

Cheltenham Borough Council

Cabinet – 5th February 2013

Council – 8th February 2013

Housing Revenue Account - Revised Budget 2012/13 and Final Budget Proposals 2013/14

Accountable member	Cabinet Member for Finance, John Rawson
Accountable officer	Director of Resources (Section 151 Officer), Mark Sheldon
Ward(s) affected	All
Key Decision	Yes
Executive summary	This report summarises the Housing Revenue Account (HRA) revised budget for 2012/13 and the Cabinet's final budget proposals for 2013/14.
Recommendations	<ol style="list-style-type: none">1. Note the revised HRA budget and capital programme for 2012/13.2. Approve the HRA budget for 2013/14 as shown at Appendix 2 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 5.3. Approve the HRA capital programme for 2013/14 as shown at Appendices 3 and 4.4. Approve the 2013/14 management fees and charges for Cheltenham Borough Homes as detailed in Section 4.

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 a reserve deficit. 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 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 draft revenue budgets approved by Cabinet on 21st December 2012 have been updated as follows:-

- Management costs have been increased by £30,000 to support the continuation of the Inspiring Families Project.
- Estimates of service charge income have been increased by £8,500 following the finalisation of charges for next year.

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 was 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 31st March 2013.

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

Budget Heading	Change in resources
	£'000
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	-360

on pv pilot scheme	
Other net	38
Net Increase in Surplus	61

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 31st 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 are based on an increase of 2.6% for grounds maintenance and 4.3% for cleaning (reflects rising fuel and materials costs). There will be no unit price increase for power to communal areas following the procurement of a fixed tariff for 3 years. Similarly a fixed tariff gas contract allows charges for communal heating schemes to be held at 2012/13 prices. The charges for the underfloor heating scheme at Cumming Court will rise by 7.5% to reflect current usage.

3.4 Investment plans

3.4.1 New Build

The Cabinet Members for Finance and Housing and Safety are initially 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. However, no definite decision has been made and legal advice is being sought before it can be.

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 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 each area are shown below:-

(1) Welfare Reform

In March 2012, the Welfare Reform Act received Royal Assent and introduced sweeping changes to the benefits system. The intention of the Act is to incentivise people to work and take responsibility for managing and paying their living costs.

This will be achieved by:-

- cutting the amount of welfare benefits that are currently claimable by some households who under occupy their rented accommodation
- cutting the amount of welfare benefits that is claimable for large families
- under the Universal Credit regime, all welfare benefits will be paid directly to the claimant(s), and this includes any associated housing costs.

The Council has 4,500 tenancies, of which 75% of households (2011/12 figures) claim either full or partial housing benefit. Whilst the Welfare Reforms are to have a staggered roll out from April 2013 to 2017, it is expected by all social landlords that there will be a significant negative impact on the ability to successfully collect rent and therefore a substantial increase in rent arrears. CBH has been working at a national, county and local level to minimise the associated risks.

Resources

Extra resources will be required to ensure collection of existing and new rent arrears and to manage increased complex casework. Additional advice and assistance for more vulnerable tenants will also be needed as will increased presence on estates, with staff and other services being more accessible. There may also be additional resource implications from widening the availability of payment opportunities and increasing customer profiling intelligence data to target resources most effectively. This approach will be combined with a commissioning and support role to the third sector which should increase their ability to support the whole community.

Whilst a considerable amount of work has been undertaken to prepare for the likely consequences of welfare reform on Cheltenham's most vulnerable communities and neighbourhoods, it is essential that some flexibility is built into these additional resource proposals, in order to react quickly in a customer focused manner as these changes unfold.

Raising Awareness of Welfare Reform Implications

This initiative has already begun and will be accelerated throughout the year

CBH is planning a range of responses including: -

- Improving take up of basic bank accounts
- Training and briefings for all CBH / CBC staff and the voluntary and community sector

- External assistance with marketing
- Newspaper and radio adverts and news articles
- Website information
- Leaflets and other written literature
- Presentational material at area offices

By the nature of some of this work, it will reach non CBC tenants which will add further value to the campaign.

Information Technology

There is an increasing need for staff to access both the Homeseeker Website to assist those looking to move due to their financial constraints, as well as tenants' personal accounts and useful websites. Staff will need portable real time access to the internet to assist tenants using tablets or handheld devices. It will also be essential to ensure that CBC tenants are not digitally excluded and have access to PCs for claiming benefits and online support etc

Payment Methods – Review and Implementation

CBH will be researching additional ways in which tenants can pay their rent. This may include the ability to pay at local shops which could reduce the anticipated increased footfall at area office locations. It is also planned to assess the impact and, if possible, implement daily direct debit runs to give greater flexibility to tenants and maximise take up of the scheme. Currently dates are restricted to 3 times a month.

