



LATE REPORTS, URGENT BUSINESS and SUPPLEMENTARY INFORMATION

Cabinet

Tuesday, 19 January 2010

The following reports were received too late to be included on the main agenda for this meeting and were marked 'to follow'. They are now enclosed, as follows:

Agenda Item Number	Page	Title	Reason for Late Report	Officers Responsible For Late Report
6	1 - 20	2010/11 BUDGET AND POLICY FRAMEWORK UPDATE: STRATEGIC CONTEXT AND PLANNING, HOUSING REVENUE ACCOUNT	Report not available at time of agenda publication.	Corporate Director (Community Services) and Head of Financial Services

Agenda Item Number	Page	Title	Reason for Late Report	Officer Responsible For Late Report
14	21 - 28	CHATSWORTH GARDENS, MORECAMBE	Report not available at time of agenda publication.	Corporate Director (Regeneration)

CABINET

**2010/11 Budget & Policy Framework Update –
Housing Revenue Account and Capital Programme
19 January 2010**

**Report of Corporate Director (Community Services) and
Head of Financial Services**

PURPOSE OF REPORT				
This report updates the Housing Revenue Account (HRA) revised budget position for the current year and sets out the recommended budget for 2010/11 and future years. It also sets out the updated Capital Programme for 2009/10 and a proposed programme to 2014/15.				
Key Decision	X	Non-Key Decision		Referral from Cabinet Member
Date Included in Forward Plan	January 2010			
This report is public.				

RECOMMENDATIONS OF COUNCILLOR KERR:

1. That the Housing Revenue Account Revised Budget for 2009/10, as set out at Appendix A, be recommended to Council for approval.
2. That the revenue growth bids as set out at Appendix B be supported, to be funded by reductions in the contributions into the Major Repairs Reserve.
3. That the Housing Revenue Account Budget for 2010/11 as set out at Appendix A, as amended for growth above, be recommended to Council for approval, subject to there being no major changes arising from the final housing subsidy determination.
4. That Cabinet recommends to Council that the minimum level of HRA unallocated balances be retained at £350,000 from 01 April 2010, and that the Statement on Reserves and Balances be noted and referred to Council for information.
5. That average council housing rents for the year commencing 01 April 2010 be set at £60.06, representing an increase of 2.75%.

6. That at present future year budget projections continue to assume a 5% year on year increase in average rents, with this being reviewed once the final outcome of Government's reform of council housing finance is known .
7. That the Capital Programme as set out at Appendix E be referred on to Council for approval.
8. That Cabinet notes that the proposed revenue budgets and capital programme will be referred to the District Wide Tenants Forum and that any issues arising are planned to be fed directly into Council.

1 INTRODUCTION

- 1.1 The Council is required under statutory provisions to maintain a separate ring-fenced account for all transactions relating to the provision of local authority housing, known as the Housing Revenue Account (HRA). This account includes all transactions relating to the maintenance and management of the Council's housing stock.
- 1.2 It is therefore necessary to prepare separate revenue and capital budgets for the HRA each year, and 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. In order to meet this deadline, it is recommended that Cabinet set the rent increase for 2010/11 at this meeting, and recommend a balanced budget and fully financed Capital Programme for referral on to Council.

2 2009/10 REVISED BUDGET

- 2.1 A review of the current HRA budget has been undertaken. Whilst operationally, some net savings have been achieved, surplus balances brought forward from last year have now been applied, resulting in an overall increase in net expenditure of £144K when compared with the original budget. A summary statement is set out at **Appendix A** and the main variations are also shown below, discounting any notional items. One of the key changes relates to making some provision for estimated costs arising in connection with the proposed senior management restructure; a Restructuring Reserve of £100K for Council Housing is now assumed. Whilst no final decisions have been made regarding such restructuring, the draft budget should make provision to facilitate any plans should they go ahead. If plans change, any reserves not required would simply fall back into balances.

SUMMARY OF MAIN VARIANCES ON HRA	£'000
Operational Variances: (+)Adverse / (-)Favourable	
Approved Carry Forward Requests (re 2008/09 underspendings)	+52
Reduction in Dwellings Rent (resulting from in-year decision)	+251
Reduction in HRA Subsidy Payable (related to rents item above)	-252
Charges for Services and Facilities	-121
Repairs and Maintenance	+100
Supervision and Management	-116
Increase in Provision for Bad Debts	+62
Reduced Interest on Investments	+76
Reduction in Interest Payable and Similar Charges	-47
Other Minor Variances	-20
Sub-total:	-15

Other Variances:	
Contribution to Restructuring Reserve	+100
Net Changes regarding Other Earmarked Reserves	-72
Increase in Contributions to Major Repairs Reserve (MRR)	+295
Reduction in Direct Revenue Financing	-164
Forecast Change in Net Position for Year (+ Adverse) (i.e. Increase Required in Contribution from Revenue Balances)	+144

- 2.2 Taking account of the recommended Revised Budget outlined above, HRA Balances would be as follows. It can be seen that in general terms, the balances position is as originally forecast. This is because any surplus resources have been transferred to help fund future years' capital investment, linked to the 30-year Business Plan.

	2009/10 Original Budget £'000	2009/10 Revised Budget £'000
Balance brought forward from 2008/09	350	494
Transfer to/(from) Balances	-	(144)
Forecast Balances as at 31 March 2010	350	350

- 2.3 Cabinet is recommended to refer the HRA Revised Budget for 2009/10 to Council for approval.

3 **2010/11 BASE BUDGET AND FUTURE YEARS' PROJECTIONS**

- 3.1 The draft budget has now been prepared for 2010/11 with projections for 2011/12 and 2012/13. The budgets are set out in line with Accounting Requirements. Specific aspects of the budget proposals are outlined in more detail below.

3.2 **Housing Subsidy**

- 3.2.1 Housing Subsidy is calculated from a number of components. Authorities receive an allowance per property based on notional expenditure on management, maintenance, and major repairs. Added to these allowances is the actual expenditure on debt charges to give a notional total expenditure amount. From this is taken the notional rent income per property and actual interest receivable, to give a notional HRA surplus or deficit.
- 3.2.2 For those authorities with a notional deficit, subsidy is payable from Central Government to cover that deficit. Conversely authorities with a notional surplus are required to make payments to Government and this is known as a 'negative subsidy' position – the City Council is in such a situation.
- 3.2.3 The Draft HRA Subsidy Determinations for 2010/11 were published late this year, on 10 December 2009, the consultation period for which ends on 25 January. This means that the final determinations (which are normally received before Christmas) will not be ready for publication until after the consultation period ends, i.e. after the

January Cabinet meeting. Should there be any significant changes in the final determinations, the HRA budget proposals would have to be amended accordingly and brought back for reconsideration by Cabinet – though it is assumed that any changes would have to be managed through means that would not impact on rent levels. That said, it is not expected that significant changes will arise in the final determinations, but this is not guaranteed.

