

**Housing Revenue Account
Budget Framework 2019 to 2023
27 February 2019**

Report of Cabinet

PURPOSE OF REPORT

To present Cabinet's final budget proposals in relation to the Housing Revenue Account in order that the City Council can complete its budget setting for 2019/20 and update its financial strategy to 2023.

This report is public.

RECOMMENDATIONS:

- (1) That Cabinet's recommendation to approve the council housing rent levels for 2019/20, as set in accordance with statutory requirements, be noted.
- (2) That the Housing Revenue Account budgets and future years' projections be approved, as set out in *Appendix A*.
- (3) That the revenue growth proposals as set out at *Appendix B* be approved.
- (4) That the minimum level of HRA unallocated balances be retained at £0.5M from 01 April 2019, and that the full Statement on Reserves and Balances as set out at *Appendix C* be approved.
- (5) That the Council Housing Capital Programme be approved, as set out in *Appendix D*.
- (6) That Council notes the Section 151 Officer's advice regarding robustness of budget estimates, the adequacy of reserves and balances and the affordability of borrowing.

1 INTRODUCTION

- 1.1 Following its meeting on 12 February Cabinet has now finalised its budget framework proposals for the Housing Revenue Account (HRA). These are all now reflected in the recommendations of this report.

2 RENT POLICY AND 30-YEAR BUSINESS PLAN IMPACT

- 2.1 The Council has a legal requirement 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.
- 2.2 Prior to 2016/17 the HRA was well placed to invest and enhance its service provision significantly, but the Council's opportunities in this area fundamentally reduced as a result of subsequent Government policy changes.
- 2.3 Unfortunately, through the Welfare Reform and Work Act 2016, the Government removed the ability of the Council to determine its own rent policy and these restrictions are in place until 2019/20. From 2020/21 onwards – or at least for a five year period – local authorities should be able to revert to increasing general average rents year on year by Consumer Price Index (CPI) inflation plus 1%.
- 2.4 Taking the above points into account, the Council's current rent policy is summarised as follows:

For general properties, average rent of £71.05 applies for 2019/20, representing a 1% year on year reduction.	For sheltered and supported properties, average rent of £66.08 applies for 2019/20, also representing a 1% year on year reduction.
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 -4% in 2019/20).	
For 2020/21 onwards, it is assumed that council housing rents will increase by 3.0% year on year, subject to annual review of inflation forecasts, and any future determinations that may be issued by Government from time to time.	

- 2.5 The Government's new policy on rent setting from 2020/21 onwards has resulted in a sustainable position over the life of the 30-year business plan culminating in a surplus of £65.9M by the end of the 30-year period, albeit recognising the risks regarding long term rent policy.
- 2.6 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.
- 2.7 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 would reduce down to somewhere nearer £34M.

3 REVENUE BUDGET

- 3.1 The HRA revenue budget statement is attached at **Appendix A**.
- 3.2 Despite the rent policy uncertainties, Cabinet remains committed to improving services to its housing tenants, and it also recognises the ongoing challenges that tenants face in the wake of ongoing welfare and other potential social housing reforms.
- 3.3 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:
- 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; 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
- 3.4 Through the business planning process the following needs have been identified:
- Develop and implement a marketing strategy to rebrand council housing to become 'housing of choice'
 - Continue with aspirations for new build council housing to meet demand and investigate alternative vehicles for delivery
 - Continue to develop shared resources and expertise with the corporate ASB team
 - Further develop agile/mobile working technology and system changes to improve efficiencies and quality of service
 - Protect current income, continued focus on reduction in empty home turnover and improvements to the 'end to end' lettings process, ensuring sustainability of improved performance
 - Continue to improve the effectiveness and efficiency of the Repairs and Maintenance Service (RMS) through investment in technology to extend mobile working
 - Growing expertise and developing partnerships to better meet the needs of vulnerable tenants, with a focus on tenancy sustainment and delivering services in line with the needs of residents
 - Continue with existing support to community centres and continued development of community led services through cross-service working

