

Cheltenham Borough Council

Cabinet – 11th February 2020

Council – 17th February 2020

**Housing Revenue Account - Revised Forecast 2019/20 and Budget Proposals
2020/21**

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 2019/20 and the Cabinet's budget proposals for 2020/21.
Recommendations	<ol style="list-style-type: none">1. Note the revised HRA forecast for 2019/20.2. Approve the HRA budget proposals for 2020/21 (shown at Appendix 2) including a proposed rent increase of 2.7% and changes to other rents and charges as detailed within the report.3. Approve the HRA capital programme for 2020/21 as shown at Appendix 3.

Financial implications	<p>As contained in the report and appendices.</p> <p>Contact officer: Paul Jones.</p> <p>E-mail: paul.jones@cheltenham.gov.uk</p> <p>Tel no: 01242 264365</p>
Legal implications	<p>By approving the budgets for the capital programme, cabinet are making key decisions as to the use of the budget. Consequently, the acceptance of tenders in excess of £100,000 by the lead member (or officers if authorised under the constitution) for contracts required to deliver works, services and supplies under the approved budget headings, will not be key decisions.</p> <p>Contact officer: Shirin Wotherspoon</p> <p>E-mail: shirin.wotherspoon@tewkesbury.gov.uk</p> <p>Tel no: 01684 272017</p>

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@publicagroup.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 and moving towards a carbon neutral housing portfolio by 2030.

1. Background

1.1 The following amendments have been made to the interim budget report approved by Cabinet on 17th December 2019: -

- The revenue and capital forecasts for 2019/20 have been updated to incorporate latest information at 31st December 2019.
- Only minor amendments have been made to the proposed 2020/21 budget and projections for 2021/22 and 2022/23.

2. Introduction

2.1 The current year marks the successful completion of a four-year plan to mitigate the rent reduction policy imposed by Government. The new social rent policy of allowing annual rent increases of CPI + 1% p.a. for five years and the abolition of the HRA debt cap ensures that additional resources will be available to increase the supply of affordable housing, further improve existing stock and invest in our communities.

2.2 Highlights from our plans include: -

- 500 new affordable homes by 2023.
- Completion of the new windows and doors programme for existing stock.
- Installation of showers in all our properties.
- Development of a carbon neutral strategy for new and existing stock and the delivery of housing services.
- Delivery of 5 community investment plans, supported by a diverse range of partners and connecting with over 2,000 residents per quarter. These plans focus on employment and education, community safety, health and wellbeing, financial inclusion and involvement and engagement.
- New housing management software has been successfully rolled out giving additional functionality including interactive online access for customers and contractors, with a Customer Portal going live in December 2019. Further efficiencies are anticipated as the system is bedded in.

- Rationalisation of CBH office accommodation to improve efficiency, reduce future costs and support our plans with respect to the carbon neutral agenda.

3. Update on Operating Environment

3.1 Tackling Climate Change

Government has set a target to reduce carbon emissions to net zero by 2050. This Council has declared a climate emergency with an aspiration of being carbon neutral by 2030. Areas we will be focussing on include: -

- Moving towards a housing portfolio that is carbon neutral.
- Retrofit existing stock to use as demonstrators and to educate homeowners in the Borough.
- Carbon zero fleet.
- Other opportunities to make an impact will be provided by a review of office accommodation and the delivery of housing services.

In consultation with the Council, CBH will develop a strategy and delivery programme to meet these challenges and a sum of £50,000 has been included in the 2020/21 budget to commence this work. It is anticipated that it will require a very significant investment in the existing stock but that has not yet been quantified for inclusion in the HRA Business Plan. The programme will also impact on the unit cost of new build and acquisitions.

The significant project to install new windows and doors across all properties, together with the installation of a further 400 new boilers, will further improve the average SAP rating of the stock – this has already increased year on year for the past 3 years. There will need to be further improvements in energy efficient heating and insulation as part of a comprehensive review of all major component replacements.

3.2 Rent Policy

After the completion of the four year period of rent reduction the Government's new rent policy will commence in April 2020. Rents will be allowed to increase by CPI (as at previous September) + 1% per annum for the next five years before a further review. The CPI for September 2019 was 1.7% giving a rent increase for 2020/21 of 2.7%.

3.3 Universal Credit (UC)

After significant delays to the introduction of UC, the full rollout began in Cheltenham in December 2017. There are currently 996 claimants (November 2019) with 1,050 being anticipated by March 2020. Under present regulations there could eventually be up to 2,000 claimants, potentially 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.

3.4 Right to Buy Receipts

The Government published a consultation paper in the summer of 2018 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 was to request more wide-ranging reform, including the abolition of RTB. The consultation closed in early October 2018 and a response from the Government is still awaited.

