CABINET

Budget and Policy Framework Update 2017 to 2021 – Housing Revenue Account and Capital Programme
17 January 2017

Joint Report of Chief Officer (Health and Housing) and Chief Officer (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 2017/18 and targets for future years. It also seeks approval of Cabinet's supporting revenue budget and capital programme proposals for referral on to Budget Council, in order to complete the HRA budget setting process for 2017/18.					
Key Decision	**X**	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision	**19 December 2016**				
This report is public.					

RECOMMENDATIONS OF COUNCILLOR LEYTHAM:

1 **That the Housing Revenue Account Revised Budget for 2016/17, as set out at Appendix A, be referred on to Council for approval, with the net overspending of £143K being met from Balances.**

2 **That the minimum level of HRA unallocated balances be increased from £350,000 to £500,000 from 01 April 2017, and that the full Statement on Reserves and Balances as set out at Appendix C (as updated to reflect Cabinet's final budget proposals) be endorsed and referred on to Budget Council for approval.**

3 **That council housing rents be set in accordance with statutory requirements as follows:**

- **for general properties let as at 01 April 2017, average rent be set at £71.69 for 2017/18, representing a reduction of 1% from the previous year;**

- **for sheltered and supported housing properties let as at 01 April 2017, average rent be set at £66.97 for 2017/18, representing a reduction of 1% from the previous year,**

- **for 2018/19 to 2019/20 further average rent reductions be set at 1% year on year; and**

- **for any relevant property becoming void the following policy be re-affirmed, in that they continue to be re-let at 'formula rent' less the relevant cumulative year on year % reduction applicable (i.e. generally 2% for 2017/18 rising to 4% in 2019/20).**

4 **That beyond 2019/20, it be noted that the HRA Business Plan forecasts assume that council housing rents revert to increasing by 2% year on year, but this is subject to annual review and any future determinations that may be issued by Government from time to time.**

5 **That for 2017/18, all garage rents be increased by the Consumer Price Index (CPI) plus £1, with an additional CPI + £1 increase in each subsequent year until 2019/20, with CPI increases thereafter.**

6 **That subject to approval of a fixed term growth item for tackling anti-social behaviour, the associated HRA contribution be met from Balances.**

7 **That the resulting Housing Revenue Account budget for 2017/18 onwards as currently set out in Appendix A, but subject to any changes arising from the above, be referred on to Budget Council for approval.**

8 **That the Capital Programme as set out at Appendix D be referred on to Budget Council for approval.**

9 **That the above recommendations for the Housing Revenue Account be reflected within the Council's draft Medium Term Financial Strategy (MTFS) as appropriate.**

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 This report sets out the rent setting policy and the latest position with regards to the HRA 30 year Business Plan, covering both revenue and capital budgets, and the associated level of reserves and balances. It seeks approval for rent levels and various other budget matters, with referral on to Budget Council as appropriate. The draft MTFS will also be updated to reflect Cabinet's HRA budget proposals.

2 Rent Setting Policy

2.1 Prior to 2016/17 the Council's medium-term rent policy for council housing was based on target average rent increases of 3% year on year. The aim of the policy was to strike a balance between keeping rents affordable, managing financial risks, and increasing and improving council housing provision.

2.2 Unfortunately, through the Welfare Reform and Work Act 2016, the Government removed the ability of the Council to determine its own rent policy. As a consequence, from 2016/17 to 2019/20 most property rents must reduce by 1% year on year, except where properties become vacant and their rents have not yet reached convergence with other social housing providers (i.e. they are below what is referred to as 'formula rent'). In these circumstances, the rents to be charged for new tenancies can increase up to the formula rent level, less the cumulative 1% year on year reduction.

2.3 The council's current rent policy for council housing is summarised as follows:

Average rent (excluding sheltered and supported properties) of £72.41 for 2016/17 (representing a 1% reduction).	Average rent for sheltered and supported properties of £67.65 for 2016/17 (to take them to 'formula rent').
For 2017/18 to 2019/20 onwards average rents will reduce by 1% per year.	
Following relevant properties becoming vacant, they will be re-let at 'formula rent' less the relevant cumulative year on year reduction applicable (i.e. generally -1% for 2016/17 rising to -4% in 2019/20).	

** *Note that the above figures have been re-presented on a 52-week basis, and allowing for the split out of sheltered/supported rents.*

2.4 In line with that context, for 2017/18 Cabinet is now required to set average council housing rents at £71.69 for general properties and £66.97 for sheltered and supported properties, and to determine its supporting budget proposals for referral on to Budget Council. Legislation means that there are no other options for Cabinet regarding rent levels. The statutory notice of rent variations would be issued to tenants by 01 March.

