniture service are both being increased by around £35,000 to better reflect demand, net effect budget neutral.

Budget 2018/19	Employees	Running Expenses	External income	Total Cash	Support Services & Capital Charges	Net budget
£	£	£	£	£	£	£
General Expenses						
Premises Related Expenses	0	162,880	0	162,880	0	162,880
Bad Debts Provision	0	370,000	0	370,000	0	370,000
Capital Programme Contribution	0	0	0	0	11,335,000	11,335,000
Debt Charges	0	0	0	0	3,056,990	3,056,990
Sub-Total	0	532,880	0	532,880	14,391,990	14,924,870
Supervision, Management, Repairs & Maintenance						
Central Administration	789,270	536,500	-87,900	1,237,870	1,759,810	2,997,680
Customer Experience (HRA)	396,880	185,230	0	582,110	6,870	588,980
Housing Operations						
Housing Operations Management	149,720	3,500	-91,070	62,150	115,840	177,990
Income & Financial Inclusion	557,850	32,330	-9,800	580,380	142,400	722,780
Allocations	218,840	83,934	-90	302,684	14,550	317,234
Furnished Homes	32,200	75,096	-139,000	-31,704	0	-31,704
Tenants Expenses	0	26,500		26,500		26,500
Estate Management	225,660	322,800	-30	548,430	17,800	566,230
General Community Facilities		370	-6,180	-5,810		-5,810
Estate Maintenance Services	2,440	22,910		25,350		25,350
Elderley & Disabled Support	499,440	396,810	-1,115,370	-219,120	264,390	45,270
Sub-Total	1,686,150	964,250	-1,361,540	1,288,860	554,980	1,843,840
Property Services						
Property Services Management	617,730	114,600	-210	732,120	-228,670	503,450
Caretakers & Gardeners	260,910	141,010	-42,260	359,660	12,880	372,540
Maintenance of Grassed Areas	0	723,220	-41,300	681,920	0	681,920
District Heating Service	0	253,000	-253,000	0	0	0
Responsive & Void Repairs	400,920	3,350,960	-53,760	3,698,120	2,310	3,700,430
Planned Maintenance	469,260	1,058,200	-3,440	1,524,020	-350,590	1,173,430
Sub-Total	1,748,820	5,640,990	-393,970	6,995,840	-564,070	6,431,770
General Income						
Customer & Client Receipts	0	0	-23,552,560	-23,552,560	0	-23,552,560
Interest	0	0	0	0	-53,980	-53,980
Sub-Total	0	0	-23,552,560	-23,552,560	-53,980	-23,606,540
Transfers to/from Reserves	0	0	0	0	-3,180,600	-3,180,600
Grand Total	4,621,120	7,859,850	-25,395,970	-12,915,000	12,915,000	0

APPENDIX B - CAPITAL INVESTMENT PLAN UNTIL 2023/24

Scheme	5 Years £000's	19/20 £000's	20/21 £000's	21/22 £000's	22/23 £000's	23/24 £000's
Roofing	10,845	2,169	2,169	2,169	2,169	2,169
External Works	5,021	1,004	1,004	1,004	1,004	1,005
Heating	4,113	823	823	823	823	821
Electrics	3,652	730	730	730	730	732
Kitchens	3,164	633	633	633	633	632
Windows & Doors	2,741	548	548	548	548	549
Bathrooms	2,504	501	501	501	501	500
Walls	1,398	280	280	280	280	278
Fire Safety Works	1,353	271	271	271	271	269
Communal Services	587	117	117	117	117	119
Housing Capital Investment Plan	35,378	7,076	7,076	7,076	7,076	7,074
Disabled Adaptations		500	500	500	500	500
Sheltered Upgrades		140	140	140	140	140
Contingency		300	300	300	300	300
Professional Fees		700	700	700	700	700
Other Housing Schemes		1,640	1,640	1,640	1,640	1,640
Digital Initiatives		50	29	29	29	29
Total Expenditure		8,766	8,745	8,745	8,745	8,743

Notes

- (1) The five year Capital Investment Plan, (in grey), of £35.378m has been developed from the recent stock condition survey work analysed in 2018/19. Total required work has been profiled equally over all five years to enable appropriate staffing levels and contractor resourcing to be achieved
- (2) Year 2 to 5 budgets are expressed in 2019/20 terms, contractual uplift and changes in stock levels will be considered each year as part of budget setting
- (3) It is anticipated that years 2 to 5 will require profiling forwards and backwards to optimize use of available funds and resources, based on asset reviews carried out during 2019/20 as well as local knowledge
- (4) 2018/19 budgets slipped at mid-year for roofing (£600k) and electrical works (£180k) have been profiled equally through the five years. The bathrooms budget (£100k) brought forward at mid-year has been removed equally throughout the five years

