

# Cheltenham Borough Council

Cabinet – 21st December 2012

## Housing Revenue Account - Revised Budget 2012/13 and Interim Budget Proposals 2013/14 for Consultation

<b>Accountable member</b>	Cabinet Member for Finance, John Rawson
<b>Accountable officer</b>	Director of Resources (Section 151 Officer), Mark Sheldon
<b>Ward(s) affected</b>	All
<b>Key Decision</b>	Yes
<b>Executive summary</b>	This report summarises the Housing Revenue Account (HRA) revised budget for 2012/13 and the Cabinet's interim budget proposals for 2013/14 for consultation.
<b>Recommendations</b>	<ol style="list-style-type: none"><li>1. Note the revised HRA budget for 2012/13.</li><li>2. Approve the interim HRA budget proposals for 2013/14 for consultation including a proposed average rent increase of 3.43% (applied in accordance with national rent restructuring guidelines) and increases in other rents and charges as detailed at Appendix 5.</li><li>3. Approve the proposed HRA capital programme for 2013/14 as shown at Appendix 3.</li><li>4. Delegate authority to the Director of Resources, in consultation with the Cabinet Member for Finance, to determine and approve any additional material that may be needed to support the presentation of the interim budget proposals for consultation.</li><li>5. Seek consultation responses by 31st January 2013.</li></ol>

<b>Financial implications</b>	As contained in the report and appendices.  <b>Contact officer: Mark Sheldon.</b>  <b>E-mail: <a href="mailto:mark.sheldon@cheltenham.gov.uk">mark.sheldon@cheltenham.gov.uk</a></b>  <b>Tel no: 01242 264123</b>
<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: <a href="mailto:peter.lewis@tewkesbury.gov.uk">peter.lewis@tewkesbury.gov.uk</a></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 2013. 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 2013 should reflect the Cabinet's response to such comments.
- 1.2** The HRA budget proposals for 2013/14 reflect the impact of the new self financing regime for local authority housing. In February 2012 the Council approved a new 30 year HRA business plan which anticipated significant additional resources arising from the implementation of self financing. The Council also 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. CBH were requested to bring forward delivery plans to meet these objectives and those plans are described in this report.

## 2. 2012/13 Revised Budget

- 2.1** The revised budget at Appendix 2 shows an increase in surplus for the year of £61,400 compared to the original estimate. This additional surplus, together with an increase of £385,200 in the balance brought forward from 2011/12, will give revenue reserves of £3,113,000 at 31<sup>st</sup> March 2013.
- 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 interest payable - lower rate achieved on debt settlement	214
Supporting People – existing contract extended	75
Transfer from Major Repairs Reserve – confirmation of accounting practice	94
Revenue contributions to fund capital programme – additional expenditure on pv pilot scheme	-360
Other net	38
<b>Net Increase in Surplus</b>	<b>61</b>

### **3. 2013/14 Budget**

- 3.1** The financial projections included in the 30 year HRA Business Plan have been updated for known variations to date. The adjusted figures for the 3 year period to 31<sup>st</sup> March 2016 have then been further amended to reflect the investment proposals detailed in paragraph 3.3 below. It is recommended that future HRA budget preparation includes a medium term financial strategy based on a rolling 3 year period whilst also recognising the longer term impact of spending plans.
- 3.2** Government social rent policy has used the retail price index (RPI) in the preceding September plus 0.5% to uplift the formula rent for each property in the following financial year. In September 2012 RPI was 2.6% so formula rents for each property will be increased by 3.1% for 2013/14.

Rent restructuring, which will bring the actual rents of all local authority properties to their formula rent, is still timetabled to be completed by 2015/16. The application of rent restructuring guidelines in Cheltenham will result in an average rent increase of 3.43% from April 2013. The assumption that this process would continue was used by the Government in the debt settlement calculations and also in the 30 year HRA Business Plan projections.

Appendix 4 details the proposed average rent for 2013/14 with recommended charges for other services where available. Provision has been included for a 2.6% increase in garage rents both to reflect inflation and to fund an ongoing improvement programme in garage sites.

- 3.3** Estimates of service charge income assume an increase of 2.6% for grounds maintenance and 4.3% for cleaning (reflects rising fuel and materials costs). Charges for power to communal areas are still under review.

