



COUNCIL: 28 February 2018

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 Portfolio Holder.
- 2.4 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 2018-19 represents year three 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 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 draft budget surplus of £551,000 in 2018-19 between the resources available and the expenditure required to deliver agreed service levels and investment plans.

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 2018 for all properties.
- 4.2 The Government have recently announced that for the five year period from 2020-21 to 2024-25 rent policy will revert to the previous approach of allowing an increase of 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 provides funds for further investment in the housing stock.
- 4.3 Rental income is the main funding source for the Housing Account. The 2018-19 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
 - Void levels and the time it takes to re-let can have an adverse impact on income levels. It is estimated that void levels will continue at their existing level – below 2% - into 2018-19.
 - The full roll out of Universal Credit from December 2017 will affect relevant tenant's income and how their housing costs are paid, and consequently this

may affect 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.

- 4.4 Government have recently announced that the Local Housing Allowance – a cap on the total value of housing costs that can be paid by benefits – will not be applied to social housing. There are no firm details yet as to exactly what this will mean in practice but it is welcome news for council house residents and for the HRA.

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 4.0% (based on the September CPI rate of 3.0% plus 1.0% in line with our standard practices).

- 5.2 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 2018-19 will be the third year of this approach. Review of leaseholder service charges is an annual activity which will continue as a matter of good practice
- Gas prices for West Lancashire BC reduced in 2017-18 by 8-10% In 2018-19 the level of heating charges to residents will therefore be reduced by 10%
- Work on the Garage Strategy has been carried out during 2017-18 and continues into 2018-19, and garage rents will therefore be increased by 3%, (CPI), after having been frozen for a number of years.

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 2018-19 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 the following factors:

- The reductions in rents and changes in service charges set out above

- Savings delivered as part of the staff reorganisations in November 2017 and February 2018 have been included in the estimates. In addition, a savings target of £81,000, (2% of the staff budget) has been included in the estimates to reflect natural staff turnover and the substantial favourable employee variances that have been achieved in recent years
 - The budget for response repairs has been reduced by £100,000 with a matching £100,000 increase in voids repairs to better match expenditure profiles on repairs
- 6.3 The Capital Investment Programme for the next 5 years is shown in Appendix B. This programme has been developed through existing asset information to ensure that sufficient investment will take place to develop and maintain the housing stock in line with agreed standards. The capital programme includes the factors below:
- Capital budget virements and re-profiling approved in December 2017 have been built into the estimates
 - Re-profiling of the five year capital programme to reflect the latest information and resourcing have been built into the estimates
- 6.4 Work on refreshing the stock condition information – a budget issue raised in Appendix D – will provide updated information that will allow the asset investment plan to be reworked during 2018-19. As a consequence it is anticipated that the five year budget may change significantly once this work has been completed. The programme also contains a number of other schemes that reflect Member and tenant priorities including the Beechtrees Revival Project and the Westec development scheme. The total value of the proposed programme is £13,199,000 in 2018-19 and this can be funded by a combination of revenue contributions, HRA borrowing, and capital receipts.
- 6.5 The bottom line budget position shows that there is a surplus of £551,000 available in 2018-19 after allowing for the draft revenue estimates set out in Appendix A and the draft capital investment programme set out in Appendix B. There is also £1.172m in the budget and efficiency savings reserve.

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 the active management of staffing vacancies generating a favourable budget variance on employee costs, savings from reorganisation, and because of a reduction in painting activity as a result of a painting contractor going into liquidation. 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 required to continue to meet agreed service levels 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 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 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. This report has no significant impacts on crime and disorder.

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.

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