Central Bedfordshire Council

EXECUTIVE 9 February 2016

Budget for the Housing Revenue Account (Landlord Business Plan)

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This report relates to a non-Key Decision

Purpose of this report

1. The report sets out the financial position of the Housing Revenue Account (HRA) and the Budget for 2016/17. There are proposals relating to recent legislative changes, the debt strategy, investment potential and rent reduction.

RECOMMENDATIONS

The Executive is asked to recommend to Council to approve the HRA budget proposals for 2016/17, as follows:

1. **note the recent legislative changes relating to Housing Finance and their impact on the Landlord Business Plan;**

2. **note the HRA's debt portfolio and interest payments due in 2015/16;**

3. **note the intention to commence principal debt repayments from 2017/18, as approved previously by Council in February 2015;**

4. **approve the Landlord Business Investment Plan, which proposes HRA investment throughout the Council area;**

5. **approve the HRA Revenue Budget for 2016/17 and the Landlord Business Plan summary at Appendix A and B;**

6. **approve the 2016/17 to 2019/20 HRA Capital Programme at Appendix C; and**

7. **approve the average rent decrease of 1% for 2016/17 in line with the national rental decrease as per Government legislation.**

Overview and Scrutiny Comments/Recommendations

2. Overview and Scrutiny Committees considered the budget proposals in their January/February 2016 cycle of meetings. Comments are included in Appendix A of the General Fund Revenue Medium Term Financial Plan.

Executive Summary

3. For the first time since Self Financing was introduced the Government has intervened radically in the financing of stock retained Authorities' HRAs. Previous guidance, published in 2014, stipulated increases to rents of inflation, measured by the Consumer Prices Index (CPI), plus 1% for a 10 year period. In order to reduce the spend on welfare (Housing Benefits), there are proposals in the Welfare Reform and Work Bill for social rents to reduce by 1% for each of the next 4 years.

4. It has been estimated that the rent reductions will result in a reduction of income of £12.7M over 4 years, and £219M over the 30 year Business Plan, compared to the previously approved Landlord Business Plan. Under separate proposals within the Housing and Planning Bill, from next year Local Authorities will also be required to transfer funds to Government, calculated on the basis that they will sell their high value void properties as they become vacant.

5. These challenges have led to a fundamental review of the Landlord Business Plan. Assumptions from the previous Medium Term Financial Plan (MTFP), concerning debt interest rates and inflation on revenue expenditure, have been refreshed to better reflect current economic indicators. Revenue efficiencies of £0.853M for 2016/17 have been identified to mitigate the effect of reduced rental income, and Reserves have been maintained to address potential demands from Central Government in relation to the sale of high value voids.

6. The Council is using the HRA to build and manage homes. It has a programme for new build homes that will address demographic pressures by significant investment in Independent Living schemes. As part of a strategic and balanced approach, there is also a commitment to repayment of the Self Financing debt of £165M. To date there have been no principal repayments, but since 2014 it has been envisaged that debt repayment would commence from 2017/18.

7. It is proposed to maintain this approach by repaying £9.73M over the 4 years between 2017/18 and 2020/21, with the entire debt being repaid within the 30 year Business Plan period. In adopting this strategy the Council would reduce the risk from refinancing at a potentially higher rate of interest than it is currently benefiting from.

8. The Landlord Business Investment Plan has been revised, to take account of the reduced funding available, in partnership with the Tenant Investment Panel. Central to the Investment Plan is a commitment to stock protection as a first priority, to ensure that the existing stock continues to be maintained and modernised so that it remains fit for purpose, delivering safe, good quality accommodation.

9. The recent Sheltered Housing Review has identified a number of schemes that need to be modernised, or entirely renewed, and tenants are committed to delivering the outcomes from the review. Following consultation with tenants a number of capital programmes have been identified to enhance the existing stock and estates, with a value of £16.6M over 6 years. This represents additional funding above that required to maintain the stock in good condition, estimated at £37.1M.

10. Many regeneration schemes, including the garage site redevelopment strategy, have been identified. Against the background of the reduced surpluses available, innovative delivery approaches are being considered, for example bringing forward garage schemes to a point of planning consent and generating income from sale to a developer. It is proposed to focus surpluses and existing Reserves on providing fit for purpose, Independent Living solutions for older people, to address demographic pressures and enable efficiencies to Social Care budgets.