3.2.4 At present though, no significant changes have been proposed to the current subsidy system and it is understood that these are being avoided until after the final outcome of the work on the 'Reform of the Council Housing Finance' is known. Therefore the Draft HRA Subsidy Determinations are constructed using similar parameters as those used in previous years. It should be noted that the Determination is for one year only, and a new Determination will be issued for 2010/11, hence future years' estimates have been based on the assumption that the formulae will remain unchanged. A breakdown of the key areas is as follows:

- **General Formula:** The general formula for calculating the HRA subsidy payable for 2010/11 is based on that used for the original 2009/10, subsidy determinations in December 2008.
- **Management and Maintenance (M&M) Allowances:** These are key expenditure assumptions within the HRA subsidy system. There have been no changes to the formulae used for M&M allowances and the Council's allowances have increased by just over 2% and 1% retrospectively.
- **Guideline Rents:** The rent income figure used for calculating housing subsidy is based on a 'guideline' rent; this notional rent is calculated by Government based on a number of assumptions. For 2010/11, the guideline rent is £60.66 which provides for an average annual increase of 3.1%, before the adjustment for Caps and Limits.
- **Limit Rents:** Although not part of the Subsidy Determinations, Government also sets a 'Limit Rent' for each authority, for housing benefit subsidy purposes. For 2010/11, the Limit Rent is £61.82, which is an increase of just over 2%. If the Council sets its rent above the limit rent, it will be penalised by way of Rent Rebate Subsidy Limitation.
- **Caps and Limits Adjustment:** In 2008/09 the Government returned to the Caps and Limits adjustment to compensate authorities for keeping their actual rent increases *below* the Government's proposed upper level. Assuming therefore that the City Council keeps its actual rent increase to no more than this upper level (RPI +.5%+ £2), the full compensating adjustment would be applied to the guideline rent for subsidy purposes. This effectively reduces any upward pressure on the level of negative subsidy but for 2010/11 only.
- **Major Repairs Allowance (MRA):** This represents the estimated long-term average amount of capital spending required to maintain the housing stock in its current condition. For the Council, MRA has increased by just 0.18% per property for 2010/11.
- **Negative Subsidy Payable to Government:** The combination of the above, together with the other elements in the Subsidy calculation, produces an overall increase of £641K in the estimated amount payable for 2010/11, when compared with the revised budget for current year. The main reasons for this are the very small

increase in the MRA and the impact of a reduced Caps and Limits adjustment that has resulted in a much higher increase in guideline rent.

3.2.5 The following table summarises the current projections of subsidy for Lancaster to 2012/13:

	2009/10 Original Budget £'000	2009/10 Revised Budget £'000	2010/11 Budget £'000	2011/12 Projection £'000	2012/13 Projection £'000
Management Allowance	2,005	2,005	2,048	2,119	2,191
Maintenance Allowance	3,922	3,922	3,970	4,108	4,246
Major Repairs Allowance	2,304	2,304	2,307	2,364	2,420
Charges for Capital	1,793	1,704	1,723	1,798	1,809
	10,024	9,935	10,048	10,389	10,666
LESS: Guideline Rent	-11,206	-10,865	-11,621	-12,025	-12,430
Interest on Receipts	-3	-3	-1	-5	-5
Subsidy Adjustment Prior Year					
Negative Subsidy Payable to Govt.	-1,185	-933	-1,574	-1,641	-1,769

3.3 Council Rent Levels

3.3.1 As mentioned earlier, Central Government sets a 'Caps and Limits Adjustment' for each authority. To take advantage of this (but avoid any penalties on subsidy), the allowable increase in average rent for 2010/11 is 2.75%, which would produce an average weekly rent of £60.06. This is well below the maximum of £61.82 stipulated by the Limit Rent. This level of increase is:

- below the medium-term assumptions previously made;
- sufficient to maintain the financial viability of the Account and its contribution to the 30 year Business Plan, at least in the short term until the outcome of the financing reform is known;
- designed to keep rent rises at a more affordable level for tenants;
- calculated to maximise the subsidy position of the Council without incurring rent rebate limitation penalties and reductions in caps and limits adjustments.

3.3.2 However, it is assumed that the 5% increase will be retained for future years. This assumption supports:

- the longer term financial viability of the Account and its contribution to the 30 year Business Plan, recognising the uncertainties until any reforms are announced, and giving flexibility to respond accordingly if need be;
- keeping rent rises closer to the Governments proposal for rent restructuring;
- the Authority in keeping as near to the Government's convergence target as possible, whilst keeping rents at a reasonably affordable level for the tenant, and

- keeping rent levels below the projected Limit Rent and projected upper level to avoid incurring rent rebate limitation penalties and reductions in caps and limits adjustments.

3.3.3 Whatever rent increases are assumed for 2011/12 onwards, they will need to be reviewed once Government has made announcements regarding future reforms.

3.4 Rent Collection Periods

3.4.1 The council will be collecting rents over the standard 48 weeks with 4 rent free weeks. As was reported earlier this year, actual weekly rent increases payable by tenants for 2010/11 will be skewed slightly because of the mid-year changes during 2009/10, but this is unavoidable.

3.5 Savings and Growth

3.5.1 A number of budget proposals have been put forward, details of which are set out in **Appendix B**. The growth proposals in total amount to £263K in 2010/11, £3K in 2011/12 and £13K in 2012/13. Should Cabinet wish to support some or all of the requests, then it is proposed to adjust accordingly the budgeted contribution to (or from) the Major Repairs Reserve. Given the nature of the proposals, this will not have any major implications for the 30-year Business Plan. It is highlighted however that as yet, the draft budgets as set out at Appendix A do not provide for any such adjustments regarding growth.

3.5.2 Cabinet will be aware that earlier in the year, approval was given to seek funding to develop a choice based lettings scheme. Should the funding be successful, a contribution of £40K would be required and the budget assumes that this will be taken from the IT Replacement Reserve. A further report to Cabinet regarding the options for implementing any scheme would be submitted in due course.

3.5.3 Any operational savings have been adjusted for during the budgeting process, these have been relatively minor and no further proposals have been made. It should be noted however that the draft budget makes no assumptions as yet regarding any ongoing savings from the senior management structure, and it may not result in salary savings in 2010/11 even if approved. As such, any budget changes arising would be effected during the year as appropriate.

3.6 Reserves and Balances

3.6.1 The Section 151 Officer is required to undertake a formal review of general reserve levels. In assessing the adequacy of such balances, the Head of Financial Services takes account of the strategic, operational and financial risks facing the authority. Progress continues to be made in managing such risks, in line with the Council's recently updated Strategy. In addition the Officer needs to take account of the effectiveness of internal financial and other controls; 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 C**.

3.6.2 After reviewing the Housing Revenue Account and General Fund in comparative terms and considering the issues, assumptions and risks underlying the budget projections, the Section 151 Officer advises retaining the minimum level of HRA balances at £350K to support the budget forecasts, as part of the overall medium

term financial planning for the HRA. Should Members choose not to accept this advice, then this should be recorded formally in the minutes of the meeting. It is also highlighted that unless there is a significant increase or decrease in financial risk, the current recommendation to retain HRA balances at a minimum of £350K will stand for future years. However, this may well change in the future. Government is due to publish its final proposals on the 'review of the HRA subsidy system' and inform Councils of the terms and conditions on which they can leave the current housing subsidy system.

