

Cheltenham Borough Council

Cabinet – 17th December 2013

Housing Revenue Account - Revised Budget 2013/14 and Interim Budget Proposals 2014/15 for Consultation

Accountable member	Cabinet Member for Finance, John Rawson
Accountable officer	Director of Resources (Section 151 Officer), Mark Sheldon
Ward(s) affected	All
Key Decision	Yes
Executive summary	This report summarises the Housing Revenue Account (HRA) revised budget for 2013/14 and the Cabinet's interim budget proposals for 2014/15 for consultation.
Recommendations	<ol style="list-style-type: none">1. Note the revised HRA budget for 2013/14.2. Approve the interim HRA budget proposals for 2014/15 for consultation including a proposed average rent increase of 4.03% (applied in accordance with national rent restructuring guidelines) and increases in other rents and charges as detailed at Appendix 5.3. Approve the proposed HRA capital programme for 2014/15 as shown at Appendix 3.4. Approve the creation of an earmarked revenue reserve to finance future new build in the HRA. The value of funds to be transferred to this reserve to be considered by Cabinet as part of the review of HRA outturn for each accounting year.5. Delegate authority to the Cabinet Member for Finance, in consultation with the Director of Resources, to approve the acquisition of private interests within sites identified for future development subject to the availability of funds as described in paragraph 5.5.6. Delegate authority to the Director of Resources, in consultation with the Cabinet Member for Finance, to determine and approve any additional material that may be needed to support the presentation of the interim budget proposals for consultation.7. Seek consultation responses by 30th January 2014.
Financial implications	<p>As contained in the report and appendices.</p> <p>Contact officer: Mark Sheldon.</p> <p>E-mail: mark.sheldon@cheltenham.gov.uk</p> <p>Tel no: 01242 264123</p>

Legal implications	<p>The Constitution contains a delegation to the Lead Member to acquire land or property where the value of the interest does not exceed £250,000. The effect of recommendation 5 is that the Cabinet Member for Finance will be able to authorise the acquisition of land or property whatever the value of the interest, subject to the availability of funds. A Cabinet Member report and decision will be required to authorise each purchase prior to the authority entering into contract with the owners.</p> <p>As this report proposes an interim budget for consultation purposes, there are no other specific legal implications at this stage.</p> <p>Contact officer: Donna Ruck, Solicitor</p> <p>E-mail: donna.ruck@teWKesbury.gov.uk</p> <p>Tel no: 01684 272012</p>
HR implications (including learning and organisational development)	<p>No direct HR implications arising from this report.</p> <p>Contact officer: Julie McCarthy</p> <p>E-mail: julie.mccarthy@cheltenham.gov.uk</p> <p>Tel no: 01242 272696</p>
Key risks	<p>As outlined in Appendix 1</p>
Corporate and community plan Implications	<p>The aim of the interim budget proposals is to direct resources towards the key priorities identified in the Council's Corporate Business Plan.</p>
Environmental and climate change implications	<p>The draft budget contains proposals for improving the local environment particularly in addressing the issue of energy reduction in Council owned dwellings</p>

1 Background

- 1.1 The Council's Constitution requires that the Cabinet prepare an interim budget for consultation before it makes recommendations to full Council in February 2014. The Cabinet is then required to draw up its firm budget proposals having regard to the responses it has received during the consultation period, and its report to Council in February 2014 should reflect the Cabinet's response to such comments.

2. HRA Business Plan

- 2.1 In February 2012 the Council approved a new 30 year HRA business plan which anticipated significant additional resources arising from the implementation of self financing. The Council also approved a strategy to use these resources to finance a programme of new build, further improvements to existing stock and additional support services for tenants.

- 2.2 Initial progress in delivering those objectives is summarised below:-

- Year 1 (2012/13), the Council requested CBH to develop investment proposals. Additional

resources arising in the year were used to repay debt falling due (£1.392m.), increasing the borrowing headroom available to £8.1m.

- Council approved budget proposals in February 2013 which included an investment of £1m. over 3 years, commencing in 2013/14, to improve services to tenants and a further £4.5m. to enhance capital expenditure on the existing stock within the same period. The Council has also supported a continuation of CBH new build on HRA land at four garage sites and St Paul's Phase 2.

2.3 The financial projections within the business plan have been updated to reflect the 2012/13 outturn and variations to budget in the current year. The opportunity has also been taken to review forward assumptions using the best available information to date.