11. Assumptions concerning the tenure of new build developments have been reviewed. By significantly increasing the number of units for shared ownership and outright sale the Council can recycle capital investment and deliver more new build. If this approach is adopted it will enable the Houghton Regis Central project (estimated at £32M), incorporating circa 170 apartments for older people, retail facilities, a Community Hub and Heritage Centre. It will also be possible to regenerate the Crescent Court Sheltered Housing scheme.

Budget Objectives

12. The primary objectives of the 2016/17 Budget have been:

    i. reflect the financial implications of the rent reduction and make provision through Reserve balances for the impact of a prospective void sale levy from Government;

ii. review long term assumptions concerning inflation on rental income and revenue expenditures, setting these at the estimated CPI+1% from year 5 of the Business Plan, and debt interest rates, setting these at 3.5% from year 6 (based on the latest longer term forecasts);

iii. taking into account the items above, produce a sustainable plan which enables the Housing Service to achieve the objectives within the Housing Asset Management Strategy (HAMS), maintaining investment in the existing stock, yet expanding the new build programme and promoting regeneration;

iv. maintain a realistic level of expenditure on management services including tenancy support to vulnerable people within our community;

v. maintain HRA Balances at £2.0M, with a further contingency of £0.2M in the Major Repairs Reserve (MRR), this additional contingency being immediately available to address one off emergencies such as the provision of temporary accommodation and repairs required in the event of fire or other major incident; and

vi. a continuing commitment to a value for money approach, underpinned by strong performance, delivered by reduced unit costs, increased income and enhanced business efficiency.

13. The Budget is based upon a range of economic, financial, operational and external assumptions that are presented separately in Appendix D.

Introduction

14. The HRA Budget balances priorities to maintain the existing assets with opportunities for new investment. A similar balance is sought between the Council's strategic priorities, as well as tenant aspirations for improvement. In developing a HRA Budget, the aim is to achieve "win, win'' (benefits optimisation) solutions that have tenant support and are aligned to the Council's strategic priorities.

15. The HRA Budget for 2016/17 sits within the context of the thirty year Business Plan and so strikes a balance between current and future expenditure and income. The Business Plan includes annual budgets for the HRA Capital and Revenue programmes, incorporating management and maintenance costs and sums set aside for capital investment, both in the existing stock and new build. The capital programme is financed from revenue contributions, Reserves, and capital receipts retained after housing pooling. An explanation of the pooling system is given under External Assumptions in Appendix D.

16. The brought forward balance of unapplied Capital Receipts was £3.451M as at 1 April 2015. The brought forward balances for other HRA reserves was £20.556M as at 1 April 2015, split between contingencies of £2.2M, an Independent Living Development Reserve of £11.962M and a Strategic Reserve of £6.394M.

17. By not repaying principal debt in the first 4 years following the self-financing settlement (2012), the Council has been able to use annual surpluses to build substantial reserves, which leave it in a better position to address challenges posed by the recent legislative changes. It has also been able to embark upon a major investment strategy that addresses the aspirations of existing tenants whilst expanding our offer to other residents across the whole of Central Bedfordshire.

Self Financing Loan Portfolio and Debt Strategy

18. **Table 1** below shows the constituent loans and interest rates applicable in 2015/16:

Loan Type	Amount £M	Maturity Date	Rate %	Annual interest payment £M
Fixed	20.000	2024	2.70	0.540
Fixed	20.000	2026	2.92	0.584
Fixed	20.000	2028	3.08	0.616
Fixed	20.000	2030	3.21	0.642
Fixed	20.000	2032	3.30	0.660
Fixed	20.000	2034	3.37	0.674
Variable	44.995	2022	0.71 (variable)	0.318
TOTAL	164.995		2.44 (average)	4.034

19. All loans have been taken on a maturity (interest only) basis. This approach enables money to be released, for investment purposes, in the early years of the Plan, without the need for principal debt repayments. The Council has saved a significant sum in the current financial year by taking 27% of its debt portfolio on a variable basis, as that rate has been confirmed at an average of 0.71% for the year. This is considerably lower than any of the fixed rate debt.

20. The current expectation in financial markets is for rates to remain very low in the short to medium term (1 to 3 years), and for longer term debt (30 years) to be available for the Council to borrow at a rate of 3.5%. However, interest rates are difficult to predict. Due to the size of the variable proportion of the debt, relatively minor increases in rates could have a significant impact, for example a 1% increase in the variable interest rate would incur an additional £0.450M cost per year.