3.5 Strategies are being developed to address these issues and drawing on this, as set out in **Appendix B**, there are a number of growth areas included in Cabinet's HRA budget proposals:

- To continue with existing support to community centres
- Creation of System Implementation Project Manager post
- To increase the HRA contribution to the Anti-Social Behaviour team
- RMS Development Plan Phase 2

4 **CAPITAL PROGRAMME**

4.1 The proposed Council Housing capital programme is included at **Appendix D**.

4.2 Future years' programmes are set in line with the HRA Business Plan wherever possible. Drawing on this, the draft programme should enable current housing stock to be maintained to the appropriate standards, meeting the Council's obligations under Decent Homes, and compliance with any other statutory regulations.

4.3 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.

4.4 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. Proposals will consider remodelling of the external spaces, facilities and traffic.

4.5 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.

4.6 In terms of increasing council housing supply, planning applications for two new-build schemes at Carnforth have been withdrawn pending further consultation. New-build ambitions remain, however, and the search for potential sites and opportunities is ongoing. The conversion of other buildings is currently taking place at Ripley Court with further schemes at Melling House and Beech Avenue due to start in the forthcoming months.

4.7 On that note, Government produced a Green Paper, 'A New Deal for Social Housing', in August 2018, based around five themes, one of which, "Expanding supply and supporting home ownership" could clearly have an influence on the Council's future strategies to provide more social housing in the district. At this stage the impact of the Green Paper is uncertain, but may have wider implications for the future direction of the HRA.

4.8 Also, based on Government's proposal on rent setting from 2020/21, it is more feasible for other options to be explored in terms of how the Council might seek to help increase housing stock within (or alternatively outside of) the HRA.

- 4.9 Taking account of the above points the total draft five year programme for 2018/19 onwards now stands at £21.496M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement.

5 PROVISIONS, RESERVES AND BALANCES

- 5.1 A formal review of the HRA's Balances, Reserves and Provisions has been undertaken, the outcome of which is reflected in **Appendix C**.
- 5.2 In terms of Balances, after reviewing the Housing Revenue Account in comparative terms and considering the key issues, assumptions and risks underlying the budget projections, the Section 151 Officer has advised maintaining the minimum level of HRA Balances at £0.5M from 01 April 2019 to support the budget forecasts as part of the overall medium term financial planning for the HRA.
- 5.3 As at 31 March 2019 HRA Balances are forecast to be £1.798M, which is £1.298M above the recommended minimum level.
- 5.4 All other surplus resources are held in the Business Support Reserve. As at 31 March 2019, around £8.3M is expected to be available in this reserve. The first spending priority is still to support existing commitments over the lifetime of the 30-year Business Plan, but the Government's changes to the rent policy from 2020/21 (for at least five years) should give more flexibility to the service and its future sustainability.

6 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

- 6.1 Revenue Budget
Council may adjust its HRA revenue budget proposals, as long as the overall budget for 2019/20 balances and fits with its approved rent levels, which Council cannot change.
- 6.2 Capital Investment and Programming
For capital, Council may adjust its capital investment and financing proposals taking account of spending commitments and priorities, but its proposals for 2018/19 and 2019/20 must balance.
- 6.3 Other Budget Framework Matters (Reserves and Provisions)
Given known commitments, risks and housing rent restrictions there is little flexibility in financial terms, but Council could consider different budget strategies to be appraised for future years, or alternative arrangements for approving the use of various reserves, or different virement and/or carry forward limits. On the whole, however, previous arrangements have worked reasonably well and so no other fundamental changes are proposed.
- 6.4 Section 151 Officer's comments and Advice
Council is required to note this formally in the minutes of the meeting, hence it is reflected in the recommendations
- 6.5 Depending on the nature of any alternative proposals put forward, Officers may need time to assess the risks and implications. This is to ensure that relevant

considerations are taken into account, to support informed and lawful decision-making.

7 CONCLUSION

- 7.1 This report addresses the actions required to complete the budget setting process for 2019/20, and for updating the Council's associated financial strategy.