2.5 For information, 2017/18 will be a 52 week rent year, which will be collected over the standard 48 weeks with 4 non-collection weeks.

2.6 Cabinet does have some discretion around garage rents, however. Last year Cabinet approved a revised policy for rents to rise each year by the rate of inflation. The Council manages just over 400 garages within the HRA, and the current rent charged is £7.95 per week, but this is somewhat below current competitive rents which are above £11 per week. Cabinet is therefore requested to consider the following options for the setting of garage rents for 2017/18.

- Based on a projected CPI of 2% and current occupancy levels:

Options for Increase	**Proposed weekly rent excluding VAT (48 weeks)**	**Increased income above base budget**
Option 1: CPI + £1	£9.11	£18K
Option 2: CPI + £2	£10.11	£37K
Option 3: CPI + £3	£11.11	£56K

2.7 The Officer preferred option would be to increase rents to a competitive level (ie £11.11 – CPI + £3) but to do this in stages, as set out below.

Proposed Increase	Proposed weekly rent excluding VAT (48 weeks)	Increased income above base budget
2017/18 CPI + £1	£9.11	£18K
2018/19 CPI + £1	£10.33	£37K
2019/20 CPI + £1	£11.58	£57K
2020/21 CPI + £0	£11.85	£59K

2.8 This would therefore lessen the immediate impact on customers, but would still result in a competitive garage rent by 2019/20, as well as generating additional income of £57K.

3 30 Year Business Plan

3.1 The Council is required to maintain a 30 year Business Plan to ensure and demonstrate the viability of the Housing Revenue Account. In essence it shows whether, over the longer term, the level of rental and other income is sufficient to cover the cost of maintaining the existing stock, whilst also covering all other costs such as debt repayment, administration costs etc.

3.2 The Government's rent reduction policy has greatly reduced potential (and previously budgeted for) income for not just existing services and maintenance needs but also any new build aspirations. Furthermore, it is expected that other Government social housing proposals will add significantly to the challenges ahead, in terms of maintaining the viability of the Business Plan.

3.3 Regarding such proposals, the Government has still to make its announcement on the operation of its policy for the sale of higher value council housing (on them becoming vacant) but it has announced its revised proposals to introduce the local housing allowance cap for various social housing tenants in 2019/20. Furthermore the roll out of Universal Credit for new claimants is well underway within the district. The full implications of these changes on income collection still have to be modelled.

3.4 Taking account of the work that has been done to date, the following table sets out the latest position for the business plan, represented by the level of unallocated balances and the Business Support Reserve. It compares the position back in March 2016 to projections as at January this year. It should be noted that it is still assumed that rents will increase by 2% per annum from 01 April 2020, noting that this is by no means certain. The garage rents proposal is not included at this stage.

30 Year Business Plan: Business Support Reserve and Unallocated Balances

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	30 Year Cumulative Total £'000
Business Support Reserve	8,396	8,396	8,396	8,081	6,631	4,449
Unallocated Balances	1,580	1,662	1,323	350	350	3,530
Projections as at March 2016	**9,976**	**10,058**	**9,719**	**8,431**	**6,981**	**7,979**
Business Support Reserve	8,364	8,364	8,364	8,364	8,364	6,254
Unallocated Balances	1,825	2,023	2,017	1,598	1,014	1,342
Projections as at January 2017	**10,189**	**10,387**	**10,381**	**9,962**	**9,378**	**7,596**
Overall Movement Adverse / (Favourable)	**(213)**	**(329)**	**(662)**	**(1,531)**	**(2,397)**	**383**

3.5 Overall it can be seen that whilst there are additional surpluses in the medium term, the position by Year 30 shows a reduction of £383K. However, the overall level of surplus resources is still projected to be just under £7.6M.

3.6 The main reason for the longer term reduction is due to additional right to buy sales being assumed, based on previous years' experience. Going forward it is assumed there will be 12 sales per year as opposed to the previous 10. The impact of this means that by year 30 rental income will have reduced by some £2.2M. To counter this there have been reductions to future years' repair and maintenance and capital programme budgets;

more information is included at section 4.2 of this report. The impact of this has mitigated virtually all of the reduction in income.

3.7 Drawing on business plan assumptions, the underlying rent policy and operational matters, more details of Council's Housing's revenue and capital position are provided in the following sections, to help inform Cabinet's budget proposals.