### **3.4 Investment plans**

#### **3.4.1 New Build**

Although no decision has yet been taken, the Cabinet Members for Finance and Housing and Safety are, at this stage, of the view that the preferred option for the next phase of new build schemes is CBH ownership with development being financed by a combination of developer grant, CBC capital grant and prudential borrowing through the General Fund to CBH. This approach, which would be subject to necessary Government consents and financial viability, would allow HRA resources to be concentrated on the other business plan objectives of enhancements to the existing stock and improved services to tenants.

#### **3.4.2 Improvements to Existing Stock**

Stock investment and repair plans have been prepared that include a further £4.5m of additional spend over the period to March 2016. These will include a particular focus on delivering the action plan from the energy reduction and sustainability statement recently prepared by CBH, specifically the installation of pv panels and cost effective solutions for non-traditional stock. It is also intended to bring forward the window replacement programme. The summarised plans are shown at Appendix 3 with the individual projects for 2013/14 detailed at Appendix 4.

#### **3.4.3 Enhanced Services**

CBH have requested the Council to consider a new approach to service development. This would be initiated by the transfer of £1m to the company for investment in four discrete areas over the next three years. This would enable CBH to plan with more certainty and speed up the delivery of service improvements without recourse to the Council for further approval and funding.

It is proposed that service development is focussed on the following areas:-

Welfare Reform (£400,000)  
Enhanced services to vulnerable people (£300,000)  
Partnerships and Communities (£200,000)  
Enabling new business (£100,000)

Detailed proposals for expenditure in 2013/14 are being developed and will be brought to Cabinet in February 2013 but the areas to be covered by each investment stream are described below:-

### **(1) Welfare Reform**

The introduction of Welfare Reform over the forthcoming months will see a dramatic change in the way in which benefits are paid to tenants.

CBH propose to engage more staff, both in supportive advice and arrears collection roles. Staff will be fully trained and have the capability to offer advice and assistance using up to date technology. The company will also consider funding of external partners such as voluntary organisations who can deliver bespoke and specialist debt advice. By working effectively with partner organisations we will ensure that tenants are supported to maintain their tenancy and thereby minimise the demand on social housing stock. This will include work to address fuel poverty.

CBH will also deliver a marketing campaign that will enable tenants to access services and advice across the town.

An enhanced scheme to assist tenants to move to smaller accommodation is already in place and further profiling work will be undertaken to identify those tenants who will be affected by the reforms.

### **(2) Enhanced services to vulnerable people**

It is essential to develop support services that meet the needs of vulnerable tenants to ensure they enjoy a good quality of life and obtain skills to maintain their tenancies.

Enhanced services may include proposals such as a hub based service delivery approach to enable older people and tenants with a disability to access services and activities locally which will improve health, well-being and reduce social isolation.

Additional resources will enable further support to be offered to children, individuals and families and for the development of projects to reduce hardship.

### **(3) Partnerships and Communities**

CBH has developed a strong track record in working in partnership with the council, voluntary and statutory organisations to deliver services and projects which benefit tenants and the wider communities. If appropriate resources are in place, CBH can work in partnership with a range of organisations with capacity, knowledge and expertise to improve outcomes in the communities across Cheltenham. This will be particularly relevant in the St Peters/The Moors following the recent award of Big Lottery funding for the area.

Additional resources will help to expand the CBH employment and apprenticeship service and develop services for young people and family support projects.

### **(4) Enabling new business**

There have been ongoing discussions between the Council and CBH about the possibility of extending the functions delegated to CBH to include the management of other housing related services. These resources would provide a contingency to fund such a transfer of service.

- 3.4.4 It is recommended that an annual report on these service development areas is prepared to identify progress, any necessary changes to delivery plans and further opportunities for investment.
- 3.5 Other key assumptions used for the draft budget for 2013/14 are:-
- Revised supporting people contracts will be negotiated with Gloucestershire County Council (GCC) from April 2013. Income is based on the initial proposals recently submitted to GCC.
  - The Government stimulus for Right to Buy sales has not yet substantially increased completions. Stock estimates used in the projections assume 10 sales per annum.

The projections for 2014/15 and 2015/16 are based on a retail price index at 2.5%.

