

CABINET

Budget and Policy Framework Update 2018 to 2022 – Housing Revenue Account and Capital Programme 12 February 2019

Report of Director for Communities and the Environment

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 2019/20 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 2019/20.			
Key Decision	<input checked="" type="checkbox"/>	Non-Key Decision	Referral from Cabinet Member
Date of notice of forthcoming key decision	14 January 2019		
This report is public.			

RECOMMENDATIONS OF COUNCILLOR WARRINER

- 1) That the Housing Revenue Account Revised Budget for 2019/20, as set out at Appendix A, be referred on to Council for approval, with the short-term funding requirement of £296.5K being met from unallocated balances.
- 2) That the minimum level of HRA unallocated balances be retained at £500,000 from 01 April 2019, and that the full Statement on Reserves and Balances as set out at Appendix F 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 2019, average rent be set at £71.05 for 2019/20, representing a reduction of 1% from the previous year;
 - for sheltered and supported housing properties let as at 01 April 2019, average rent be set at £66.08 for 2019/20, representing a reduction of 1% from the previous year;
 - for any relevant property becoming vacant the following policy be reaffirmed: that they be re-let at the higher 'formula rent' less the relevant cumulative % reduction applicable (i.e. generally 4% for 2019/20).
- 4) That the growth proposals as set out at Appendix E be included in Cabinet's budget proposals for referral on to Council, noting that any approvals be met from unallocated balances.

- 5) **That subject to the above, the resulting Housing Revenue Account budget for 2019/20 onwards, as set out at Appendix A, together with the resulting Capital Programme as set out at Appendix C, be referred on to Budget Council for approval.**

1.0 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 Medium Term Financial Strategy (MTFS) will also be updated to reflect Cabinet's HRA budget proposals.
- 1.3 It can be noted that within the context of ring-fencing the HRA has a role to play in support of wider Council priorities; contributing to and facilitating projects across the district to support the wider regeneration ambitions of the council. The HRA also underpins the Council's general fund through contribution to support services and corporate commitments.

2.0 Achievements 2018/19

- 2.1 Against the financial pressure of three consecutive years of 1% rent decreases the council has continued to deliver a responsive, ambitious service through the HRA. Across household and tenancy management, sheltered housing, allocations and lettings, as well as repairs and maintenance, a number of notable successes have been delivered in 2018/19. For example:
- Using lean thinking principles, joined up working between housing management, choice based lettings, and RMS, delivering a reduction in empty property re-let time from an average of 60+ days per property to 25 days over a twelve months period; efficiencies which have realised over £100k in previously uncollected rental income.
 - Housing Quality Network (HQN) accreditation achieved for best practice within Income Management; successes achieved in preventing rent arrears and promoting tenancy sustainment for council tenants.
 - European funding obtained through ECIF for More Positive Together (MPT); match funding utilised to fund two Employability Coaches for the district, in partnership with KEY (Lancashire based charity).
 - Continued development of Household Intervention Service in response to discontinuation of funding for floating tenancy support across Lancashire; offering intensive support for tenants with complex needs.
 - Repair and Maintenance (RMS) development plan underway; to deliver system improvements, efficiencies, and enhancements to the customer experience.

3.0 Rent Setting

- 3.1 The financial year 2019/20 represents the final year of the government's four year rent setting policy to reduce social housing rents by 1% per annum to 2020, except where properties become vacant and their rents are below '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.
- 3.2 This policy continues to progressively add pressure to the HRA, and is the key driver behind the short-term funding requirement referred to in recommendation 1 (above). However, previous budgetary decisions have ensured that the HRA 30 year business plan is sustainable in the short term without the need to utilise the Business Support Reserve at any point.
- 3.3 Rental income is the main funding source for the HRA and there are a number of factors that will influence the outturn position :-
- 2019/20 is a 53 week rent year resulting in 49 rent collectable weeks, once the usual 4 non-collection weeks have been applied.
 - The number of properties within the housing stock is subject to Right to Buy sales which are outside the Council's control
 - Void levels and the time it takes to re-let can have an impact on income levels. Recent good progress in this area has led to a fall in the void rent loss from 2% to 1.5%
- 3.4 Therefore, in line with government policy, Cabinet is now required to set average council rents as follows :-

Property Type	2018/19	2019/20
General	£71.27	£71.05
Sheltered and Supported	£66.31	£66.08

**** Note that the above figures are presented on a 52-week basis.**

With regard to the years following 2019/20, the government have previously announced that for a five year period from 2020/21 to 2024/25 that rent policy will revert to the previous approach of allowing an increase of CPI plus 1% per year.

