

CABINET

Budget and Policy Framework Update – Housing Revenue Account and Capital Programme 12 February 2013

Joint Report of Head of Health and Housing and Head of Resources

PURPOSE OF REPORT			
This report provides an update on the council housing budgetary position and seeks Cabinet's decisions on council housing rent levels for 2013/14 together with targets for future years. It also seeks approval of Cabinet's supporting revenue budget and capital programme proposals for referral on to Council, in order to complete the HRA budget setting process for 2013/14.			
Key Decision	X	Non-Key Decision	Referral from Cabinet Member
Date of notice of forthcoming key decision	12 December 2012		
This report is public.			

RECOMMENDATIONS OF COUNCILLOR LEYTHAM:

- 1 That the Housing Revenue Account Revised Budget for 2012/13, 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 2013, and that the full Statement on Reserves and Balances be endorsed and referred on to Council for approval, taking into account the changes as outlined in section 3 of the report.
- 3 That Option 5 be adopted as rent setting policy for the medium term, in that:
 - an average rent of £69.22 for 2013/14 be approved, representing an increase of 0%, and the resulting Housing Revenue Account budget for 2013/14 be recommended to Council for approval; and
 - for years 2014/15 to 2016/17 target rent increases be set at 1%, 2% and 3% respectively, and the revenue budget forecasts be updated accordingly.
- 4 That the Capital Programme as set out at Appendix D be referred on to Council for approval and in addition:
 - Cabinet approves in principle to invest in new one-bedroom accommodation within the district using funding from the Business Support Reserve, and that detailed proposals be brought back to Cabinet following input from the Housing Regeneration Cabinet Liaison Group.

- 5 **That the above recommendations for the Housing Revenue Account be reflected within the Council's draft Medium Term Financial Strategy as appropriate, ensuring clarity in Cabinet's responsibilities regarding the setting of rent levels.**

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 At its meeting in September 2012, Cabinet approved the key principles and broad financial targets for managing the HRA over the medium term, to give a strategic financial context for council housing.
- 1.3 In line with that context, Cabinet is now required to make recommendations to Budget Council regarding the HRA 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. Effectively, this means that the whole 2013/14 budget and rent setting exercise must be complete by that date.
- 1.4 The draft MTFFS will also be updated to reflect Cabinet's HRA budget proposals, for consideration at Budget Council.

2 2012/13 REVISED BUDGET

- 2.1 A review of the current HRA budget has been undertaken and during the year, a net surplus of £947K is forecast. Most of this is as a result of not making a budgeted contribution into the Major Repairs Reserve, as outlined in section 3 later. Excluding this adjustment, the net underspending would be only £16K.
- 2.2 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
Operational Variances: (+)Adverse / (-)Favourable	
Reduction in Rental and Other Income	+53
Underspendings on Repairs and Maintenance	-122
Increase in Interest Payable	+182
Reduction in Debt Repayment	-238
Settlement of Previous Year's HRA Subsidy Payable	+148
Net Increase in Revenue Financing of Capital Programme (either directly or from Reserves)	+19
Net Reduction in transfers from Other Earmarked Reserves	-43
Other minor variances (net)	-15
Sub-total	-16
Review of Reserves (see section 3)	
Net Reduction in transfer to Major Repairs Reserve	-931
Net Underspending Forecast for Year	947

- 2.3 Cabinet may note from Appendix A that a very large variance exists in relation to depreciation. Depreciation represents, in accounting terms, the extent to which assets have been “consumed” in delivering the service during the year. Under accounting guidance, it was intended that depreciation would equate to the “real” annual cost of maintaining the housing stock but unfortunately, the position has not yet been resolved. As a result, there is still uncertainty around how depreciation and similar sorts of costs will be treated, going forward under self-financing.
- 2.4 Nonetheless, work has been done to refine the depreciation calculations based on existing accounting and regulatory requirements. This has effectively reduced the depreciation charge by around £1.7M, but it is important to note that this change does not impact on the bottom line of the HRA. Instead, it is offset against the transfer to the Major Repairs Reserve (MRR).
- 2.5 Taking account of the overall revised budget outlined above, HRA Balances at the end of this year are expected to be around £1.4M higher than originally forecast, as shown below:

