Central Bedfordshire Council
Priory House
Monks Walk
Chicksands,
Shefford SG17 5TQ

TO EACH MEMBER OF THE EXECUTIVE

06 January 2015

Dear Councillor

EXECUTIVE - Tuesday 13 January 2015

Further to the Agenda and papers for the above meeting, previously circulated, please find attached the following report that was marked as 'to follow':-

10. Draft Budget for the Housing Revenue Account (Landlord Service) Business Plan

To consider the draft Housing Revenue Account budget 2015/16.

Should you have any queries regarding the above please contact Sandra Hobbs, Committee Services Officer on Tel: 0300 300 5257.

Yours sincerely

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Central Bedfordshire Council

EXECUTIVE - 13 January 2015

DRAFT BUDGET FOR THE HOUSING REVENUE ACCOUNT (LANDLORD BUSINESS PLAN)

Report of Cllr Maurice Jones, Deputy Leader and Executive Member for Corporate Resources (maurice.jones@centralbedfordshire.gov.uk); and Cllr Carole Hegley, Executive Member for Social Care, Health and Housing (carole.hegley@centralbedfordshire.gov.uk)

Advising Officers: Julie Ogley, Director of Social Care, Health and Housing (julie.ogley@centralbedfordshire.gov.uk), Charles Warboys, Chief Finance Officer (charles.warboys@centralbedfordshire.gov.uk)

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 Draft Budget for 2015/16. There are proposals concerning the debt strategy, investment potential and rent increases.

RECOMMENDATIONS
The Executive is asked to approve the Draft HRA budget proposals for 2015/16 for consultation, as follows:

1. **note the HRA's debt portfolio and interest payments due in 2014/15;**

2. **note the intention to commence principal debt repayments from 2017/18, as approved previously by Council in February 2014;**

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

4. **approve the Draft HRA Revenue Budget for 2015/16 and the Landlord Business Plan summary at Appendix A and B;**

5. **approve the Draft 2015/16 to 2018/19 HRA Capital Programme at Appendix C; and**

6. **approve the draft average rent increase of 2.20% for 2015/16 in line with the national rental increase as per Government guidance.**

Executive Summary

2. The predicted annual surpluses can be used for debt repayment, or to invest in the stock itself. Alternatively, the focus for investment could be new build homes as part of local regeneration schemes or to respond to demographic change. The strategic intent is a balanced approach towards investment and debt repayment. In line with this, it is proposed to commence the repayment of principal debt from 2017/18, such that by 2020/21 an estimated £10m of repayment could occur.

3. Flexibility has been built into this approach, such that if interest rates were to increase, for a sustained period, resources could be diverted to repay additional debt. The Business Plan indicates full debt repayment is achievable by 2040, based on a long term approach that continues to balance debt repayment and investment, taking into consideration likely longer term interest rate increases.

4. Following consultation with tenants a number of additional capital programmes have been identified to enhance the existing stock and estates, with a value of £24m over 6 years. This represents additional funding above that required to maintain the stock in a good condition, estimated at £42m over the same period.

5. Forecasts in the Landlord Business Plan indicate that over the 6 years to 2020/21 a further £41m is available, for new build and regeneration. Proposals for the use of these funds have been developed jointly with tenants, and include the conclusion of the Priory View Independent Living scheme, provision for an additional scheme at Houghton Regis, regeneration of 10 garage sites and other renewal schemes.

6. Whilst the majority of the Council's stock of housing is concentrated in the southern part of Central Bedfordshire, there is no impediment to the Council building new homes in the northern and eastern parts of this area. It is envisaged that the Housing Service will operate as a landlord for the whole area and not just the southern area.

7. With this in mind, there is a strategic commitment to build new homes across all of Central Bedfordshire, commencing in 2015/16. Work is underway to start on site to build new homes in the Ivel Valley or West Mid Beds locality during 2015. The approach will be gradual, in light of the strategic priority to complete and implement the Sheltered Housing Review (SHR), which will require sufficient resources to be in place up to 2020 to ensure all schemes are modernised to an agreed standard.

8. The renewal of the Croft Green scheme, including provision of 23 new homes, is a model for the modernisation of other sheltered schemes. Once the SHR is complete, the Investment Plan will be re-balanced so that in the medium to longer term, the Landlord Business does operate, build homes and provide high quality services across the whole of Central Bedfordshire.

9. It is proposed to use part of the monies set aside for new build and regeneration to create a second Independent Living scheme in Houghton Regis, at a site already owned by the Council and incorporating the existing Red House Court scheme.

10. The budget proposes to increase tenants' rents by an average of 2.20%, in line with Government rent guidance, whilst also making provision of £0.200m specifically to tackle hardship and facilitate moves to smaller properties. This is the second lowest average increase over the last 12 years. When considered in the context of the proposals for enhancements, regeneration, and new housing provision this modest increase ensures that tenants will continue to benefit from great Council services at an affordable cost.

Budget Objectives

11. The primary objectives of the 2015/16 Budget have been:

i. 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;

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

iii. Provide for debt related interest costs based on a prudent estimation of interest rate charges;

iv. Maintain HRA Balances at £2.0m, with a further contingency of £0.2m in the Major Repairs Reserve (MRR);

v. A continuing commitment to a value for money approach as a means to reduce unit costs, increase income and maximise business efficiency.

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

Introduction

13. The HRA Budget balances priorities for maintaining 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 draft HRA Budget, the aim is to achieve "win, win'' (and where possible "win, win, win") solutions that have tenant support and are aligned to the Council's strategic priorities.

