

Cheltenham Borough Council

Cabinet – 12th February 2019

Council – 18th February 2019

Housing Revenue Account - Revised Forecast 2018/19 and Budget Proposals 2019/20

Accountable member	Cabinet Member for Finance, Rowena Hay
Accountable officer	Executive Director Finance and Assets, Paul Jones
Ward(s) affected	All
Key Decision	Yes
Executive summary	This report summarises the Housing Revenue Account (HRA) revised forecast for 2018/19 and the Cabinet's budget proposals for 2019/20.
Recommendations	<ol style="list-style-type: none">1. Note the revised HRA forecast for 2018/19.2. Approve the HRA budget proposals for 2019/20 (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 2019/20 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 264365
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 arising from the 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 draft budget contains proposals for improving the local environment particularly in addressing the issue of energy reduction in Council owned dwellings.

1. Introduction

1.1 The following amendments have been made to the interim budget report approved by Cabinet on 18th December 2018:-

- The revenue and capital forecasts for 2018/19 have been updated to incorporate latest information at 31st December 2018.
- The proposed capital programme for 2019/20 has been adjusted to include additional expenditure delayed from 2018/19.
- The budget for Council Tax on empty properties has been increased from 2019/20 following the confirmation of new charging rules.

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

2.2 There have been significant changes in Government Housing Policy during the year, most notably the abolition of the HRA debt cap. This, together with the certainty on rent policy until 2025 which was announced 12 months ago, will have a positive impact on HRA resources enabling the Council to increase investment in new build and stock improvements. Further detail is provided below.

3. Update on Housing Policy

3.1 Rent Reduction

Rents will again be reduced by 1% in April 2019 being the final year of the four year policy that commenced in April 2016 and will finish in March 2020. The Government has previously 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 in December 2017. There are currently 555 claimants (November 2018) with 800 being anticipated by March 2019. Under present regulations there could eventually be up to 2,000 claimants, 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 had previously committed to extending Right to Buy to tenants in Housing Associations. The Government's original 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.

Although a pilot scheme is being trialled in the West Midlands, the Government has now confirmed that local authorities will not be required to finance this policy.

3.4 Right to Buy Receipts

The Government published a consultation paper in the summer which sought views on introducing more flexibility in the use of RTB receipts to fund new build. Though any relaxation in the conditions of use would be welcome, the suggestions put forward in the document would be limited in their impact and the sector response has been to request more wide ranging reform, including the abolition of RTB. The consultation closed in early October and the Government's response is awaited.

3.5 Abolition of the HRA Debt Cap

The Government has recently lifted HRA borrowing restrictions, abolishing the debt cap and leaving the level of borrowing to be controlled by the prudential code. This should allow a significant increase in the new build programme subject to the identification of appropriate sites and financial viability.

4. HRA Business Plan – Financial Projections

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

- Anticipated revenue outturn for 2018/19.
- The current development programme for the period from April 2019 to March 2022 which will deliver 105 new build units at a total cost of £14.83m.
- Contingency budgets for market acquisitions and the purchase of new affordable units on sites where Section 106 planning agreements are in place.
- A refreshed assessment of the 30 year "need to spend" on existing stock for both capital and revenue expenditure. This includes a new showers programme which has been identified as one of the most popular improvements requested during both the 2017 survey of tenants and residents and the voids review undertaken by the tenant services improvement panel (see further detail in paragraph 9.3).

4.2 The plan uses the following key assumptions:-

- CPI at 2% p.a. from April 2019
- Stock sales through RTB at 30 p.a. to March 2022 then reducing to 20 p.a. thereafter
- Rents reducing by 1% in 19/20 then 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, capital receipts and revenue contributions from reserves. Further capacity is now available following the abolition of the debt cap.

5. 2018/19 Revised Forecast

5.1 The forecast at Appendix 2 shows an increase in the operating surplus of £93,000 compared to the original budget. Significant variations (greater than £30,000) within the 2018/19 revised forecast have been identified in budget monitoring reports and are summarised below:-

Budget Heading	Change in resources
	£
Additional cost of IT licences and legal recharges	-47,200
Rent Income - additional income from earlier completion of new build properties and acquisition of stock, partially offset by higher void loss	25,000
Interest Receivable – higher than anticipated reserves and a higher interest rate	110,000
Other net variations	5,200
Increase in Operating Surplus (compared to budget)	93,000

3.2 The reduction in the use of revenue contributions to fund the capital programme (£1,992,000) arises from:-

- Capital expenditure lower than anticipated – stock acquisitions are expected to total £933,000 in year against a contingency budget of £2m. It is proposed that the unspent balance will be rolled forward to 2019/20.
- The availability of additional capital receipts from in year asset sales.

5.3 Revenue reserves are now estimated at £8,785,200 (previously £5,734,500) at 31st March 2019, reflecting a higher balance brought forward from 2017/18, the increase in the operating surplus and the reduction in revenue contributions to capital.

6. 2019/20 Budget Proposal

6.1 All rents will decrease by a further 1% in April 2019. The rent estimates assume a 0.8% void rate and 30 RTB sales in the year and also reflect additional income from new build and acquired properties.

6.2 Estimates of service charge income currently assume:-

- Increase of 2% for cleaning services supplied by CBH
- Overall charges for power to communal areas will be held at 2017/18 levels (under a 3 year fixed tariff deal until March 2020).

6.3 A new agreement for the HRA grounds maintenance work undertaken by Ubico is being finalised and will commence in April 2019 following Cabinet approval. There has been a comprehensive review of the areas maintained and the nature of work carried out. This will lead to some volatility in service charges to tenants and leaseholders. Those facing an increase in charges will be protected by transitional arrangements with increases being phased in over three years.

