

Cheltenham Borough Council

Cabinet – 10 February 2015

Council - 13 February 2015

Housing Revenue Account - Revised Forecast 2014/15 and Final Budget Proposals 2015/16 for Consultation

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| 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 forecasts for 2014/15.2. Approve the HRA budget proposals for 2015/16 including a proposed rent increase of 2.2% and increases in other rents and charges as detailed at Appendix 5.3. Approve that the rent for all properties 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. |

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| 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 | There are no specific legal implications report. Contact officer: Peter Lewis E-mail: peter.lewis@tewkesbury.gov.uk Tel no: 01684 272012 |

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| 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 final revenue budget for 2015/16 shows only one significant amendment to the draft approved by Cabinet on 16th December 2014. The budget for St Pauls Phase 2 transformational improvements has been removed from the capital programme for 2015/16 pending an ongoing review of the scheme. This reduces the revenue contributions required to fund the programme which, together with other minor changes, leaves forecast reserves at 31st March 2018 some £514,000 higher than previously stated.

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. The developments at Swindon Road and various garage sites are scheduled to start on site in September 2015 followed by Cakebridge Road in June 2016.

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.

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 £29,300 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 £4,358,800 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 resources to mitigate impact | 101 |
| Dwelling Rents – loss of rent from additional sales and higher voids | -69 |

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| Revenue contributions to fund capital programme – changes to programme and availability of funding options have reduced use of revenue resources | 259 |
| Other net variations | -4 |
| Net increase in Surplus for Year | 29 |

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 for 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 and cleaning. Overall charges for power to communal areas are will only be adjusted for usage as the tariff is fixed at 2014/15 levels.

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 £1,176,300 for the year which leaves revenue reserves at £5,535,100 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 | 93 |
| Revenue contributions to fund capital programme | 844 |
| Other (net) | -13 |
| Net increase in resources | 1,022 |

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 proposal for 2015/16.

4.5.2 CBH budgets approved by their Board on 28th January 2015 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 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% (£5,900) 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 has 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.
- 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 HRA new build schemes, the first developments currently anticipated to start on site in September 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 £4,643,600 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.

Given the forecast reserve position at 31st March 2018 it is recommended that £2m. is transferred into the new build reserve at the end of the current financial year. Any future spend from this reserve will be approved in line with Council financial regulations.

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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| Report author | Steve Slater, Finance Director, Cheltenham Borough Homes Tel. 01242 264192; <i>e-mail address steve.slater@cheltborohomes.org</i> |
| 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 | |

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| 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 ensure there is a co-ordinated delivery of expenditure plans and outcomes are clear and delivered. | 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 | |