

Cheltenham Borough Council

Cabinet – 16th December 2014

Housing Revenue Account - Revised Forecast 2014/15 and Interim Budget Proposals 2015/16 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 forecast for 2014/15 and the Cabinet's interim budget proposals for 2015/16 for consultation.
Recommendations	<ol style="list-style-type: none">1. Note the revised HRA forecast for 2014/15.2. Approve the interim HRA budget proposals for 2015/16 for consultation including a proposed rent increase of 2.2% and increases in other rents and charges as detailed at Appendix 5.3. The rent for all properties to be converted to formula rent on re-letting.4. Approve the proposed HRA capital programme for 2015/16 as shown at Appendix 3.5. Approve the transfer of £2m to an earmarked revenue reserve to finance future new build in the HRA.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 29th January 2015.
Financial implications	As contained in the report and appendices. Contact officer: Mark Sheldon. E-mail: mark.sheldon@cheltenham.gov.uk Tel no: 01242 264123

Legal implications	As this report proposes an interim budget for consultation purposes, there are no specific legal implications at this stage. Contact officer: Peter Lewis E-mail: peter.lewis@teWKesbury.gov.uk Tel no: 01684 272012
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 interim budget proposals is to direct resources towards the key priorities identified in the Council's Corporate Business Plan.
Environmental and climate change implications	The draft 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 Council's Constitution requires that the Cabinet prepare an interim budget for consultation before it makes recommendations to full Council in February 2015. 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 2015 should reflect the Cabinet's response to such comments.

2. HRA Business Plan

- 2.1 The Council has approved a 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 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 and 2014 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.

- Plans are now being developed for 3 new build schemes within the HRA, commencing on site in summer 2015.

2.3 The financial projections within the business plan have been updated to reflect the 2013/14 outturn and anticipated 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 2015/16 and projections for the following two years are based on the following key assumptions:-

- Rent – increase of 2.2% from April 2015 and annually thereafter at Consumer Price Index (CPI) + 1% (this reflects Government proposals for future social rent policy, see paragraph 4.2 below).
- Inflation – CPI at 1.2% (2014/15), 1%(15/16), 1.5%(16/17), 2%(17/18); RPI at 0.9% higher.
- Void rent loss at 1% p.a.
- Stock loss through Right to Buy (RTB) – 15 units in 2014/15, 12 units in 2015/16 and 12 units p.a. for the following 2 years. Continuing Government stimulus has attracted more interest in the scheme but completions are still at a fairly modest level, though this is being closely monitored.
- The proposed capital funding and revenue consequences of HRA new build schemes will be detailed in future reports seeking Cabinet and Council approval and are not yet reflected in these budget proposals.
- Interest payable at a blended fixed rate of 3.7% assuming no change to debt levels in the period to 31st March 2018
- Bad debt provision rising to 2% of rent collectable by 2017/18 to reflect phased introduction of welfare reform.
- Council administrative charges to the HRA are currently shown at a cash frozen level for 2015/16 pending the completion of a review of cost allocations.

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

3. 2014/15 Revised Forecast

3.1 The forecast at Appendix 2 shows an increase in the surplus for the year of £58,800 compared to the original estimate. This increase, together with an increase of £665,800 in the balance brought forward from 2013/14, will give revenue reserves of £4,388,300 at 31st March 2015.

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

Budget Heading	Change in resources
	£'000
General management – increase in HRA pension contribution	-90
ALMO management fee – reallocation of cost to HRA	-54
Repairs & Maintenance – increase due to fencing & roof repairs from storm damage	-114
Bad Debt Provision – lower arrears than anticipated reflect delay in implementation of welfare reform and allocation of additional	101

resources to mitigate impact	
Dwelling Rents – loss of rent from additional sales and higher voids	-69
Revenue contributions to fund capital programme – changes to programme and availability of funding options have reduced use of revenue resources	289
Other net variations	-4
Net increase in Surplus for Year	59

4. 2015/16 Budget

4.1 The budget proposals for 2015/16 and projections for the following 2 years are shown at Appendix 2.

4.2 The Government has confirmed proposals for social rent policy for the ten year period from April 2015. The key points are:-

- The formula rent for each property will be increased annually by CPI + 1% (previously RPI + 0.5%).
- Convergence to formula rent will cease in 2014/15, with future rent increases limited to CPI + 1% (previously RPI + 0.5% + up to £2 per week for upward convergence with formula rent).

Social landlords will be allowed to move rents straight to formula when a property is re-let so that any rent lost through this policy change will reduce over time. It is estimated that the net impact on the Council will be an initial loss of £60,000 per annum, reducing as tenancies change.