- 3.6.3 In effect, setting the minimum level of balances at £350K would mean that any surplus balances would be available to support capital investment and the 30-year Business Plan. Such use is already reflected in the HRA budget proposals as set out in Appendix A. It can be seen from this that HRA balances are maintained at just the minimum level in future years.
- 3.6.4 Cabinet may be aware that in order to fund the Business Plan, it was originally forecast that resources of approximately £14.3M would need to be set aside by 2015. Under the current budget proposals, it is forecast that balances of £10.5M will be set aside by the end of 2014/15, leaving a gap of £3.7M. This has deteriorated by £1.2M on the last reported position of £2.5M but will be reviewed in due course (see comments in s5.5 later in this report).
- 3.6.5 A draft statement on all reserves is attached at **Appendix D**. These are viewed as adequate for the period covered, but will need to be reviewed regularly as shown. Cabinet is asked to note this information, with the Statement being referred on to Council in support of its HRA budget proposals.

3.7 Overall Position

- 3.7.1 If rents were to be set in line with the proposals made under 3.3 of this report and the other various budget issues were approved as set out above, but excluding any growth assumptions, the overall position regarding the HRA budget would be as set out at **Appendix A**. This shows that for 2010/11, the Account would make a contribution of £1.305M towards the funding of in-year capital expenditure, whilst meeting forecast base revenue expenditure and retaining a balance of £350K.
- 3.7.2 In essence the above proposals mean that a substantial proportion of revenue funding would be used to support capital spending, with further resources being held in the Major Repairs Reserve. If in future, however, there was a need to switch available resources between revenue and capital, this could be facilitated.

4 REVISED CAPITAL PROGRAMME 2009/10

- 4.1 The Council Housing Capital Programme was set at £3.55M by Council on 04 February 2009. This programme has since been updated by Cabinet for the addition of £478K of slippage on 28 July 2009.
- 4.2 The Capital programme has then been adjusted to incorporate procurement savings, new additions and other projected variances. Procurement savings total £398K, these are a direct result of receiving lower than estimated tenders and are as follows:
- £20K on Kitchen/Bathroom Refurbishments
 - £101K on External Refurbishments

- £273K on Re-Roofing/Window Renewals
- £4K on Environmental /Crime Prevention Works

4.3 The following additions totalling £190K have been made to the capital programme:

- £78K for Capital Salaries
- £15K Prospect Grove Office Conversion
- £67K for IT Software
- £30K Boiler Replacement on Sheltered Schemes

4.4 A further increase of £28K has been made to the capital programme to allow for expected variances at the end of the year, these are made up of the following:

- £77K saving on Kitchen/Bathroom Refurbishments
- £13K saving on Re-Wiring
- £17K saving on Renewal of Heaters
- £26K saving on IT Replacement
- £71K increase to External Refurbishments
- £60K increase to Environmental /Crime Prevention Works
- £30K increase to Energy Efficiency Works

4.5 The revised 2009/10 Capital Programme, which now totals £3.848M, is attached at **Appendix E** for Members' approval.

5 CAPITAL PROGRAMME 2010/11 TO 2014/15

5.1 Council Housing Services have a statutory duty to ensure that all of the Council Housing stock meets the Decent Homes Standard by 2010. Following the Stock Condition Survey undertaken during 2007/08, it was identified that 1% of the stock did not meet the Decent Homes Standard. The work identified was minor in nature and has been addressed through the Housing Revenue Account Responsive Repairs Budget. Ideally the Council needs to maintain its stock to at least Decent Homes Standard leading up to 2010.

5.2 In addition, the Council has agreed its own standard for improvement works, i.e. the Lancaster Standard, and this exceeds the Decent Homes Standard (as determined under the old methodology). This Lancaster Standard has been agreed with the District Wide Tenants' Forum.

5.3 The Council has a long-term investment programme, which identifies resources needed to maintain a viable 30-year Business Plan, taking account of such Housing Standards. The present business plan has been signed off by the Government Office as being fit for purpose.

5.4 One of the outcomes from the Stock Options Appraisal was that future years' programmes should be set in line with the HRA Business Plan wherever possible. The recommended Capital Programme is set out at **Appendix E**. Whilst this has been extended into 2014/15, other than the changes in connection with revenue financing outlined earlier, there are no other major changes proposed to balance the 5-year Programme. The Capital and Revenue Planned Maintenance Programmes identified for 2010/11 have been drawn up from the information from the 2001 & 2008

Stock Condition Surveys and contained within the 30 year Business Plan. The programmes will enable the housing stock to continue to meet both the Decent Homes Standard and the Lancaster Standard using the information from the 2001 & 2008 surveys. However these programmes may need to be revised in future, once the results of the 2008 Stock Condition Survey have been processed through the Resource Accounting software, to provide a spend profile over a 30 year period.

- 5.5 Also as mentioned earlier, the Business Plan shows that surplus resources approaching £10.5M are forecast to be set aside over the next five years or so in order to fund later years, and though initial scenarios have been tested it is necessary to do further work in understanding how such financial projections contained in the HRA Business Plan will link with the projected revenue and capital budgets under a self financing system or an improved subsidy system. It is intended that this exercise will be concluded and reported to cabinet during 2010/11 after Government makes its final proposals on the 'review of the HRA subsidy system' and inform Councils of the terms and conditions on which they can leave the current housing subsidy system. Further information is expected next month.

6 DETAILS OF CONSULTATION

- 6.1 It is intended that the draft Revenue Budget and Capital Programme will be presented to a meeting of the District Wide Tenants' Forum to be held in January 2010. It is also intended that any views expressed by the Forum will be fed directly into Council.

7 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

- 7.1 With regard to the Revised Budget, Cabinet could consider other proposals that may influence the Revised Budget for the year and the call on revenue balances.
- 7.2 The most obvious options available in respect of the 2010/11 rent increase are to:
- i) Set the average housing rent at £60.06, ie an increase of 2.75% as proposed in paragraph 3.3.1;
 - ii) Set the rent increase at a higher level of 3.1% in line with the Government's Guideline Rent increase. This would result in an actual average rent of £60.26. This would further increase rental income available to the Housing Revenue Account by £40K in 2010, but even though this increase is within the Limit Rent, there would be a £ for £ reduction in the caps and limits adjustment, resulting in a net nil impact on the HRA.
 - iii) Set the rent increase in line with the Councils existing policy of 5%, making the actual average rent £61.37. This is also within the Limit Rent and would generate further rental income of £257K, but the same adjustment in caps and limits would apply and would result in a net nil impact on the HRA. The benefit of this option (and option (ii) above) would be that the Authority would enhance the rate at which it would achieve convergence, with no negative financial implications to the HRA but at the expense of housing tenants.
- 7.3 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 could have implications for the Council's financial standing, as assessed by its external auditors.

7.4 The options available in respect of the revenue budgets for 2010/11 to 2012/13 are to recommend the budget as set out to Council for approval, or to consider other proposals for incorporation.

7.5 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.

7.6 Any risks attached to the above would depend very much on what measures Members proposed, and their impact on the council housing service. As such, a full options analysis could only be undertaken once any alternative proposals are known. It should be noted that Officers may require more time in order to do this. The risks attached to the provisional nature of current subsidy determinations will be managed through future reporting arrangements, as set out in the report.

8 OFFICER PREFERRED OPTION AND COMMENTS

8.1 The Officer Preferred options are to:

- approve the 2009/10 revised Revenue Budget as set out;
- approve the provisions, reserves and balances positions as set out;
- set a 2.75% increase in average rents, and to approve the draft revenue and capital budgets as set out in the appendices, as amended for any revenue growth supported by Cabinet, for referral on to Council as appropriate.

