

Cheltenham Borough Council

Cabinet – 24 February 2017

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Housing Revenue Account - Revised Forecast 2016/17 and Budget Proposals 2017/18 for Consultation

Accountable member	Cabinet Member for Finance, Rowena Hay
Accountable officer	Section 151 Officer, Paul Jones
Ward(s) affected	All
Key Decision	Yes
Executive summary	This report summarises the Housing Revenue Account (HRA) revised forecast for 2016/17 and the Cabinet's budget proposals for 2017/18.
Recommendations	<ol style="list-style-type: none">1. Note the revised HRA forecast for 2016/17.2. Approve the HRA budget proposals for 2017/18 (Appendix 2) including a proposed rent decrease of 1% and changes to other rents and charges as detailed within the report.3. Approve the proposed HRA capital programme for 2017/18 as shown at Appendix 3.
Financial implications	As contained in the report and appendices. Contact officer: Paul Jones. E-mail: paul.jones@cheltenham.gov.uk Tel no: 01242 775154
Legal implications	There are no specific legal implications arising from the report. 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 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. Introduction

The following amendments have been made to the figures in the interim budget report approved by Cabinet on 13th December 2016 to reflect latest information:-

- Forecast repair and maintenance expenditure in 2016/17 has been reduced by a further £49,600 to £3,789,000 for the year (reflecting ongoing lower demand), a saving of £350,000 against the original budget.
- Forecast capital expenditure in 2016/17 has been reduced by £74,500 (existing stock £29,800 and new build £44,700) to £11,538,100. This also reduces the required revenue contributions to fund capital by the same amount.
- Expenditure on new build and acquisitions in 2017/18 and the following two years has been re-profiled, resulting in an overall reduction of £131,700 during the period.

The impact of these changes is to increase forecast revenue reserves at 31st March 2017 by a further £124,100 to £6,176,100 and by 31st March 2020 a further £255,800 to £2,596,200.

2. Background

- 2.1 The 2016/17 budget report approved by Council in February 2016 contained CBH proposals to mitigate the estimated loss of £6.7m in rent income (compared with that forecast under the previous rent policy) in the four year period from April 2016 to March 2020 following the introduction of the Government's rent reduction policy (Housing providers being required to reduce rents by 1% per annum each year within that period).
- 2.2 The proposals recommended a balanced approach requiring CBH management and maintenance savings of £1.7m, a re-alignment of the capital programme reducing outlay to March 2020 by £2.7m, the use of revenue reserves totalling £2.2m and other cost savings of £0.1m.
- 2.3 This approach would enable CBH to:-
 - Maintain existing service levels
 - Retain the decent homes standard throughout the stock
 - Deliver the major windows and doors replacement programme
 - Complete the current new build programme to March 2018
 - Leave at least £1.5m reserves as a contingency.

3. Progress on housing policy changes

Significant changes in Government policy were contained in the Welfare Reform & Work Act 2016 and the Housing & Planning Act 2016. These acts established the legal framework for the policy changes but much of the detail is still to follow in regulations to be published by the Secretary of State. The current position on the implementation of the most significant changes is as follows:-

- **Rent reduction**

Rents will again be reduced by 1% in April 2017 being the second year of the four year policy. The Government has not given any further information on rent policy from April 2020 onwards.

- **Extension of Right to Buy to Housing Associations**

A pilot scheme with 5 housing associations offering up to 600 homes has been undertaken in the current year. An evaluation of the pilot scheme will then inform final regulations for the full scheme to be launched next year.

- **HVAS (High Value Asset Sales)**

Local authorities will be required to sell higher value void properties to fund the cost of the RTB extension. The concept is that part of the gross proceeds will be retained by the Council to cover the attributable debt of the property and potentially provide some of the funding for a replacement, with the remainder to Government as part of an annual predetermined levy. Stock valuation and void data was requested by DCLG in December 2015 to enable them to formulate a scheme but the Housing Minister has now confirmed that implementation will be further delayed and no payment will be required from local authorities in 2017/18. There are still serious concerns about the potential scale of the levy which could pose a significant threat to future HRA business plans.