	2012/13 Original Budget £'000	2012/13 Revised Budget £'000
Original Estimated Balances as at 31 March 2013	350	350
Add: Underspending in 2011/12, at outturn	--	502
Less: Approved Carry Forward Requests	--	-29
Add: Forecast underspending in current year		947
Forecast Balances as at 31 March 2013		1,770
Of which:		
Surplus Balances (above minimum £350K)		1,420

- 2.6 Cabinet is recommended to refer the HRA Revised Budget for 2012/13 to Council 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 Head of Resources takes account of the strategic, operational and financial risks facing the authority. The effectiveness of internal financial and other controls are 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 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 has other substantial reserves available, to support the condition of the housing stock and manage other current service risks.

- 3.3 In view of the decisions taken at the September Cabinet, however, it is considered appropriate to separate out any surplus resources available, over and above what is needed to maintain current stock. This should give a clearer picture of what financial scope is available to Members.
- 3.4 In applying this approach, the following amounts have been separated into a Business Support Reserve (previously this was combined with the Major Repairs Reserve):

	£'000
Forecast Surplus Balances (s2.5 above)	1,420
Surplus in Major Repairs Reserve	<u>6,683</u>
Forecast Business Support Reserve as at 01 April 2013	<u>8,103</u>

- 3.5 Once future plans are clearer, this reserve will be reviewed and updated. The assumption is that Cabinet would have authority to allocate this reserve, with any future contributions into it being approved by Council as part of the overall budget. This would then give Cabinet flexibility to development and refine its plans.
- 3.6 Alongside this change, the assumption is that the Major Repairs Reserve would be used solely to finance existing investment needs (as part of the usual capital programming). Under current Regulations, the Council must still operate a Major Repairs Reserve post self-financing, but it is fair to say that the regulatory and accounting framework for the HRA still has some areas for development.
- 3.7 The only other change actioned in respect of Reserves relates to the relatively minor Telecare and Central Control Reserves. For the time being, these have been merged, pending gaining clarity on how out of hours support will be provided in future.
- 3.8 In terms of provisions, amounts set aside for bad debts have been increased only very slightly for future years, as a marker for future welfare reforms including the planned introduction of universal credit, but clearly this will need to be kept under review.
- 3.9 A draft statement on all reserves incorporating these changes 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 regularly as shown. Cabinet is asked to endorse this information, with the Statement being referred on to Council as part of the HRA budget proposals.

4 **2013/14 BASE BUDGET AND FUTURE YEARS' PROJECTIONS**

- 4.1 The draft budget has now been prepared for 2013/14 together with projections for 2014/15 and 2015/16. 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 has been made for repayment of the self-financing debt over a 30-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. Once the regulatory and accounting framework is complete, the HRA debt management strategy can be reviewed and updated as necessary.

- A pooled approach has been adopted for apportioning interest charges between the General Fund and the HRA.
- 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 in the funding required to support the capital programme, then a top up should be charged to the revenue account (through increasing the contribution to the MRR).
- In terms of revenue savings and growth no proposals have been put forward at this time, but options to generate efficiencies for future budgets will be identified and explored, in much the same way as for General Fund.

5 CAPITAL PROGRAMME 2012/13 TO 2016/17

5.1 The City Council has a statutory duty to ensure that all of its council housing stock meets the Decent Homes Standard. In addition, the Council has set its own higher standard for improvement works known as the “Lancaster Standard”, and this has been agreed with the District Wide Tenants’ Forum.