21. It is worth considering the risk of interest rate increases when the Council comes to refinance some or all of the £120M of fixed rate debt that matures from 2024. It is unlikely that the Council will achieve the preferential interest rates available at the time of the Self Financing settlement. The Business Plan anticipates a gradual increase in the average interest rate so that by 2021/22 the average rate is 3.5%, and that this rate continues throughout the rest of the 30 year period.

22. As a means to reinforce the longer term viability of the Landlord Business Plan, it is proposed to commence principal debt repayment in 2017/18, with an intention to make annual repayments such that by 2021 £9.73M of the self financing debt is repaid. The current prediction is for full debt repayment after 30 years, which is the year 2045/46.

23. In order to avoid early redemption penalties, debt repayments that occur in the period to 2022 would be made from the variable rate proportion (£44.995M).

Landlord Business Investment Plan

24. The Business Plan allows the Council to have flexibility as to whether it repays debt in the early years of the plan or chooses to invest its surpluses, in the existing stock or new build. The debt strategy proposed above is designed to enable full debt repayment within the 30 year horizon of the Plan, taking into account prudent estimations of interest rates, inflation on expenditure and income, and Right to Buy (RtB) sales, whilst also delivering annual surpluses for investment.

25. In taking this approach, the HRA is forecast to have sufficient funds available to undertake approximately £48M of additional investment, over and above that required to maintain the stock in good condition (circa £37M), in the next 6 years. The situation prior to the rent reduction, as reviewed in last year's Budget report, was for £65M of additional investment, so there has been a considerable scaling back of the programme due to the reduction in funds available.

26. During 2015/16 the Tenant Investment Panel (TIP) has established formal terms of reference and is gaining in confidence, engaging with tenants on the future investment potential so that their priorities are taken into account and reflected in the Investment Plan.

27. Whilst the latest stock condition survey confirmed that our stock is generally in good condition, there are areas where the stock would benefit from additional investment, modernisation, or improvement. The Sheltered Housing Review, undertaken in partnership with tenants, has revealed that several schemes are in need of modernisation. There are opportunities to improve car parking on many estates and to enhance the communal green spaces surrounding blocks. Lighting in communal areas requires updating, including the installation of Passive Infra Red (PIR) sensors to save energy.

28. The Investment Plan is a 6 year budget projection for the HRA Capital programme, formed following consultation with the TIP. It was established as part of the budget build process last year to support a co-ordinated and balanced approach to capital investment. This has led to an increase in the number of individual projects within the HRA Capital programme so that a full spectrum of objectives can be addressed, to enhance and expand existing stock.

29. Additional investment in the existing stock has been taking place during 2015/16. It is forecast that £0.7M will be spent on communal/PIR lighting, £0.2M on Sheltered Housing refurbishment, £0.1M on design and planning at Croft Green, £0.125M on parking schemes, £0.060M on green space improvements, and £0.070M on projects identified by the TIP. A further £0.105M is forecast to be spent on targeted door replacements: where doors are nearing the end of their useful life a new door is fitted for the safety and security of vulnerable tenants.

30. Construction work at Croft Green, Dunstable, is due to commence in the summer of 2016, with completion due at the end of 2017. The project will involve demolishing an outdated block of bedsit flats and replacing it with a high quality facility built to modern accommodation standards with adaptable communal spaces. 9 units will be replaced with 23 and the scheme will provide a central facility for the use of tenants of other schemes. The proposed budget is £4.015M.

31. The Sheltered Housing Review has identified a number of schemes that are in need of major regeneration. Whilst the overall resources available to the Council have reduced due to changes in Government policy, the current cash flows within the Business Plan could release an additional £10M, available in years 5 and 6 of the Investment Plan.

32. Crescent Court is a 21 unit Sheltered scheme, built in the 1960s/1970s, that is no longer fit for purpose but is based on a large plot in an excellent location in Toddington, close to local amenities and services. Initial design work suggests that a modern, well designed facility with excellent communal space and facilities could increase capacity to 46 units. It is proposed to enable the financing of the scheme by offering a proportion of units (circa 26) for sale, with 20 units for affordable rent.

33. Over the 4 years of the MTFP the proposed additional investment in existing stock amounts to £5.6M, and over 6 years it totals £16.592M. The Plan seeks to balance improvements and regeneration of existing stock with other Council objectives, in particular enhancing Central Bedfordshire by providing new homes, especially homes that will help to protect and improve the lives of more vulnerable people in the community and meet the challenges posed by demographic changes.

