

# CABINET

## Budget and Policy Framework Update 2016/20 – Housing Revenue Account and Capital Programme 19 January 2016

### Joint Report of Chief Officer (Health and Housing) and Chief Officer (Resources)

<b>PURPOSE OF REPORT</b>			
This report provides an update on the council housing budgetary position and seeks Cabinet's decisions on council housing rent levels for 2016/17 and targets for future years. It also seeks approval of Cabinet's supporting revenue budget and capital programme proposals for referral on to Budget Council, in order to complete the HRA budget setting process for 2016/17.			
Key Decision	<b>X</b>	Non-Key Decision	Referral from Cabinet Member
Date of Notice of Forthcoming Key Decision	18 December 2015		
This report is public.			

#### RECOMMENDATIONS OF COUNCILLOR LEYTHAM:

- 1 That the Housing Revenue Account Revised Budget for 2015/16, as set out at Appendix A, be referred on to Council for approval.
- 2 That the minimum level of HRA unallocated balances be retained at £350,000 from 01 April 2016, and that the full Statement on Reserves and Balances be endorsed and referred on to Budget Council for approval.
- 3 That subject to the enactment of the Welfare Reform and Work Bill currently passing through Parliament, council housing rents be set in accordance with draft statutory requirements as follows:
  - For properties let as at 01 April 2016, average rent be set at £70.60 for 2016/17, representing a reduction of 1% from the previous year, and
  - for 2017/18 to 2019/20 further average rent reductions be set at 1% year on year.
  - That following any property becoming void, it be re-let at 'formula rent' less the relevant cumulative year on year % reduction applicable (i.e. 1% for 2016/17 rising to 4% in 2019/20).
- 4 That beyond 2019/20, it be noted that the HRA Business Plan forecasts assume that council housing rents revert to increasing by 2% year on year, but this is

**subject to annual review and any future determinations that may be issued by Government from time to time.**

- 5 That Cabinet approves charging a flat rate of £7.95 for all garages for 2016/17, with this being increased to cover estimated Consumer Price Index (CPI) inflation each year thereafter.**
- 6 That the resulting Housing Revenue Account budget for 2016/17 onwards (as set out in Appendix A, subject to the recommendations above) be referred on to Budget Council for approval.**
- 7 That the Capital Programme as set out at Appendix D be referred on to Budget Council for approval.**
- 8 That the above recommendations for the Housing Revenue Account be reflected within the Council's draft Medium Term Financial Strategy as appropriate.**
- 9 That Cabinet notes that actions arising from the ongoing review of how council houses are to be repaired and maintained in the future are likely to have resource implications and once quantified, they will be reported on for consideration as necessary and fed into the Business Plan.**

## **1 INTRODUCTION**

- 1.1 The Council is required under statutory provisions to maintain a separate ring-fenced account for the provision of local authority housing, known as the Housing Revenue Account (HRA). This covers the maintenance and management of the Council's housing stock.**
- 1.2 As reflected in the MTFS, Cabinet's current rent policy for council housing is based on:**
  - an average rent of £71.31 for 2015/16, representing a 2% increase on the previous year; and
  - target average rent increases of 3% year on year thereafter.
- 1.3 The aim of the policy was to strike a balance between keeping rents affordable, managing financial risks, and increasing and improving council housing provision. For information a 1% change in rent equates to approaching £140K.**
- 1.4 In recent months, however, Government has made various announcements and issued draft legislation that, if enacted, would undermine the Council's current rent policy. Although clarity is still needed on various Government proposals, the main working assumption for the future is that:**
  - For most properties, rent will have to reduce 1% year on year for the next four years, except where properties become vacant and their rents have not yet reached convergence with other social housing providers (i.e. they are below what is referred to as 'formula rent'). In these circumstances, then the rents to be charged for new tenancies can increase up to the formula rent level, less the 1% year on year reduction.

- 1.5 In line with that context, Cabinet is now required to set the level of housing rents in sufficient time for the statutory notice of rent variations to be issued to tenants by 01 March, and make recommendations to Budget Council regarding the HRA's budget.
- 1.6 The draft MTFS will also be updated to reflect Cabinet's HRA budget proposals, for consideration at Budget Council.