5.2 The Council has a long-term investment programme, which identifies the indicative resources needed to maintain a viable 30-year Business Plan taking account of the agreed housing standards. This has been incorporated in the Council’s new self-financing business plan. The sections below set out the capital investment plans for the next five years or so.

5.3 **Appendix D** sets out the overall capital programme for consideration by Cabinet and referral on to Council. More details are provided in the sections below.

5.4 2012/13 Revised Capital Programme

5.4.1 The 2012/13 Council Housing Capital Programme was set at £3.916M by Council on 01 February 2012. This programme has since been updated for the addition of slippage from last year and other minor adjustments.

5.4.2 The draft has then been adjusted further to incorporate procurement savings, other projected variances and new additions. In particular, £269K has been added in for the following:

- £147K for the Invest to Save – Photovoltaic (PV) Solar Panels Scheme
- £30K for Total Mobile (upgrade and installation of handsets and software)
- £40K for Sceptic Tank Renewals
- £52K for Lift Replacements

5.4.3 The revised 2012/13 Capital Programme now totals £3.892M.

5.5 2013/14 to 2017/18 Capital Programme

- 5.5.1 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. Drawing on information from the 2008 Stock Condition Survey and allowing for revenue funded maintenance, the draft programme included at Appendix D would enable the housing stock to continue to meet both the Decent Homes Standard and the Lancaster Standard.
- 5.5.2 Now that the new self-financing system has been implemented, however, it means that the Council is in a better, more informed position to consider any further investment and growth opportunities for council housing provision. Accordingly, the additional investment proposals previously reported to Cabinet in September 2012 have been built into the draft capital programme, increasing the annual cost by up to £1.2M. The additions relate to the following areas, for existing stock:
- Boiler replacements – £100K
 - Category 2 sheltered housing schemes remodelling and refurbishment - £100K
 - Improvements to communal areas - £50K
 - Increased environmental works - £390K
 - Fire precaution works - £300K
 - Lift replacements - £110K
 - Increased adaptations - £50K
 - Renewable technologies - £100K
- 5.5.3 Revenue financing (via the Major Repairs Reserve) has been included for these improvements.
- 5.5.4 The total draft five-programme for 2013/14 onwards now stands at £28.205M, the vast bulk of which would be financed from revenue sources. There is no prudential borrowing requirement. The HRA is therefore in a very strong position financially, with flexibility to consider options for rent levels and further investment – but it still must 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 At that meeting Cabinet approved a rent setting policy which capped rent increases at no more than 3% per year. As a starting point, the draft budget figures in Appendix A have therefore assumed a rent increase of 3% - Option 1 below.
- 6.3 However, this report also details alternative rent increases and **Appendix E** compares a range of rent options.
- 6.4 In addition, the following table also shows the impact each option would have on the longer term financial viability of the 30 year Business Plan in terms of the proposed Business Support Reserve.

Impact on Business Support Reserve		2012/13	2013/14	2014/15	2015/16	30 Year Cumulative Total
Option 1	3% per annum	£8.103M	£8.653M	£9.801M	£11.334M	£130.436M
Option 2	2% per annum	£8.103M	£8.522M	£9.397M	£10.511M	£40.462M
Option 3	1% per annum	£8.103M	£8.390M	£8.995M	£9.700M	-£33.840M
Option 4	0% per annum	£8.103M	£8.257M	£8.596M	£8.900M	-£95.355M
Option 5	0%, 1%, 2%, then 3% thereafter	£8.103M	£8.257M	£8.728M	£9.433M	£96.544M
Option 6	1%, 2% then 3% thereafter	£8.103M	£8.390M	£9.129M	£10.242M	£113.167M
Option 7	2% then 3% thereafter	£8.103M	£8.522M	£9.532M	£10.923M	£124.600M

6.5 The above shows that in order to maximise service investment opportunities then an annual 3% increase would be required, whereas 0% or 1% increases are not viable in the longer term as there would be insufficient funding to maintain the business plan.

