



AGENDA ITEM: 6(f)

CABINET: 10 January 2017

**EXECUTIVE OVERVIEW &
SCRUTINY COMMITTEE:
26 January 2017**

Report of: Director of Housing and Inclusion and Borough Treasurer

Relevant Portfolio Holder: Councillor J. Patterson

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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 Housing Account's financial position.

2.0 RECOMMENDATIONS TO CABINET

- 2.1 That the financial position be noted and consideration given to the budget matters set out in this report.
- 2.2 That the use of the Director of Housing and Inclusion's delegated authority in relation to rent and service charge changes be noted and endorsed.
- 2.3 That this report be used for consultation purposes prior to the Council considering this matter in February 2017.
- 2.4 That the Housing Portfolio Holder be given delegated authority to submit firm proposals to Council on 22 February 2017 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 26 January 2017.

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 22 February 2017.
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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 22nd February will provide all Members with the opportunity to debate and agree this budget.
- 4.2 The Policy Options report to the July 2016 Council meeting identified a cumulative budget gap of £7.954m for the HRA over the next 3 years in terms of the level of spending required to deliver agreed service levels and the value of funding that was expected to be available. This was primarily as a result of a change in government approach requiring rents to be reduced by 1% per year over the 4 year period to 2020, rather than allowing rents to be increased by inflation (CPI) plus 1%.
- 4.3 At the July 2016 Council meeting, a package of budget streamlining and other measures were agreed to address this position and this will deliver savings over the 4 year period 2016-20 of £3.453m. At the October Council meeting a further package of measures was agreed that would deliver additional savings of £6.155m in the period up to 2019/20. Following these policy option reports the bottom line position for the HRA was that it would have additional funds available for investment and to deal with future financial challenges. This report now provides an update on this position taking into account the work that has been completed to date through the budget setting process.

5.0 RENTAL INCOME

- 5.1 The Government announced a change in its policy on Council housing rents in the Summer of 2015, which required a 1% reduction in tenant rent levels per year for the four year period from 2016/17 to 2019/20. Rents were set on this basis in 2016/17 and a further 1% reduction will be made in 2017/18.
- 5.2 The Government had announced an exception for certain categories of supported housing in 2016/17, including sheltered housing. This meant in 2016/17 sheltered housing rents were increased using the previous approach of CPI + 1% which resulted in an increase of 0.9% for 2016/17. The Government had also advised that as a one-off option, providers of sheltered housing could increase the rent charged on re-let sheltered properties by 10% and this approach was taken during 2016/17. Government have since advised that sheltered housing for

elderly people will be subject to the same 1% reduction in rents per year for the remaining three years of the rent reduction policy and this is reflected in the 2017/18 budget estimates.

5.3 Consequently 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 2017 for all properties.

5.4 Rental income is the main funding source for the Housing Account. The rent reduction means that the overall level of rent 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
- 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 2017/18
- 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 continue to be monitored closely 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 service provision. In keeping with this principle it is proposed to increase the general level of service charges next year by 2.0% (based on the September CPI rate of 1.0% plus 1.0% in line with our standard practices).

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

- An analysis of Leaseholder service charges identified that the costs of service provision were being under-recovered. In February 2016 it was agreed to implement service charge increases in a phased manner over a 3 year period to rectify this position, and 2017/18 will be the second year of this approach
- The District Heating Account is currently in surplus and consequently it is proposed to reduce the level of heating charges by 2% in 2017/18
- Garage rents will be frozen at 2016/17 levels pending the implementation of the Garage Strategy
- Lancashire County Council have advised that the Supporting People grant previously paid to the Council (currently worth £237,000 per year) to support residents in sheltered accommodation will cease completely in March 2017. This follows a period of reductions in the level of grant received. In response to this anticipated decision a review of the sheltered housing support service and service charges has been carried out during 2016/17 and residents will be consulted on proposals in January 2017

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 2017-18 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 2017/18 are shown in Appendix B and provide a provisional HRA budget for 2017/18 covering all areas of revenue 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. They also allow for reductions in rents and changes in service charges as highlighted above. These estimates will be reviewed prior to the Council meeting in February 2017 to ensure that they are robust for the purposes of the budget calculation in accordance with the requirements of the Local Government Act 2003.
- 7.3 The draft HRA estimates reflect the following factors:
- The Policy Options agreed by Council in July 2016 and October 2016 have been built into the estimates
 - The Government has decided not to proceed with its compulsory Pay to Stay initiative in 2017/18 so this factor has not been included in the draft estimates
 - The Government has amended its plans to charge a High Value Assets Levy to each housing authority to fund the extension of right to buy to housing associations. In this year's Autumn statement the Government advised that an extended pilot would take place in one region, yet to be determined, before being rolled out. In effect this means that the High Value Asset Levy is not expected until April 2018 at the earliest and it could be longer. The value of any potential future levy is not reflected in the 2017/18 draft estimates or the Business Plan
 - The Government will introduce a new Apprenticeship Levy from April 2017, and the estimated cost for the HRA of £15,000 has been included in the draft estimates
 - Streamlining of operational budgets was carried out earlier in 2016/17 as part of the Policy Options process. As part of 2017/18 budget setting, budgets have again been reviewed and further savings found. These are primarily from harvesting previously reported savings by deleting posts that were being held vacant. This will not affect service delivery or existing employees.
 - The budget for external interest payments has been reduced as funding requirements for the capital programme have been financed by reducing cash balances rather than taking out external loans at higher interest rates

- A technical adjustment has been made to transfer £100,000 of the voids revenue budget into capital voids as this better reflects the nature of how money will be spent in this area. This change has a neutral bottom line financial impact.

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. 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 proposed Capital Investment Programme for the next 5 years is shown in Appendix D. This programme has been developed through the long term asset management process to ensure that sufficient investment will take place to develop and maintain the housing stock in line with agreed standards. The programme also contains a number of other schemes that reflect Member and tenant priorities including the Beechtrees Revival Project, and funding to enable affordable new homes to be built and / or purchased. The total value of the proposed programme is currently £10,447,000 in 2017/18, and this can be funded by a combination of revenue contributions, HRA borrowing, and capital receipts.

8.0 TOWARDS A BALANCED BUDGET POSITION AND LONG TERM PROSPECTS

8.1 The draft estimates contained in the appendices identify that there are additional funds available for investment next year. Officers will work with Members from both political groups, and will consult with tenants, to consider this position and how these funds can be used. In looking at finalising the budget for next year consideration will need to be given to a number of different factors including:

- Tenants comments and feedback on the budget position
- The acceptance of the new budget issues set out in Appendix C
- Potential future developments in the Welfare Reform agenda
- The potential future impact of the government's High Value Assets Levy
- The profiling of capital expenditure and borrowing across future financial years
- HRA reserves and balances

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. Business plan modelling

enables 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.

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