- **Pay to Stay**

The legislation provided for households outside London earning more than £31,000 p.a. to face a rent increase of 15p for each additional £1 of income above the threshold, up to full market rent. The additional rent receivable by local authorities would be paid to Government net of administrative costs. However the Government has now decided not to proceed with a compulsory approach. Local authorities and housing associations will continue to have local discretion as to whether they wish to implement such a scheme. The Government remains committed to introducing the mandatory use of fixed term tenancies for new tenants and expects Councils to take into account the financial circumstances of a household when looking at this, and that tenancies should be targeted on those with lower incomes.

4. HRA Business Plan – Financial Projections

4.1 The financial projections in the 30 year HRA Business Plan have been updated to reflect:-

- Impact of 2015/16 final accounts.
- The revenue and capital impact of the current new build programme (overall cost £9m.), including the funding strategy approved by the Section 151 officer which uses available capital receipts and revenue balances before resorting to additional borrowing within the debt cap.

- Latest stock survey information for the need to spend on the existing stock.

The plan also includes the following assumptions:-

- Consumer Price Index (CPI) at 2% per annum for rent increases post 2020.
- RTB sales at 20 per annum decreasing to 10 per annum in the longer term.

4.2 A range of scenarios have then been tested within the model to show the sensitivity to changes to rent policy post 2020, this being the single highest risk to the business plan. Initial modelling suggests:-

- Reversion back to a policy of annual rent increases 1% above CPI would deliver increasing surpluses as anticipated in the original self-financing settlement, albeit delayed by the 4 year rent reductions. Within the long term plan existing debt of £33m could still be repaid leaving unallocated reserves approaching £100m at year 30.
- Projections assuming future rent increases at the level of CPI (using 2% as the long term norm) would be insufficient to accrue any significant reserves or repay debt. Further cost efficiencies would be required to retain long term viability and existing debt would need to re-financed. This scenario is being adopted as the base position for the revised 30 year business plan model.
- An ongoing trend of rent increases below CPI would render the business plan unviable in the medium term without significant reductions to major repair expenditure and/or reduced levels of service.

5. 2016/17 Revised Forecast

5.1 The forecast at Appendix 2 shows an increase in the operating surplus for the year of £466,900 compared to the original budget. Significant variations within the 2016/17 revised forecast (>£30,000) have been identified in budget monitoring reports and are summarised below:-

Budget Heading	Change in resources
	£'000
Repairs & Maintenance – decrease in forecast expenditure following reduced demand in year to date and CBH cost efficiencies	350
Bad Debt Provision – lower arrears than anticipated reflect delays in implementation of welfare reform and roll out of universal credit	50
Rent Income – additional rent from new affordable rented properties completed in year	65
Other variations to expenditure/income	2
Net increase in Operating Surplus for Year	467

5.2 The increase in the use of revenue contributions to fund capital expenditure by a further £662,400 reflects the approved funding strategy for new build and acquisitions detailed in paragraph 4.1 above. As a consequence the balance of revenue reserves held at 31st March 2017 is now forecast to be £6,176,100.

6. 2017/18 Budget Proposal

- 6.1 As detailed in paragraph 2 above rents will decrease by 1% in April 2017. The rent estimates assume a 1% void rate and 20 RTB sales in the year.
- 6.2 Estimates of service charge income currently assume:-
- No increase for grounds maintenance.
 - An increase of 1.5% for cleaning.
 - Overall charges for power to communal areas are expected to increase by up to 6% following the completion of a new 3 year fixed tariff deal that commences in March 2017.
- 6.3 Following improvements to communal boilers and building insulation and a continuing trend of milder winters it is proposed that fuel charges for communal gas heating will be further reduced by 5% from April 2017.
- 6.4 Significant changes to the HRA (>£30,000) in 2017/18 as compared to the revised forecast for 2016/17 are itemised in the table below. There is a forecast reduction of £636,800 in the operating surplus to £1,407,200.