2.4 The budget proposals for 2014/15 and projections for the following two years are based on the following key assumptions:-

- Rent – increase of 4.03% from April 2014 and annually thereafter at Consumer Price Index (CPI) + 1% (this reflects Government proposals for future social rent policy, see paragraph 4.2.3 below).
- Inflation – CPI at 2.25% p.a. and RPI at 2.75% p.a.
- Void rent loss at 1% p.a.
- Stock loss through Right to Buy (RTB) – 22 units in 2013/14, 20 units in 2014/15 and 12 units p.a. for the following 2 years. The Government stimulus has attracted more interest in the scheme but completions are still at a fairly modest level though this is being closely monitored.
- Interest payable at a blended fixed rate of 3.7% assuming no change to debt levels in the period to 31st March 2017
- Bad debt provision rising to 2% of rent collectable by 2016/17 to reflect phased introduction of welfare reform.
- Council administrative charges to the HRA are currently shown at a cash frozen level for 2014/15 pending the completion of a review of cost allocations.

Further detail on cost assumptions are shown in section 4 below.

2.5 The Chartered Institute of Housing and the Chartered Institute of Public Finance and Accountancy have recently published a voluntary code of practice for the self financed HRA based on 6 key principles which are considered essential elements for the continued sustainability of the business plan. They are inviting all stock owning authorities to sign up to the code which is supported by a self assessment toolkit enabling each Council to measure their compliance with the principles and benchmark progress against other local authorities. Officers are currently evaluating the toolkit and will bring forward a recommendation as to whether the Council should use the code in a future report.

3. 2013/14 Revised Budget

3.1 The revised budget at Appendix 2 shows a decrease in the deficit for the year of £262,700 compared to the original estimate. This reduction, together with an increase of £448,900 in the balance brought forward from 2012/13, will give revenue reserves of £3,538,800 at 31st March 2014.

3.2 Significant variations have been identified in budget monitoring reports and are summarised

below:-

Budget Heading	Change in resources
	£'000
Repairs & Maintenance – higher repair cost from increased voids	-150
Bad Debt Provision – lower arrears than anticipated reflect delay in implementation of benefit changes and allocation of additional resources to mitigate impact	120
Depreciation	-47
Dwelling Rents – loss of rent from additional sales and higher voids	-161
Transfer from Major Repairs Reserve – confirmation of accounting practice	-108
Revenue contributions to fund capital programme – additional funding options have reduced use of revenue resources	635
Other net variations	-26
Net decrease in Deficit for Year	263

4. 2014/15 Budget

4.1 The budget proposals for 2014/15 and projections for the following 2 years are shown at Appendix 2.

4.2 Rent Increase and changes to Social Rent Policy

4.2.1 Since 2002 Government social rent policy has used the retail price index (RPI) in the preceding September plus 0.5% to uplift the formula rent for each property in the following financial year. In September 2013 RPI was 3.2% so formula rents for each property will be increased by 3.7% for 2014/15.

4.2.2 Rent restructuring, which would bring the actual rents of all local authority properties to their formula rent, was timetabled to be complete by 2015/16. The application of those guidelines in Cheltenham will result in an average rent increase of 4.03% from April 2014. The assumption that this process would continue was used by the Government in the debt settlement calculations and also in the 30 year HRA Business Plan projections. Appendix 5 details the proposed average rent for 2014/15 together with the proposed garage rent which reflects an increase of 3.2% (in line with RPI).

4.2.3 The Government has now published a consultation paper on social rent policy for the ten year period from April 2015. The key proposals are:-

- The formula rent for each property will be increased annually by CPI + 1% (currently RPI + 0.5%)
- Convergence to formula rent will cease in 2014/15, with future rent increases limited to CPI + 1% (currently RPI + 0.5% + up to £2 per week for upward convergence with formula rent)
- Tenants with declared income in excess of £60,000 p.a. to pay full market rent.

The change in the price index is unlikely to have much impact given that the long term trend has shown RPI being in the range of 0.5% to 0.7% higher than CPI. However the end of rent convergence will have a very significant impact on those authorities whose average rent is still some way below formula rent. They will have anticipated rental growth on the basis of convergence continuing in their business plans. Cheltenham is fortunate in that the average rent will only be 0.33% below formula by April 2015 and thus the rent lost will be marginal (approx £60,000 pa). The Government will allow rents to be moved straight to formula when a property is

re-let so that rent lost through this policy change will reduce over time.

The deadline for responses to the consultation paper is 24th December 2013.

- 4.3** Estimates of service charge income currently assume an increase of 3.2% for grounds maintenance (subject to negotiation with Ubico) and 6% for cleaning (reflects increasing employee costs, particularly employers' contributions to the pension fund). Charges for power to communal areas are still under review.
- 4.4** Significant changes to the HRA in 2014/15 as compared to the revised estimates for 2013/14 are itemised in the table below. There is a forecast surplus of £115,200 for the year which leaves revenue reserves at £3,654,000 at 31st March 2015.