6.6 The first four options maintain the same year on year % increase, but it is recognised that they could vary year on year. Options 5, 6 & 7 have been provided to show how various phased increases would impact on the Business Support Reserve. In reality, there are numerous other options available, within the broad 3% annual policy constraint previously set by Cabinet.

6.7 Cabinet is now required to make a decision on rent levels for 2013/14, in order to ensure that the rent notices can be issued in sufficient time. Furthermore, Cabinet's approval of future rent targets is also sought.

6.8 For information, 2013/14 will be a 53 week rent year, which will be collected over the standard 48 weeks with 5 non-collection weeks.

7 INVESTMENT OPPORTUNITIES

7.1 In the recent past the Council has not had the financial certainty to be in a strong position to consider any acquisition or new build opportunities, but with the introduction of self-financing the position has improved. Having said that, the scope for new investment is directly influenced by future rent levels, as shown in the previous table.

7.2 The report presented to Cabinet in September 2012 provided illustrative costs of two schemes recently built by housing associations within the district:

- Flat development – total scheme cost of £3.4M including cost of site, 30 units (1 and 2 bedroom flats) at an average cost of £112K per unit.

- General Need Housing – total scheme cost of £3.5M including cost of privately owned site, 27 units (7 x 2 bed houses and 20 x 3 bed houses) at an average cost of £131K per unit.
- 7.3 Initial indications are that the most pressing need is for 1 bedroom accommodation within the district. This will become even more of an issue with the introduction of welfare reforms affecting single benefit claimants occupying accommodation with more than one bedroom.
- 7.4 However, there are numerous issues to be addressed before embarking on any new build scheme:
- How many units are needed.
 - Where would they be built, on existing Council Estates or elsewhere.
 - Ensuring suitable expertise to manage a new build programme.
 - Planning issues and considerations.
 - Would conversion of existing empty properties be more or less cost effective and viable than new build.
 - Is it affordable, given decisions on rent policy.
 - What are the likely timescales.
- 7.5 This list is by no means exhaustive but demonstrates the considerations to be addressed in developing detailed proposals for decision, and implementation.
- 7.6 With this in mind, it is proposed that officers report back to the Housing Regeneration Cabinet Liaison Group with a range of options for potential schemes in the district, providing potential costs, locations and timescales and addressing any other relevant issues. This will allow the necessary detail to be considered, to inform what investment is ultimately required.
- 7.7 At this stage, Cabinet are therefore requested to approve in principle the creation of new 1 bedroom accommodation within the district, to be funded from the Business Support Reserve, with detailed proposals being brought back to Cabinet for approval following consideration by the Housing Regeneration Cabinet Liaison Group. This request is subject to sufficient funds remaining after Cabinet has determined future rent policy.

8 DETAILS OF CONSULTATION

- 8.1 The draft Revenue Budget and Capital Programme has been presented to the District Wide Tenants' Forum on 05 February 2013. Views expressed by the Forum will be fed directly into Cabinet.

9 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

- 9.1 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.
- 9.2 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.

9.3 The most obvious options available in respect of the 2013/14 rent increase are set out in section 6 of the report. That section also highlights the intrinsic link between rent levels and scope for future investment.

9.4 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.

9.5 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.

10 OFFICER PREFERRED OPTION AND COMMENTS

10.1 The Officer preferred options are to:

- approve/ refer on the provisions, reserves and balances position as set out;
- set rent levels that would provide sufficient flexibility for future investment, as well as sufficient headroom to address any future accounting / regulatory / welfare reform changes. Officers would advise against longer term rent freezes or below inflation increases, for these reasons. If future investment opportunity is to be maximised, then the Officer preferred option would be for a 3% annual increase.
- approve / refer on the revenue and capital budget proposals as set out, as adjusted to fit with rents levels mentioned above.

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's comments are incorporated into the report. Formal advice regarding affordability and borrowing etc. will be included in the subsequent reports to Council, alongside Cabinet's budget proposals. .

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

None

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