Budget Heading	Change in resources
	£'000
Increase in general management – includes higher insurance premiums for the stock and a contribution to the debt advice contract	(91)
Decrease in CBH management fee	59
Variance arising from significantly lower demand in current year – 2017/18 based on standard demand volumes	(170)
Increase in bad debt provision – anticipated impact of welfare reform	(85)
Depreciation – cost of inflation	(139)
Decrease in rents (rent reduction & net impact of stock loss offset by new build)	(211)
Net decrease in Operating Surplus for the Year	(637)

- 6.5 Revenue contributions totalling £2,616,900 will be required to fund capital expenditure in the year, reducing revenue reserves to £4,966,400 at 31st March 2018.

7. Cheltenham Borough Homes (CBH) - Fees

- 7.1 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 2017/18, which show a breakeven position on services provided to the Council.
- 7.2 The four year HRA plan referred to in section 2 above contained proposals for CBH management and maintenance costs which anticipated savings of £1.7m. over the period (management £0.7m plus maintenance £1m) The company is well advanced in its improvement plans and is now forecasting further management cost savings of £135,000 for the three years to March 2020.

As indicated in paragraph 5.1 above a combination of service efficiencies and significantly lower demand is expected to reduce maintenance costs by £350,000 in the current year. Although the 2017/18 budget includes an increase of £170,000 in forecast costs to reflect a return to standard

demand volumes, it still represents a saving of £171,000 on the projection in the four year plan. Similar savings in the following two years give a total further budget reduction to March 2020 of £755,000.

- 7.3 The cost of delivering the estate cleaning contract has risen by 1.5% (£5,000) which reflects the anticipated cost of the pay award and national insurance contributions.

8. CBH Plans & Progress

CBH has made substantial progress in plans to modernise and transform the housing management and maintenance services delivered to tenants. The key work streams that are driving these improvements are:-

- **Service Improvement programme** – a comprehensive review of all IT systems and associated manual processes to drive efficiency in all areas of the business. A tender for the procurement of fully integrated software has been prepared with the intent to go to market early in 2017. The plan is to complete implementation within 18 months of appointing a supplier.
- **Asset management** – CBH will be using improved data collection to assess the financial and operational impact of each unit of stock. This will inform future option appraisals when a property becomes void and guide strategic debate on the best use of HRA assets. This will be delivered as part of the above mentioned service improvement programme.
- **Reactive repairs** – Improvements in working practices and procurement and investment in mobile technology have already generated cost savings, reflected in the lower maintenance budgets detailed in paragraph 7.2 above. There is an ongoing focus to drive further efficiencies in this area.
- **Garage review** – a long term business plan which will consider future marketing, licence conditions, rent and deposits levels and investment – to be completed in 2017/18 financial year
- **Welfare reform/Universal Credit** – continuing to monitor changes, model impacts on residents and ensure we provide support as and when required.
- **Senior management review** – this has been completed with streamlined teams at both Executive and Leadership team level now in place. This will enable quicker decision making and a more focused approach to delivering continuous improvement.
- **Accommodation strategy** – a new strategy has been developed which seeks to reduce overall costs whilst also supporting more effective working practices across CBH. The aspiration is to rationalise accommodation by March 2020.
- **People strategy** – a full review of how the company looks after staff to ensure they have the skills and support to deliver the best possible service to our customers. The strategy will be written by March 2017 and its actions delivered over the subsequent 3 year period.
- **New supply** – given that resources are likely to be constrained in the medium term there is an emphasis on identifying new opportunities to increase affordable housing in the town to meet local need.

9. Capital Programme

- 9.1 The revised capital programme for 2016/17 reflects the completion of schemes carried forward from the previous year as previously reported to Cabinet and further variations identified during the year.
- 9.2 The detailed capital programme for 2017/18 and indicative programmes for the following two years are shown at Appendix 4. These reflect the investment requirements identified via stock condition surveys and the recent review of the 30 year capital programme.
- 9.3 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, which is attributable to the debt held on each sold property, can be used for any HRA purpose and is used to finance capital expenditure on the existing stock.
- 9.4 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.
- 9.5 Appendix 4 also gives estimates of new build expenditure and funding assumptions for the period to 31st March 2020. The first new build scheme, Garage Sites 2a delivering 10 units of affordable housing, was completed this year to be followed by the Swindon Road development. Two more garage site schemes are being progressed. A proposed scheme at Whaddon Road is currently at outline design stage with a bid for HCA grant having been accepted.
- 9.6 The annual funding plans for new build expenditure will be determined by the Section 151 Officer ensuring maximum benefit and cost efficiency.