## 2 2015/16 REVISED BUDGET

- 2.1 A review of the current HRA budget has been undertaken and during the year, a net surplus of £303K is forecast, which is £350K higher than originally forecast. A summary statement is set out at **Appendix A** and the main variations are shown below. This focuses on the 'cash' or bottom-line variances, excluding any notional charges:

SUMMARY OF MAIN 'CASH' VARIANCES ON HRA		£'000
<b>Operational Variances: (+)Adverse / (-)Favourable</b>		
Reduced spend on Repairs and Maintenance		-113
Decrease in Bad Debt Provision		-46
Net Decrease in Revenue Financing of Capital Programme (either directly or from Reserves)		-139
Other minor variances (net)		+68
<b>Sub-total</b>		-230
<b>Review of Reserves (see section 3)</b>		
Net Reduction in transfer to Major Repairs Reserve		-153
Net Reduction in transfers to other Earmarked Reserves		-41
Net Increase in Capital Receipts		+74
<b>Net Surplus Forecast for Year</b>		<b>-350</b>

- 2.2 A number of key points are highlighted:

- An initial review of Repairs and Maintenance has determined that ongoing annual efficiencies can be made and consequently these have been built into both current and future years' expenditure forecasts. There is a more in depth review currently being undertaken, however, which will look how in future we ensure that repair and maintenance of our housing stock is delivered in the most efficient, effective and economical way.
- Average capital receipts from annual Right to Buys have increased in the previous and current year, thereby reducing the call on revenue to finance the Capital Programme

- 2.3 Taking account of the overall revised budget outlined above, HRA Balances at the end of this year are expected to be around £886K higher than originally forecast, as shown in the following table:

	2015/16 Original Budget £'000	2015/16 Revised Budget £'000
Original Estimated Balances as at 31 March 2016	458	458
<b>Add:</b> Underspending in 2014/15, at outturn	--	536
<b>Add:</b> Forecast surplus in current year	--	350
<b>Forecast Balances as at 31 March 2016</b>	<b>458</b>	<b>1344</b>
<b>Of which:</b>		
<b>Surplus Balances (above minimum £350K)</b>		<b>994</b>

- 2.4 Cabinet is recommended to refer the HRA Revised Budget for 2015/16 to Council as set out at **Appendix A** for approval.

### 3 PROVISIONS, RESERVES AND BALANCES

- 3.1 The Section 151 Officer is required to undertake a formal review of general reserve levels. In assessing the adequacy of such balances, the Chief Officer (Resources) takes account of the strategic, operational and financial risks facing the authority. The effectiveness of internal financial and other controls are also taken into account; assurance on these can be taken from the respective formal Statements and external assessments. Consideration has also been given to the specific risks and assumptions underlying the HRA as set out in **Appendix B**.
- 3.2 After reviewing the Housing Revenue Account and General Fund in comparative terms and considering the key issues, assumptions and risks underlying the budget projections, the Section 151 Officer advises retaining the minimum level of HRA Balances at £350K for now to support the budget forecasts, as part of the overall medium term financial planning for the HRA. This level has presented no difficulties in previous years and furthermore, the HRA still has other substantial reserves available, to support the condition of the housing stock and manage other current service risks. It should be recognised, however, that there is more uncertainty going forward than there has been in previous years and so this level will need to be reviewed again at outturn, once there is a clearer understanding of the legal framework being proposed / implemented by Government and the impact on the Business Plan.
- 3.3 The Business Support Reserve (BSR) has a current unallocated balance of £8.3M. The impact of Government changes to the future financing of the HRA are significant and as a result, the first call on the BSR will be required to support existing commitments over the lifetime of the 30-year business plan as can be seen at **Appendix C (i)**. At this point in time consideration of future plans for increasing the stock of one bedroom accommodation is still on hold, therefore. It should be noted that officers have been moving some schemes forward but until the impact of all the legislative and policy changes being introduced by Government are properly understood followed by a full financial appraisal, it is recommended that only the two schemes at Carnforth are taken to full planning approval, alongside progressing the scheme for additional sheltered housing bungalows together with the conversion of the ex-scheme manager's house into two sheltered flats at Parkside Court, Westgate, and that work on all other schemes ceases for now. No schemes will be progressed to build stage without approval by Cabinet.

