

# CABINET

## Budget and Policy Framework Update 2015/16 – Housing Revenue Account and Capital Programme 17 February 2015

### 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 2015/16 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 2015/16.			
Key Decision	X	Non-Key Decision	Referral from Cabinet Member
Date of Notice of Forthcoming Key Decision	19 December 2014		
This report is public.			

#### RECOMMENDATIONS OF COUNCILLOR LEYTHAM:

- 1 That the Housing Revenue Account Revised Budget for 2014/15, 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 2015, 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 £71.31 for 2015/16 be approved, representing an increase of 2%, and
  - for 2016/17 onwards target rent increases be set at 3% per annum, and the revenue budget forecasts be updated accordingly.
- 4 That the resulting Housing Revenue Account budget for 2015/16 be referred on to Council for approval.
- 5 That the Capital Programme as set out at Appendix D be referred on to Council for approval.
- 6 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 set the level of housing rents in sufficient time for the statutory notice of rent variations to be issued to tenants by 01 March, and make recommendations to Council regarding the HRA's budget.
- 1.4 The draft MTFS will also be updated to reflect Cabinet's HRA budget proposals, for consideration at Budget Council.

## 2 2014/15 REVISED BUDGET

- 2.1 A review of the current HRA budget has been undertaken and during the year, a net surplus of £104K is forecast, which is £31K higher than originally forecast. A summary statement is set out at **Appendix A** and the main variations are shown below. This focuses on the 'cash' or bottom-line variances, excluding any notional charges:

<b>SUMMARY OF MAIN 'CASH' VARIANCES ON HRA</b>	<b>£'000</b>
<b>Operational Variances: (+)Adverse / (-)Favourable</b>	
Reduction in Rental and Other Income	+41
Additional spend on Repairs and Maintenance	+351
Increase in Bad Debt Provision	+16
Net Increase in Revenue Financing of Capital Programme (either directly or from Reserves)	+61
Other minor variances (net)	-55
<b>Sub-total</b>	<b>+414</b>
<b>Review of Reserves (see section 3)</b>	
Net Reduction in transfer to Major Repairs Reserve	-255
Net Reduction in transfers to other Earmarked Reserves	-190
<b>Net Surplus Forecast for Year</b>	<b>-31</b>

- 2.2 A number of key points are highlighted:

- Assumed annual Right to Buys have increased from 5 to 12 in the current year, thereby reducing the annual rental income receivable. This trend is expected to continue in future years.
- A review carried out of Repairs and Maintenance has determined that ongoing annual costs are increasing in line with those reported at 2013/14 outturn and

consequently these have been built into both current and future years' expenditure forecasts.

- 2.3 Taking account of the overall revised budget outlined above, HRA Balances at the end of this year are expected to be around £271K lower than originally forecast, as shown in the following table:

	2014/15 Original Budget £'000	2014/15 Revised Budget £'000
Original Estimated Balances as at 31 March 2015	776	776
<b>Less:</b> Transfer of 2012/13 surplus to Business Support Reserve	--	-426
<b>Add:</b> Underspending in 2013/14, at outturn	--	51
<b>Add:</b> Forecast surplus in current year	--	104
<b>Forecast Balances as at 31 March 2015</b>	<b>776</b>	<b>505</b>
<b>Of which:</b> <b>Surplus Balances (above minimum £350K)</b>		<b>155</b>

- 2.4 Cabinet is recommended to refer the HRA Revised Budget for 2014/15 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 has a current unallocated balance of £8.5M. Until future plans for increasing the stock of one bedroom accommodation are developed no further contributions are being made into this reserve. It is currently anticipated that detailed proposals (taking into account the impact on the HRA 30-year Business Plan) will be brought back to Cabinet during 2015/16. 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 There has been less call on the Major Repairs Reserve in the current year than originally assumed, mainly due to more capital receipts being received and applied as a result of increased Right to Buys and also use of earmarked reserves for specific Schemes.
- 3.5 An interim review of other earmarked reserves for next year has also identified that not all in year contributions are needed for the forthcoming year, although they will still be required over the 30 year period. A more detailed review will be undertaken during 2015/16 to inform future levels, however.
- 3.6 In terms of provisions, the annual contribution to the bad debts provision has increased slightly from those planned a year ago and will continue to be closely monitored.
- 3.7 A draft statement on all reserves is attached at **Appendix C (i)** and **Appendix C (ii)**. The latter details the purpose and application of each reserve together with relevant recommendations on current use. These reserves are viewed as adequate for the period covered, but will need to be reviewed in more detail as highlighted above. Cabinet is asked to endorse this information, with the Statement being referred on to Council as part of the HRA budget proposals.

