

Cheltenham Borough Council

Cabinet – 7 February 2012

Council – 10 February 2012

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

Accountable member	Cabinet Member for Community Development and Finance, John Webster
Accountable officer	Director of Resources (Section 151 Officer), Mark Sheldon
Accountable scrutiny committee	Social and Community
Ward(s) affected	All
Key Decision	Yes
Executive summary	This report summarises the Housing Revenue Account (HRA) revised budget for 2011/12 and the Cabinet's final budget proposals for 2012/13 for consultation.
Recommendations	<ol style="list-style-type: none">1. Note the revised HRA budget and capital programme for 2011/12.2. Approve the 2012/13 HRA budget 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 5.3. Approve the 2012/13 management fees and charges for Cheltenham Borough Homes as detailed in Section 4.4. Approve the 2012/13 HRA capital programme at Appendix 6.
Financial implications	As contained in the report and appendices. Contact officer: Mark Sheldon. E-mail: mark.sheldon@cheltenham.gov.uk Tel no: 01242 264123

Legal implications	The Council cannot approve an HRA budget which would lead to an overall deficit on the account. 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 Background

- 1.1 The draft revenue budgets approved by Cabinet on 13th December 2011 have been amended as follows:-
- Forecast interest costs have been reduced by £112,000 to reflect updated estimates of interest rates on the additional debt for the self financing settlement
 - It has been assumed that existing supporting people contracts will be extended to 30th September 2012 whilst alternative delivery models are evaluated, giving additional income of £75,000
 - Allowance has been made for the repayment of an existing loan which is due to mature in February 2013. This will reduce the reserve balance carried forward by £1,392,000
- 1.2 It should be noted that the budget proposals are based on draft determinations from the Department for Communities and Local Government (DCLG) which will not be confirmed until late 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 previously approved for consultation the first draft of a new 30 year HRA business plan which identifies the impact of this fundamental change. A final draft of the plan is presented at agenda item 8. This forecasts significant additional resources arising from self financing and recommends the use of those funds to finance programmes of new build, further improvements to existing stock and additional support services for tenants.

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 31st 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:-

Budget Heading	Change in resources
	£'000
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
Net Reduction in Deficit	131

3. 2012/13 Budget

- 3.1 The Government published a series of draft determinations on 21st November 2011 which will enable the introduction of self financing from 1st 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
- 3.2 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.
- 3.3 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.

- 3.4 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:-

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

- 3.5 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.

- 3.6 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 £2,308,000 producing a surplus of £1,346,600 for the year.

Budget Heading	Change in resources
	£'000
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)	-1,423
Depreciation of dwellings (based on uplifted major repairs allowance)	-1,886
Supporting people funding (end of contract)	-75
Increase in CBH management fee (including growth proposals)	-184
Interest receivable (lower interest rates)	-52
Other (net)	36
Net increase	2,308

- 3.7 **Key assumptions used for the budget are:-**

- Interest payable is based on an estimated rate of 4.1% 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 has been sought from Arlingclose on the most effective debt management strategy.

- Existing supporting people contracts expire on 31st March 2012. Options for the continuation of the service are being evaluated but at present the draft budget only assumes income from the current contract to 30th September 2012.
 - The Government has announced intent to stimulate Right to Buy sales by increasing discounts available to tenants. A consultation document outlining a range of options for delivering this policy has been published but the potential impact will remain unclear until the Government confirms its favoured approach. 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.
- 3.8** 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 31st March 2012. Maintenance expenditure will then be charged direct to the HRA.
- 3.9** 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.
- 3.10** 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.
- 3.11** 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.
- 3.12** 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 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 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.

	2011/12 (Revised)	2012/13
	£	£
Management Fee	4,330,200	4,514,500
Revenue & Capital Repairs	2,414,200	2,332,600
Management of Capital Programme	405,000	405,000
Block Cleaning Service	310,700	276,400
Total	7,460,100	7,528,500

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. Consultation process

- 6.1** The draft budget proposals approved by Cabinet on 13th December 2012 have been endorsed by the Board of Cheltenham Borough Homes Ltd. No further comments have been received

7. Budget Assessment of the Section 151 Officer

- 7.1** Under Section 25 of the 2003 Local Government Act, there is a legal requirement for the Section 151 Officer to make a report to the authority when it is considering its budget, council tax and housing rents covering the robustness of estimates and adequacy of reserves. The Act requires

Councillors to have regard to the report in making decisions at the Council's budget and council tax setting meeting.

7.2 Traditionally this has been a separate report to council but, following a review by the Budget Working Group, it was recommended that a more succinct assessment be incorporated in the main budget report.

7.3 In responding to this request my assessment of the HRA budget are:

- The estimates have been prepared on the advice of professional officers; allow for inflation; are prudent and are sufficient to provide the level of services planned for 2012/13.
- The HRA Budget proposals for 2012/13 reflect the impact of the changes to Council Housing finance included in the Localism Act 2011. This scraps the existing HRA subsidy system in favour of a self financing regime. Local authorities currently paying subsidy will be required to take on additional debt to leave the subsidy system. The Council has prepared a new 30 year HRA Business Plan which forecasts substantial additional resources may arise from the move to self financing and proposes a strategy to use those funds. Although the plan relies on long term forecasts of a range of variables, these have been estimated cautiously to allow contingency for adverse variances. This plan will be subjected to robust monitoring and periodic review.
- The budget for 2012/13 shows a significant increase in surplus for the year and forecasts a balance in reserves at 31st March 2013 of £2.67m. after allowing for the repayment of an existing loan of £1.39m. This balance is well above the minimum contingency of £1.5m recommended in the business plan and represents a satisfactory position.
- The proposals for housing rent levels comply with the governments restructuring plans.

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

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 (particularly 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 to 30/09/12	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 waiting list. Current void levels are low and CBH is	Mar 2013	CBH through management agreement		

								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	