

# Cheltenham Borough Council

Cabinet – 13<sup>th</sup> December 2011

## Housing Revenue Account - Revised Budget 2011/12 and Interim Budget Proposals 2012/13 for Consultation

<b>Accountable member</b>	<b>Cabinet Member for Community Development and Finance, John Webster</b>
<b>Accountable officer</b>	<b>Director of Resources (Section 151 Officer), Mark Sheldon</b>
<b>Accountable scrutiny committee</b>	<b>Social and Community</b>
<b>Ward(s) affected</b>	<b>All</b>
<b>Key Decision</b>	<b>Yes</b>
<b>Executive summary</b>	<b>This report summarises the Housing Revenue Account (HRA) revised budget for 2011/12 and the Cabinet's interim budget proposals for 2012/13 for consultation.</b>
<b>Recommendations</b>	<ol style="list-style-type: none"><li><b>1. Note the revised HRA budget for 2011/12.</b></li><li><b>2. Approve the interim HRA budget proposals for consultation including a proposed average rent increase of 6.43% (applied in accordance with rent restructuring guidelines) and increases in other rents and charges as detailed at Appendix 5.</b></li><li><b>3. Approve the proposed HRA capital programme at Appendix 6.</b></li><li><b>4. Delegate authority to the Director Resources, in consultation with the Cabinet Member for Community Development and Finance, to determine and approve any additional material that may be needed to support the presentation of the interim budget proposals for consultation.</b></li><li><b>5. Seek consultation responses by 26<sup>th</sup> January 2012.</b></li></ol>
<b>Financial implications</b>	<p>As contained in the report and appendices.</p> <p><b>Contact officer: Mark Sheldon.</b></p> <p><b>E-mail: <a href="mailto:mark.sheldon@cheltenham.gov.uk">mark.sheldon@cheltenham.gov.uk</a></b></p> <p><b>Tel no: 01242 264123</b></p>

<b>Legal implications</b>	As this report proposes an interim budget for consultation purposes, there are no specific legal implications at this stage.  <b>Contact officer: Peter Lewis</b>  <b>E-mail: peter.lewis@teWKesbury.gov.uk</b>  <b>Tel no: 01684 272012</b>
<b>HR implications (including learning and organisational development)</b>	No direct HR implications arising from this report.  <b>Contact officer: Julie McCarthy</b>  <b>E-mail: julie.mccarthy@cheltenham.gov.uk</b>  <b>Tel no: 01242 264355</b>
<b>Key risks</b>	As outlined in Appendix 1
<b>Corporate and community plan Implications</b>	The aim of the interim budget proposals is to direct resources towards the key priorities identified in the Council's Corporate Business Plan.
<b>Environmental and climate change implications</b>	The draft budget contains proposals for improving the local environment particularly in addressing the issue of energy reduction in Council owned dwellings

## 1 Background

- 1.1** The Council's Constitution requires that the Cabinet prepare an interim budget for consultation before it makes recommendations to full Council in February 2012. The Cabinet is then required to draw up its firm budget proposals having regard to the responses it has received during the consultation period, and its report to Council in February 2012 should reflect the Cabinet's response to such comments.
- 1.2** It should be noted that the draft budget proposals are based on draft determinations from the Department for Communities and Local Government (DCLG) which will not be finalised until January 2012.
- 1.3** The budget proposals for 2012/13 recognise the scrapping of the current HRA subsidy system and the introduction of a new self financing regime for local authority housing. The Cabinet have approved for consultation the first draft of a new 30 year HRA business plan which identifies the impact of this fundamental change. The plan anticipates significant additional resources arising from the implementation of self financing. The Cabinet have approved a strategy to use these resources to finance a programme of new build, further improvements to existing stock and additional support services for tenants. A final draft of the plan will be presented for approval in February following the completion of consultation and the confirmation of DCLG proposals.

## 2. 2011/12 Revised Budget

- 2.1** The revised budget at Appendix 2 shows a reduction in deficit of £130,900 compared to the original estimate. Balances held in reserve were increased by an additional £684,200 following the 2010/11 outturn and the revised deficit for the year of £961,400 will leave a figure of £2,711,800 at 31<sup>st</sup> March 2012 (previously £1,896,700). This increase in reserves reflects

£325,100 of additional resources and a further £490,000 which arises from deferred capital expenditure which will be required in 2012/13.