4.0 Other Charges

- 4.1 A general principal is applied to service charges to ensure they are sufficient to cover the cost of service provision. Service charges are increased each year using a range of inflationary factors: e.g. General Inflationary Index, BCIS, Gas, and Electricity.
- 4.2 In general, there is a standard charge for each service a tenants receives; the cost of the service is spread equally across all tenants who benefit from it. Exceptions to this include district heating charges, electricity costs in general needs communal areas, and sheltered housing service charges, where service charge costs vary by building.

- 4.3 With regard to garage rents, in January 2017 Cabinet established a rent setting policy for garages within the HRA: “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 increase thereafter.” Continued adherence to this policy would see a weekly garage rent set at £11.66

5.0 Revenue Expenditure

- 5.1 The 2018/19 revised estimates and the future years estimates for 2019/20 alongside the following three financial years have been prepared as part of this budget setting process. The differences between last year’s approved revenue budget are illustrated in the variance analysis supplied at Appendix B. The key areas are listed as follows :-
- Reduction in average empty property re-let time from 66 days (Jan 2018) to 26 days (Jan 2019), due to a combination of reduced volumes and faster turnaround. This has realised a decrease in void rent loss from 2.6% to 1.5% which equates to approx. £100K additional rental income in 2018/19.
 - Delayed expenditure relating to the RMS development plan, funded by the ICT replacement reserve
 - The two month extension of the RMS Interim Manager and planning consent for new build properties, funded by the business support reserve
 - Delayed capital expenditure (£185K) from 2018/19 to 2019/20 relating to previously approved growth items, funded by the business support reserve
 - Total capital expenditure reduced by £262K in 2018/19 and increased by £414K in 2019/20 which is underpinned by the use of reserves
- 5.2 In summation the 2018/19 revenue budget projected funding requirement is £7.3K, which is lower than the previously projected £150.1K, and this will be funded by unallocated balances. The 2019/20 revenue budget projected funding requirement is £296.5K, which is higher than the previously projected £279.1K and again this will be funded by unallocated balances (prior to approval of growth items).
- 5.3 As outlined in section 3.2, the short-term funding requirement is due to the government’s policy on rent setting of which 2019/20 will be the final year of 4 annual 1% rent reductions. This equates to a 4% reduction in income in addition to annual inflation being applied to expenditure typically at around 2%. The 30 year business plan forecasts the HRA to be self-financing again from year 2021/22 onwards.

6.0 Capital Expenditure

- 6.1 The revised and five year capital programme is included at Appendix C
- 6.2 The key changes to the programme from last years reported position are included at Appendix D.
- 6.3 The 2019/20 capital programme includes provision for development work to prepare plans and options for a major capital project for a transformational refurbishment of the Mainway Estate.

The scope of the project is ambitious and will incorporate all planned capital works to the communal areas, replacement lifts, and new roofs, and co-ordinate these into an estate wide scheme to refurbish the windows, facades and entrance ways. Proposal will consider remodelling of the external spaces, facilities and traffic.

The scheme will look to incorporate the highest standards of thermal efficiency practicable thus contributing to the councils priorities around renewable energy and reducing our carbon footprint.

Proposals will be developed through a consultation model focused on the tenant, the quality of the accommodation, living costs and management, and assured by external technical consultancy, cost engineering and our Council Housing expertise. The project will generate option(s) which will be subject to financial and cabinet scrutiny and approval.

Work over the forthcoming year will define the proposed project. The total project value is not included in the current Capital programme as this is dependent on the project options. However, it is anticipated that the cost of repair and the attendant upgrading will ultimately require us to draw substantially on reserves; potentially £3M-£4M, with significant preparatory work within 2019/20, and a start date within 2020/21.

6.4 Further to this, it is worth also noting the following :-

- Artlebeck – As landowners, the Council will undertake vital work to maintain the river. Over the years the bank has eroded and there is a risk to housing and people. The Environment Agency (EA) are aware of the requirement to undertake remediation works and have after several site meetings issued a permit to enable works to be undertaken after fish have spawned in the summer.
- The Council has a duty maintain the riverbank which is enforced by the Environment Agency. Due to previous flooding events the bank is unstable and remediation works are required to restore the riverbank and protect our housing from flooding.

7.0 Savings and Growth

7.1 Alongside setting council housing rents, Cabinet is also requested to make recommendations regarding savings and growth proposals for consideration by Council.

