

Cheltenham Borough Council
Cabinet – 21st December 2010

**Housing Revenue Account (HRA) - Revised Budget 2010/11 and
Interim Budget Proposals 2011/12 for Consultation**

Accountable member	Cabinet Member Community Development and Finance, Councillor John Webster
Accountable officer	Chief Finance Officer, Mark Sheldon
Accountable scrutiny committee	All Overview and Scrutiny Committees
Ward(s) affected	All
Key Decision	Yes
Executive summary	This report summarises the HRA revised budget for 2010/11 and the Cabinet's interim budget proposals for 2011/12 for consultation.
Recommendations	<p>Approve the HRA revised budget for 2010/11.</p> <p>Approve the HRA 2011/12 interim budget proposals for consultation including a proposed average rent increase of 5.43% (applied in accordance with the rent restructuring guidelines) and increases in other rents and charges as detailed at Appendix 5.</p> <p>Approve the revised HRA capital programme for 2010/11 at Appendix 6.</p> <p>Approve the draft HRA capital programme for 2011/12 for consultation at 6 and 7.</p> <p>Delegate authority to the Cabinet Member (Finance) to determine and approve any additional material that may be needed to support the presentation of the interim budget proposals for consultation.</p> <p>Seek consultation responses by 22nd January 2011.</p>
Financial implications	<p>As contained in the report and appendices.</p> <p>Contact officer: Bob Dagger, bob.dagger@cheltborohomes.org, 01242 264225</p>

Legal implications	<p>As this report only proposes an interim budget for consultation purposes there are no legal implications.</p> <p>Contact officer: Peter Lewis</p> <p>E-mail: peter.lewis@tewkesbury.gov.uk</p> <p>Tel no: 01684 272012</p>
HR implications (including learning and organisational development)	<p>None as a direct result of this report.</p> <p>Contact officer: Julie McCarthy</p> <p>E-mail: julie.mccarthy@cheltenham.gov.uk</p> <p>Tel no: 01242 264355</p>
Key risks	<p>An overall risk assessment of the interim budget proposals is contained 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 whilst recognising the reduction in government funding.</p>
Environmental and climate change implications	<p>The draft budget contains a number of proposals for improving the local environment, as set out in this report.</p>

1. Introduction

In accordance with the Council's Budget and Policy Framework Rules the Cabinet is required to consult on its interim budget proposals for a period of not less than four weeks before making firm proposals to Council in February 2011. This report seeks Cabinet approval to consult on the following budget proposals.

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 2011. 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 2011 should reflect the Cabinet's response to such comments.
- 1.2 It should be noted that the draft budget proposals are based on draft housing subsidy determinations from the Department for Communities and Local Government (DCLG) and the final settlement will not be received until late December 2010.
- 1.3 Both the revised budget for 2010/11 and interim budget for 2011/12 (Appendices 2 and 3) have been prepared to achieve the financial objective of retaining a contingent balance of at least £1million in revenue reserve with any additional funds being carried forward to fund capital expenditure in future years.

2. 2010/11 Revised Budget

- 2.1 The revised budget at Appendix 2 shows an increase in surplus of £810,500 compared to the original estimate. This will increase the revenue reserve to £2,989,000 by 31st March 2011. Significant variations have been identified in budget monitoring reports and are summarised below:-

Budget Heading	Change in resources
	£'000
Reduction in revenue contributions required to fund capital programme	596
Reduction in interest payable (lower interest rates)	175
Reduction in HRA subsidy payable (lower interest rates)	52
Additional interest receivable (net impact of higher reserves and lower interest rates)	13
Reduction in Council Tax on empty properties (fewer long term voids)	17
Rent and service charge income (lower than estimate)	-49
Other net	6
Net Increase in Surplus	810

The increase in surplus reflects £214,500 of additional resources and a further £596,000 which arises from deferred capital expenditure and will be required in 2011/12.

3. 2011/12 Budget

- 3.1 The Government's draft proposals for HRA subsidy were published for consultation in November 2010. The consultation period ends on 16th December 2010 with the final determinations

expected shortly after.