4 2016/17 Revised Budget

4.1 Following the review of the current years' budget, a net surplus of £133K is now forecast, which is £143K lower than originally forecast (meaning that the account has overspent in-year). A summary statement is set out at ***Appendix A*** and the main variations are shown below. This focuses on the bottom-line variances, excluding any notional charges:

SUMMARY OF MAIN 'CASH' VARIANCES ON HRA	**£'000**
Operational Variances: (+)Adverse / (Favourable)	
Increased spend on Repairs and Maintenance	+187
Increase in Bad Debt Provision	+12
Net Decrease in Revenue Financing of Capital Programme (either directly or from Reserves)	(109)
Sub-total	**+90**
Review of Reserves (see section 6)	
Net Reduction in transfer to Major Repairs Reserve	(56)
Net Reduction in transfers to other Earmarked Reserves	(25)
Net Increase in Capital Receipts	+134
Net Reduction in Surplus Forecast for Year	**+143**

4.2 A number of key points are highlighted:

- There has been an additional cost (c£100k) on repair and maintenance mainly relating to the re-instatement of voids to a lettable standard. A continuing review at how the repair and maintenance of council housing stock is delivered in the most efficient, effective and economical way will look to reduce ongoing maintenance costs, as there is still more work to be undertaken in this area.

- Average capital receipts from annual right to buy sales have increased in the previous and current year, thereby reducing the call on revenue to finance the Capital Programme.

4.3 Taking account of the variances outlined above, and the £348K underspending from 2015/16, HRA Balances at the end of this year are expected to be around £200K higher than originally forecast, as shown in the following table:

	2016/17 Original Budget £'000	2016/17 Revised Budget £'000
Original Estimated Balances as at 31 March 2016	1,344	1,344
Add: Underspending in 2015/16, at outturn	--	348
Add: Forecast surplus in current year	276	133
Forecast Balances as at 31 March 2017	**1,620**	**1,825**
Of which:		
Surplus Balances (above current minimum £350K)		**1,475**

4.4 Cabinet is recommended to refer the HRA Revised Budget for 2016/17 to Council as set out at ***Appendix A*** for approval.

5 **2017/18 Budget and Future Years Projections**

5.1 The draft budget has now been prepared for 2017/18 together with projections for 2018/19, 2019/20 and 2020/21, i.e. in line with the same 4 year revenue planning horizon as General Fund. The budgets are set out in line with Accounting Requirements and they take account of the usual pay and price inflation assumptions. Specific aspects of the budget are outlined in more detail below.

- Provision continues to be made for repayment of the self-financing debt over the next 25 year period, noting that the principal sum outstanding as at 31 March 2017 will be £26M. 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.

- In response to the need to cover inflationary increases, reducing housing rents income and also the need to be able to react to the impact of government welfare reform changes, any operational savings/efficiencies arising have been built into the draft budgets. In the main they have been achieved as follows:

    - £300K (average per year) – revenue financing of capital programme. Following further review of the programme, disabled adaptations have been reduced to bring them in line with previous year average spending, whole house improvements have been re-profiled over three years instead of one year and cost savings are expected on externally contracted works following the expiry of the Forrest Partnership working arrangements, thereby reducing the annual financing requirement.

5.2 Whilst there will be some comparatively minor service and tenant impact arising from above, the change is predominantly a financing matter.

5.3 Cabinet should note also that actions arising from the ongoing review of how council houses are repaired and maintained are likely to have resource implications. Once these have been quantified, they will be reported through for consideration as necessary, and fed into the next update of the HRA Business Plan. This is important, not least to help avoid any overspendings as expected in the current year.

6 **Savings and Growth**

6.1 Alongside setting council housing rents, Cabinet is also requested to make recommendations regarding a savings option and two growth proposals for consideration by Council. In considering any growth requests, Cabinet is advised to take account of the current MTFS, which states that any 'growth in a particular area will only be considered if it meets either of the following conditions:

- *it is needed to meet statutory service standards; or*

- *it is essential to meet a key objective within Corporate Plan proposals, for which there are no alternative providers or sources of funding available **and** sufficient progress has been made in adopting plans for addressing the medium term budget deficit, so as to consider any growth proposal affordable and sustainable in the medium to long term. This applies particularly to any recurring or high cost one-off growth proposals.'*

6.2 As reported at December's meeting, approval was sought to develop a service delivery model and structure to provide extra capacity, to provide additional tenancy and household support, to encourage tenant independence and sustainability to mitigate the effects of government welfare reforms and the wider public sector reforms. As referred to earlier, the latter has potentially massive ongoing implications for the viability of Council Housing's 30-year Business Plan. The annual cost is around £75K and is estimated to be funded from reducing rent losses through void properties (£35K) and annual savings on planned and responsive repairs (£40K).