- 3.6 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. Movements on that reserve are shown at Appendix 3.
- 3.7 Significant changes to the HRA in 2013/14 as compared to the revised estimates for 2012/13 are itemised in the table below. There is a forecast deficit of £264,300 for the year which leaves revenue reserves at £2,848,700 at 31<sup>st</sup> March 2014.

Budget Heading	Change in resources
	£'000
CBH service enhancements (3 year investment)	1,000
Revenue contributions to capital – increased capital investment	854
Increase in base CBH management fee	184
Increase in bad debt provision – impact of welfare reform	95
Increase in repairs and maintenance arising from inflation	58
Depreciation of dwellings	126
Increase in rents	-631
Reduction in Interest payable (follows debt repayment)	-53
Other (net)	39
<b>Net reduction in surplus</b>	<b>1,672</b>

#### 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 2013/14.
- 4.2 CBH draft budgets for 2013/14 show a breakeven position on CBC services. The HRA management fee represents an increase of 4% over the current year reflecting provision for a 1% pay award and the impact of significant investment in ICT and accommodation. The additional charge of £50,000 for management of the capital programme will allow sufficient resources for the delivery of the significant increase in expenditure. The overall cost of repairs and maintenance has increased by 2% incorporating estimates of demand for materials. The cost of delivering the estate cleaning contract has risen by £17,100 to recognise an anticipated increase in waste disposal costs.
- 4.3 During a period of service expansion CBH have emphasised the need to continue to demonstrate value for money, requiring full business cases to be prepared for each new initiative. They will seek corporate economies of scale as the level of activity increases.

4.4 The fee submission for the main areas of activity is shown below and compared with 2012/13.

	2012/13	2013/14
	£	£
Management Fee	4,514,500	4,698,400
Revenue & Capital Repairs	3,447,500	3,519,500
Management of Capital Programme	405,000	455,000
Block Cleaning Service	276,400	293,500

## 6. Areas of Further Work

6.1 This provisional budget is based on information held to date. There may be further adjustments to support service and accommodation recharges to both CBH and the Housing Revenue Account (HRA) and work will continue to finalise service charges for tenants and leaseholders.

## 7. Consultation process

7.1 The Council is proposing to consult on these budget proposals during the period to 31<sup>st</sup> January 2013. This extended period will allow the CBH to respond at their Board meeting on 30<sup>th</sup> January 2013. 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. Consultations meetings will be held with both tenant and leaseholder representatives.

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 Director of Resources and Cabinet Member for 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. Major Repairs Reserve and HRA Capital Programme (summary)</li> <li>4. HRA Capital Programme (detail)</li> <li>5. HRA – Rents and Charges</li> </ol>

<b>Background information</b>	<ol style="list-style-type: none"><li data-bbox="539 159 951 192">1. HRA 30 year Business Plan</li><li data-bbox="539 226 1018 259">2. CBH Budgets and Plans 2013/14</li></ol>
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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 welfare reforms have a greater impact on tenants than anticipated and planned for, it may increase the level of debt or impact on vulnerable families	Jane Griffiths	December 2012	3	4	12	R	The HRA budget includes specific resources to address welfare reform	Mar 2016	CBH through management agreement	
1.02	If supporting people contracts are not renewed it will impact on the tenants in sheltered accommodation	Jane Griffiths	December 2012	2	3	6	R	An evaluation of alternative service and funding options is in progress. The draft budget currently assumes contract income of £130,000	Sept 2013	CBH through management agreement	
1.03	If void rent loss is higher than estimated it will impact on assumed rent income in the HRA	Jane Griffiths	December 2012	3	2	6	R	Demand for social housing remains high with significant 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	Mar 2014	CBH through management agreement	
1.04	If the demand for reactive repairs increases there may be insufficient budget to meet demand	Jane Griffiths	December 2012	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 2014	CBH through management agreement	



1.05	If there is insufficient capacity to deliver the ambitious programme of building works then the programme may not be deliverable	Jane Griffiths	December 2012	2	3	6	R	The HRA budget includes specific resources to address capital programme works	Mar 2016	CBH through management agreement	
1.06	If the £1m. investment in services is not planned to maximise the use of collective partnership resources there is a risk of duplication and lack of value for money	Jane Griffiths	December 2012	3	3	9	R	Officers from CBC will be working with CBH to ensure that there is a co-ordinated development of expenditure plans	Mar 2016	CBH through management agreement	