34. The Priory View Independent Living development in Dunstable, which is due to complete in early 2016, demonstrates the potential for HRA investment to extend the Council's portfolio of housing, mitigate the effect of Right to Buy (RtB) sales, and address the under provision of Independent Living accommodation for older people, which is both a local and national issue as a result of demographic change.

35. Proposals for a new Independent Living scheme at Houghton Regis were outlined in the HRA Budget report from last year. At the time the Investment Plan made provision for a net spend (after potential Government grant funding) of £26.050M. Given the scale of the scheme, and recent increases in construction industry costs, it is proposed to increase this allocation to £29.476M net spend.

36. Whilst the scheme was always envisaged as mixed tenure, the reduction to HRA income has meant that to realise the full extent of the development potential of circa 170 units, together with an improved retail, community hub and heritage offer, the Council will need to consider offering a high proportion of units for sale. It is proposed that approximately 50% of units at this development are offered for sale, so that a large proportion of the initial cost of the scheme can be recycled.

37. 2015/16 has been a landmark year for the Council, as it has seen the first new Council homes being built for a generation. As well as the 83 units at Priory View, the development of 4 new homes at the former garage site at Creasey Park in Dunstable is due to complete in February 2016. In addition to the £0.6M invested at Creasey Park the Council forecasts expenditure of £0.625M on the purchase of homes and development sites in the northern part of the Council area.

38. The Investment Plan formulated last year made significant provision for redevelopment of the garage blocks, and for other renewal schemes that would enable the remodelling of stock that no longer meets the needs of prospective tenants, such as bedsits, or improvements to HRA shops with flats above them. Schemes will be analysed with a view to bringing forward those that are most viable, or deliver the greatest community benefit, to a design and planning stage, with an open minded approach to delivery which could involve onward sale.

39. An amount of £2.307M has been made available for new homes over the next 4 years (£2.409M over 6 years). The majority is currently set aside for the purchase of properties in the northern part of the Council area, to mitigate the effect of increasing demand for temporary accommodation and to provide a model of accommodation based support for vulnerable people. These units could in time provide family or multiple occupancy accommodation for Council tenants. In the short term they will help to ease pressure on General Fund budgets.

Landlord Business Plan & Reserves

40. **Table 2** below shows a summary of the Plan for the period of the Council's MTFP.

£M	2016/17	2017/18	2018/19	2019/20
Income	(28.9)	(28.7)	(28.5)	(28.4)
Spending on Revenue	15.3	14.8	14.7	14.9
Direct Revenue Financing*	5.1	2.4	2.0	0.0
Debt costs (interest)	4.1	4.3	4.5	4.6
Debt repayment (principal)	0	1.4	1.6	2.9
Efficiency Savings	(0.9)	(0.3)	(0.2)	(0.1)
Contribution to ILDR**	5.2	6.0	5.8	6.0
Contribution to SR***	0.1	0.1	0.1	0.1
Net Balance	**0.0**	**0.0**	**0.0**	**0.0**

* Financing of Capital programme by Revenue
** Independent Living Development Reserve
*** Strategic Reserve

41. **Table 3** below shows a summary of the balances predicted to be available in Reserves as at 1 April 2016, together with transfers to and from Reserves over the period of the MTFP.

£M	2016/17	2017/18	2018/19	2019/20
Independent Living Development				
Balance b/fwd	6.5	11.4	8.2	4.0
Contributions to Reserve	5.2	6.0	5.8	6.0
Allocations from Reserve	(0.3)	(9.2)	(10.0)	(10.0)
Balance c/fwd	**11.4**	**8.2**	**4.0**	**0.0**
Strategic				
Balance b/fwd	7.1	5.4	3.2	3.2
Contributions to Reserve	0.2	0.1	0.1	0.1
Allocations from Reserve	(1.9)	(2.3)	(0.1)	(0.3)
Balance c/fwd	**5.4**	**3.2**	**3.2**	**3.0**
Major Repairs				
Balance c/fwd	**0.2**	**0.2**	**0.2**	**0.2**
HRA Balances				
Balance c/fwd	**2.0**	**2.0**	**2.0**	**2.0**
TOTAL c/fwd	**19.0**	**13.6**	**9.4**	**5.2**

Efficiency and Value for Money

42. The Landlord Business turnover, or annual rent debit (before void loss), was £29.370M in 2014/15. Total current and former tenant arrears were £0.926M at the year end, with current arrears at £0.5M or 1.70% of the annual rent debit. The figure of 1.70% is a 0.3% positive variance against a target of 2.0%. Former tenant arrears were £0.426M, or 1.45% of the annual rent debit, against a target of 1.0%.