- 3.4 It should be noted that there has been less call on the Major Repairs Reserve in the current year than originally assumed, mainly due to reduced capital expenditure on various schemes and increased average capital receipts being received and applied as a result of Right to Buys.
- 3.5 An interim review of other earmarked reserves for next year has again identified that not all in year contributions are needed for the forthcoming year, although it is likely that they will still be required over the 30 year period. A more detailed review is still needed, however, and will be undertaken during 2016/17 to inform future levels.
- 3.6 In terms of provisions, the annual contribution to the bad debts provision has reduced from those planned a year ago based on current activity, noting that the full impact of welfare reforms has not yet hit the HRA budget and so will need to continue to be closely monitored.
- 3.7 A draft Statement on all reserves is attached at **Appendix C (i)** and **Appendix C (ii)**. The latter details the purpose and application of each reserve together with relevant recommendations on current use. These reserves are viewed as adequate for the period covered, but will need to be reviewed in more detail as highlighted above. Cabinet is asked to endorse this information, with the Statement being referred on to Council as part of the HRA budget proposals.

#### 4 **2016/17 BASE BUDGET AND FUTURE YEARS' PROJECTIONS**

- 4.1 The draft budget has now been prepared for 2016/17 together with projections for 2017/18, 2018/19 and 2019/20, noting that the revenue projection now covers four years, rather than the previous three year horizon. The budgets are set out in line with Accounting Requirements and they take account of the usual pay and price inflation assumptions. Specific aspects of the budget are outlined in more detail below.
- Provision continues to be made for repayment of the self-financing debt over the next 27 year period. No provision has been made as yet in respect of the £15.3M HRA share of earlier years' debt, but this is the same approach that applied under the former subsidy system.
  - With regard to financing investment needs for the existing housing stock, the budget has been prepared on the basis that if there is a shortfall arising in the funding required to support the capital programme, then ultimately this would be covered by using the Business Support Reserve, over the lifetime of the current Business Plan.
  - As referred to in the Budget & Policy Framework update presented to Members at December's meeting, Government's emerging policy for social housing rent has massive implications for the viability of Council Housing's 30-year Business Plan. Initial estimates indicated a shortfall of around £90M over the period, as was reported in September.
  - In response to this, an annual savings target of £500K was set for the HRA at the beginning of the budget process. This is now built into the draft budgets and has mainly been achieved as follows:
    - £260K (average per year) – revenue financing of capital programme. Following a review of the capital programme asset lives have been extended

(where possible) drawing on past experience of existing stock requirements, e.g. pebble dashing, re-rendering, replacement gutters and other external refurbishment works. Effectively this will spread the cost of such works over a longer period and therefore reduces the annual financing requirement.

- £40K – reduced call on revenue to fund the capital programme, as a result of increased estimated annual capital receipts from Right to Buys (i.e. there being more capital funds expected to help with financing).
- £100K – more focus on essential planned maintenance and less on desirable works.
- £50K – other general revenue efficiencies.
- £50K additional income – based on the draft statutory requirement that all void properties will move onto formula rent upon being re-let, noting that the relevant cumulative year on year reduction will still need to be applied (i.e. 1% for 2016/17 rising to 4% in 2019/20).

4.2 Whilst there will be some comparatively minor service and tenant impact arising from the proposals, the bulk of the changes are financing matters and as such, they should have no direct impact.

4.3 Cabinet should note also that actions arising from the ongoing review of how council houses are repaired and maintained are likely to have resource implications. Once these have been quantified, they will be reported through for consideration as necessary, and fed into the next update of the HRA Business Plan.

## 5 **CAPITAL PROGRAMME 2015/16 TO 2019/20**

5.1 The Council has a statutory duty to ensure that all of its council housing stock meets the Decent Homes Standard.

5.2 In capital investment terms, the aim is to establish a sound long-term investment programme, which identifies the indicative investment needed to maintain the housing stock over the 30-year business planning period, taking account of the required housing standards. The financing of this investment is then incorporated back into the HRA business plan, to establish (and address) its affordability and viability.

