

Cheltenham Borough Council

Cabinet – 8 February 2011

Council – 11 February 2011

Housing Revenue Account (HRA) - Revised Budget 2010/11 and Final Budget Proposals 2011/12

| | |
|---------------------------------------|--|
| 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 budget for 2011/12 |
| Recommendations | <p>Approve the HRA revised budget for 2010/11.</p> <p>Approve the HRA 2011/12 budget including a proposed average rent increase of 5.43% applied in accordance with the rent restructuring guidelines (subject to restraints on individual property increases when aggregated with service charges) 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 HRA capital programme for 2011/12 at Appendices 6 and 7.</p> <p>That receipts of up to £3m from the sale of HRA assets (other than through Right To Buy) in the period 1st April 2011 to 31st March 2014 be used for affordable housing provision</p> |
| Financial implications | <p>As contained in the report and appendices.</p> <p>Contact officer: Bob Dagger, bob.dagger@cheltborohomes.org, 01242 264225</p> |

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| Legal implications | <p>The Council cannot approve an HRA budget which would lead to an overall deficit on the account</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 budget proposals is contained in Appendix 1.</p> |
| Corporate and community plan Implications | <p>The aim of the budget 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 budget contains a number of proposals for improving the local environment, as set out in this report.</p> |

1. Introduction

At the meeting on 21st December 2010, the Cabinet approved draft HRA budget proposals for 2011/12 for consultation. The Cabinet is now required to make recommendations to Council on the 2011/12 budget, having regard to the responses to the consultation.

2. Background

2.1 Both the revised budget for 2010/11 and 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.

2.2 The draft revenue budgets approved by Cabinet on 21st December 2010 have been amended as follows:-

- Increase in CBH management fee to fund additional post of Money & Benefits Officer (cost £31,500)
- Reduction in HRA subsidy payable following receipt of the final determination for 2011/12 (saving £86,600)
- Other minor adjustments to central administration charges and service charge income (saving £9,600)

The net impact of these amendments is to increase the estimated revenue reserve balance at 31st March 2012 by £64,700

3. 2010/11 Revised Budget

3.1 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.

4. 2011/12 Budget

- 4.1** The final HRA subsidy determination was published on 10th January 2011. It confirmed the proposals contained in the draft published in November except for an increase in the GDP deflator used to calculate allowances. This reduces the subsidy payable next year by £86,600.
- 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 were published on 1st February 2011 and are currently being evaluated. The final individual settlements for each Council are 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 5.4% from April 2011 as illustrated by Appendices 4 & 5, although this may be marginally reduced when rents are aggregated with final service charges due to restraints on individual property increases.
- 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 determination includes 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 £2,099,000 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 | +2.2% | -56 |
| Maintenance Allowance | +5.5% | -284 |
| Major Repairs Allowance | +4.7% | -139 |
| Guideline Rent Income | +6.5% | 938 |
| Removal of ALMO Allowance | | 2,515 |
| Charges for Capital | | -835 |
| Other Changes | | -40 |
| Additional Subsidy Payable | | 2,099 |

- 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 £2,500,500 producing a deficit of £1,092,300 for the year and reducing revenue reserves to £1,896,700 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 | -937 |
| Net impact of HRA subsidy settlement (see para 4.1 above) | -2,099 |
| Depreciation of dwellings | -140 |
| Increase in rents | 905 |
| Other rents and charges increases | 60 |
| Increase in estate services & direct costs | -32 |
| Increase in CBH management fee (Agresso implementation & additional post) | -66 |
| Increase in cyclical repairs | -218 |
| Rent rebate subsidy limitation | 39 |
| Other (net) | -12 |
| | |
| Net reduction in surplus | -2,500 |

- 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.
- 4.4** Appendix 4 gives details of the progress in rent restructuring to date and illustrates potential rent increases forward to the current convergence date of 2015/16 using an estimated RPI of 2.5% per annum.
- 4.5** 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. It is anticipated that cleaning charges will increase by 1.7% and grounds maintenance by 10.2% (reflecting the full impact of single status implementation). Changes to the charges for communal power will be block specific dependent on consumption estimates.

6. Cheltenham Borough Homes (CBH)

- 6.1** The 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 budgets for 2011/12 were prepared to achieve a breakeven position based on the assumption of 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.

- 6.3** The HRA management fee for 2011/12 is cash frozen except for:-
- 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.
 - A growth bid of £31,500 to fund a new post of Money & Benefits Officer. This follows the confirmation of a significant rent increase in the final subsidy determination and a reduction in the estimate of subsidy payable thus releasing additional resources. The post will assist the delivery of the financial exclusion strategy helping tenants through the impact of spending cuts and controlling the level of rent arrears.

The fee for managing the capital programme is kept cash frozen for a similar range and value of projects in 2011/12.

- 6.4** 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.
- 6.5** There is a reduction in the cost of delivering the estate cleaning contract which arises from savings on the waste disposal of fly tipping.
- 6.6** 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 service charges to tenants and leaseholders). CBH also 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 | 4,330,200 |
| | Per Unit | 927 | 943 |
| 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 | 310,700 |
| Total | | 7,158,900 | 7,211,600 |

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. Works have now started on site and will 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. HRA Capital Receipts

8.1 In February 2008 the Council approved a resolution to use capital receipts from the sale of HRA assets (other than Right to Buy sales), realised in the period to 31st March 2011, to fund affordable housing provision. This has exempted such receipts from pooling regulations which could have resulted in either 50% or 75% of the receipt being paid to Government. The Government has announced that despite the introduction of self financing in April 2012 pooling will continue throughout the period covered by the latest Comprehensive Spending Review. It is therefore recommended that a further resolution be approved to continue the policy of using such receipts to fund investment in affordable housing.

9. Consultation process

9.1 The draft budget proposals approved by Cabinet on 21st December 2010 were endorsed by the Board of Cheltenham Borough Homes Ltd. subject to the growth bid identified in paragraph 6.3. No further comments have been received during the public consultation period.

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| Report author | <p>Bob Dagger, Assistant Chief Executive, Cheltenham Borough Homes</p> <p>Tel. 01242 264225; e-mail address: bob.dagger@cheltborohomes.org</p> <p>Mark Sheldon, Chief Finance Officer</p> <p>Tel. 01242 264123; e-mail address: mark.sheldon@cheltenham.gov.uk</p> |
| Appendices | <ol style="list-style-type: none"> 1. Risk Assessment 2. HRA Operating Account 3. Housing Repairs Account and Major Repairs Reserve 4. Rent Restructuring 5. HRA – Rents and Charges 6. HRA Capital Programme 7. HRA works to properties 2011/12 |
| Background information | <p>HRA subsidy determinations received from DCLG, 10th January 2011</p> |

| 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 |