43. A significant proportion of the current tenant arrears (£0.290M or 58%) was less than 8 weeks old, and generally related to minor timing issues between rents becoming due and payments being made. An increased focus has been given to former tenant arrears during 2015/16, with dedicated officer resource applied to maximise recovery of this debt.

44. Importantly, arrears will only become a cost to the HRA when they are written off, or when additional provision is made to allow for the possibility of bad debts being written off. The provision has been increased steadily since 2013/14 to allow for the potential threats posed by Welfare Reform, increasing from £0.380M to £0.514M. This provision has only been partially utilised during the last 2 years, with £0.064M written off in 2013/14 and £0.051M written off in 2014/15.

45. Housing Management teams have implemented a pro-active approach to managing rent arrears. This includes early intervention, downsizing where necessary, increased contact with residents, supporting tenants in making the right decisions regarding payment of rent and strong enforcement action when all other options have been exhausted. The position for arrears represents a significant achievement when considered in the context of the Welfare Reform measures which took effect from 1 April 2013. This reflects both the strategic approach to debt recovery described above and the commitment of staff.

46. Benchmarking analysis, undertaken on an annual basis since 2010, has provided activity-based comparisons with other providers on cost, quality and performance. This exercise has produced options for efficiency savings across the service, leading to reduced revenue cost.

47. The analysis provided by benchmarking has assisted the Service to identify the areas where budgets are higher relative to other authorities. The benchmarking work has been a tool to point to areas where the Service can look to improve. This has enabled efficiencies in staffing, reduced re-let periods, increased income and reduced repair costs.

48. The 2015/16 HRA efficiency programme is on target to deliver £0.160m of savings. A more extensive efficiency programme has been created to address reductions in rental income, incorporating £0.853M of savings in 2016/17, and further savings throughout the Plan period.

49. The majority of efficiency savings for 2016/17 (£0.598M) have been identified within the maintenance budgets, where a more proactive approach to repairs management has been instituted to enable the Council to get best value from contractors. Void repairs have been targeted for efficiencies, by ensuring the void standard is not exceeded.

50. Various projects are underway to maximise the functionality of the Housing (QL) system, delivering better tenancy sustainment and knowledge of our stock. A major element of the efficiency programme will be the modernisation programme, involving the movement towards a digital working environment, with less reliance on paper records and more capability to update systems while out of the office and on estates or with customers. In the meantime self service will be promoted to those customers who choose to interact in that way.

Rent reduction

51. Rental and service charge income are the main funding sources for the HRA. Prior to the changes announced by Government in July 2015, the Business Plan assumed that rents would rise in accordance with the previous guidance issued in 2014. That guidance sought to give Councils assurance of their future rental income by setting the rent increase at Consumer Prices Index (CPI) + 1% for a 10 year period commencing in 2015/16.

52. **Table 4** illustrates the yearly effect of a 1% reduction on rents, when compared to the previous assumption.

Rent (net of void loss)	2016-17	2017-18	2018-19	2019-20	TOTAL
	£M	£M	£M	£M	£M
3.5% increase	28.2	29.1	30.2	31.2	118.7
1% reduction	26.9	26.6	26.4	26.1	106.0
Reduction in Revenue	1.3	2.5	3.8	5.1	12.7
% Reduction in Revenue	**4.5%**	**8.7%**	**12.5%**	**16.3%**	**10.7%**

53. The Plan has been adapted to accommodate the 1% reduction in rent for each year of the MTFP. The Chancellor has announced that after the 4 years of rent reductions, the guidance will return to CPI + 1%. However, the rent reduction has led to increased caution surrounding the longer term future of rent setting so the Business Plan has taken a prudent view of future increases and assumed 2% from year 5 to 30, equivalent to CPI at 1% plus 1%.

54. The new policy continues with the concept of a “formula rent”, determined by the number of bedrooms in the property, local manual earnings, and property values, but the formula rent for 2016/17 will be 1% less than the formula rent in 2015/16, and properties currently on the lower, transitional rent will only move to the formula at relet. This approach to rent setting had already been instituted in 2015/16 as all rents increased by CPI+1%, regardless of whether a tenant was on the formula or the lower, transitional rent, and rents only change to formula at relet.