3.5 Abolition of the HRA Debt Cap

The Government lifted HRA borrowing restrictions in Autumn 2018, abolishing the debt cap and leaving the level of borrowing to be controlled by the prudential code. This will allow a significant increase in the new build programme subject to the identification of appropriate sites and financial viability. This is reflected in the capital programme proposals at Appendix 4.

4. HRA Business Plan – Financial Projections

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

- Anticipated revenue outturn for 2019/20.
- The proposed development and acquisition programme for the period from April 2020 to March 2023 which is forecast to deliver 500 new affordable units.
- A contingency budget of £5.5m. for regeneration projects based on the assumption that there will be no additional revenue benefit from the investment.
- A refreshed assessment of the 30 year “need to spend” on existing stock for both capital and revenue expenditure.

4.2 The plan uses the following key assumptions:-

- CPI at 2% p.a. from April 2020
- Stock sales through RTB at 20 p.a.
- Rents increasing by 2.7% in 20/21 then increasing at CPI +1% p.a. for 4 further years to March 2025 and by CPI p.a. thereafter.
- Long term borrowing rates at 3% p.a.

4.3 The viability of the plan has been strengthened by the Government confirmation of rent policy post 2020. It shows an increase in resources available to fund additional new build and regeneration schemes through a combination of borrowing, capital receipts, grant and revenue contributions from reserves. The plan confirms the financial viability of the proposed investment programme detailed at Appendix 4, with sufficient resources available to repay debt in the longer term.

5. 2019/20 Revised Forecast

5.1 The forecast at Appendix 2 shows a reduction in operating surplus of £95,700 compared to the original budget. Significant variations (greater than £30,000) within the 2019/20 revised forecast have been identified in budget monitoring reports and are summarised below.

Budget Heading	Additional Cost (+) / Income (-)
	£
General & Special Management – includes additional professional fees re land acquisition and new supply programme	77,600
Repairs & Maintenance	42,600

Provision for Bad Debts – reduced contingency for additional debt arising from Universal Credit.	-130,000
Interest Payable – increase relates to land acquisition for future development	76,600
Depreciation of Dwellings – additional properties acquired/constructed and reduction in RTB sales	72,600
Depreciation of Other Assets – contribution to IT programme	44,300
Rent Income – additional income from new properties	-94,300
Other net variations (less than £30,000)	6,300
Reduction in Operating Surplus (compared to original budget)	95,700

5.2 Revenue reserves are now estimated at £1,500,000 at 31st March 2020, reflecting a higher balance brought forward from 2018/19 and a reduction in revenue contributions to capital, offset by the decrease in the operating surplus.

6. 2019/20 Budget Proposal

6.1 All rents will increase by 2.7% in April 2020. The rent estimate assumes a 0.8% void rate and 20 RTB sales in the year and reflects additional income from new build and acquired properties.

6.2 Estimates of service charge income currently assume: -

- Increase of 3.2% for cleaning services supplied by CBH reflecting pay inflation and additional costs of waste disposal.
- Overall charges for power to communal areas will be increased by 20% to reflect the new tariff confirmed from April 2020, following the end of a 3 year price fix. The new tariff has again been fixed for 3 years.
- A new agreement for the HRA grounds maintenance work undertaken by Ubico commenced in April 2019. This followed a comprehensive review of the areas maintained and the nature of work carried out thus creating some volatility in service charges to tenants and leaseholders. Those faced with an increase in charges are protected by transitional arrangements with increases being phased in over three years.

6.3 It is proposed that garage rents are increased by 3% from April 2020 in line with the anticipated increase in the Retail Price Index.

6.4 Significant changes to the HRA (greater than £30,000) in 2020/21 as compared to the revised forecast for 2019/20 are itemised in the table below. There is a reduction of £115,000 in the operating surplus for the year when compared with the 2019/20 forecast.

Budget Heading	Additional Cost (+) / Income (-)
	£
General & Special Management – completion of HRA contribution to pension scheme re transferred staff (£240,000) offset by a budget for the	-139,800

carbon neutral programme (£50,000) and a further contingency of £50,000 to support the delivery of the enhanced new supply programme.	
Increase in CBH management fee (see paragraph 7.2 below)	209,000
Increase in Repairs & Maintenance - pay award and other inflation	71,300
Increase in bad debt provision – additional contingency for roll out of Universal Credit	37,000
Interest Payable – arising from additional borrowing to finance capital programme	390,400
Depreciation of Dwellings – reflects change to stock numbers and inflation on replacement components	83,500
Depreciation of Other Assets – one-off charge relating to IT in 2019/20 no longer required	-30,500
Rent Income – rent increase and additional properties	-534,400
Service Charges – increase on range of services	-40,000
Interest receivable – reduction in reserves	74,700
Other net variations (lower than £30,000)	-6,200
Reduction in Operating Surplus (compared to 2019/20 forecast)	115,000

6.5 Revenue contributions totalling £1,350,400 will be used to fund capital expenditure in the year, leaving revenue reserves at the contingency level of £1,500,000 at 31st March 2021.