Budget Heading	Change in resources
	£'000
Increase in base CBH management fee (see paragraph 4.5.2 below)	-216
CBH Service Improvement (paid in 2013/14 only)	1,000
Reduction in repairs and maintenance (anticipates lower voids)	92
Increase in bad debt provision – impact of welfare reform	-51
Depreciation	-139
Increase in rents (after adjustment for stock loss)	675
Income from PV tariff	50
Revenue contributions to capital – increased capital investment	-1,278
Other (net)	5
Net increase in resources	138

4.5 Cheltenham Borough Homes (CBH)

- 4.5.1** The draft budget includes provision for the management fees and other charges payable to CBH. The company has submitted its own detailed budget and fee proposal for 2014/15.
- 4.5.2** CBH draft budgets approved by their Board on 27th November show a net increase in management costs of £287,700 analysed as below:-

	£
Pay award (1%) and increments	76
Pension fund contributions – increase follows triennial valuation of fund	155
Additional Posts – 2 Surveyors to support increased capital spend	70
Other net savings	(15)
Increase in net management costs	286

The HRA management fee represents an increase of 4.6% over the current year and allows CBH draft budgets for 2014/15 to show a breakeven position on services provided to the Council

- 4.5.3** The additional charge of £70,000 for management of the capital programme allows the employment of two additional surveyors for the delivery of the significant increase in expenditure. Despite this uplift in cost, fee levels will remain below 8% of works which is considered commensurate with market levels.

- 4.5.4** The overall cost of repairs and maintenance has increased by 1.6% incorporating estimates of demand for materials. The cost of delivering the estate cleaning contract has risen by £13,400 which is primarily due to increased employee costs.
- 4.5.5** The company has prepared a progress statement on the use of the service investment funds, totalling £1m., approved by the Council for the three year period to March 2016. This is shown at Appendix 6. The enhancements to the four service areas are being delivered through discrete projects with informed budget allocations and specified outcome targets. All projects are being closely monitored with bi-monthly progress reports being shared with Council officers at liaison meetings.
- 4.5.6** During a period of service expansion CBH have emphasised the need to continue to demonstrate value for money, requiring full business cases to be prepared for each new initiative. They will seek corporate economies of scale as the level of activity increases.
- 4.5.7** The fee submission for the main areas of activity is shown below and compared with 2013/14.

	2013/14	2014/15
	£	£
Management Fee	4,698,400	4,914,300
Revenue & Capital Repairs	3,795,100	3,857,700
Management of Capital Programme	455,000	525,000
Block Cleaning Service	293,700	307,100

5. Capital Programme

- 5.1** The revised capital programme for 2013/14 reflects the completion of schemes carried forward from the previous year as previously reported to Cabinet.
- 5.2** The detailed capital programme for 2014/15 and indicative programmes for the following two years are shown at Appendix 4. These reflect the additional funding allocated to stock investment for photo voltaic installations and other sustainability measures and the acceleration of the window replacement programme, due to commence in 2015/16. There is also provision for transformational improvements to retained properties in Folly Lane, adjacent to the St Paul's 2 new build site.
- 5.3** The proposed funding of the capital programme, together with a statement of balances on the major repairs reserve is shown at Appendix 3. The main sources of funding remain the major repairs reserve and contributions from the revenue account. The Government's policy to stimulate RTB has increased the availability of capital receipts. An element of those receipts, being that attributable to the debt held on each sold property, can be used for any HRA purpose and it is proposed that these sums be used to finance capital expenditure on the existing stock.
- 5.4** Receipts from non RTB disposals and those retained through the one for one replacement agreement with the Government are held separately for investment in new affordable housing. They are mutually exclusive in their use in that schemes partly funded by retention receipts cannot be also funded from non RTB disposal receipts and vice versa. Similarly retention receipts cannot be used to fund schemes that are funded by Homes and Communities Agency (HCA) grant.
- 5.5** Council and CBH officers are currently carrying out site appraisals to identify opportunities for HRA new build. Some of these sites will require the acquisition of private interests to make them suitable for development. To enable the efficient assembly of such sites it is recommended that

opportunities for purchasing those interests be pursued as they arise. The acquisitions could be funded by either

- revenue contributions or
- retention receipts if there is certainty that no HCA funding is available for the scheme.

An initial provision of £0.6m. has been included in 2014/15 programme, currently assumed to be funded by capital receipts.