55. Approximately 37% of all the Council's tenancies are funded entirely by Housing Benefit, so this group will gain no benefit from the rent reduction. Whilst other tenants will benefit, this will lead to a widening of the gap between Council rents and those in privately rented homes, where supply has not kept pace with demand and rent increases over the next 4 years are likely. Council rents are currently approximately 55% of private sector rents, but by 2020 it is likely that the gap between private sector and Council rents will have increased further.

56. Since 2013 a provision, referred to as "Financial Inclusion", has been made in the budget to support tenants who experience hardship. This resource has been used to provide financial advice and tackle debt and money management problems. It is also used to enable individual solutions to be achieved, for example to facilitate moves that enable tenants to downsize to smaller sized accommodation. It is proposed to increase this provision by £0.396M for 2016/17.

57. Part of this increase (£0.326M) will be used to address potential pressures from the roll out of Universal Credit, which will affect a proportion of tenancies from February 2016 and involve the payment of all benefits directly to tenants. By providing extra resources, to assist tenants who are not used to budgeting, and to assist tenants with the cost of moving to more appropriate accommodation, Housing Management teams can reduce the risk of increased arrears resulting from direct payments and the removal of the spare room subsidy, thereby sustaining tenancies and freeing up homes for families.

58. The Authority has entered into an agreement with the Secretary of State to use HRA resources to make Discretionary Housing Payments (DHP) to Council tenants, where formerly these were funded from the Government Grant allocation. This assists tenants who are under occupying, but where it may not be appropriate to downsize. It is estimated that this will cost an additional £0.07M.

59. It is proposed that rents are set in line with Government legislation, a reduction of 1% for Central Bedfordshire Council tenants, for 2016/17. The proposed rent reduction will result in an average decrease per week of £1.11 from the 2015/16 average weekly rent of £110.59 to £109.48. At a time of significant investment in the Housing stock, amounting to £62M over the MTFP, the current level of rent and the proposed reduction represent excellent value for money for tenants.

Sale of High Value Void Properties

60. Government has announced the extension of RtB to Housing Association tenants. This would involve offering qualifying Housing Associations tenants a discount, which will be funded via the sale of high value void properties by stock retained Authorities. The proposal has been reaffirmed in the Housing and Planning Bill.

61. Government are currently gathering data on property values and vacancy rates from all stock retained Authorities. The legislation proposed will not force Authorities to sell their high value voids, but does make provision for Government to calculate “the market value of the authority’s interest in any high value housing that is likely to become vacant during the year” and collect this payment less allowable costs, the nature of which will be set out once a determination is made.

62. The determination must be made before the financial year to which it relates, but at this point it is impossible to know the formula that will be used or the amount that will be due from Central Bedfordshire. As with any estimation of future activity, the actual void rate and financial value of voids will differ from the calculation made by Government.

63. The Council will need to consider its strategy in relation to this legislation. Even if sufficient high value voids materialise, to enable sales income to cover the amounts that will be due, it may not necessarily be the best option to sell some or all of the properties concerned, as they may provide a better longer term return to the Business Plan than the value of the capital receipt.

64. Given this uncertain context, the Business Plan has been constructed to ensure that sufficient funds are available in Reserves to offset the risk that income from void sales will not equal or exceed the amount determined by Government as due from Central Bedfordshire Council.

Pay to Stay Proposals

65. The Government has decided that social housing tenants with household incomes above £30K (£40k in London) will be required to pay an increased level of rent for their accommodation, either up to a full market rent or at some level between their existing level of rent and the full market rent. Money raised by local authorities through increased rents will need to be returned to the Exchequer.

66. The proposals have recently formed part of a consultation process and will not be implemented before April 2017, however they are worthy of attention as the implementation will involve considerable additional administration. Whilst approximately 70% of tenancies receive an element of Housing Benefit, and therefore would be very unlikely to exceed the £30K limit, that would still leave approximately 1,500 tenancies where the Council would need to apply this policy.

67. Consideration will be needed as to the best approach to take to implement this policy. The consultation states that although local authorities will be permitted to “recover any reasonable administrative cost…we expect that the type and level of costs that can be retained will be prescribed…[and]…the additional administrative resource that is likely to be required is staff time in operating the scheme”.

68. Further guidance will follow from Government concerning implementation and the amount of administrative costs that can be claimed. It is hoped that the net financial effect would be neutral to the Council, but implementation of the policy will pose challenges.

HRA Capital Programme

69. The 2016/17 – 2019/20 HRA detailed Capital programme is attached at Appendix C. The programme is financed by capital receipts from Right to Buy (RtB) and land sales, contributions from retained rentals (revenue contributions), and contributions from Reserves. A breakdown of financing is shown in Appendix A.

