Cheltenham Borough Council

Cabinet - 13th February 2018

Council - 19th February 2018

Housing Revenue Account - Revised Forecast 2017/18 and Budget Proposals 2018/19

Accountable member	**Cabinet Member for Finance, Rowena Hay**
Accountable officer	**Paul Jones, Chief Finance Officer (Section 151 Officer)**
Ward(s) affected	**All**
Key Decision	**Yes**
Executive summary	**This report summarises the Housing Revenue Account (HRA) revised forecast for 2017/18 and the Cabinet's budget proposals for 2018/19.**
Recommendations	**1. Note the revised HRA forecast for 2017/18.** **2. Approve the HRA budget proposals for 2018/19 (shown at 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 2018/19 as shown at Appendices 3 and 4.** **4. Delegate authority to the Section 151 Officer, in consultation with the Cabinet Member for Finance, to apply for a direction from the Ministry of Housing, Communities and Local Government to permit Discretionary Housing Payments to Council Tenants to be funded from the HRA if it appears probable that the annual Government allocation for the year will be exceeded (see paragraph 6.6 of the report).**

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)	There are no direct HR implications for the Council arising from this report. **Contact officer: Julie McCarthy (Publica Group Ltd)** **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 interim budget report approved by Cabinet on 12th December 2017:-

- The revenue and capital forecasts for 2017/18 have been updated to incorporate latest information at 31st December 2017.
- The depreciation charge relating to dwellings has been increased for the current year and future years after further work on the new methodology referred to in paragraph 5.3 below.
- The ALMO management and maintenance fees and Council staff recharges to the HRA have been increased to reflect the current pay offer of 2% in April 2018 and April 2019.
- An additional appendix 5 is attached to the report which gives an overview of value for money within the HRA.

2. Background

2.1 The Council has previously approved a four year plan to mitigate the estimated loss of £6.7m in rent income during the four year period from April 2016 to March 2020, following the introduction of the Government's rent reduction policy (reducing rents by 1% per annum each year).

2.2 The plan demonstrates a balanced approach requiring CBH management and maintenance savings, a re-alignment of the capital programme and the use of revenue reserves.

3. Update on Housing Policy

3.1 Rent Reduction

Rents will again be reduced by 1% in April 2018 being the third year of the four year policy that commenced in April 2016 and will finish in March 2020.The Government has now confirmed that rent policy will then revert back to the previous guidelines of allowing annual increases of up to CPI + 1% per annum for the following 5 years before a further review.

3.2 Universal Credit (UC)

After significant delays to the introduction of UC, the full rollout began in Cheltenham on 6th December 2017. As at 25th January 2018 the number of live claims had increased to 163. It is

estimated that up to 1,800 tenants will move to UC within the next 3 years, placing considerable pressure on rent arrears. CBH is conducting a proactive campaign to provide support and information to all tenants affected by these changes. The impact on arrears will be closely monitored and the budget proposals reflect an increasing provision for bad debts.

3.3 **Extension of Right to Buy / High Value Asset Sales**.

The Government has previously committed to extending Right to Buy to tenants in Housing Associations. The Government's intention was to pay for the extension to Housing Association tenants, in part, by a levy on local authorities funded by the sale of high value vacant properties. Properties sold would be replaced on a one-for one basis.

The November Budget included confirmation of a regional pilot scheme in the West Midlands to run for 12 months from July 2018. There remains significant uncertainty as to when a full rollout of this policy may take place and how the funding mechanisms will work. No provision has yet been made for the potential impact of this policy.

4. HRA Business Plan – Financial Projections

4.1 The 30 year HRA Business Plan has been updated to reflect:-

- The completion and financing of the current new build programme (finishing in 2018/19)
- Anticipated revenue outturn for 2017/18
- A refreshed assessment of the 30 year "need to spend" on existing stock for both capital and revenue expenditure. This includes budget provision for the refurbishment of "Cornish" properties in Pitman Road, Elmfield Avenue and Midwinter Avenue
- The impact of the recent announcement on rent guidelines for the 5 year period from April 2020 i.e. increasing at CPI + 1% p.a. Assuming CPI at the Government target of 2% p.a. this would generate additional resources of £3m over 5 years from 2020 and £10m over 10 years (when compared to CPI only increases for the same period)

4.2 The plan uses the following key assumptions:-

- CPI at 2% p.a. from April 2018
- Stock sales through RTB at 30p.a. to March 2022 then reducing to 20p.a. thereafter
- Rents reducing by 1% in 18/19 & 19/20, increasing at CPI +1% p.a. for 5 years to March 2025 and by CPI p.a. thereafter.

4.3 The longer term viability of the plan has been strengthened by the Government confirmation of rent policy post 2020 and shows sufficient resources to finance the need to spend on existing stock and to repay existing debt as it falls due for repayment. It also indicates the availability of resources to fund additional new build and regeneration schemes through a combination of borrowing headroom, capital receipts and revenue contributions from reserves. Further capacity may become available following the recent announcement in the Autumn Budget that the Government will allow an increase in the HRA debt cap for some local authorities subject to a bidding process (further detail is awaited).