APPENDIX C

HRA RESERVES POLICY

Reserves Protocol

1.1 For each reserve held by the Council there must be a clear protocol setting out:

- The reason for and purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the reserve's management and control; and
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

1.2 Details for each HRA reserve are set out below. Each reserve is managed and controlled by a Chief Officer. The responsible officer can authorise amounts of up to £10,000 to be taken from a reserve provided that its use is in line with the stated purpose of the reserve.

1.3 In addition the responsible officer must also consult with the Housing and / or Finance Portfolio Holders before authorising uses from reserves in excess of £10,000.

1.4 Reserves are reviewed and updated as part of the annual budget preparation and as part of the closure of accounts process to ensure that they continue to be required and are adequate in size. Earmarked reserves represent money that has been set aside for a clearly defined purpose, and which is available to meet future expenditure in that area. Balances represent unallocated funds which have not been earmarked and consequently are available to support any service area.

1.5 The values shown below for each reserve reflect their current position. The process for closing down the accounts at the year-end will then allow for any outstanding in year commitments and contributions.

1.6 The underlying level of reserves is adequate and reflects the HRA's stable financial position.

Description	Purpose	How and When Used	Responsible Officer	Value £000
HRA BALANCES	Balances are held by every organisation and are used to cushion the impact of unexpected events or emergencies, uneven cash flows and to avoid temporary borrowing	Can be used as a general contingency and should be maintained at a level of at least £100 per property.	Director of Housing and Inclusion	620
HRA ELEMENT OF INSURANCE	Funds held to meet the Council's self-insured	Costs are incurred when insurance	Borough	219

FUND	liabilities where this is a more cost effective method of insuring than using an external company	claims are settled. The level of the reserve is determined through actuarial reviews	Treasurer	
DISTRICT HEATING CHARGES RESERVE	This reserve holds the difference between the income raised from charges to tenants for the District Heating scheme and the cost of running this scheme (primarily gas charges).	It is Council policy to run this scheme on a cost recovery basis, and so it is necessary to maintain this reserve so that any surpluses that are achieved can be carried forward to fund lower charges to tenants in the future than otherwise would be possible	Director of Housing and Inclusion	295
REPAIRS RESERVE	This reserve is used to deal with demand led and other spending pressures on the response and void repairs budgets	Can be used as a general contingency for repairs expenditure and should be maintained at a level of at least 10% of the repairs budgets	Director of Housing and Inclusion	300
GENERAL SLIPPAGE RESERVE	This reserve is used to carry forward slippage on revenue and capital projects, where required	Enables the funding on schemes that are not completed at the financial year end to be carried forward so that the scheme can be completed in the next financial year	Director of Housing and Inclusion	100
BUDGET AND EFFICIENCY SAVINGS	This reserve is available to support the overall budget position	Used to deal with the financial challenges facing the HRA over a medium term period	Director of Housing and Inclusion	1,510

APPENDIX D

BUDGET ISSUES

	Budget Issues	2019/20 £000	2020/21 £000	2021/22 £000
	Capital Expenditure			
1	Asset Management Assessment model	185		
2	HRA Digital Initiatives Capital pot - ongoing	-	21	21
	Sub Total	185	21	21
	Revenue Expenditure			
1	Asset Management Assessment model - ongoing	-	15	15
2	Routine Electrical Testing 5 year cycle - ongoing	100	100	100
3	Gas Safety Compliance Application	72	72	72
4	Rent Sense - ongoing	43	43	43
5	Service Charge Management Software-ongoing	-	4	4
6	Resources for procurement compliance	60	5	5
7	Paperless direct debit extension - ongoing	17	19	19
8	Recruit two Housing Apprentices	23	0	0
9	GDPR Compliance Project	10		
	Sub Total	325	258	258
	Total	510	279	279

APPENDIX E

TENANT VIEWS ON BUDGET PROPOSALS 2019/20

Officers have met with the Tenant Scrutiny Group to review the overall HRA budget position and the budget issues proposed by officers, and answered tenant questions. Having scrutinised the budget proposals, tenants are supportive of them.