Engagement with Overview & Scrutiny Committees and Tenants

70. The draft HRA budget report was presented to the Social Care, Health & Housing and Corporate Resources Overview & Scrutiny Committees during January 2016. Comments from these meetings are reported in an appendix to the General Fund budget reports. Consultation with the Tenant Investment Panel (TIP) over the Investment Plan occurred during the autumn of 2015, resulting in a number of minor alterations that reflected tenant priorities, for example increased provision for stock remodelling schemes, garage site assembly and new windows.

71. Tenant involvement in the budget process has been greater than in previous years. Tenants were keen to be informed of the legislative changes and the impact on the Investment Plan, and then to have an influence over the revisions required. The Budget and Investment Plan were presented to the Way Forward Panel, Sheltered Tenants Action Group (STAG) and TIP on 14 January 2016. Engagement feedback from these tenant groups is shown at Appendix A to the Budget 2016/17 and Medium Term Financial Plan.

Council Priorities

72. The proposed actions support the Council's priority to enhance Central Bedfordshire by managing growth effectively and balancing regeneration aims with growth, through investment to promote economic benefit, employment and renewal. At the same time, improvements are focused on enhancing the living conditions of the more vulnerable members of the community.

Corporate Implications

Legal Implications

73. The Budget sets out the resources that are required to enable the authority to discharge its statutory obligations as a Landlord Business.

Financial Implications

74. These are set out within the report. The Business Plan shows that rental income will exceed the anticipated costs of managing the stock over 30 years, which will provide annual surpluses that will create opportunities for new investment, whilst repaying debt (£165M).

Equalities Implications

75. There are no Human rights or equality implications arising directly from this report, although the re-provision and re-modelling of sheltered and general needs housing would be subject to Equalities Assessment.

Risk Management

76. In considering the budget proposals, it is necessary to take account of the associated risks and in particular the budget planning assumptions contained within Appendix D attached. Any changes to these could impact on the financial position of the HRA Business Plan.

77. Given the sudden and unexpected change in rent policy announced in the Emergency Budget of July 2015, there can be little long term certainty in terms of Government rent policy. Whilst latest guidance indicates that rent setting may return to CPI+1% from 2020, rental income in the Business Plan has been assumed to rise at 2% per year from year 5 to year 30, equivalent to CPI at 1% + 1%. Whilst this has the potential to be understated over the longer term, this cautious approach reflects current uncertainty, and will be reviewed on an annual basis along with all the assumptions in Appendix D.

78. The opening balances on Reserves, over and above the contingency of £2.2M, are predicted to be £13.6M as at 1 April 2016, with contributions from Reserves amounting to only £2.2M to fund investment in the year 2016/17. The estimated balance in Reserves, excluding contingency, as at 31 March 2017, is £16.8M. Whilst most of this amount is provisionally earmarked for the schemes proposed in the Investment Plan, it could if required be diverted to address shortfalls in amounts due to Government in relation to the sale of high value voids.

79. Another key risk is in relation to the HRA Debt Strategy. The current average rate of interest on HRA debt is 2.44%. Increases to interest rates would have an immediate effect on the variable rate loans, and could have an impact on refinancing costs for the fixed rate loans that mature from 2024. Close monitoring of financial market conditions, allied to a consideration of principal debt repayment, is required to deliver a debt strategy that will support the Landlord Business Plan.

80. There are risks that relate to income collection, arising from Welfare Reform, in particular the spare room subsidy and introduction of Universal Credit. The mitigation of the spare room subsidy is a proactive approach being taken to enable tenants to move. In the year to December, 10 new tenancies have been created through enabling Mutual Exchanges and Transfers, so that people are able to secure accommodation that they can afford to occupy in the long term. The Council is committed to being customer focussed, supporting community self reliance and providing a high quality housing management service that mitigates risk in this area.

81. The Housing Service is informing tenants of Benefit changes and allocating additional staff resources to monitoring and controlling arrears and supporting tenants to manage their income. The Landlord Business has improved performance on collection and re-letting properties. The Service is getting closer to customers, having established an approach known as “tenancy sustainment”.

82. There is a further risk that future Right to Buy (RtB) sales will reach levels that adversely affect the Business Plan, by significantly reducing income streams. The government is committed to helping those tenants with an aspiration to own their own home and, to further this aim, the discounts available under RtB were increased in April 2012.