4.4 There is an ongoing review of all available options to increase the supply of new housing within both the Council and CBH.

5. 2017/18 Revised Forecast

5.1 The forecast at Appendix 2 shows an increase in the operating surplus of £1,421,500 compared to the original budget. Significant variations within the 2017/18 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 impact of service efficiencies	275
Bad Debt Provision – lower arrears than anticipated reflect delay in implementation of welfare reform and allocation of additional resources to mitigate impact	35
Depreciation (Dwellings) – change to basis of calculation (see 5.3 below)	1,142
Depreciation (Other Assets) – changes to asset classification and assumed lifecycle	-112
Other net variations	81
Increase in Operating Surplus (compared to budget)	**1,421**

5.2 The reduction in the use of revenue contributions to fund capital expenditure by £556,400 reflects the approved funding strategy for capital expenditure and, together with the increase in the operating surplus, will result in a balance of revenue reserves of £7,635,800 at 31st March 2018.

5.3. For a period of five years following the introduction of self-financing in April 2012, local authorities were allowed to base the depreciation charge for dwellings on the major repair allowance per property assumed in the settlement. The Government has confirmed that for 2017/18 onwards depreciation should be calculated with reference to the estimated life and replacement cost of the major components of the dwellings. This is a complex technical area and there are a range of methods that can be adopted to arrive at the annual charge. Considerable research has been undertaken to establish the most appropriate method for Cheltenham.

The recalculated charge shows a reduction of £1,142,500 and a corresponding increase in the operating surplus for the year. However this will also reduce, by an equal amount, with the funds available in the major repairs reserve to fund capital expenditure thus requiring an increase in revenue contributions from reserves. As a result there is no overall impact on the level of retained reserves or the ability to fund proposed capital expenditure. This is a change required to ensure compliance with current accounting standards.

6. 2018/19 Budget Proposal

6.1 All rents will decrease by a further 1% in April 2018. The rent estimates also assume a 0.8% void rate and 30 RTB sales in the year.

6.2 Estimates of service charge income currently assume:-

- Increase of 1.5% for cleaning services supplied by CBH (see further detail at paragraph 7.4 below)
- Overall charges for power to communal areas are to be held at 2017/18 levels (under a 3 year fixed tariff contract until March 2020)

6.3 A new agreement for the HRA grounds maintenance work undertaken by Ubico is currently being finalised and service charges for next year are still under review.

6.4 Significant changes to the HRA (>£30,000) in 2018/19 as compared to the revised forecast for 2017/18 are itemised in the table below. There is a forecast reduction of £648,500 in the operating surplus for the year when compared with 2017/18.

Budget Heading	**Change in resources**
	£'000
Increase in ALMO management fee – pay award	-61
Increase in repair & maintenance – reflects pay award & inflation on materials and sub-contractor costs	-97
Increase in bad debt provision – roll out of Universal Credit	-96
Depreciation – inflation offset by stock loss	-96
Decrease in rents - rent reduction & stock loss	-275
Loss of supporting people grant – end of contract	-34
Other net variations	11
Decrease in Operating Surplus (compared to 2017/18)	**-648**

6.5 Revenue contributions totalling £4,081,500 will be required to fund capital expenditure in the year, reducing revenue reserves to £5,734,500 at 31st March 2019.

6.6 The Discretionary Housing Payments (DHP) Scheme enables local authorities to provide benefit claimants with financial assistance towards housing costs through the General Fund. An annual allocation of funding from Government finances this scheme. In previous years the total of such payments has not exceeded the allocation.

However, in 2017/18 anticipated payments are at a level which could match or even exceed Government funding. Where this occurs the Department for Communities and Local Government (DCLG) have confirmed that authorities may be permitted to fund DHP payments made to its own tenants from the HRA. This requires a written application to DCLG for a specific accounting direction. It is recommended that the level of payments continues to be monitored and the Section 151 Officer is delegated authority to apply for such a direction if it appears probable that the annual allocation will be exceeded in any financial year. The HRA budget does not yet include any provision for such expenditure.

7. Cheltenham Borough Homes (CBH)

7.1 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 2018/19, which show a breakeven position on services provided to the Council.

7.2 The proposed management fee for 2018/19 (£5,144,000) assumes a 2% pay award in April 2018 and remains consistent with budget forecasts included in the four year plan.

7.3 It is anticipated that a combination of service efficiencies and sustained lower demand will give an overall saving of £369,400 in repair and maintenance projections for 2018/19 and 2019/20 when compared to previous estimates in the HRA business plan.

7.4 The cost of delivering the estate cleaning contract has risen by 4% (£13,000) which reflects the anticipated cost of the pay award and service enhancements which include the testing of emergency communal lighting and the cleaning of communal windows and food bins. The increase in service charges will be restricted to 1.5% following a review of eligible cost apportionments.

7.5 Appendix 5 gives a comprehensive overview of Value for Money (VFM) within the HRA. It describes the CBH approach to VFM and gives details of actual costs and performance in 2016/17 and targets for 2017/18 and 2018/19. It should be noted that costs include both CBH and CBC apportionments to the HRA.