- 2.2 Significant variations have been identified in budget monitoring reports and are summarised below:-

<b>Budget Heading</b>	<b>Change in resources</b>
	<b>£'000</b>
Reduction in revenue contributions required to fund capital programme	139
Reduction in interest payable (change in interest rates)	48
Increase in HRA subsidy payable (change in interest rates)	-66
Additional interest receivable (impact of higher reserves)	19
Other net	-9
<b>Net Reduction in Deficit</b>	<b>131</b>

### 3. 2012/13 Budget

- 3.1 The Government published a series of draft determinations on 21<sup>st</sup> November 2011 which will enable the introduction of self financing from 1<sup>st</sup> April 2012. These included:-
- a final review of notional rent and expenditure allowances to produce baseline figures for the valuation and debt settlement
  - a revised valuation model which uses the baseline data as uplifted for self financing calculations
  - a debt settlement for each authority to leave the subsidy system and the subsequent HRA borrowing cap

3.1.1 The draft HRA business plan anticipated a debt settlement of £38.4m for Cheltenham on the basis of previous DCLG projections, a higher than expected rent increase in April 2012 and a contingency for an adverse review of subsidy allowances. However, the draft determinations show that the south west region has again been treated favourably in the annual review and the settlement figure is reduced to £27.9m. This is very welcome news which will increase the level of additional resources arising from self financing.

3.1.2 The baseline determination for 2012/13 shows an increase in guideline rent of 7.5% for Cheltenham. Government social rent policy uses the retail price index in the preceding September plus 0.5% to uplift the formula rent for the following financial year. In September 2011 this was 5.6% so formula rents will be increased by 6.1% for 2012/13.

Rent restructuring, which will bring convergence between local authorities and housing associations, is still timetabled to complete in 2015/16. For Cheltenham tenants this will result in an average rent increase of 6.43% from April 2012 as illustrated by Appendices 4 and 5. This significant increase will be of concern to our tenants already facing other inflationary pressures in the economy but is effectively imposed on us by Government and has been assumed by them in both stock valuation and debt settlement calculations.

3.1.3 The draft determination also includes increases in the baseline management, maintenance and major repair allowances which partly offset the increase in guideline rent. The changes proposed to individual elements are shown below:-

<b>Element of Subsidy</b>	<b>% change</b>
Management Allowance	+1.9%
Maintenance Allowance	+5.8%
Major Repairs Allowance	+4.9%
Guideline Rent Income	+7.5%

3.1.3 The baseline figures for allowances are uplifted to reflect perceived under-funding before being used in a 30 year net present value model of notional income and expenditure. This produces a valuation of the stock for each authority which forms the basis of the debt settlement.

Cheltenham's allowances have been increased by an overall average of 17.94%, including a substantial increase in the major repairs allowance of 39%. The valuation is £53.3m which, after deducting the current notional debt of £25.4m, produces the debt settlement of £27.9m. The valuation figure of £53.3m will also be the HRA borrowing cap – this compares to actual HRA borrowing after settlement of £46.6m giving initial borrowing headroom of £6.7m.

3.2 Significant changes to the HRA in 2012/13 as compared to the revised estimates for 2011/12 are itemised in the table below. These reflect the saving of the annual subsidy payment partly offset by additional debt charges from the settlement. Although the charge for depreciation increases, this will in turn reduce the need for revenue contributions to finance capital expenditure. The net impact is an increase in resources of £2,120,500 producing a surplus of £1,159,100 for the year and increasing revenue reserves to £3,870,900 at 31<sup>st</sup> March 2013.

<b>Budget Heading</b>	<b>Change in resources</b>
	<b>£'000</b>
HRA subsidy (system scrapped)	3,278
Revenue contributions to capital (now covered by MRA increase)	1,448
Increase in rents	1,058
Savings in reactive & cyclical repairs (service review by CBH)	108
Interest payable (additional costs of debt settlement)	-1,535
Depreciation of dwellings (based on uplifted major repairs allowance)	-1,886
Supporting people funding (end of contract)	-150
Increase in CBH management fee (including growth proposals)	-184
Interest receivable (lower interest rates)	-52
Other (net)	36
<b>Net increase</b>	<b>2,121</b>

3.3 Key assumptions used for the draft budget are:-

- Interest payable is based on an estimated rate of 4.5% on new borrowing for the settlement payment of £27.9m. The Government have confirmed that Councils will have access to a discounted Public Works Loan Board rate for these payments. Advice is being sought from Arling Close on the most effective debt management strategy.