6.3 There is also the potential for another growth item (in connection with tackling anti-social behaviour) to have impact on the HRA, in order to achieve certain council housing output requirements. This pilot initiative is primarily linked to the General Fund Budget, and at the time of writing this report Cabinet was still to confirm its General Fund budget proposals. In the event that the bid is supported, given that its impact would be fixed term it is proposed that any HRA contribution would be met from unallocated balances. Any ongoing requirement after the initial pilot period would need to be considered further following evaluation as part of the relevant annual budget cycle.

6.4 The following table shows the individual financial impact on the 30 year Business Plan of the savings and growth proposals being put forward, together with the garage rent proposal covered in section 2 earlier:

	2017/18 £'000	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**30 Year Cumulative Total £'000**
Projections as at January 2017	**(10,387)**	**(10,381)**	**(9,962)**	**(9,378)**	**(7,596)**
Garage Rents – additional income *(based on officer preferred option)*	(18)	(37)	(57)	(59)	(1,890)
Restructuring *(Dec Cabinet)*:					
Costs	75	74	73	73	
Increased Void Income	(15)	(40)	(40)	(40)	(441)
Reduced R&M Costs	(40)	(40)	(47)	(50)	
ASB Pilot Contribution	15	18	3	-	36
Updated Projections	**(10,370)**	**(10,406)**	**(10,030)**	**(9,454)**	**(9,891)**
Overall Change Adverse / (Favourable/)	**17**	**(25)**	**(68)**	**(76)**	**(2,295)**

6.5 The table shows that the proposals will improve the overall 30 year business plan by almost £2.3M.

7 Provisions, Reserves and Balances

7.1 The Section 151 Officer is required to undertake a formal review of general reserve levels. In assessing the adequacy of such balances, the Chief Officer (Resources) takes account of the strategic, operational and financial risks facing the authority. The effectiveness of internal financial and other controls are also taken into account; assurance on these can be taken from the respective formal Statements and external assessments. Consideration has also been given to the specific risks and assumptions underlying the HRA as set out in ***Appendix B***.

7.2 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 increasing the minimum level of HRA Balances to £500K from 01 April 2017 to support the budget forecasts, as part of the overall medium term financial planning for the HRA. This is in recognition that the recent and ongoing changes in respect of social housing/rent policy have substantially increased risks around rental income and the viability of the service going forward, and the lack of a clear legislation framework for rent policy beyond 2019/20 adds considerably to these risks.

7.3 The Business Support Reserve (BSR) has a current unallocated balance of £8.3M. The impact of ongoing Government changes to the future financing of the HRA remains unclear, although they are expected to be significant and as a result, the first call on the BSR will be required to support existing commitments over the lifetime of the 30-year business plan. At this point in time the consideration of future plans for increasing the stock of one bedroom accommodation is still on hold.

7.4 With regard to the Major Repairs Reserve, it should be noted that the call on this has lessened, mainly due to reduced capital expenditure on various schemes and increased capital receipts from Right to Buys being used to help finance the programme.

7.5 A more detailed review of other earmarked reserves is still needed, with plans for this to be undertaken during 2017/18 to inform future levels.

7.6 In terms of provisions, the annual contribution to the bad debts provision has increased slightly from those planned a year ago based on current activity, noting that the full impact of welfare reforms has not yet hit the HRA budget and so will need to continue to be closely monitored.

7.7 A draft statement on all reserves is attached at ***Appendix C (i)*** and ***Appendix C (ii)***. Levels are viewed as adequate for the period covered, but will need to be reviewed in more detail as highlighted above. Cabinet is asked to endorse this information, with the Statement being referred on to Council as part of the HRA budget proposals.

8 Capital Programme 2016/17 to 2020/21

8.1 The Council has a statutory duty to ensure that all of its council housing stock meets the Decent Homes Standard, but the Council adopted a higher ‘Lancaster’ standard for the maintenance of its housing stock.

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

8.3 ***Appendix D*** sets out the overall capital programme for consideration by Cabinet and referral on to Council. To keep capital planning horizons the same as revenue and in line with General Fund, the programme has also been rolled on a year to cover the period to 2020/21. More details are provided in the sections below.