8. CBH Plans & Progress

8.1 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 systems supplier has been selected and implementation will commence in April 2018, with an anticipated "go live" date in summer 2019.
- **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. Further efficiencies are anticipated from two insourcing opportunities (internal decent homes and the testing of emergency communal lighting) thus maximising use of in-house skills and reducing costs.
- **Non-traditional stock** – following a detailed option appraisal a refurbishment solution has been chosen to address non-decency within the Cornish type properties (to be delivered from April 2019). Further work will be undertaken to inform an investment decision for prefab style properties with a working group to be convened in the next financial year.
- **Cheltenham West regeneration (Masterplan)** – this project is being funded by Government grant and a final report will be produced in 2018/19.
- **New supply -** CBH is reviewing all potential delivery mechanisms to offset the ongoing impact of Right to Buy (RTB) and help meet local housing need.
- **Welfare reform/Universal Credit (UC)** – the company continues to monitor changes and, as referred to in paragraph 3.2 above, is conducting a proactive campaign to provide support and information to all tenants affected by the further rollout of UC from December 2017.
- **Accommodation strategy** – CBH will continue to implement an approved strategy that seeks to reduce overall costs whilst also supporting more effective working practices. The aspiration is to rationalise accommodation by March 2020.
- **People strategy** – a new strategy has been launched with values revitalised following a staff ballot. Further work will be undertaken on reward and wellbeing, ensuring that the company continues to recognise and value staff contributions to the achievement of CBH aims.

9. Capital Programme

9.1 The revised capital programme for 2017/18 reflects the completion of schemes carried forward from the previous year as reported to Cabinet and further variations identified during the year.

9.2 The detailed capital programme for 2018/19 and indicative programmes for the following two years are shown at Appendix 4. These reflect the investment requirements identified via stock condition surveys and a recent review of the 30 year capital programme. The sum set aside for particular component replacements each year will vary in line with anticipated lifecycles.

9.3 The programme includes:-

- Ongoing funding to complete the replacement of windows and doors through the majority of the stock.

- A significant investment in enhanced fire safety measures though the installation of emergency lighting in general needs blocks.

- A provision of £2m to fund the refurbishment of Cornish properties in Pitman Road, Elmfield Avenue and Midwinter Avenue, commencing in April 2019. This scheme has received the endorsement of the Council's Asset Management Working Group.

9.4 CBH is conducting a project to better understand current energy performance and the potential for improvement throughout the stock. This will inform decisions on future investment. The current programme includes a range of energy efficiency improvements:-

- Window renewal programme- currently in year two of a six year programme to replace the majority of windows across the stock, new windows exceed Building Regulations requirements for energy efficiency (over 1,000 dwellings will benefit from these works in the current year).

- External and fire door renewal – new doors are more thermally efficient and have improved draught seals (2,000 doors due to be replaced in 2017/18).

- Boiler renewals – replacements are ErP A rated giving higher energy efficiency (400 are being replaced in 2017/18).

- Roof programme – when renewing roof coverings loft insulation is being upgraded to Building Regulations part L standards for energy efficiency.

- Continuation of loft insulation upgrades and cavity wall insulation.

9.5 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 Right to Buy has increased the availability of capital receipts. A proportion of those receipts are only retained by the Council if they are used to fund new affordable housing within 3 years.

9.6 Appendix 4 also gives estimates of new build expenditure for the period to 31st March 2021. Currently these figures only reflect the completion of existing schemes and a provision for appraisal costs in each year together with an indicative budget of £2m in 2018/19 to fund further acquisitions should eligible expenditure on new build be insufficient to retain RTB receipts. Further reports will be brought forward as new schemes are identified.

9.7 The capital programme will require CBH to carry out procurement on behalf of the Council. The budget headings in Appendix 4 may include the award of more than one contract to the value of £100,000 and over (key decisions) which will be awarded in accordance with the Council's contract rules and the constitution.

9.8 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 damage with the Council self-insuring against other perils. The three year projections forecast a reserve balance of £3,604,700 at 31st March 2021.

11. Conclusion

11.1 The four year plan for the period to March 2020 that was approved by Council in February 2016 continues to be delivered successfully and has ensured that:-

- existing stock is maintained at the decent homes standard
- the improved level of tenant and leaseholder services is retained
- the Council can take advantage of opportunities to build new stock

CBH has also generated additional resources particularly through service efficiencies on repairs and maintenance.

11.2 The confirmation of rent policy post 2020 has further strengthened HRA financial viability but it should be recognised that investment funding will still be limited in the medium term by the debt cap and restrictions on the use of capital receipts. However resources are available to fund further new build and regeneration subject to scheme identification and appraisal.

12. Consultation process

12.1 The 2018/19 budget proposals have been endorsed by the CBH Board and the Tenant Scrutiny Improvement Panel. No other specific concerns or comments have been received.

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Appendices	1. Risk Assessment 2 HRA Operating Account 3 Major Repairs Reserve and HRA Capital Programme (summary) 4 HRA Capital Programme (detail) 5 Value for Money in the HRA
Background information	1. HRA 30 year Business Plan 2. CBH Budgets and Plans 2018/19