- 4.1.1** It is anticipated that next year will be the last year of housing subsidy. The Government has announced it intends to introduce a new self financing regime for local authority housing from April 2012. Further details are to be published in January 2011 with the individual settlements for each Council to be announced in Autumn 2011.
- 4.1.2** The determination for 2011/12 shows a national average increase in guideline rent of 6.8% (6.5% for Cheltenham). Rent restructuring uses the retail price index for September each year to uplift the formula rent for the following financial year. In September 2010 this was 4.6% so formula rents will be increased by 5.1% (including +0.5% for convergence*) with rent restructuring now timetabled to complete in 2015/16. For Cheltenham tenants this will result in an average rent increase of 5.43% from April 2011 as illustrated by Appendices 4 & 5.
- 4.1.3** As anticipated the special ALMO allowance for Councils with Round 1 and 2 ALMO's has been withdrawn. This gave a favourable rate of support (8% per annum) to offset the borrowing costs arising from the decent homes programme. These ongoing costs will in future be financed at the Council's consolidated borrowing rate, estimated at 3.08% for next year. This reduction in Government support has a net cost of £1,641,000 in 2011/12 but had been factored into HRA business plans.
- 4.1.4** The draft determination includes some increases in management, maintenance and major repair allowances to partly offset the increase in guideline rent. The net effect of the subsidy proposals for Cheltenham, allowing for changes to unit allowances and stock levels, is a net additional liability of £2,185,000 compared with the current year. The changes proposed to individual elements are shown below:-

Element of Subsidy	% change in unit subsidy	Net variation to subsidy payable £'000
Management Allowance	+1.5%	-35
Maintenance Allowance	+4.6%	-237
Major Repairs Allowance	+4.1%	-121
Guideline Rent Income	+6.5%	938
Removal of ALMO Allowance		2,515
Charges for Capital		-835
Other Changes		-40
Additional Subsidy Payable		2,185

- 4.2** Significant changes to the HRA in 2011/12 as compared to the revised estimates for 2010/11 are itemised in the table below. The net impact is a decrease in resources of £2,565,200 producing a deficit of £1,157,000 for the year and reducing revenue reserves to £1,832,000 at 31st March 2012. This reflects the completion of capital projects originally programmed for 2010/11. The medium term forecast cannot be completed until further details of the self financing settlement are known but it is anticipated that it will produce additional resources to further improve the longer term viability of the HRA.

* Rent restructuring is a government policy which is bringing all local authority rents in line with those charged by Housing Associations as calculated by a national formula.

Budget Heading	Change in resources
	£'000
Increase in revenue contributions required to fund capital	-956
Net impact of HRA subsidy settlement (see para 4.1 above)	-2,185
Depreciation of dwellings	-121
Increase in rents	905
Other rents and charges increases	53
Increase in estate services & direct costs	-35
Increase in CBH management fee (Agresso implementation)	-35
Increase in cyclical repairs	-218
Rent rebate subsidy limitation	39
Other (net)	-12
Net reduction in surplus	-2,565

- 4.3 The Housing Repairs Account at Appendix 3 shows reactive spend at the same level as the revised estimate for the current year but includes a growth item of £218,000 to fund additional preventative maintenance programmes including drain clearance and cyclical electrical testing.
- 4.5 Appendix 4 gives details of the progress in rent restructuring to date and projects rent increases forward to the current convergence date of 2015/16 using an estimated RPI of 2.5% per annum.
- 4.6 Appendix 5 details the proposed average rent for 2011/12 with recommended charges for other services. Gas charges for communal heating schemes will be increased by 7.5% to reflect anticipated fuel increases and there will be a 25% increase towards the rising cost of the electric fuelled scheme at Cumming Court. Provision has been included for a 3% increase in garage rents to reflect both inflation and fund a significant improvement programme in garage sites.

5. Service Charges

- 5.1 The proposed charges for cleaning, grounds maintenance and communal power are currently being finalised and will be available for the final budget papers in late January

6. Cheltenham Borough Homes (CBH)

- 6.1 The draft budget includes provision for the management fee payable to CBH. The company has submitted its own detailed budget and fee proposal for 2011/12.
- 6.2 CBH draft budgets for 2011/12 show a breakeven position based on holding fees and charges to the Council at 2010/11 levels. The company reports that savings of £204,500 will be achieved with a proportion of that sum being re-invested to deliver further efficiencies and improvements to tenant services.
- 6.4 The HRA management fee for 2011/12 is cash frozen except for a one off item of £35,000 to provide for the implementation of an Enterprise Resource Planning (ERP) system as part of the GO shared services programme. Similarly, the fee for managing the capital programme is kept cash frozen for a similar range and value of projects in 2011/12.