6. Reserves

- 6.1** The recommended minimum revenue balance to cover contingencies is £1.5m. The three year projections forecast a reserve balance of £4.049m. at 31st March 2017. They also show an increasing surplus of operating income year on year. A significant part of these surpluses is being used to fund both service improvement and additional investment in the existing stock.
- 6.2** It is now recommended that an earmarked reserve be created to identify resources available to fund new build in the HRA. This would demonstrate a clear strategy to finance the third objective in the business plan but would not prejudice any future decision to reallocate these funds if necessary. The level of funds to be transferred to this reserve would be approved by Cabinet when considering the outturn report for each accounting year commencing with 2013/14, but the overall sum is to be initially restricted to a maximum of £2.5m. in the period to 31st March 2017.

7. Consultation process

- 7.1** The Council is proposing to consult on these budget proposals during the period to 30th January 2014. This extended period will allow the CBH to respond at their Board meeting on 29th January 2014. The results from this consultation will be fed back to the Cabinet and taken into account in the formulation of the final budget proposals.
- 7.2** As part of the interim consultation process the Cabinet's proposals will be included on the Council's web site, made available at the Municipal Offices, Area Offices and publicised through the local press. All interested parties will be encouraged to respond. Consultations meetings will be held with both tenant and leaseholder representatives.
- 7.3** In preparing the consultation document it may be helpful to provide supplementary information, for instance relating to the main changes in the budget. It is therefore recommended that the Director of Resources and Cabinet Member for Finance be given delegated authority to approve any supplementary information for consultation.

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Appendices	<ol style="list-style-type: none"> 1. Risk Assessment 2 HRA Operating Account 3 Major Repairs Reserve and HRA Capital Programme (summary) 4 HRA Capital Programme (detail) 5 HRA – Rents and Charges 6 Service Investment – Progress Statement
Background information	<ol style="list-style-type: none"> 1. HRA 30 year Business Plan 2. CBH Budgets and Plans 2014/15

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	I	L	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
1.01	If welfare reforms have a greater impact on tenants than anticipated and planned for, it may increase the level of debt or impact on vulnerable families	Jane Griffiths	December 2012	3	4	12	R	The HRA budget includes specific resources to address welfare reform	Mar 2017	CBH through management agreement	
1.02	If supporting people contracts are not renewed it could impact on the tenants in sheltered accommodation	Jane Griffiths	December 2012	2	3	6	R	The existing contract has been extended to October 2014. An evaluation of alternative service and funding options is in progress. The budget currently assumes contract income will reduce as it has been confirmed that the cost of alarm systems will not be funded in future	Mar 2015	CBH through management agreement	
1.03	If void rent loss is higher than estimated it will impact on assumed rent income in the HRA	Jane Griffiths	December 2012	3	2	6	R	Demand for social housing remains high with significant waiting list. Despite an unexpected increase in the first half of 2013/14 void levels are returning to a normal low level and CBH is achieving high performance on re-letting time. Quality of accommodation needs to be maintained and changes in tenancy termination rates monitored	Mar 2015	CBH through management agreement	

1.04	If the demand for reactive repairs increases there may be insufficient budget to meet demand	Jane Griffiths	December 2012	4	3	12	R	Maintain robust stock condition data. Major peril to the stock is fire which is covered by appropriate insurance. HRA reserves are maintained at a level considered sufficient for uninsured stock damage	Mar 2015	CBH through management agreement	
1.05	If there is insufficient capacity to deliver the ambitious programme of building works then the programme may not be deliverable	Jane Griffiths	December 2012	2	3	6	R	The HRA budget includes specific resources to address capital programme works	Mar 2016	CBH through management agreement	
1.06	If the £1m. investment in services is not planned to maximise the use of collective partnership resources there is a risk of duplication and lack of value for money	Jane Griffiths	December 2012	3	3	9	R	Officers from CBC will be working with CBH to ensure that there is a co-ordinated development of expenditure plans	Mar 2016	CBH through management agreement	
1.07	If the capital receipts held from RTB sales under the retention agreement with DCLG are not used within 3 years of receipt they are repayable with interest to the Government	Jane Griffiths	December 2013	3	3	9	R	Officers from CBC and CBH are currently evaluating sites for new build development to ensure procurement and delivery timescales will allow use of these funds before expiry	Dec 2015	CBC/CBH	
1.08	If private interests on potential development sites cannot be acquired through a cost effective and timely process this could prevent or delay new build schemes	Jane Griffiths	December 2013	3	4	12	R	The HRA budget includes a provision for the early acquisition of relevant interests on identified sites if opportunities arise	Mar 2017	CBC/CBH	