#### 4 **2015/16 BASE BUDGET AND FUTURE YEARS' PROJECTIONS**

- 4.1 The draft budget has now been prepared for 2015/16 together with projections for 2016/17 and 2017/18. 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 28 year period. No provision has been made as yet in respect of the £15.3M HRA share of earlier years' debt, but this is the same approach that applied under the former subsidy system.
  - With regard to financing investment needs for the existing housing stock, the budget has been prepared on the basis that if there is a shortfall 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 2014/15 TO 2019/20**

- 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 2014/15 Revised Capital Programme**

5.4.1 The 2014/15 Council Housing Capital Programme was set at £4.790M by Council on 26 February 2014. This programme has since been updated after taking into account preliminary results from the recent stock condition survey undertaken during 2014 to give a revised programme of £4.861M.

#### **5.5 2015/16 to 2019/20 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 2014 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. See also comments provided under sections 6.3 and 9.1.

5.5.3 The total draft five year programme for 2015/16 onwards now stands at £24.253M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement. The HRA is therefore still in a reasonably strong position financially, subject to the officer preferred option being implemented regarding future rent levels, noting that consideration of further investment must still ensure that long-term financial sustainability is not compromised.

### **6 RENT SETTING POLICY**

6.1 In September 2012, Cabinet adopted a HRA medium term financial strategy and rent policy that supported the future needs of the HRA housing stock, whilst enabling the Council to consider using HRA funding in a wider regeneration context.

6.2 Subsequent to that at its meeting on 12 February 2013, Cabinet approved a rent setting policy for the medium term for years 2014/15 to 2016/17 of 1%, 2% and 3% respectively.

6.3 The table below shows that the current rent setting policy (Option 1) is the only viable option available to Members at this time. The combined effect of a reducing income base and increasing repairs and maintenance costs (as highlighted under section 2.2) has had the overall impact of reducing the cumulative 30-year balance by £86.3M compared with projections presented to Cabinet last February. That said, the current rent setting policy will still provide for the current stock to be maintained to the required standards. Whilst the 30-year Business Plan does not appear to be as healthy as it did in the previous year, it is anticipated that this position will improve once all capital works have been fully detailed and completed in the short to medium term as it should naturally follow that the responsive repairs and maintenance side reduces with the overall financial position improving over the longer term. This will be reviewed more fully over the coming 12 month period and be fed into future updates of the Business Plan.

6.4 For information, the table (in line with the decision made in February 2013) also shows the impact of further delaying the increase in rent by another year, i.e. 1% for 2015/16 then 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 a further £13.1M compared with Option 1, and will mean that the Business Plan is no longer sustainable towards the end of the 30-year period and is therefore not considered a viable option.

<b>30 Year Business Plan – Business Support Reserve &amp; Unallocated Balances</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>30 Year Cumulative Total</b>
Projections as at February 2014	£9.036M	£9.060M	£9.541M	£10.173M	<b>£94.749M</b>
Option 1 – 2% then 3% thereafter	£9.093M	£9.008M	£9.140M	£9.324M	<b>£8.434M</b>
Option 2 - Re-phasing of increases, 1%, 2% then 3% thereafter	£9.093M	£8.873M	£8.732M	£8.636M	<b>-£4.664M</b>

6.5 Any rent increases above those set out under Option 1 would also clearly be sustainable and would generate further investment opportunity. However, any proposals less than Option 1 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, 2015/16 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 14 January 2015, and relevant minutes from the meeting are attached at **Appendix E**. These show continued support for a 2% increase in rents for 2015/16.

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

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

8.2 The options available in respect of the minimum level of HRA balances are to set the level at £350,000 in line with the advice of the Section 151 Officer, or to adopt a different level. Should Members choose not to accept the advice on the level of balances, then this should be recorded formally in the minutes of the meeting and it could have implications for the Council's financial standing, as assessed by its external auditors.

8.3 There is only one sustainable option available in respect of the 2015/16 rent increase and this is set out in section 6 of the report and is in line with the current rent setting policy.

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 to ensure that current stock levels continue to be maintained to required standards, i.e. a 2% increase in 2015/16 and 3% thereafter, noting that any detrimental impact associated with any future accounting / regulatory / welfare reform changes will need to be addressed at that time;
- Note that if future investment opportunity is to be maximised, then as referred to in section 6.3, this can only really be properly considered once there is a better understanding of the total maintenance requirements and its impact on the viability of the 30-year Business Plan.
- Approve / refer on the revenue and capital budget proposals as set out.

### RELATIONSHIP TO POLICY FRAMEWORK

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

### CONCLUSION OF IMPACT ASSESSMENT

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

No significant implications directly arising.

### FINANCIAL IMPLICATIONS

As set out in the report.

### SECTION 151 OFFICER'S COMMENTS

The s151 Officer's comments and advice is reflected in this report (acknowledging also her role as Chief Officer (Resources)).

### LEGAL IMPLICATIONS

There are no legal implications arising from this report.

### MONITORING OFFICER'S COMMENTS

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

### BACKGROUND PAPERS

None

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