These are as reflected in the Member recommendations.

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 Section 151 Officer has been involved in the preparation of this report and her comments are reflected accordingly. Her explicit legislative requirements in terms of reporting on the robustness of estimates and other budget issues, will be covered in future reports to Council also.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no observations to make on this report.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

HRA Subsidy Determinations

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APPENDIX A

**Housing Revenue Account Draft Budget
For Consideration by Cabinet 19 January 2010**

		2009/10 Budget £	2009/10 Revised £	2010/11 Budget £	2011/12 Forecast £	2012/13 Forecast £
Income	Dwelling Rents	-11,663,800	-11,412,900	-11,717,900	-12,280,300	-12,859,300
	Non-Dwelling Rents	-189,000	-187,800	-188,600	-189,900	-191,200
	Charges for Services and Facilities	-1,711,700	-1,826,100	-1,841,900	-1,858,800	-1,878,600
	Contributions towards Expenditure	-7,700	-7,700	-7,700	-7,700	-7,700
	Other Sums Directed by the Secretary of State as Income	-165,200	-165,200	-165,200	-165,200	-165,200
Total Income		-13,737,400	-13,599,700	-13,921,300	-14,501,900	-15,102,000
Expenditure	Repairs and Maintenance	3,846,000	3,991,400	4,029,700	4,120,800	4,221,200
	Supervision and Management	3,357,600	3,241,300	3,293,100	3,346,300	3,395,100
	Rents, Rates, Taxes and Other Charges	112,100	95,000	99,400	104,200	108,700
	Negative Housing Revenue Account Subsidy Payable	1,184,600	932,700	1,574,500	1,641,400	1,769,200
	Increase in Provision for Bad or Doubtful Debts	126,800	189,100	155,800	156,800	158,100
	Depreciation and Impairments of Fixed Assets	2,334,200	2,366,200	2,369,000	2,426,100	2,482,000
	Debt management Costs	1,100	1,100	1,100	1,100	1,100
Total Expenditure		10,962,400	10,816,800	11,522,600	11,796,700	12,135,400
Net Cost of Services		-2,775,000	-2,782,900	-2,398,700	-2,705,200	-2,966,600
	Interest Payable and Similar Charges	846,300	798,800	808,000	844,700	849,300
	Premiums and Discounts on Debt Rescheduling	158,600	158,600	158,500	158,700	160,600
	Interest and Investment Income	-104,000	-27,900	-55,000	-116,300	-166,800
	Pension Interest Costs and Expected Return on Assets	68,000	68,000	68,000	68,000	68,000
Net Operating Expenditure		-1,806,100	-1,785,400	-1,419,200	-1,750,100	-2,055,500
	HRA contribution from Pensions Reserve (re Notional Charges)	-68,000	-68,000	-68,000	-68,000	-68,000
	Net Transfers to / from (-) Major Repairs Reserve (MRR)	-29,900	295,200	9,200	579,200	880,400
	Net Transfers to / from (-) Earmarked Reserves	233,000	260,700	238,400	210,400	270,500
	Capital Expenditure funded by the Housing Revenue Account	1,671,000	1,506,800	1,305,000	1,093,900	1,038,000
	Other Reconciling Items (to reverse out other Notional Charges)	0	-65,400	-65,400	-65,400	-65,400
TOTAL: Surplus (-) or Deficit for the Year		0	143,900	0	0	0
	UNALLOCATED BALANCES BROUGHT FORWARD	350,000	493,900	350,000	350,000	350,000
	Appropriation from Unallocated Balances	0	-143,900	0	0	0
UNALLOCATED BALANCES CARRIED FORWARD		350,000	350,000	350,000	350,000	350,000

2010/11 BUDGET AND PLANNING PROCESS HOUSING REVENUE ACCOUNT SAVINGS AND GROWTH PROPOSALS

For Consideration by Cabinet 19 January 2010

	2010/11 £	2011/12 £	2012/13 £
GROWTH PROPOSALS			
High Priority:			
Tenants Satisfaction Survey			
Government and the Tenant Services Authority (TSA) require all social landlords to undertake a standard "STATUS" tenant satisfaction survey every two years. Funding is required to undertake the survey in 2010 and then every two years.	+10,000	+0	+10,000
Fire Precaution Works			
The Fire Officer has identified the need to provide smoke control systems to the three multi-storey blocks of flats at Mainway Lancaster. Officers have been investigating the best method and most cost effective way of providing the smoke control. An estimate of approximately £132,365 has been provided by a specialist company to provide automatically openable louvered vents to each landing in the blocks. However this does not include any preparatory works or scaffolding costs. Therefore it is estimated the final budget required would be £200,000. If the works are not carried out the Fire Officer may serve notice on the Council to undertake the works. Whilst revenue funding is sought, ultimately these works may need to be capitalised.	+200,000	+0	+0
Attribute Survey			
A 100% survey of the property attributes is required in order to satisfy the requirements of the external auditors (following an audit in 2007/08) that the information held on the property database is accurate and verified by an independent survey's certificate.	+50,000	+0	+0
Medium Priority:			
Grant Finder			
A GRANTfinder licence was purchased in 2008. GRANTfinder is a fund finding package. This package offers access to the most up to date funding and enables tenants, residents and community groups to find and access funding opportunities for their local projects. The original licence needs to be renewed. It is proposed that we increase the existing tenant involvement budget by £3,000 to cover the cost of relicensing.	+3,000	+3,000	+3,000
TOTAL GROWTH FOR CONSIDERATION	+263,000	+3,000	+13,000