5.3 **Appendix D** sets out the overall capital programme for consideration by Cabinet and referral on to Council. To keep revenue and capital planning horizons the same (in line with General Fund), the programme still covers the period to 2019/20. More details are provided in the sections below.

### 5.4 **2015/16 Revised Capital Programme**

5.4.1 The 2015/16 Council Housing Capital Programme was set at £4.950M by Council on 4 March 2015. This programme has since been updated for known changes to date to give a revised programme of £4.831M.

## **5.5 2016/17 to 2019/20 Capital Programme**

- 5.5.1 Future years' programmes are set in line with the HRA Business Plan wherever possible. In support of this, work is currently taking place to assess the requirement needs of the existing council housing stock and the initial results of this have been fed into the 30-year Business Plan (including Mainway and Ridge Square). Drawing on information from this and the Stock Condition Survey undertaken during 2014 and allowing for revenue funded maintenance, the draft programme included at Appendix D should enable the housing stock to continue to be maintained to the appropriate standards.
- 5.5.2 In terms of future investment, due to current uncertainty surrounding further Government proposals, e.g. compulsory sale of high value council housing when it becomes vacant and the introduction of Local Housing Allowance caps on social housing, no assumptions on future new build have been included in the current programme. See also comments provided under section 3.3.
- 5.5.3 The total draft five year programme for 2015/16 onwards now stands at £23.319M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement. The HRA is therefore still in a reasonable position financially (in the short to medium term, at least), subject to further Government announcements and noting that consideration of further investment must still ensure that long-term financial sustainability is not compromised.

## **6 RENT SETTING POLICY**

- 6.1 In September 2012, Cabinet adopted a HRA medium term financial strategy and rent policy that supported the future needs of the HRA housing stock, whilst enabling the Council to consider using HRA funding in a wider regeneration context.
- 6.2 Subsequent to that at its meeting on 12 February 2013, Cabinet approved a rent setting policy for the medium term for years 2014/15 to 2016/17 of 1%, 2% and 3% respectively.
- 6.3 Cabinet further re-affirmed its rent setting policy for the medium term with a rent increase of 2% for 2015/16 and 3% per annum from 2016/17 onwards on 17 February 2015.
- 6.4 Since then, Members will be aware that Government has made several announcements which impact on council housing finances, and in particular rent setting. Through the Welfare Reform and Work Bill currently going through parliament the Government is imposing a reduction of 1% per year for the next four years from 1 April 2016. This statutorily removes the freedom to set local rent levels and will have a significant impact on the viability of the Council's 30-year Business Plan.
- 6.5 Whilst this rent reduction may be seen as good news for existing tenants in the short term, there are longer term consequences for the Council as provider of affordable housing.
- 6.6 The provisions in the Bill have greatly reduced potential (and previously budgeted for) income for not just existing services and maintenance needs but also any new build aspirations. Furthermore, other government social housing proposals, the compulsory sale of high value council housing when it becomes vacant, and the

introduction of local housing allowance caps on social housing will add significantly to the challenges ahead, in terms of maintaining the viability of the Business Plan.

- 6.7 The table below (in line with the decision made in February 2013) also shows the impact of the 1% reduction over the next four years in line with Government's draft legislation. For now, it is assumed that rents will increase by 2% per annum thereafter, but this is by no means certain.

<b>30 Year Business Plan – Business Support Reserve &amp; Unallocated Balances</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>30 Year Cumulative Total</b>
Projections as at February 2015	£9.008M	£9.140M	£9.324M	£10.131M	£10.829M	<b>£8.434M</b>
Projections as per draft Government Legislation (including savings requirement)	£9.740M	£9.903M	£9.902M	£9.486M	£8.121M	<b>£5.472M</b>

- 6.8 For information, 2016/17 will be a 52 week rent year, which will be collected over the standard 48 weeks with 4 non-collection weeks.
- 6.9 The Council also manages just over 400 garages within the HRA. Currently, garage rents charged across the district are inconsistent. For 2015/16 the average weekly rent is £7.09 (48 week basis) and currently varies between £6.08 and £10.49 depending on location.
- 6.10 There is an additional budget option to be reviewed at a local level, i.e. it is proposed that from 1 April 2016 all garage rents are set at a weekly rent of £7.95 (48 week basis) and in subsequent years increased by general inflation (currently 2%), thereby setting a consistent 'base' for all garages across the district. This will achieve an additional income of £17K (plus inflation) per annum and is for Members' consideration. It is not currently built into the base budget.