- 6.5 The overall cost of reactive repairs to the stock is forecast at £2,559,000 being a balance of CBH direct costs and use of sub contractors. CBH has commenced a comprehensive review of the maintenance operation which is expected to produce significant savings from 2012/13 onwards.
- 6.6 There is a reduction in the cost of delivering the estate cleaning contract which arises from savings in waste disposal.
- 6.7 The company's income is derived primarily from four funding streams being management fees chargeable to the HRA and the HRA Capital Programme, the cost of revenue and capital repairs and the block cleaning service (mainly funded by additional charges to tenants and leaseholders). CBH also undertakes some public building maintenance work (gradually diminishing) and provides a cashiering facility for General Fund Services at the two area offices. The fee submission for the main areas of activity is shown below and compared with 2010/11.

		2010/11 (Revised)	2011/12
Average Stock		4,597	4,592
		£	£
Management Fee			
- including growth bid	Gross Cost	4,263,700	4,298,700
	Per Unit	927	936
Reactive Repairs	Gross Cost	2,165,700	2,165,700
	Per Unit	471	472
Management of Capital Programme		405,000	405,000
Block Cleaning Service		324,500	312,200
Total		7,158,900	7,181,600

7. HRA Capital Programme

- 7.1 The revised programme for 2010/11 and proposals for 2011/12 are shown at Appendix 6, together with a more detailed schedule of improvement and repair works at Appendix 7.
- 7.2 The revised estimates for the current year reflect changes identified in budget monitoring reports. Estimated spend in year will reduce from £4,482,000 to £3,851,000 primarily due to a later start on the transformational improvements in St Paul's. Work will commence on site in January 2011 and will be continue through 2011/12.
- 7.3 The 2011/12 programme reflects the need to spend identified in the stock condition database and includes provision for works delayed in the current year. This will retain all stock to decency standard and provide further neighbourhood improvements through external works.

8. Areas of Further Work

- 8.1 This provisional budget is based on draft subsidy proposals which are subject to consultation.
- 8.2 There may also be further adjustments to support service and accommodation recharges to both CBH and the Housing Revenue Account (HRA).

9. Consultation process

- 9.1** The Council is proposing to consult on these budget proposals during the period to 22nd January 2011. The results from this consultation will be fed back to the Cabinet and taken into account in the formulation of the final budget proposals.
- 9.2** 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.
- 9.3** 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 Cabinet Member (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 Assessment2. HRA Operating Account3. Housing Repairs Account and Major Repairs Reserve4. Rent Restructuring5. HRA – Rents and Charges6. HRA Capital Programme7. HRA works to properties 2011/12
Background information	<ol style="list-style-type: none">1. Draft HRA subsidy determinations received from DCLG, November 2010

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	Reform of local authority housing finance	Mark Sheldon	November 2010	4	6	24	Accept	Government has confirmed its intention to scrap the HRA subsidy system and replace it with a self financing alternative by April 2012. Impact remains uncertain until further details are published but initial assessment would indicate that this would be beneficial to the Council.. This will change significantly previous HRA medium and long term forecasts. Progress to be monitored and new HRA Business Plan to be prepared following receipt of Government proposals.	April 2012	Paul Jones	Corporate
2	Supporting People Grant	Mike Redman	November 2010	2	4	8	Accept	Funding for existing contracts currently under review. Should contracts not be renewed then a decision on future service provision would be required.	April 2011	Kath Chamberlain	Divisional
3	Higher than estimated void rent loss	Mike Redman	November 2010	2	1	2	Accept	Demand for social housing remains high with significant waiting list. Current number of void properties at lowest level for many years and CBH are achieving top quartile performance for void re-	March 2012	Kath Chamberlain	Divisional

								letting times. Quality of accommodation needs to be maintained and changes in tenancy termination rates monitored.			
4	Demand for reactive repairs increased	Mike Redman	November 2010	4	2	8	Accept	Having completed the decent homes programmes and refreshed stock condition data CBH can plan more effectively for future maintenance spend. The major peril to the stock is fire which is covered by appropriate insurance. HRA reserves are maintained at a level which is considered sufficient for uninsured stock damage.	March 2012	Kath Chamberlain	Divisional