10. Reserves

- 10.1 The recommended minimum revenue balance to cover contingencies is £1.5m. This figure was determined in 2012 at the start of the self-financing regime and equates to approximately £330 per unit of stock which is very much in line with the sector norm. Key risks other than significant changes to Government policy primarily relate to property damage. The stock is insured for fire and wet perils. The three year projections forecast a reserve balance of £2,596,200 at 31st March 2020.

11. Conclusion

- 11.1 The potential benefits of the self-financing settlement have been significantly eroded by the change in the Government's social rent policy. It remains unclear whether the additional operating surpluses forecast in the previous 30 year business plan will be restored after 2020.

In addition, there is significant future uncertainty regarding the impact of the High Value Asset Sales Levy.

Until there is more certainty re these 2 key areas it is recommended that focus should be concentrated on the medium term, ensuring that:-

- existing stock is maintained at the decent homes standard.
- the improved level of tenant and leaseholder services is retained.
- the Council continues to assess opportunities to increase new supply.

CBH continues to work to the four year plan which will deliver these key objectives despite the significant reduction in forecast rent income. The additional savings identified by the company will strengthen the financial position of the HRA in the medium term.

A close watching brief will be maintained regarding the implementation of a number of government policies so that the impact can be modelled as soon as possible and appropriate action taken to maintain the viability and operational delivery of the HRA.

12. Consultation process

12.1 The budget for 2017/18 has been endorsed by the CBH Board. A summary of the proposals

was sent to all tenants with their quarterly rent statements inviting comments and the detailed report has been reviewed by the Shaping Services Group and the Tenant Scrutiny Improvement Panel. No specific concerns or comments have been received.

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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)
Background information	<ol style="list-style-type: none"> 1. HRA 30 year Business Plan 2. CBH Budgets and Plans 2017/18

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 the compulsory sale of high value properties depletes significant numbers and specific types of stock, there will be a significant impact upon both stock availability and financial viability.	Tim Atkins	December 2015	4	4	16	R	Further detail is awaited from Government on the implementation of this new initiative. Potential measures to offset the impact are currently being investigated by CBH management.	Mar 2018	CBH through management agreement		
1.02	If CBH are unable to deliver savings to offset lower income as a consequence of 4 year rent reductions	Tim Atkins	December 2015	5	3	15	R	Implementation of savings plan will be closely monitored by CBH with periodic reports on progress being submitted to Council officers	Mar 2020	CBH through management agreement		
1.03	If there is a further change to the Government's social rent policy that reduces anticipated rent income	Tim Atkins	December 2015	4	3	12	R	Any additional loss of income will need to be mitigated by further savings	Mar 2020	CBH through management agreement		
1.04	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	Tim Atkins	December 2012	3	4	12	R	The HRA budget includes specific resources to control rent arrears and support tenants through Welfare Reform/Universal Credit.	Mar 2018	CBH through management agreement		
1.05	If void rent loss is higher than estimated it will impact on assumed rent income in the HRA	Tim Atkins	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	Mar 2018	CBH through management agreement		

								termination rates monitored			
1.06	If the demand for reactive repairs increases there may be insufficient budget to meet demand	Tim Atkins	December 2012	4	3	12	R	Maintain robust stock condition data. Major peril to the stock is fire/flood which is covered by appropriate insurance.	Mar 2018	CBH through management agreement	
1.07	If there is insufficient capacity to deliver the ambitious programme of building works then the programme may not be deliverable	Tim Atkins	December 2012	2	3	6	R	The HRA budget includes specific resources to address capital programme works	Mar 2018	CBH through management agreement	
1.08	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	Tim Atkins	December 2013	3	2	6	R	New build programme has commenced on site, officers are monitoring spend against that required to retain receipts. Cabinet has approved an alternative strategy of acquiring property to eliminate potential repayment	Mar 2018	CBC/CBH via the Operational Working Group	