## 7 DETAILS OF CONSULTATION

- 7.1 The draft Revenue Budget and Capital Programme will have been presented to the District Wide Tenants' Forum prior to the Cabinet meeting, with the outcome being reported in verbally. If, as expected, Government proposals go through Parliament and become legislation, then this effectively removes the freedom for councils to set their own housing rent levels. In effect, therefore, the sharing of information on this aspect is for information purposes only.

## 8 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

- 8.1 With regard to the revenue budget generally, Cabinet could consider other proposals that may influence spending in current and future years, as long their financing is considered and addressed.



- 8.2 The options available in respect of the minimum level of HRA balances are to set the level at £350,000 in line with the advice of the Section 151 Officer, or to adopt a different level. Should Members choose not to accept the advice on the level of balances, then this should be recorded formally in the minutes of the meeting and it could have implications for the Council's financial standing, as assessed by its external auditors.
- 8.3 There is currently no other alternative available in respect of the 2016/17 housing rent setting other than implementing Government draft legislation and this is set out in section 6 of the report. If the draft legislation appears not to be progressing through Parliament in a timely fashion, this will be addressed at Cabinet's February meeting.
- 8.4 In terms of garage rents, an option is presented to gain consistency and Cabinet may either choose to support this, or retain existing rents but this would not address the inconsistencies.
- 8.5 The options available in respect of the Capital Programme are:
- i) To approve the programme in full, with the financing as set out;
  - ii) To incorporate other increases or reductions to the programme, with appropriate sources of funding being identified.
- 8.6 Any risks attached to the above would depend very much on what measures Members proposed, and their impact on the council housing service and its tenants. As such, a full options analysis could only be undertaken once any alternative proposals are known, and Officers may require more time in order to do this.

## **9 OFFICER PREFERRED OPTION AND COMMENTS**

- 9.1 The Officer preferred options are to:
- Approve / refer on the provisions, reserves and balances position as set out.
  - Set housing rent levels in line with Government's draft proposals, noting that this statutorily removes any freedom to set rent levels locally and that further savings may still be required to ensure that current stock levels continue to be maintained to required standards and that any detrimental impact associated with any future accounting / regulatory / welfare reform changes / actions associated with the high level review of RMS will need to be addressed at that time.
  - Approve the changes to garage rents to gain consistency.
  - Note that if future investment opportunities are to be considered, then as referred to in sections 3.3 and 5.5.2, these can only really be properly assessed once there is a better understanding of Government's plans post implementation and in particular their impact on the viability of the 30-year Business Plan.
  - Approve / refer on the revenue and capital budget proposals as set out.

**RELATIONSHIP TO POLICY FRAMEWORK**

The budget represents, in financial terms, what the Council is seeking to achieve through its approved Housing Strategy in relation to council housing.

**CONCLUSION OF IMPACT ASSESSMENT**

(including Diversity, Human Rights, Community Safety, Sustainability etc)

No significant implications directly arising.

**FINANCIAL IMPLICATIONS**

As set out in the report.

**SECTION 151 OFFICER'S COMMENTS**

The s151 Officer has contributed to this report, which is in her name in part (in her capacity as Chief Officer (Resources)).

**LEGAL IMPLICATIONS**

There are no legal implications arising from this report.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

**BACKGROUND PAPERS**

None

Contact Officer: Nadine

Muschamp/Suzanne Lodge

Telephone: 01524 582117 / 582701

E-mail: [nmuschamp@lancaster.gov.uk](mailto:nmuschamp@lancaster.gov.uk)