2010/11 BUDGET
HOUSING REVENUE ACCOUNT – RISK & ASSUMPTIONS
FOR CONSIDERATION BY CABINET 19 JANUARY 2010



RISK AREA	NOTES/DETAILS
Reductions in stock from Right to Buy sales	The rate of sales in 2009/2010 has decreased further in 2009/10 with only 1 RTB so far this year, compared to 2 in the same period last year. It is anticipated that this trend is likely to continue in the short to medium term leading to higher levels of rental income than previously predicted but this also leads to significantly lower levels of capital receipts. Sales impact on the revenue position as income would reduce but many costs are fixed. Significant reduced rental streams would lead to deterioration in the HRA budgetary position unless measures could be taken to reduce costs within the HRA.
Job Evaluation (Fairpay)	A total provision for £150K has been made in the HRA for estimated additional costs, these will be affected by the outcome of appeals and market supplements, etc. Should there be a resulting increase in Council Housing's ongoing pay bill, this could have implications for the service in future.
Management of Void Properties	Rent losses through void properties continue to be maintained at a lower level and this has been built into the budgets. The reduction follows the introduction of improved void management arrangements within Council Housing Services.
Rent Arrears	Recent budgets have required contributions to the Bad Debts Provision to be adjusted to reflect current arrears trends. The provision now stands at an appropriate level. There is a negative effect on future years' budgets if arrears management deteriorates and a positive effect if it improves. The target is year on year improvement.
Rental Income	The estimates as set out assume an increase of 2.75% which is the optimum level of increase for the Council based on the Governments proposals in the Draft Determination. This equates to an average actual rent of £60.06 which is below the Government's Limit Rent of £61.82. Increases above the Limit Rent would result in a penalty through the Rent Rebate Subsidy Limitation. Is also below the Formula Rent, which is calculated at £65.26, the difference between the Actual Rent and Formula Rent represents our gap in convergence.
Changes to HRA Subsidy System	The Government has proposed that Local Authorities will be presented with their debt figures by February 2010 to enable them to decide whether or not they wish to take on the self financing route. Local Authorities will have a very small window of opportunity in which they will have to return their decision. Depending on what arises, this could, potentially, have major implications for the HRA.
Projections of HRA Subsidy	The main reason for the increase in negative subsidy payable to the Government in 2010/11 is due to the application of the reduced Caps and Limits Adjustment. For future years, it has been assumed that the Council will receive this at similar levels. These assumptions have been based on the Determination for 2010/11 and no guidance has been provided by the Government beyond this.
Stock Condition Survey	A Stock Condition Survey was undertaken during 2008/09. The results of the survey will need to be analysed during 2010/11 and the impact this will have on the 30 year Business Plan assessed.
Meeting the Decent Homes Standard	Sufficient funds need to be set aside within the Revenue Budget / Major Repairs Reserve in order to ensure that the 30 Year HRA Capital Programme can continue to be financed. Any significant reduction in available capital financing (e.g. through revenue growth) could have an adverse impact on the position.
Repair & Maintenance Services	RMS is a high turnover activity with charges set to recover costs. The budget is based on the current Repairs and Maintenance Section establishment. Changes in the level of the establishment, the efficiency of the workforce, or the amount of work available to RMS will impact on the ability of the unit to recover its costs and could lead to a surplus or deficit. The hourly charging rate should be reviewed regularly in order to ensure there is no significant under/over recovery of cost.

APPENDIX D

RESERVES AND PROVISIONS - FOR CONSIDERATION BY CABINET 19 JANUARY 2010

	HRA General Balances	Major Repairs / Business Plan Support	Total Earmarked Reserves	Flats - Planned Maintenance	Central Control Equipment	Telecare	Non-Sheltered Scheme Equipment	I T Replacement	Office Equipment Reserve	Sheltered - Equipment	Sheltered - Planned Maintenance	Sheltered Support Grant Maintenance	JE Reserve	Management Restructure Reserve	Net Movement on Earmarked Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance 31st March 2009	494	6724	1878	713	128		110	227	42	235	260	114	50		1878
Estimates 2009/10															
Contributions to Reserves - MRA		2304	531	132	10	10	15	87	10	30	68	19	50	100	261
Appropriations to /from () Reserves - Revenue	-144	295	-73	-32						-38	-3				
Appropriations from Reserves - Capital		-2304	-197		-100			-67			-30				
Projected Balance 31st March 2010	350	7019	2139	813	38	10	125	247	52	227	295	133	100	100	2139
Estimates 2010/11															
Contributions to Reserves - MRA		2307	393	132	10		15	57	10	30	70	19	50		238
Appropriations to /from () Reserves - Revenue		9	-95	-15						-13	-60				
Appropriations from Reserves - Capital		-2307	-60												
Projected Balance 31st March 2011	350	7028	2377	930	48	10	140	304	62	244	304	152	84	100	2377
Estimates 2011/12															
Contributions to Reserves - MRA		2364	340	132	10		15	57	10	30	67	19			210
Appropriations to /from () Reserves - Revenue		579	-100	-2						-8	-6				
Appropriations from Reserves - Capital		-2364	-30								-30				
Projected Balance 31st March 2012	350	7607	2588	1060	58	10	155	361	72	266	335	171		100	2588
Estimates 2012/13															
Contributions to Reserves - MRA		2420	332	132	10		15	57	10	30	59	19			271
Appropriations to /from () Reserves - Revenue		880	-28	-11						-13	-4				
Appropriations from Reserves - Capital		-2420	-33								-33				
Projected Balance 31st March 2013	350	8487	2858	1181	68	10	170	418	82	283	357	190		100	2858
Estimates 2013/14															
Contributions to Reserves - MRA		2500	346	132	10		15	57	10	30	73	19			258
Appropriations to /from () Reserves - Revenue		1000	-88	-65						-13	-10				
Appropriations from Reserves - Capital		-2500													
Projected Balance 31st March 2014	350	9487	3116	1248	78	10	185	475	92	300	420	209		100	3116

* Note that Major Repairs Reserve incorporates support for the HRA Business Plan (MRA- Major Repairs Allowance, given through Housing Subsidy)

* Please note that further expenditure may be funded from the above reserves, but the timing is uncertain.

RESERVES AND PROVISIONS- For Consideration by Cabinet 19 January 2010 APPENDIX D (2)

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Capital Reserves					
Major Repairs Reserve (MRR) / Business Plan Support	Set up following the introduction of Resource Accounting in the HRA. Grant received from Government annually which must be credited to this reserve with the intention of funding major works to the Council's housing stock.	Can be applied to Capital improvements to HRA housing stock (specifically excluding demolition) and, additionally from 1 st April 2004, repayment of HRA debt and credit liabilities (including premia on early repayment of PWLB loans). The Council's thirty year HRA Business Plan has projected increasing levels of balances in early years to fund deficits in later years, and it is intended that these balances will be held in the MRR.	Council Housing Services/ Financial Services	Budget & Outturn	Incorporate in year grant and support to capital programme, plus additional transfer taking account of higher than expected opening position for Unallocated Balances, in line with policy of maintaining the latter at £350K.
Revenue Reserves					
Flats – Planned Maintenance Reserve	Established to smooth the costs of major revenue and capital works to flats funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to major works to communal facilities in flats.	Council Housing Services/ Financial Services	Budget & Outturn	Incorporate revised in year contribution of £132K and transfer £32K to revenue budget for increased expenditure on Planned maintenance.

RESERVES AND PROVISIONS- For Consideration by Cabinet 19 January 2010 **APPENDIX D (2)**

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Central Control Equipment Reserve	Established to smooth the costs of major renewal or replacement of Central Control Equipment and systems	Funded from Central Control subscriptions with additional appropriations in lieu of interest. Reserve is to be applied to renewal or replacement of major items of equipment and systems for Central Control system. Also used for chargeable enhancements throughout the life of the system.	Council Housing Services/ Financial Services	Budget & Outturn	Incorporate in year contribution of £10K and transfer £100K to Capital budget to cover the purchase of equipment and software.
Telecare	Established to smooth the costs of renewal or replacement of Telecare Equipment.	Funded from Lifeline subscriptions. Reserve is to be applied to renewal or replacement of items for Telecare equipment.	Council Housing Services/ Financial Services	Budget & Outturn	Incorporate in year contribution of £10K
Non-sheltered scheme equipment	Established to fund purchases of equipment for non-sheltered schemes funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to purchases of equipment for non-sheltered schemes.	Council Housing Services/ Financial Services	Budget & Outturn	Incorporate in year contribution of £15K

RESERVES AND PROVISIONS- For Consideration by Cabinet 19 January 2010 **APPENDIX D (2)**

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
IT Replacement	Established to fund future major IT systems replacement.	To be applied to future replacements / choice based lettings.	Council Housing Services/ Financial Services	Budget & Outturn	Incorporate in-year contribution of £87K and transfer £67K to support Capital Programme.
Office Equipment Reserve	Established to fund purchases of minor IT and other office equipment.	Used to fund ad-hoc purchases of major office furnishings resultant from health & safety legislation and risk assessments (desk, chairs, cabinets etc) and minor office equipment items e.g. pc upgrades.	Council Housing Services/ Financial Services	Budget & Outturn	Incorporate in year contribution of £10K.
Sheltered Equipment Reserve	Established to fund purchases of equipment for Sheltered schemes funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to purchases of equipment for common area services for Sheltered schemes.	Council Housing Services/ Financial Services	Budget & Outturn	Maintain in year contribution at £30K and transfer £38K to revenue budget for sheltered equipment purchases.
Sheltered – Planned Maintenance	Established to smooth the costs of major revenue and capital works to flats funded from Service Charges	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to major works to communal facilities in Sheltered schemes.	Council Housing Services/ Financial Services	Budget & Outturn	Incorporate in year contribution of £68K and transfer £3K to revenue budget for increased expenditure on rota painting and to transfer £30K to capital for boiler renewals.