RELATIONSHIP TO POLICY FRAMEWORK

The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT

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

No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc. Where appropriate, equality impact assessments have been produced and are available in connection with Cabinet's specific budget proposals.

LEGAL IMPLICATIONS

Legal Services have been consulted and are content with the report but will consider further the development and implementation of relevant budget proposals in due course to ensure legal aspects are fully considered.

FINANCIAL IMPLICATIONS

As set out in the report.

OTHER RESOURCE IMPLICATIONS

Human Resources / Information Services / Property / Open Spaces:

Various budget proposals have resource implications and these have been taken account of in Cabinet's consideration of budget options as far as possible at this stage. Their implementation would be in accordance with council policies and procedures, as appropriate. Furthermore, it is recognised that additional resource needs may be required and arrangements are in hand to assess and address these.

SECTION 151 OFFICER'S COMMENTS

The Local Government Act 2003 placed explicit requirements on the s151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves; this requirement is addressed below. Previous Cabinet reports have already included some relevant details of this advice, together with the risks and assumptions underpinning the budget process so far.

Provisions, Reserves and Balances

- Specific HRA earmarked reserves and provisions are satisfactory at the levels currently proposed.
- An unallocated minimum balance of £0.5M for the Housing Revenue Account is a reasonable level to safeguard the Council's overall financial position, given other measures and safeguards in place, taking a medium to longer term view.

The above advice regarding unallocated balances is dependent upon other provisions and reserves remaining broadly at proposed levels, unless a specific policy change indicates

otherwise. It is dependent upon Council not varying substantially the budget proposals as set out.

As a very simple measure, the inherent value of the risks facing the Council by far exceeds the total of all reserves and balances. Whilst it is not the case that all these risks could fall due immediately, Members should appreciate the need for holding balances and reserves more generally, and using them wisely. It is inappropriate to view simply the level of funds held, without considering the reasons as to why those funds might be needed.

Robustness of Estimates

A variety of exercises have been undertaken to establish a robust budget for the forthcoming year. These include:

- producing a base budget, taking account of service commitments, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks;
- reviewing the Council's services and activities, making provision for expected changes;
- reviewing the HRA Thirty Year plan, together with other corporate monitoring information produced during the year;
- undertaking a review of the Council's borrowing needs to support capital investment, in line with the Prudential Code.

These measures ensure that as far as is practical, the estimates and assumptions underpinning the base budget are robust, and the proposed HRA Thirty Year Business Plan presents a reasonable approach for the way forward. The Council has recognised the tendency for optimism bias regarding income forecasts particularly and this will be taken account of in the development of future key budget proposals and business cases. Furthermore, arrangements are in hand to assess capacity needs and programming to help ensure successful delivery of key projects. Coupled with sound programming, the Budget Support reserve provides scope to help address any shortfalls in capacity etc.

Affordability of Spending Plans

In addition, the s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration.

In considering affordability, the fundamental objective is to ensure that the Council's capital investment remains within sustainable limits, having particular regard to the impact on housing rents for Council Housing investment. Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political and national influences.

The factors that have been (and should be) taken into account in considering capital investment plans include the following.

- availability of capital resources, including capital grants, capital receipts, etc
- existing liabilities, service needs, commitments and planned service / priority changes
- options appraisal arrangements (including the extent to which other liabilities may be avoided, through investment decisions)
- revenue consequences of any proposed capital schemes, including interest and debt repayment costs of any borrowing
- future years' revenue budget projections, and the scope to meet borrowing costs
- the likely level of government support for revenue generally

The HRA has a Capital Financing Requirement which reflects underlying need to borrow. This is reviewed periodically to ensure that borrowing is, at all times, affordable, sustainable and prudent and a minimum revenue provision charge is made to the HRA each year to reflect the cost of borrowing.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer reminds Council that the decisions (recommendations 1 and 2) fall within the Local Authorities (Standing Orders) (Amendment) (England) 2014 and Rule 19.7 (Part 4 section1 constitution) of the Council Procedure Rules, and accordingly a recorded vote should be taken.

BACKGROUND PAPERS

Equality Impact Assessments for budget proposals.

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