83. The current maximum discount is £77,900, and this rises each year in line with inflation. From July 2014 the maximum percentage discount for tenants living in houses increased from 60% to 70%, to provide parity with those purchasing their own flats, and from May 2015 the qualifying period for the RtB was dropped from 5 to 3 years.

84. Whilst there has been an increase in RtB sales since April 2012, with 28 sales in 2014/15 and 31 in the financial year up to the end of December 2015, this represents a small percentage of the stock of approximately 5,100 homes. For further information, see Appendix D.

Community Safety

85. The options set out in the report provide opportunities to work with community safety partners to ensure the best outcomes.

Sustainability

86. Investment in the housing stock and specifically the proposed mixed tenure, mixed use Independent Living scheme in Houghton Regis will contribute to regeneration across Central Bedfordshire and provide wider economic benefits and employment.

Conclusion

87. It is forecast that the HRA will have a total of £15.805M in its Reserves as at 31 March 2016, comprising £6.472m in the Independent Living Development Reserve, £7.133M in the Strategic Reserve, and £2.200M of contingencies. In addition it is forecast that £3.351M will be available for capital investment from unapplied Capital Receipts.

88. The Priory View Independent Living development is due to be completed in February 2016, offering 83 affordable, modern and aspirational homes to some of the more vulnerable members of the community. Along with the development at Creasey Park, these properties represent the first Council new build in over 30 years, and a great achievement. The Council is also developing a Home Ownership offer to those interested in becoming shared owners, and will expand this to those who wish to buy outright the home built by the Council.

89. There are lessons to be learned from the building of new Council stock and it will take 3-5 years to establish a track record of delivery and, importantly, to establish a development and delivery infrastructure. This process is already well under way with a small Development Team within the Asset Management service. That team will deliver new build schemes, and also will bring forward brownfield sites potentially for sale, or development working closely with partners. The material point is that development is not constrained to what can be delivered with HRA resources. The team will bring forward schemes and seek to innovate in terms of funding and delivery on site.

90. Government legislation has been designed to facilitate a reduction in the Housing Benefits bill and extend the RtB to Housing Association tenants, the latter being funded mainly from the sale of high value void local authority properties. This has had both a quantifiable impact (in terms of the rent reduction), and an impact that is harder to assess (pending the determination related to the sale of high value voids).

91. This has been addressed by a thorough examination of both the Revenue Account and the Investment Plan. The resulting strategy balances a prudent approach to risk against the opportunities that continue to exist, thanks in part to the careful management of resources both before and after the introduction of Self Financing.

92. Careful monitoring of the impact of the legislative changes will be required and a strategy will be considered to address the challenges posed, in particular by the potential sale of high value voids. In the meantime, until more is known, it is proposed to maintain significant Reserves that could be used to develop life changing facilities and properties, such as those proposed at Houghton Regis Central. In the short term they are available to address unknown financial liabilities.

93. A balance is always to be struck between maintaining the stock in good condition, delivering new homes, regeneration projects, and making progress towards repayment of the self financing debt, so that future generations are not constrained by debt servicing costs. The current Business Plan continues the commitment to debt repayment, commencing in 2017/18 with a view to full debt repayment by 2046.

94. Consultation with tenants, in particular the TIP, has helped to shape a balanced approach, and engagement will continue to evolve, in the hope that greater numbers will wish to be aware of and influence the investment decisions. The commitment to operate as a Landlord Business across Central Bedfordshire has been reaffirmed by tenants.

95. As a modern Landlord Business, operating in the self financing era, the Council has good reason to be confident, to manage risk and deal with uncertainty. The Landlord Business is providing customers with a contemporary offer known as Independent Living. The teams are ambitious. They perform well and deliver excellent customer service. The Landlord Business will continue to pursue its central purpose, to build and manage homes, whilst seeking to innovate and to develop new areas of business opportunity, so as to mitigate the impact of rent reductions and other changes to Government Policy.

Next Steps

96. A period of public consultation commenced from January 2016.

Appendices

97. The following Appendices are attached:

i. Appendix A: 30 year forecast of Housing Service capital and revenue expenditure; and also income, which is the summary of the Landlord Business Plan

ii. Appendix B: Summary of the Business Plan for the period 2016-2022

iii. Appendix C: 2016/17 – 2019/20 Housing Revenue Account (HRA) detailed Capital programme

iv. Appendix D: HRA Budget Assumptions

Background Papers

98. The following background papers, not previously available to the public, were taken into account and are available on the Council’s website:

None