7.2 Through the business planning process, no savings have been proposed and the following areas of growth within the HRA have been identified:

Growth Proposal	2019/20 £	2020/21 £	2021/22 £	2022/23 £
Community Development – to continue with existing support to community centres	14,300	14,600	14,900	15,200
Creation of System Implementation Project Manager post - to manage and co-ordinate system change	34,400	36,800	38,700	40,700
Anti-Social Behaviour - to increase the HRA contribution to the council's dedicated team for the years 2019/20 to 2022/23 inclusive	50,000	51,000	52,000	53,000
RMS Development Plan Phase 2 – implementation of a dynamic resource scheduling tool (to be funded by ICT replacement reserve)	0	0	0	0
Total of all growth bids	98,700	102,400	105,600	108,900

7.3 To note, the Community Development growth proposal looks to mainstream the HRA contribution, and provide added stability to the provision of vital community centres within the district.

7.4 Please see attached Appendix E which details and discusses individual growth bids.

8.0 Provisions, Reserves and Balances

8.1 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 maintaining the minimum level of HRA Balances at £500K from 01 April 2019 to support the budget forecasts, as part of the overall medium term financial planning for the HRA.

8.2 Draft statements on all reserves are attached at Appendix F(i) and Appendix F(ii). Levels are viewed as adequate for the period covered and Cabinet is asked to endorse this information, with the Statement being referred on to council as part of the HRA budget proposals.

9.0 Business Planning & Future Risks

9.1 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 (BSR). It compares the position back in March 2018 to projections as at February this year.

30 Year Business Plan: Business Support Reserve and Unallocated Balances

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	30 Year Cumulative Total £'000
Business Support Reserve	8,317	8,057	8,057	8,057	8,057	8,057
Unallocated Balances	1,567	1,288	1,237	1,494	1,983	59,135
Projections as at March 2018	9,884	9,345	9,294	9,551	10,040	69,051
Business Support Reserve	8,257	8,072	8,072	8,072	8,072	8,072
Unallocated Balances	2,010	1,714	1,702	1,891	2,444	60,900
Projections as at February 2019	10,267	9,786	9,774	9,963	10,516	68,972
Overall Movement Adverse / (Favourable)	(383)	(441)	(480)	(412)	(476)	79

- 9.2 The unallocated balance is currently £2.0M and at no point within the 30 year business plan does it breach the £500K lower limit as detailed in section 7.1.
- 9.3 The Business Support Reserve has a current unallocated balance of £8.3M which reduces to £8.1M when taking into account the slipped capital expenditure. There is no further call on the reserve at this juncture for the remainder of the 30 year business plan.
- 9.4 Should the growth items in section 6 be approved then the combined level of reserves will be reduced to £65.9M.
- 9.5 It should be reinforced that the healthy cumulative balance is primarily driven by Government's decisions on future rent policy. For simplicity, the business plan now assumes that rents will continue to increase by CPI plus 1% per year, for all years from 2020/21 onwards, but this is by no means certain. The risks surrounding this assumption must be appreciated.
- 9.6 To demonstrate, should Government legislate to allow only CPI inflationary increases in rents from 2025/26 onwards (with no plusage), then the £65.9M projected surplus (including growth) would reduce down to somewhere nearer £34M.
- 9.7 The Section 151 Officer is required to undertake a formal review of general reserve levels. In assessing the adequacy of such balances, the Interim Head of Financial Services 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 G**.

10.0 Details of Consultation

10.1 The Direct Wide Tenants' Forum have been presented with the headline information from the HRA Report and were very supportive of the budget recommendations being put forward. The Forum supported the current capital programme plans and noted the 1% rent reduction to 2020 and the Government's rent policy from 2020 of increases for CPI plus 1%.

11.0 Options and Options Analysis [including risk assessment]

11.1 There is currently no other alternative available in respect of 2019/20 housing rent setting, given legislative requirements.

11.2 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.

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

11.4 With regards to the savings and growth proposals as set out in section 7 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.

11.5 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.

11.6 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.

12.0 Officer Preferred Option (and comments)

12.1 The relevant Officer preferred options are to:

- Set housing rent levels in line with Government legislation.
- Approve / refer on the provisions, reserves and balances position (and their use) as set out.
- Approve / refer on the revenue budgets and capital programme, allowing for Cabinet's recommendations regarding specific savings and growth proposals

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, Human Resources, Sustainability and Rural Proofing)**

No significant implications directly arising. Equality impact assessments are available as background documents.

LEGAL IMPLICATIONS

No specific legal implications arising.

FINANCIAL IMPLICATIONS

As set out in the report.

OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces:

[Insert Other Resource Implications]

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has 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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