

CABINET

Budget and Policy Framework Update – Housing Revenue Account and Capital Programme 11 February 2014

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 2014/15 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 2014/15.

Key Decision

X

Non-Key Decision

Referral from
Cabinet Member

Date Included in Forthcoming Key Decision Notice

13 January 2014

This report is public.

RECOMMENDATIONS OF COUNCILLOR LEYTHAM:

- 1 That the Housing Revenue Account Revised Budget for 2013/14, 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 2014, and that the full Statement on Reserves and Balances be endorsed and referred on to Council for approval.
- 3 That the current rent setting policy be reaffirmed for the medium term, in that:
 - an average rent of £69.91 for 2014/15 be approved, representing an increase of 1%, and the resulting Housing Revenue Account budget for 2014/15 be recommended to Council for approval; and
 - for years 2015/16 to 2016/17 target rent increases be set at 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.
- 5 That the above recommendations for the Housing Revenue Account be reflected within the Council's draft Medium Term Financial Strategy 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 At its meeting in February 2013, 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 2014/15 budget and rent setting exercise must be complete by that date.
- 1.4 The draft MTFs will also be updated to reflect Cabinet's HRA budget proposals, for consideration at Budget Council.

2 2013/14 REVISED BUDGET

- 2.1 A review of the current HRA budget has been undertaken and during the year, a net deficit of £63K is forecast. A summary statement is set out at **Appendix A** and the main variations are shown below. This focuses on the 'cash' or bottom-line variances, excluding any notional charges:

SUMMARY OF MAIN 'CASH' VARIANCES ON HRA	£'000
Operational Variances: (+)Adverse / (-)Favourable	
Reduction in Rental and Other Income	+35
Additional spend on Repairs and Maintenance	+9
Reduction in Bad Debt Provision	-16
Net Increase in Revenue Financing of Capital Programme (either directly or from Reserves)	+35
Other minor variances (net)	-24
Sub-total	+39
Review of Reserves (see section 3)	
Net Increase in transfer to Major Repairs Reserve	+24
Net Overspending Forecast for Year	+63

- 2.2 Taking account of the overall revised budget outlined above, HRA Balances at the end of this year are expected to be around £364K higher than originally forecast, as shown in the following table:

	2013/14 Original Budget £'000	2013/14 Revised Budget £'000
Original Estimated Balances as at 31 March 2014	350	350
Add: Underspending in 2012/13, at outturn	--	427
Less: Forecast overspending in current year	--	-63
Forecast Balances as at 31 March 2014	350	714
Of which:		
Surplus Balances (above minimum £350K)		364

- 2.3 Cabinet is recommended to refer the HRA Revised Budget for 2013/14 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 Chief Officer (Resources) takes account of the strategic, operational and financial risks facing the authority. The effectiveness of internal financial and other controls are also taken into account; assurance on these can be taken from the respective formal Statements and external assessments. Consideration has also been given to the specific risks and assumptions underlying the HRA as set out in **Appendix B**.
- 3.2 After reviewing the Housing Revenue Account and General Fund in comparative terms and considering the key issues, assumptions and risks underlying the budget projections, the Section 151 Officer advises retaining the minimum level of HRA Balances at £350K 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 The Business Support Reserve, which was established last year, has a current balance of £8.1M. Until future plans for increasing the stock of one bedroom accommodation are developed no further contributions are being made into this reserve. Cabinet still have authority to allocate this reserve, but any future contributions would be approved by Council as part of the overall budget process. This still gives Cabinet the flexibility to develop and refine its plans.
- 3.4 In terms of provisions, the annual contribution to the bad debts provision has decreased slightly from those planned a year ago. This is despite the introduction of the new welfare reforms, although the position will continue to be closely monitored.
- 3.5 A draft statement on all reserves is attached at **Appendix C (i)** and **Appendix C (ii)**. The latter details the purpose and application of each reserve together with relevant recommendations on current use. These reserves are viewed as adequate for the period covered, but will need to be reviewed 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 **2014/15 BASE BUDGET AND FUTURE YEARS' PROJECTIONS**

4.1 The draft budget has now been prepared for 2014/15 together with projections for 2015/16 and 2016/17. 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 29 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. The regulatory and accounting framework is still awaiting completion, therefore the HRA debt management strategy has not yet been reviewed and updated.
- 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.