9 2016/17 Revised Capital Programme

9.1 The 2016/17 Council Housing Capital Programme was set at £4.505M by Council on 02 March 2016. This programme has since been increased for approved slippage of £36K from 2015/16 for environmental improvements, and other reductions of £227K mainly relating to reduced costs for kitchens and bathrooms and external refurbishments and re-roofing/window renewals. Overall the programme has reduced by £191K to give a revised total of £4.314M.

10 2017/18 to 2020/21 Capital Programme

10.1 Future years' programmes are set in line with the HRA Business Plan wherever possible. In support of this, work continues to be undertaken to assess the requirement needs of the existing council housing stock and this has been fed into the 30-year Business Plan. Drawing on information from this and the Stock Condition Survey undertaken during 2014 and allowing for revenue funded maintenance, the draft programme included at Appendix D should enable the housing stock to continue to be maintained to the appropriate standards.

10.2 In terms of future investment, due to current uncertainty surrounding further Government proposals, no assumptions on future new build have been included in the current programme.

10.3 Although Officers have been moving some schemes forward, until the impact of all the legislative and policy changes being introduced by Government are properly understood and have been appraised, it is re-iterated that only the two schemes at Carnforth are being taken to full planning approval, alongside progressing the scheme for additional sheltered housing bungalows, the conversion of the ex-scheme manager's house into two sheltered flats at Parkside Court, Westgate and also at Melling House, Hala, and that work on all other schemes has ceased for now. No schemes will be progressed to build stage without approval by Cabinet. There may well be other options to explore how the Council might seek to help increase housing stock, for example through the setting up of a housing company, but complex matters such as this need careful consideration, hence they are likely to be put forward for consideration early next year, as part of 2018/19 budget planning.

10.4 Taking account of the above points, the total draft five year programme for 2016/17 onwards now stands at £20.822M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement. The HRA is therefore still in a reasonable position financially, subject to the significant uncertainties surrounding future Government policy. That said, any future capital investment must still ensure that long-term financial sustainability is not compromised.

11 Details of Consultation

11.1 The headlines from the draft Revenue Budget and Capital Programme were presented to the District Wide Tenants' Forum on 11 January prior to the Cabinet meeting. The Forum recognised the financial pressures the statutory housing rent reduction created but from a tenant perspective the rent reduction was welcomed. The proposals for increasing the garage rents received no adverse comment.

12 Options and Options Analysis (including risk assessment)

12.1 There is currently no other alternative available in respect of 2017/18 housing rent setting, given legislative requirements.

12.2 In terms of garage rents, options are presented in order to be comparable with other providers whilst remaining competitive, as set out in section 2 of the report. Cabinet may either choose to support the Officer preferred option for a phased increase to help smooth the impact, or retain existing rents, or introduce increases sooner, although the latter may generate more customer resistance.

12.3 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.

12.4 The options available in respect of the minimum level of HRA balances are to set the level at £500,000 in line with the advice of the Section 151 Officer, retain at £350,000 or 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 auditor.

12.5 With regards to the growth proposals as set out in section 6 of the report, Cabinet should consider the costs and benefits of the proposals and whether they are affordable, in particular over the medium to longer term.

12.6 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.

12.7 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.

13 Officer Preferred Option (and comments)

13.1 The Officer preferred options are to:

- Set housing rent levels in line with Government legislation.
- Approve the changes to garage rents as proposed in the report.
- Approve / refer on the provisions, reserves and balances position as set out.
- Use balances to help fund the ASB growth item, subject to the associated General Fund proposal being approved.
- Approve / refer on other revenue and capital budget proposals as set out.

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

CONCLUSION OF IMPACT ASSESSMENT
(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)
No significant implications directly arising. An equality impact assessment is attached at ***Appendix E*** (note that separate ones have been undertaken regarding growth).

LEGAL IMPLICATIONS
There are no legal implications arising from this report.

FINANCIAL IMPLICATIONS
As set out in the report.

OTHER RESOURCE IMPLICATIONS

Human Resources:

The council will deal with all relevant matters in relation to the staffing restructure of the service in line with legislation and its own internal policies and procedures.

Information Services:

There are no direct implications arising out of this report.

Property:

There are no direct implications arising out of this report.

Open Spaces:

There are no direct implications arising out of this report.

SECTION 151 OFFICER'S COMMENTS
The s151 Officer has contributed to this report, which is in her name in part (in her capacity as Chief Officer (Resources).

MONITORING OFFICER'S COMMENTS
The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS None	**Contact Officer:** Nadine Muschamp/Suzanne Lodge **Telephone:** 01524 582117 / 582701 **E-mail:** nmuschamp@lancaster.gov.uk **Ref:** n/a