

**Cheltenham Borough Council
Cabinet – 11th February 2014
Council – 14th February 2014**

**Housing Revenue Account - Revised Budget 2013/14 and Final
Budget Proposals 2014/15**

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 budget proposals for 2014/15.
Recommendations	<ol style="list-style-type: none"> 1. Note the revised HRA budget and capital programme for 2013/14 as set out in Appendices 2 and 3. 2. Approve the HRA budget proposals for 2014/15 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 and approved by Council as part of the review of HRA outturn for each accounting year.

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>There are no direct legal implications arising from this report</p> <p>Contact officer: Donna Ruck, Solicitor</p> <p>E-mail: donna.ruck@tewkesbury.gov.uk</p> <p>Tel no: 01684 272696</p>

HR implications (including learning and organisational development)	No direct HR implications arising from this report. Contact officer: Julie McCarthy E-mail: julie.mccarthy@cheltenham.gov.uk Tel no: 01242 264355
Key risks	As outlined in Appendix 1
Corporate and community plan Implications	The aim of the budget proposals is to direct resources towards the key priorities identified in the Council's Corporate Business Plan.
Environmental and climate change implications	The budget contains proposals for improving the local environment particularly in addressing the issue of energy reduction in Council owned dwellings

1 Background

- 1.1 The draft revenue budget for 2014/15, approved by Cabinet on 17th December 2013, has been adjusted to reflect updated income and expenditure estimates for service charges and pv installations and a reduction in rent rebate subsidy limitation. The net impact of these amendments is an increase in the anticipated surplus of £9,700.

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.
- Year 2 (2013/14), 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 increase 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. The impact of the scheme 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.

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 future recommendation as to whether the Council should sign up to this code.

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 2013/14 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 recently completed a consultation process 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 proposals 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.

4.3 The variable service charge proposals for 2014/15 show, on average, no increase for grounds maintenance (reflecting savings in the previous year), an increase of 6% for cleaning and a 2% increase on communal lighting. As shown in Appendix 5 fuel charges for communal heating schemes are also being held at the current price, reflecting the benefits of fixed tariffs and improved thermal efficiency.

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 £124,900 for the year which leaves revenue reserves at £3,663,700 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)	59
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	62
Revenue contributions to capital – increased capital investment	-1,278
Other (net)	36
Net increase in resources	148

4.5 Cheltenham Borough Homes (CBH)

4.5.1 The budget includes provision for the management fees and other charges payable to CBH. The company has submitted its own detailed budget and fee proposals for 2014/15.

4.5.2 CBH budgets approved by their Board on 29th January 2014 show a net increase in management costs of £285,900 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 enabling CBH 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 pension 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.
- 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 capital receipts (including retention receipts). 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 £4.010m. 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 recommended that an earmarked reserve be created to identify resources available to support the delivery of 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 and Council 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 budget proposals have been endorsed by the Board of Cheltenham Borough Homes Ltd and presented to the Tenant Scrutiny Improvement Panel with no specific concerns being raised. No other responses have been received during the period of consultation.

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Appendices	<ol style="list-style-type: none">1. Risk Assessment2. HRA Operating Account3. Major Repairs Reserve and HRA Capital Programme (summary)4. HRA Capital Programme (detail)5. HRA – Rents and Charges
Background information	<ol style="list-style-type: none">1. HRA 30 year Business Plan2. 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	