Priority Transfer Scheme

This scheme enables tenants who wish to move to smaller and a more suitable size of accommodation to apply to CBH for financial assistance. The grant includes provision to pay for the move itself and assist with disconnection and reconnection fees.

(2) Enhanced services to vulnerable people

In order to develop services to meet the needs of vulnerable people to increase quality of life, reduce isolation and obtain skills to maintain their tenancies, a number of community initiatives will be expanded or established. In 2013/14 these will include:-

Expansion of Community Hubs for Older People

- Following the success of the pilot hub in Hatherley and working in partnerships with health and social care providers, firm costings can be identified for operating this model. It is proposed to establish four additional community hubs based in existing sheltered housing schemes to include outreach to older people in the wider community.
- Appointment of an activity coordinator to facilitate the delivery of services - including outreach and volunteering opportunities and activities in the community hubs.

Establishment of Community Hubs for People with a Disability

- Following consultation with the Disability Community Forum a desire has been identified for specific tailored hub provision for this client group.
- Appointment of an activity coordinator to facilitate the delivery of services, including volunteering and outreach opportunities and activities in the community.
- Ensuring on going sustainability of the above hubs by improving access for older and disabled people by supporting and encouraging use of existing community transport providers.

Other suitable partnership third sector pump priming / “commissioning” opportunities which may arise, to be agreed with CBC and the community.

(3) Partnerships and Communities

A key strand of the wider preparation for welfare reform will be to develop the work and IT skills of tenants to prepare for job applications. CBH will give non-cash added value and support to the successful St Peters and The Moors Big Local Lottery project bid. It is also proposed to work in partnership with borough and county council, voluntary and statutory organisations to deliver services and projects which benefit tenants and improve outcomes in the communities across Cheltenham.

In 2013/14 it is proposed that these will include:-

Delivery of Services and Projects for Young People

- Development of a medium to long term vulnerable youth engagement and development strategy.
- Delivery of community sport, arts, leisure, musical and other such projects with the voluntary sector to increase young people’s engagement, skills and aspirations.
- Development of a youth café in St Paul’s to support the ongoing regeneration of the neighbourhood and ensure that young people have access to excellent local services, activities and facilities.
- Support the ongoing delivery of the Aston Project (established by Gloucestershire Police). The project works with young people involved in crime and ASB and provides a range of positive activities and support.

Expansion of Employment Services to Tenants and their Families

- Research into alternative training and employment models.
- Appointment of an additional Employment Initiatives Officer to meet increasing demand for individual employment support and to facilitate the expansion in work clubs.
- Establishment of a training hub to deliver formal (accredited) and informal learning opportunities.
- Appointment of three additional CBH apprentices to provide opportunity to develop a career within CBH and obtain an educational qualification.

(4) Enabling new business

There are 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 There is continuing dialogue between Council officers and CBH to ensure a co-ordinated approach to service development and this will be extended to third sector partners. It is recommended that an annual report on these service development areas is prepared to identify progress, report any necessary changes to delivery plans and highlight 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 31st 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 general management – CBC administration	66
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)	-5
Net reduction in surplus	1,694

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 2013/14.
- 4.2** CBH 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 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. A schedule of recent VfM efficiencies has been supplied to CBC by the company to evidence their achievements.
- 4.4** The fee submission for the main areas of activity is shown below and compared with 2012/13.

	Revised Estimate	Budget
	2012/13	2013/14
	£	£
Management Fee	4,514,500	4,698,400
Revenue & Capital Repairs (see note below)	3,727,600	3,806,100
Management of Capital Programme	405,000	455,000
Block Cleaning Service	276,400	293,600

Note

The volume of maintenance sub-contract expenditure passed through CBH (rather than paid direct by the Council) has increased following agreed process changes in April 2012. This has had no impact on the overall HRA budget for maintenance of the stock which shows an increase of 1.5% for 2013/14).

5. Consultation process

- 5.1** The consultation period on the draft budget proposals ends on 31st January 2013 and details of any responses received will be tabled at the Cabinet meeting on 5th February 2013.

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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. HRA – Rents and Charges
Background information	<ol style="list-style-type: none">1. HRA 30 year Business Plan2. CBH Budgets and Plans 2013/14

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	