RESERVES AND PROVISIONS- For Consideration by Cabinet 19 January 2010 **APPENDIX D (2)**

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Sheltered – Support Grant Maintenance	Established to fund purchases of equipment for Sheltered schemes funded from Service Charges, but classed as Support Costs under County Guidelines.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to major works to communal facilities in Sheltered schemes.	Council Housing Services/ Financial Services	Budget & Outturn	Retain as budgeted.
JE Reserve	Established to fund the support of the pay structure	Contribution to the reserve to be approved by Cabinet. Use of the reserves to be determined (and agreed) by both the Head of Legal & Human Resources and Head of Financial Services.	Council Housing Services/ Financial Services	Budget & Outturn	Maintain reserve contribution at £50K and retain until Fair Pay structure fully implemented.
Management Restructure Reserve	Established to fund potential one-off staff costs arising from the Senior Management Restructure.	Contribution to the reserve to be approved by Cabinet. Use of the reserve restricted to restructurings approved through Personnel Committee.	Council Housing Services/ Financial Services	Budget & Outturn	Contribution of £100K and retain until Management Restructure is concluded.

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Provisions					
Bad Debts	This provision is used to write off all Housing Revenue Account bad debts that have been approved.	The provision is funded by an annual contribution based on assessment of the level of debt outstanding.	Financial Services / Debt Management Group	Budget & Outturn	Increase of £62.3K due to an increase in current tenant arrears and rechargeable repairs.

Draft Council Housing 5 Year Capital Programme For Consideration by Cabinet 19 January 2010

	2009/10 original £'000	2009/10 revised £'000	2010/11 estimated £'000	2011/12 projected £'000	2012/13 projected £'000	2013/14 projected £'000	2014/15 projected £'000	TOTAL £'000
EXPENDITURE								
Adaptations	250	250	250	250	250	250	250	1,500
Energy Efficiency/Boiler Replacement	400	540	585	574	449	449	449	3,046
Kitchen/Bathroom Refurbishment	576	497	1,040	1,006	877	877	877	5,174
External Refurbishments	1,090	1,300	1,136	1,306	718	718	718	5,896
Environmental Improvements	360	444	367	367	367	367	367	2,279
Re-roofing	771	520	224	-	411	411	411	1,977
Renewal of Heaters	-	45	-	-	-	-	-	45
Rewiring	-	54	83	83	517	517	517	1,771
IT Replacement	-	83	-	-	-	-	-	83
New Prospect Grove Office Conversion	-	15	-	-	-	-	-	15
New Central Control Equipment	100	100	-	-	-	-	-	100
TOTAL - COUNCIL HOUSING CAPITAL EXPENDITURE	3,547	3,848	3,685	3,586	3,589	3,589	3,589	21,886
FINANCING								
Supported Borrowing	-	-	-	-	-	-	-	-
Unsupported Borrowing	-	-	-	-	-	-	-	-
Grant Contribution	-	15	15	15	15	15	15	90
Capital Receipts	84	22	58	113	116	118	121	548
Direct Revenue Financing	1,571	1,310	1,245	1,064	1,005	956	953	6,533
Earmarked Reserves	100	197	60	30	33	-	-	320
Major Repairs Allowance	1,792	2,304	2,307	2,364	2,420	2,500	2,500	14,395
TOTAL - HRA-DERIVED FINANCING	3,547	3,848	3,685	3,586	3,589	3,589	3,589	21,886

CABINET

Chatsworth Gardens Housing Exemplar 19 January 2010

Report of Corporate Director (Regeneration)

PURPOSE OF REPORT			
To provide members with details of the current position following the selected developer no longer being able to deliver the Chatsworth Gardens Housing Exemplar Project and in particular the contingency development as contracted in the funding agreement with the Homes and Communities Agency, together with associated proposals.			
Key Decision	X	Non-Key Decision	Referral from Cabinet Member
Date Included in Forward Plan	March 2009		
This report is public.			

RECOMMENDATIONS OF COUNCILLORS ARCHER AND KERR

- (1) That Cabinet notes the position of the project following Places for Peoples' retraction of their bid and the legal position of the council as stipulated in the contract.
- (2) That Cabinet supports Option 1 for officers to develop and appraise a contingency proposal that will provide members with a detailed cost/risk appraisal of a selected refurbishment scheme, and that the £60K funding needed be considered as a revenue growth bid, for referral on to Council. This will enable members to make an informed decision on whether to progress this important regeneration project with HCA.

1.0 Introduction

1.1 The Council has been working with the Homes and Communities Agency (HCA), formerly known (prior to December 2008) as English Partnerships, to deliver the Chatsworth Gardens Housing Exemplar scheme. The objectives of the proposal are as follows:

- Attract families and long-term residents to live and work in and near the town
- Create a more balanced community
- Reverse the negative perception of Morecambe's West End as a place to live
- Reduce the number of HMOs (Houses in Multiple Occupation)
- Kick-starting public/private investment in the area;
- Creating confidence in the market – to show that family housing is possible and hence have a catalytic effect (along with the other interventions)