- Current supporting people contracts expire on 31<sup>st</sup> March 2012. Options for the continuation of the service are being evaluated but at present the draft budget assumes loss of all income.
  - The Government has announced intent to stimulate Right to Buy sales by increasing discounts available to tenants. The detailed proposals have not yet been published so it is not possible to forecast the potential impact. Stock estimates used in the budget assume 5 sales in 2012/13 based on existing trends.
  - Support service recharges to the HRA are kept at 2011/12 levels pending further review.
- 3.4** For some years the Council has maintained a Housing Repairs Account (Appendix 3) which aims to smooth out the peaks and troughs of demand related maintenance expenditure by keeping a separate earmarked reserve. The introduction of self financing reduces the need for such an account and it is recommended that it is closed at 31<sup>st</sup> March 2012. Maintenance expenditure will then be charged direct to the HRA.
- 3.5** The Government has confirmed that the depreciation charge in the HRA will continue to provide a resource to finance capital expenditure through the major repairs reserve (Appendix 3). Councils can use the uplifted major repairs allowance from the self financing valuation as a proxy for the level of depreciation for a period of up to five years, whilst preparing for the introduction of component accounting in accordance with accounting standards.
- 3.6** Appendix 4 gives details of the progress in rent restructuring to date and projects rent increases forward to the current convergence date of 2015/16 using an estimated RPI of 2.75% per annum.
- 3.7** Appendix 5 details the proposed average rent for 2012/13 with recommended charges for other services. Gas charges for communal heating schemes will be increased by 10% to reflect anticipated fuel increases and there will be a 20% increase towards the cost of the electric fuelled scheme at Cumming Court. This report contains proposals to reduce energy usage consumption in the stock which will help tenants facing rising fuel prices (see paragraph 4.2 below). Provision has been included for a 3% increase in garage rents to reflect both inflation and fund a significant improvement programme in garage sites.
- 3.8** Estimates of service charge income assume an increase of 7.7% for communal power and 2.1% for grounds maintenance. Cleaning costs will be reduced by 5% following service efficiencies offered by CBH.

#### **4. Cheltenham Borough Homes (CBH)**

- 4.1** 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 2012/13.
- 4.2** CBH has identified three areas of service development for 2012/13 which align with the draft HRA business plan strategy. The growth bids are:-
- Enhanced safer estates service (£80,000)
  - Project to identify and evaluate fuel reduction proposals (£40,000)
  - Improvements in health and safety management, particularly fire, asbestos and legionella (£40,000)
  - Additional arrears officer to help with financial exclusion and debt management thus mitigating anticipated increases in arrears from benefit reform (£30,000)

Total bids amount to £190,000 but are largely offset within the HRA by net CBH savings of £134,700 in base fee proposals.

- 4.3** CBH draft budgets for 2012/13 show a breakeven position whilst reducing base fees and charges to the Council from 2011/12 levels. The HRA management fee for 2012/13 shows a saving of

£18,800 when compared to the planning estimate for the year and the fee for managing the capital programme is kept cash frozen. The overall cost of reactive repairs to the stock is reduced by £81,600 following a comprehensive review of the maintenance operation. This has produced savings of £167,600 which have been partly offset by the increased price and usage of materials. The cost of delivering the estate cleaning contract has also been reduced by £34,300 through service efficiencies.