5 **CAPITAL PROGRAMME 2013/14 TO 2017/18**

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 self-financing business plan.

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 **2013/14 Revised Capital Programme**

5.4.1 The 2013/14 Council Housing Capital Programme was set at £4.827M by Council on 27 February 2013. This programme has since been updated for the addition of slippage from last year and other minor adjustments to give a revised programme of £4.865M.

5.5 **2014/15 to 2018/19 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 In terms of future investment, options are still being formulated and will be presented to Members in due course. As such, no assumptions on future new build have been included in the current programme.

5.5.3 The total draft five year programme for 2014/15 onwards now stands at £24.118M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement. The HRA is therefore still 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 Subsequent to that at its meeting on 12 February 2013, Cabinet approved a rent setting policy for the medium term for years 2014/15 to 2016/17 of 1%, 2% and 3% respectively.

6.3 The table below shows that the current rent setting policy (Option 1) is still in line with the 30 year business plan projections presented to Cabinet last February. Therefore, the current rent setting policy will still provide future investment opportunities whilst maintaining the current stock to the required standards.

6.4 The table also shows the impact of delaying the increase in rent by another year, i.e. 0% for 2014/15 then 1%, 2% and 3% thereafter for subsequent years (Option 2). This still seeks to phase in the increase, in line with the rent setting policy, but delays the implementation. The overall impact is to reduce the cumulative 30 year balance by £20M, and it will mean balances will have to be drawn upon in the next two years in order to maintain a balanced budget. That being said, it would still be sustainable in the longer term, in line with Option 1.

30 Year Business Plan – Business Support Reserve & Unallocated Balances	2013/14	2014/15	2015/16	2016/17	30 Year Cumulative Total
Projections as at February 2012	£8.257M	£8.728M	£9.433M	£9.794M	£96.544M
Option 1 – 1%, 2% then 3% thereafter	£8.962M	£9.036M	£9.060M	£9.541M	£94.749M
Option 2 - Re-phasing of increases, 0%, 1%, 2% then 3% thereafter	£8.962M	£8.902M	£8.655M	£8.724M	£74.634M

6.5 Any rent increases above those set out above would also clearly be sustainable and would generate further investment opportunity. However, any proposals less than the above options would need to be modelled to determine their impact on the overall business plan and assessed against the current rent setting policy.

6.6 For information, 2014/15 will be a 52 week rent year, which will be collected over the standard 48 weeks with 4 non-collection weeks.

7 DETAILS OF CONSULTATION

- 7.1 The draft Revenue Budget and Capital Programme was presented to the District Wide Tenants' Forum on 15 January 2014, and relevant minutes from the meeting are attached at **Appendix E**. These show overwhelming support for a 1% increase in rents for 2014/15.

8 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

- 8.1 With regard to the revenue budget generally, Cabinet could consider other proposals that may influence spending in current and future years, as long their financing is considered and addressed.
- 8.2 The options available in respect of the minimum level of HRA balances are to set the level at £350,000 in line with the advice of the Section 151 Officer, or to adopt a different level. Should Members choose not to accept the advice on the level of balances, then this should be recorded formally in the minutes of the meeting and it could have implications for the Council's financial standing, as assessed by its external auditors.
- 8.3 The two main options available in respect of the 2014/15 rent increase are set out in section 6 of the report.
- 8.4 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.
- 8.5 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.

9 OFFICER PREFERRED OPTION AND COMMENTS

- 9.1 The Officer preferred options are to:
- Approve / refer on the provisions, reserves and balances position as set out;
 - set rent levels that would provide sufficient flexibility for future investment, as well as sufficient headroom to address any future accounting / regulatory / welfare reform changes. If future investment opportunity is to be maximised, then the Officer preferred option would be for a 1% increase in 2014/15 then 2% for 2015/16 and 3% thereafter;
 - approve / refer on the revenue and capital budget proposals as set out.

RELATIONSHIP TO POLICY FRAMEWORK

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

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)
No significant implications directly arising.

FINANCIAL IMPLICATIONS

As set out in the report.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer (Chief Officer (Resources)) has contributed to this report.

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 to add.

BACKGROUND PAPERS

None

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