4.3 Estimates of service charge income currently assume an increase of 1.9% for both grounds maintenance (subject to negotiation with Ubico) and cleaning. Overall charges for power to communal areas are expected to be held at 2014/15 levels after a fixed tariff deal was agreed.

4.4 Significant changes to the HRA in 2015/16 as compared to the revised forecast for 2014/15 are itemised in the table below. There is a forecast surplus of £635,400 for the year which leaves revenue reserves at £5,023,700 at 31st March 2016.

Budget Heading	Change in resources £'000
Increase in base CBH management fee (see paragraph 4.5.2 below)	-117
Increase in repairs and maintenance – inflation	-43
Increase in bad debt provision – impact of welfare reform	-50
Depreciation – inflation offset by stock loss	-94
Increase in rents (after adjustment for stock loss)	402
Income from PV tariff – reflects investment in 2014/15	103
Revenue contributions to fund capital programme	274
Other (net)	-23
Net increase in resources	452

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 2015/16.

4.5.2 CBH draft budgets approved by their Board on 26th November 2014 show a net increase in management costs of £228,000 analysed as below:-

	£'000
Pay award and increments	102
Growth – 3 additional posts to support capital programme	106
Other net costs	20
Increase in net management costs	228

These additional costs are reflected in an increase in the HRA management fee of 2.3% over the current year and an increase of £111,000 in fees to the capital programme.

Two additional fixed term posts will strengthen the delivery of the proposed £13m. window replacement programme, providing enhanced control and quality whilst another post will further improve the management of asbestos in the Council stock.

The CBH draft budgets for 2015/16 show a breakeven position on services provided to the Council.

4.5.4 The overall cost of repairs and maintenance has increased by 1%. The cost of delivering the estate cleaning contract has risen by 1.9% (£6,000) which reflects the cost of the pay award.

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. During the next financial year the impact of this investment will be reviewed and decisions made as to whether any of the programmes should be continued beyond March 2016.

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 2014/15.

	2014/15	2015/16
	£'000	£'000
Management Fee	4,968	5,085
Management of Capital Programme	525	636
Block Cleaning Service	307	313

5. Capital Programme

5.1 The revised capital programme for 2014/15 reflects the completion of schemes carried forward from the previous year as previously reported to Cabinet and further variations identified during the year. This includes a rescheduling of the transformational improvements project in Folly Lane, now anticipated to start in 2015/16.

- 5.2** The detailed capital programme for 2015/16 and indicative programmes for the following two years are shown at Appendix 4. These reflect the investment requirements identified in stock condition surveys and the proposals in the updated asset management strategy.
- 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** The Joint Programme Group has been developing three HRA new build schemes, currently anticipated to start on site in the summer of 2015. As outlined in paragraph 2.4 these budget proposals do not yet reflect the impact of these developments.

6. Reserves

- 6.1** The recommended minimum revenue balance to cover contingencies is £1.5m. The three year projections forecast a reserve balance of £4,129,800 at 31st March 2018. Cabinet has previously approved the creation of an earmarked revenue reserve to identify resources available to finance new build in the HRA, the overall sum being initially restricted to a maximum of £2.5m.in the period to 31st March 2017.

A decision on the level of current reserves to be transferred to this reserve has been delayed pending a review of the asset management strategy and the development of new build plans by the Joint Programme Group. The latest projections for the HRA, after funding the updated capital programme on the existing stock, indicate that £2m. is available to be set aside for new build schemes.

7. Consultation process

- 7.1** The Council is proposing to consult on these budget proposals during the period to 29th January 2015. This extended period will allow CBH to respond at their Board meeting on 28th January 2015. 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. Consultation 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
Background information	<ol style="list-style-type: none"> 1. HRA 30 year Business Plan 2. CBH Budgets and Plans 2015/16

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	Pat Pratley	December 2012	3	4	12	R	The HRA budget includes specific resources to address welfare reform	Mar 2018	CBH through management agreement	
1.02	If supporting people contracts are not renewed it could impact on the tenants in sheltered accommodation	Pat Pratley	December 2012	2	3	6	R	A transitional contract has been agreed with the County Council until October 2016. An evaluation of alternative service and funding options is in progress as part of the overall review of service delivery in this area	Oct 2016	Lead Commissioner Housing	
1.03	If void rent loss is higher than estimated it will impact on assumed rent income in the HRA	Pat Pratley	December 2012	3	2	6	R	Demand for social housing remains high with significant waiting list. Quality of accommodation needs to be maintained and changes in tenancy termination rates monitored	Mar 2016	CBH through management agreement	
1.04	If the demand for reactive repairs increases there may be insufficient budget to meet demand	Pat Pratley	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 2016	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	Pat Pratley	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	Pat Pratley	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	Lead Commissioner Housing	
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	Pat Pratley	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 via the Joint Programme Group	