- Deliver quality housing stock to Code for Sustainable Homes Level 3
 - Address crime and social conditions in the area
 - Act as a demonstration to the market in terms of the standard and quality of housing that should be delivered in the Masterplan area
- 1.2 Cabinet agreed to enter into a Funding Agreement with English Partnerships at its meeting of the 13 February 2005 (minute 111 refers) in order to secure funding to enable this scheme to proceed.
- 1.3 The 2005 funding agreement contract sets out the process for the project to follow with voluntary acquisitions, developer selection and completion of site acquisitions. The contract also contained clauses covering the way to deal with the financial investment in the event of a scheme not being able to be progressed through default by any of the parties involved in delivery.
- 1.4 Although it was originally envisaged that the existing properties would be remodelled, when this proposal was put to the developer market all respondents, including Places for People (PFP), put forward new build schemes as the only commercially viable solution to meeting the brief. The PFP new build scheme was selected as the bid.
- 1.5 Following the selection of PFP as preferred developer in 2006, the rising housing market forced a reappraisal of the costs to the council for acquiring the remaining property to complete site assembly. The updated appraisal of acquisition costs took the total project cost just above the £10 million delegated authority of the HCA and had to be referred to the Department of Communities and Local Government (DCLG) for approval.
- 1.6 The PFP scheme for Chatsworth Gardens was subject to a full “Green Book” appraisal by DCLG in conjunction with HM Treasury. A “Green Book” appraisal is HM Treasury’s highest level of scrutiny for government funded schemes and is carried out on all government funded projects over £10 million. The appraisal presented a series of options and the PFP scheme was assessed as the best option in terms of economy, efficiency and effectiveness.
- 1.7 Following DCLG approval in October 2007 the final funding agreement with the HCA for the additional £2.3 million and the development agreement with PFP to deliver the scheme and provide a contribution of £1.239 million were negotiated. However, before the contract agreements were signed in 2008 PFP identified a funding gap in the scheme caused by the falling housing.
- 1.8 In accordance with Cabinet’s decision on 17 February 2009 officers worked with HCA and PFP to ensure there was sufficient funding in place to enable the council to complete property purchases to place site in single public ownership and enter a development agreement.
- 1.9 Following lengthy and protracted negotiations it became clear that PFP could not deliver the scheme, and this was confirmed at a meeting of the key partners held on 08 December 2009. By way of explanation PFP cited the following key impacts:
- Decrease in West End property values that would lower end value receipts
 - Increased sales risk
 - Increase in development costs due to a new requirement for achievement of “Code 4” sustainable homes.

- 1.10 The only viable solution for PFP to proceed was for them to introduce additional subsidy/grant package through the HCA's National Affordable Housing Programme (NAHP) scheme. However on review the inclusion of NAHP funding took unit costs to a level considerably in excess of set public investment benchmarks. In addition the scheme could not be delivered within the set timescales that required a start on site before April 2011. All parties therefore agreed the PFP scheme was not viable in the current economic climate.

2.0 Proposal Details

- 2.1 The £7.8 million HCA funding used for acquisition of property to date is backed by contractual agreements. There is an 'in principle' agreement for an additional £2.3 million HCA funds but this is currently reserved for the PFP scheme which will not now proceed. Any new or alternative scheme, that would exceed the HCA £10 million delegation, would require a new Green Book Appraisal by DCLG and HM Treasury.
- 2.2 In the terms of the Funding Agreement between the HCA and LCC the retraction of the £1.239 million offer by PFP has triggered "an event of default" under the provisions of the Agreement, as the Council no longer has the necessary resources and funding to complete the works (albeit due to the fact that the developer contribution is no longer available which was outside the control of the Council). In this eventuality the Agreement provides that the Council will as soon as possible (and in any event within 6 months) provide the HCA with its detailed written proposals for the future management development and disposal of the Council Site. HCA also has to agree the way forward and has indicated there is no more funding available.
- 2.3 In the event that the HCA does not find the Council's proposals acceptable it will provide the Council with its own written proposals for the future management development and disposal of the site within six month of the receipt of the Council's Proposals.
- 2.4 If neither proposal can be agreed a *disposal surveyor* will be appointed to market and dispose of the properties in such lots and on such terms to achieve the best possible sale price reasonably obtainable, pursuant to section 123 of the Local Government Act 1972.
- 2.5 Officers are exploring what could be achieved using the 'sunk' resources (property within the site and outside the site which could be sold and income recycled), those HCA funds committed 'in principle' to the current proposals. These options are on the understanding that a wholesale private developer led scheme is not viable now and for the medium term. That is, the council does not wish to 'hold' the site/property indefinitely (or demolish and 'sit' on sites) and take a chance that the market improves.
- 2.6 A revised scheme for Chatsworth Gardens will still need to meet the original project objectives as previously outlined. These specific project objectives are in addition to the mandatory quality and price standards applicable to all HCA housing projects. However, if the scheme is to be exemplary it must exceed these standards which include Level 3 Code for Sustainable Homes, Secure by Design, Lifetime Homes Standards, Civil Engineering Environmental Quality (CEEQUAL), space standards, re-use of resources etc.
- 2.7 Initial development work is already underway looking at a range of variables to define the best potential solution. Given the level of detail required and risks involved this work is expected to take some months

3.0 Details of Consultation

- 3.1 The Winning Back Morecambe's West End Masterplan was developed by a multi agency steering group which included community representation through the West End Partnership, along with representation from the City Council, County Council, English Partnerships, the Housing Corporation, Adactus Housing Group, NWDA and the MP for Morecambe and Lunesdale. The initial scope of the Masterplan was set following a day long consultation event where the local community was asked what issues they wanted to see addressed. The options for addressing those issues were then developed through a two day Enquiry by Design event which included expert professional advisors working through potential interventions with representatives of the local community. The final options for intervention were then agreed by the Steering Group before going out to a three day consultation event held at Heysham High in September 2004. A further public meeting was held in December 2004 at the Platform which was attended by approximately 300 people. Following this event the final Masterplan was agreed by the Steering Group in December 2004. The Masterplan was subsequently adopted by Cabinet as a supplementary planning document to the Lancaster District Plan at its meeting in February 2005.
- 3.2 The Chatsworth Gardens Housing Exemplar Project has specifically been subject to further detailed consultation process. The initial development brief, which formed the basis of the developer selection process, was developed and agreed in consultation with the West End Partnership. Following this the consultation that took place was specific to the PFP scheme for Chatsworth Gardens.
- 3.3 It is envisaged that as part of the development and agreement of new proposals for Chatsworth Gardens further community consultation would take place prior to the scheme being finalised. This would be in addition to the formal statutory consultation required for obtaining planning permission.

4.0 Options and Options Analysis (including risk assessment)

- 4.1 The following two options are available:

Option 1 – Progress Refurbishment Scheme

Firm costs are required to establish the viability of this option, or the extent to which it could be implemented. Previously as part of the Green Book Appraisal this option was discounted as being not financially viable. It may only be possible to undertake a selective refurbishment of target blocks with some properties sold off with restrictive covenants to provide funding to invest in the selective acquisition of outstanding properties in target blocks. It may also include some demolition to create either new public open space or private external space. Demolition may also be undertaken to enable a new development to come forward on part of the site from small developers. In summary the refurbishment option will review all possibilities to obtain the best possible scheme.

For the properties that can be refurbished this option would include the removal of rear outriggers and for the four storey properties the removal of a storey to make the houses of a size more suitable for single family occupation. To enable Level 4 Code for Sustainable Homes to be obtained the refurbished properties would require external wall insulation as well as party wall, floor and roof insulation internally. The properties would also require the extensive use of high efficiency heating and plumbing.

Renewable energy technologies such as solar hot water and photovoltaic panels would also be needed. Demolition may also be undertaken to enable a new development to come forward on part of the site from small developers. Any proposal made under this scheme would be subject to HCA funding and approval.

Option 2 –Disposal of properties already acquired for the scheme

The 2005 Funding Agreement does make provision that, if no alternative scheme is considered acceptable to the HCA and the Council, then all of the properties should be placed back on the market and sold in order to recoup public investment. It should be noted that this option is not favoured by HCA who are keen to see the Council put forward alternative options.

Non-statutory guidance issued under the Crichel Down Rules will need to be considered in the event of this option.