**4.4** The fee submission for the main areas of activity is shown below and compared with 2011/12.

	<b>2011/12 (Revised)</b>	<b>2012/13</b>
	<b>£</b>	<b>£</b>
Management Fee		
-base	<b>4,330,200</b>	<b>4,324,500</b>
-growth bids		<b>190,000</b>
Revenue & Capital Repairs	<b>2,414,200</b>	<b>2,332,600</b>
Management of Capital Programme	<b>405,000</b>	<b>405,000</b>
Block Cleaning Service	<b>310,700</b>	<b>276,400</b>
<b>Total</b>	<b>7,460,100</b>	<b>7,528,500</b>

**5. HRA Capital Programme**

- 5.1** The revised programme for 2011/12 and proposals for 2012/13 are shown at Appendix 6, together with a more detailed schedule of improvement and repair works at Appendix 7.
- 5.2** The revised estimates for the current year reflect changes identified in budget monitoring reports. Estimated spend in year will increase from £4,828,000 to £4,989,000 primarily due to rescheduling of works on the transformational improvements in St Pauls and the neighbourhood scheme for Hobart House.
- 5.3** The strategy in the HRA business plan seeks a balance of future expenditure on both new build and further improvements to existing stock. CBH is currently evaluating options for a new build programme and a report will be produced early next year. A project to evaluate fuel reduction proposals will also enable targeted capital expenditure plans. Both the increased level of HRA reserves and the availability of borrowing headroom will give the Council significant scope to finance these initiatives.
- 5.4** The 2012/13 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.

**6. Areas of Further Work**

- 6.1** This provisional budget is based on draft Government determinations which are subject to consultation.
- 6.2** There may also be further adjustments to support service and accommodation recharges to both CBH and the Housing Revenue Account (HRA).

## 7. Consultation process

- 7.1** The Council is proposing to consult on these budget proposals during the period to 26<sup>th</sup> January 2012. This extended period will allow the CBH to respond at their Board meeting on 25<sup>th</sup> January 2012. The results from this consultation will be fed back to the Cabinet and taken into account in the formulation of the final budget proposals.
- 7.2** As part of the interim consultation process the Cabinet's proposals will be included on the Council's web site, made available at the Municipal Offices, Area Offices and publicised through the local press. All interested parties will be encouraged to respond.
- 7.3** In preparing the consultation document it may be helpful to provide supplementary information, for instance relating to the main changes in the budget. It is therefore recommended that the Cabinet Member (Finance) be given delegated authority to approve any supplementary information for consultation.

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<b>Appendices</b>	<ol style="list-style-type: none"><li>1. Risk Assessment</li><li>2. HRA Operating Account</li><li>3. Housing Repairs Account and Major Repairs Reserve</li><li>4. Rent Restructuring</li><li>5. HRA – Rents and Charges</li><li>6. HRA Capital programme (Summary)</li><li>7. HRA Capital Programme (Detail)</li></ol>
<b>Background information</b>	<ol style="list-style-type: none"><li>1. Government determinations for HRA Self Financing published 21<sup>st</sup> November 2011</li></ol>

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 increases in rent are not fully explained to tenants (particular those who are not in receipt of full benefit) then there is a risk that + there will be an increase in tenant discontent	Jane Griffiths	December 2011	3	4	12	R	Need to explain to tenants that increases are in line with Government Policy. Need to make sure tenants are aware of benefit take-up rights. CBH have requested an additional arrears officer and already have a financial inclusion officer who will support tenants.	Mar 2012	CBH through Management Agreement	
1.02	The increase in rents and the current economic situation may result in an increase in the the level of rent arrears	Jane Griffiths	December 2011	3	4	12	R	Current economic conditions are placing additional pressures on tenants and the Government 's benefit reforms in 2013 will significantly increase this risk . CBH have requested additional resources to mitigate the impact through its financial inclusion policy	Mar 2013	CBH through management agreement	
1.03	If supporting people contracts due to end in March 2012 are not renewed this could impact on service delivery	Jane Griffiths	December 2011	2	5	10	R	An evaluation of alternative service and funding options is in progress. The draft budget currently assumes contract income of £150,000 is not replaced	Mar 2012	CBH through management agreement	
1.04	If void rent loss is higher than estimated this will impact on the budget	Jane Griffiths	December 2011	3	2	6	R	Demand for social housing remains high with significant	Mar 2013	CBH through management agreement	



								waiting list. Current void levels are low and CBH is achieving high performance on re-letting time. Quality of accommodation needs to be maintained and changes in tenancy termination rates monitored			
1.05	If the demand for reactive repairs increases this could impact on the budget and/or service delivery	Jane Griffiths	December 2011	4	3	12	R	Maintain robust stock condition data. Major peril to the stock is fire which is covered by appropriate insurance. HRA reserves are maintained at a level considered sufficient for uninsured stock damage	Mar 2013	CBH through management agreement	