- 6.4 It is proposed that garage rents are increased by 3% from April 2019 in line with the Retail Price Index.
- 6.5 Significant changes to the HRA (greater than £30,000) in 2019/20 as compared to the revised forecast for 2018/19 are itemised in the table below. There is a reduction of £712,100 in the operating surplus for the year when compared with the 2018/19 forecast.

Budget Heading	Change in resources
	£
Increase in bad debt provision – impact of welfare reform	-34,000
Increase in CBH management fee (see paragraph 7.2 below)	-150,000
General & Special Management – primarily due to additional recharges from Council Departments	-59,400
Increase in Repairs & Maintenance - pay award and other inflation	-86,700
Depreciation – reflects change to stock numbers and inflation on replacement components	-69,200
Decrease in rents - rent reduction & net stock loss	-214,600
Interest receivable – lower reserves	-64,600
Other net variations	-33,600
Decrease in Operating Surplus (compared to 2018/19)	-712,100

- 6.6 Revenue contributions totalling £8,843,900 will be required to fund capital expenditure in the year, reducing revenue reserves to £1,502,400 at 31st March 2020.
- 6.7 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. If anticipated payments are at a level which could match or even exceed Government funding, MHCLG 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 MHCLG for a specific accounting direction. The level of payments continues to be monitored and the Executive Director, Finance and Assets has delegated authority to apply for such a direction if it appears probable that the annual allocation will be exceeded in any financial year. The draft HRA budget does not yet include any provision for such expenditure.

7. Cheltenham Borough Homes (CBH)

- 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 2019/20, which show a breakeven position on services provided to the Council.
- 7.2 The proposed management fee for 2019/20 (£5,294,000) is the sum forecast in the budget presented to Council in February 2018 plus an additional sum of £35,000 to fund the replacement of IT equipment previously financed by the HRA. The fee includes the cost of the agreed pay award of 2% in April 2019.
- 7.3 The HRA repair and maintenance budget for 2019/20 (£3,868,100) is also in line with projections within the four year plan and reflects cost increases from the pay award whilst also partly absorbing inflation on transport, materials and sub-contractors.
- 7.4 The cost of delivering the estate cleaning contract (£356,000) has risen by 4% which includes the anticipated cost of the pay award and additional services to communal areas (window cleaning and lighting checks).

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 has been undertaken and work is well advanced to implement new systems with an anticipated “go live” date in the summer of 2019.
- **Reactive repairs** – further efficiencies are anticipated from insourcing opportunities for fire protection works, aids and adaptations and delivery of the new showers programme, 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 with delivery to commence in 2019/20.
- **Cheltenham West regeneration (Masterplan)** – this Government funded project was completed in 2018 with the final report setting out a potential regeneration programme for the area. This envisages 3 phases of delivery over a 20 year period. There is an ongoing review of potential funding mechanisms to finance the programme.
- **New supply** – Council approval of the Housing Investment Plan in October 2018 will enable CBH to build/acquire units both for market and affordable rent whilst also continuing to manage the delivery of new stock within the HRA. Significant additional resources, in excess of £200,000, have been set aside to provide project management and development expertise to support the delivery of these ambitious programmes.
- **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 rollout of UC.
- **Accommodation strategy** – CBH is continuing to review opportunities to rationalise office accommodation to support more effective working practices and reduce future overhead costs.

9. Capital Programme

9.1 The revised capital programme for 2018/19 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 2019/20 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 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 new showers programme. All new build properties are being fitted with a shower. Currently approximately 2,500 homes have either an over bath shower or shower cubicle/wet room leaving a further 2,000 homes without such a facility. The programme will fit over bath showers to these

properties over a period of 10 years at a total cost of £2.4m. This expenditure and the subsequent cost of maintenance and renewal will total £7.7m over 30 years, which can be accommodated within the business plan.

- A provision of £2m to fund the refurbishment of Cornish properties commencing in 2019.

- 9.4 Appendix 4 also gives estimates for expenditure on new build and acquisitions in the period to 31st March 2022. The annual budgets for new build only include cost estimates for schemes currently being progressed. It is estimated these schemes will deliver a further 105 units. It is anticipated that additional schemes will be brought forward during the period as new sites are identified. There are also contingency budgets for market acquisitions and the purchase of new affordable units on sites where Section 106 planning agreements are in place.
- 9.5 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.
- 9.6 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 also 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. It is anticipated that further borrowing will be required in 2020/21 and 2021/22. The final annual funding plans will be determined by the Section 151 Officer to maximise 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 £1.5m at 31st March 2022.

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
- 11.2 The end of rent reduction, certainty on rent policy for 5 years and the lifting of the debt cap all strengthen HRA viability and give additional capacity to invest in both the existing stock (e.g. the new showers programme) and new build. Prudential borrowing rules will now govern the scale of borrowing that the HRA can undertake.
- 11.3 The budget provides additional resources to support a significant increase in the pace and scale of new supply within the HRA. This will complement the resources also made available to CBH through the Housing Investment Plan to deliver new market rented units.

12. Consultation process

12.1 The 2019/20 budget proposals have been endorsed by the CBH Board and members of the Tenant Scrutiny Improvement Panel. No other specific concerns or comments have been received.

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Appendices	<ol style="list-style-type: none">1. Risk Assessment2. HRA Operating Account3. Major Repairs Reserve and HRA Capital Programme (summary)4. HRA Capital Programme (detail)5. CBH Value for Money
Background information	<ol style="list-style-type: none">1. HRA 30 year Business Plan2. CBH Budgets and Plans 2019/20