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. 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 2020/21, which show a breakeven position on services provided to the Council.

7.2 The proposed management fee for 2020/21 (£5,503,000) shows a 3.9% increase on 2019/20 arising from anticipated pay awards and the anticipated impact of rent reviews on current premises. CBH is progressing an accommodation strategy which will reduce future costs through a rationalisation of office space.

7.3 The HRA repair and maintenance budget for 2020/21 (£3,982,000) shows a 1.8% increase on 2019/20 arising from anticipated pay awards and inflation on transport, materials and sub-contractors.

7.4 The cost of delivering the estate cleaning contract (£356,000) has risen by 3% which includes the anticipated cost of the pay award and additional costs of waste disposal.

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** – CBH went live with new housing management software in July, successfully completing a four year change programme covering all areas of service delivery, IT applications and business processes. The new integrated solution will enhance business capability and provide additional functionality including interactive online access for customers and contractors. The Customer Portal will go live in December 2019.
- **Repairs insourcing** – further efficiencies are anticipated from insourcing opportunities. The kitchens and bathrooms programme and a project to deliver minor aids and adaptations have both been successfully implemented.
- **Non-traditional stock** – a programme of structural repair, external component replacement and improvement to Cornish properties in Elmfield Road and Midwinter Avenue is in progress to provide properties that are warmer, cheaper to run, more secure and visually more attractive. Very positive feedback has been received from tenants as the contract has progressed.
- **Property Compliance** - Compliance reporting has been enhanced with regular reports being scrutinised by both CBH Audit & Risk Committee and Board. Fire and gas safety are key areas with a target of 100% compliance for the stock.
- **Sheltered Accommodation** - A high level review of the main sheltered schemes has been completed. It confirmed there is a current and future demand for social sheltered housing but that existing schemes will require future modernisation to retain occupancy levels. A further in depth appraisal will be undertaken on the poorest performing schemes so that longer term strategies can be developed for these properties. A five year facelift programme of refurbishment for sheltered blocks has begun.
- **New supply** – Council approval of the Housing Investment Plan in October 2018 enables CBH to build/acquire units both for market and affordable rent whilst also continuing to manage the delivery of new stock within the HRA. Detailed preparations for the launch of the PRS initiative have been completed with the first units to be acquired early in 2020.
- **Welfare reform/Universal Credit (UC)** – CBH has obtained “trusted partner” status with DWP and their teams continue to build positive relationships with people and organisations who are able to help those who need it most. Despite the challenges of Universal Credit rent collection performance remains in line with targets.
- **Accommodation strategy** – CBH is actively pursuing 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 2019/20 reflects variations identified during the year, most notably the acquisition of land in West Cheltenham (£11.5m) to enable the future development of new affordable housing.

9.2 Existing Stock

The detailed capital programme for 2020/21 and indicative programmes for the following two years are shown at Appendix 4. These reflect both the investment requirements for existing stock 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.

The programme includes:-

- Ongoing funding to complete the replacement of windows and doors through most of the stock.
- A new showers programme - 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 replacement warden call system for sheltered schemes

9.3 New Supply

The capital programme also includes an ambitious programme of new build and acquisitions delivering a further 500 affordable homes by 2023/24. A range of tenures will be provided with units developed for social rent, affordable rent and shared ownership. The mix and number will be dependent on the financial viability of each site, but an emphasis will be placed on affordability. A contingency of £50,000 has been included in the revenue budget to support the delivery of this enhanced programme.

9.4 Funding

The proposed funding of the capital programme, together with a statement of balances on the major repairs reserve, is shown at Appendix 3. This reflects the significant increase in new build spend which will be financed by a combination of borrowing, grant, shared ownership sales and capital receipts.

10. Conclusion

10.1 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 and new build. As anticipated by the Housing Investment Plan approved by Council in October 2018 the budget proposals include an ambitious programme of new build and acquisition, potentially delivering a further 500 affordable homes by 2023/24. This will complement the resources also made available to CBH to deliver new market rented units. The 30 year HRA Business Plan confirms the longer term viability of this investment which will provide a significant boost to the stock of affordable housing in Cheltenham.

However, the plan does not yet include the potential costs of moving the housing stock towards carbon neutrality and a wider regeneration programme. This will provide a significant challenge moving forward and may require difficult choices on future resource allocation.

11. Consultation process

11.1 The 2020/21 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.

Report author	Steve Slater, Executive Director (Finance and Resources), Cheltenham Borough Homes Tel. 01242 387539; <i>e-mail address steve.slater@cbh.org</i>
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 – Who we are, what we do, how we deliver
Background information	<ol style="list-style-type: none">1. HRA 30 year Business Plan2. CBH Budgets and Plans 2020/213. CBC Place Strategy4. No Child Left Behind