- 4.2 Officers have updated the previous options analysis undertaken for the Green Book appraisal and discounted a new build option due to the PFP outcome. If no viable option can be found or agreed Option 2 provides a mechanism to dispose of the acquired properties and close the project. As noted this latter case is a last resort and not currently favoured.
- 4.3 Further work is required to develop a detailed cost model to be able to evaluate the feasibility of Option 1, and this would need to be considered as a growth item. Previously a full site refurbishment has been discounted by the private sector on the grounds of high cost. However, the council could itself lead site acquisition, undertake phased refurbishment and remodelling. By using council internal staff resources as much as possible it is clear costs could be reduced significantly. The public sector also has no requirement for profit and exemption from VAT.
- 4.4 Tendered costs for the remodelling of large villa terraced properties on Bold Street are due to be received on 20 January 2010. This will provide some up to date cost information for estimates and enable officers to better understand the potential extent of a refurbishment scheme.
- 4.5 Officers will also need to develop a specification for the refurbishment of the properties that will meet Code for Sustainable Homes Level 4 and the other quality and price standards set out by the HCA. However, it is more than likely funds will still not be sufficient to pursue a full refurbishment and this should be regarded as 'aspirational' for the moment.

5.0 Officer Preferred Option (and comments)

- 5.1 The preferred option is Option 1 with officers being given a mandate to explore the full extent of what can be achieved with the potential funding available and to seek agreement with HCA.
- 5.2 In addition to the tender price data received for Bold Street it will be necessary to appoint a Quantity Surveyor to develop robust cost estimates. Architectural services will also be required to assist in layouts, design and providing the most cost effective solutions to turning what are extremely inefficient homes into some of the most environmentally efficient homes in the district.
- 5.3 Any refurbishment scheme would need to meet the Code for Sustainable Homes Level 4 and the other quality and price standards for an HCA housing scheme. A considerable advantage of refurbishing the existing properties is that it would act as an exemplar for what can be achieved with these large properties in the West End.

- 5.4 Contingency development costs will be incurred. Up to £60k should be allowed for investigations which cannot be undertaken 'in house' by the council e.g. architects and quantity surveyors, although officers will try wherever possible to use 'in house staff'. HCA could agree that these costs be funded from capital receipts but the mechanism has still to be agreed and in line with accounting practice, this would be dependent upon it being reasonably certain that a capital scheme would progress. As such, it would be prudent (and advised by the s151 Officer) to allow for this in the council's revenue budget proposals at this stage.
- 5.5 The council is incurring property 'holding' costs which are forecast to be met for this year, but future costs are not covered by any current funding agreement as the current funding agreement has been drawn down in totality. HCA will not fund these directly. However, HCA have agreed that capital receipt/disposal of "non-project properties" could be re-utilised towards holding costs – though again this may present accounting difficulties. Two non-project properties are going to auction in early February 2010 and if sold would more than cover the contingency development costs – though this links with the issues raised in s5.4 above.

6.0 Conclusion

- 6.1 In line with existing contract between the Council and HCA the preferred option will allow officers to develop and appraise a contingency proposal that will provide members with a detailed cost/risk appraisal of a selected refurbishment scheme. This will enable members to make an informed decision on whether to progress this important regeneration project with HCA.
- 6.2 Following this report work will be undertaken on the detailed proposal in full consultation with HCA.

RELATIONSHIP TO POLICY FRAMEWORK

The Morecambe Action Plan recognised the housing issues within Poulton and West End areas as having negative impact on the perception and economic potential of the town and that radical interventions were necessary to remove HMO's and privately rented flats and create new modern housing options.

The Council's Housing Strategy 2004/08 prioritises neighbourhood level investment in Poulton and West End areas of Morecambe.

The Chatsworth Gardens Project is a key element of the West End Masterplan and was ranked as a high priority by Cabinet as part of review and refresh exercise carried out on the Masterplan in 2009.

As 40% of the districts homelessness derives from failed private sector tenancies in the West End, these proposals will help reduce homelessness as the housing supply imbalances are corrected and the transient nature of the community is stabilised.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

The Masterplan has carefully considered issues of sustainability and is drafted on those principles. The scheme will be designed and built in accordance will English Partnerships

Quality and Price Standards which ensure high quality urban design, including safer by design and life time homes standards as well as high environmental.

Human rights and diversity issues are given special consideration as owner interests are acquired and through dedicated resettlement support offered to existing residents.

FINANCIAL IMPLICATIONS

The draft revenue budget includes provision for property holding costs of £92,100 in this financial year and £88,500 in 2010-11. Currently there is no budgetary provision for the proposed contingency development which is estimated at a maximum of £60,000, and therefore this would need to be considered as a growth item should Option 1 be pursued.

The current funding approval from HCA has been drawn down and further funding was reliant upon securing the further £2.3 million from the HCA and £1.2 million from PFP. However over £1 million is tied up in 16 non-project properties. *Non-project properties are defined in the 2005 Funding Agreement as Masterplan properties in phase 1 project areas that are outside the Chatsworth Gardens site. The non-project properties were acquired with Collaboration Agreement funding in 2004 prior to Chatsworth Gardens being selected as the main focus for HCA funding. It was always the intention to sell these properties as other Masterplan projects came to fruition.*

Four properties on Marlborough Road are contracted to be sold to Adactus Housing Association for £264,190, with a £26,419 deposit already paid and the balance due when the redevelopment of new housing starts on site later this year.

Two properties are due to go to auction in early February 2010, but to prevent prejudicing the sale values obtained the expected values are being withheld. If the sales are successful further "non-project" properties will be auctioned.

While the HCA funding that is presently locked up in the "non-project properties" is clearly sufficient to cover the forecast cost to complete Option 1 contingency development, and HCA agreement in principle has been obtained for capital receipt/disposal of "non-project properties" to be re-utilised towards holding costs and contingency development costs, at this stage this would not be in accordance with accounting practice.

The additional funding approval from the HCA of £2.3 million is specific to the PFP scheme. The development of an alternative scheme, as per option 1, will require a new appraisal. Previously the additional funding of £2.3 million required on top of the original £7.8 million already approved took the total public cost over the £10 million delegation. If the total cost of the alternative scheme is below £10 million this would be within the HCA delegation and would be a 'local' decision for funding approval. Similarly if the alternative scheme is greater than £10 million it would require another Green Book Appraisal by Central Government.

It should be noted that there is no guarantee that the alternative scheme option developed will obtain approval at either local or central appraisal.

If option 2 is selected or is the default option after pursuing option 1 without success then further property holding costs and the costs associated with appointing a disposal surveyor and necessary fees and disbursements to sell the properties can be deducted from the proceeds as justifiable expenditure under the funding agreement with the remainder being returned to the HCA; there would need to be further review of the details to ensure this met other legal and accounting requirements. However, should Cabinet determine that option 2 is the preferred or eventual default option, then a more detailed report will be required for

Members to consider the budgetary impact on the Council of projected timescales for disposal of properties, interim impact on the Council's cashflow position from ongoing associated holding/security costs, etc.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been consulted and her comments reflected within the report. Members are advised to consider the proposal in context of priorities and other competing needs and requests, the likelihood of a viable scheme being developed, and the Council's financial position and its prospects.

LEGAL IMPLICATIONS

Legal Services have been consulted and their comments inserted within the body of the report where appropriate.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Winning Back Morecambe's West End Masterplan
Morecambe Action Plan 2002
Lancaster District Housing Strategy 2004/08

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