14. The HRA Budget for 2015/16 sits within the context of the thirty year Business Plan and so strikes a balance between current and future investment. The Business Plan includes annual budgets for the HRA Capital programme, balancing investment in the existing stock and sums set aside for new build. The Capital programme is financed from revenue contributions, use of Reserves, and capital receipts retained after housing pooling.

15. The brought forward balance of unapplied Capital Receipts was £2.346m on 1 April 2014. The brought forward balances for other HRA reserves was £20.710m at 1 April 2014, split between contingencies of £2.2m, an Independent Living Development Reserve of £12.116m and a Strategic Reserve of £6.394m.

16. By not repaying principal debt in the first 5 years following the self-financing settlement (April 2012), the Council can use its annual surpluses to build substantial reserves to support a major investment strategy that addresses the aspirations of existing tenants whilst expanding our offer to other residents across the whole area.

Self Financing Loan Portfolio and Debt Strategy

17. **Table 1** below shows the constituent loans and interest rates applicable in 2014/15:

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	0.66 (variable)	0.299
TOTAL	164.995		2.43 (average)	4.015

18. 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 0.66% for the year. This is considerably lower than any of the fixed rate debt.

19. The current expectation in financial markets is for rates to remain low in the short to medium term (1 to 3 years). 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 2% increase in the variable interest rate would incur an additional £0.900m cost per year.

20. It is worth considering the risk of increasing interest rates when the Council comes to refinance some or all of the £120m of fixed rate debt that matures from 2024 onwards. It is unlikely that the Council will achieve the preferential interest rates that were available at the time of the Self Financing settlement. The Business Plan takes a prudent view of this risk, anticipating a gradual increase in the average interest rate so that by 2023/24 an average of 5% is estimated.

21. 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 approximately £10m of the self financing debt is repaid. Even allowing for an average interest cost of 5% from 2023/24, the Business Plan currently predicts complete debt repayment after 25 years, which is the financial year 2039/40. The Business Plan is in a strong position.

22. 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

23. 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 well 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.

24. In taking this approach, the HRA is forecast to have sufficient funds available to undertake £65m of additional investment, over and above that required to maintain the stock in good condition (circa £42m), in the next 6 years. During 2014/15 a Tenant Investment Panel (TIP) was created, to engage with tenants on the future investment potential so that their priorities are taken into account.

25. Whilst a recent stock condition survey confirmed that our stock is generally in good condition, there are inevitably areas where the stock would benefit from additional investment, modernisation, or other improvements. For example, several Sheltered schemes are in need of modernisation, there are insufficient car parking spaces on many estates, and there are also opportunities to enhance the many communal green spaces surrounding tenant properties. Lighting in communal areas would benefit from updating, including the installation of Passive Infra Red (PIR) sensors to save energy.

26. The Investment Plan seeks to address the issues at Sheltered schemes, with new Capital projects identified for Sheltered Housing Refurbishment and Re-provision, and the remodelling of the Croft Green scheme. The Investment Plan also identifies specific new capital projects to deliver enhanced green spaces, communal and PIR lighting, parking scheme improvements, and targeted door replacements for vulnerable tenants.

27. In addition to these proposals, the Investment Plan incorporates an annual provision, starting at £0.100m in 2015/16, for a tenant led programme to address tenant aspirations that are either outside of the current programme, or to bring forward works planned for the future. Over the 4 years of the Medium Term Financial Plan (MTFP) the proposed additional investment in existing stock amounts to £13.432m, and over 6 years it totals £24.149m.

28. The Plan seeks to balance improvements to 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 that are predicted to occur over future years. For example, accessible homes.

29. The Priory View Independent Living development in the centre of Dunstable illustrates the potential for HRA investment to extend the HRA’s portfolio, mitigate the effect of RtB sales, and address the current under provision of Independent Living accommodation, which is both a local and national issue. The plan includes the provision of £4.125m to finance the completion of this project in 2015/16.

Mixed tenure, Independent Living scheme in Houghton Regis

30. The Council is working with Registered Providers (RPs) to enable the delivery of 420 units of affordable Independent Living accommodation by 2020, incorporating at least one scheme in each locality across Central Bedfordshire. Priory View will contribute 83 homes towards this goal, whilst Aldwyck Housing Association is delivering Greenfields in Leighton Buzzard.

31. However, it is unlikely that the remainder of the target will be achieved solely through partnerships with RPs. The Investment Plan includes £26.050m over the MTFP for the Housing Service to deliver a second Independent Living scheme in Houghton Regis. This scheme would provide homes for older people (aged over 55) including options for outright sale, rent and shared ownership.

32. This proposal is at an early stage, outlined here so that an engagement and consultation process can commence. The strategic intent is clear and therefore a substantial resource is proposed within the Draft HRA Budget to deliver a mixed tenure, mixed use scheme.

33. The site envisaged is the whole area occupied by the vacant former Co Op site, the Red House and Red House Court (RHC). The red line boundary for the whole area of the proposed site is shown in **figure 1** below, the site being central to the town centre, adjoining the Green.

34. The re-development of this site is proposed in the context of the Sheltered Housing Review. Good progress is being made with the Review, indeed the Planning application for 23 homes and community benefits at Croft Green, Dunstable received approval in December 14. The Review is an opportunity to consider the long term future of RHC, working closely with STAG (Sheltered Tenants Action Group) and residents. The Red House and also RHC are occupied and therefore the residents have been informed on a ‘first to know’ basis.

35. The former Co Op site is vacant and will return to the Council’s full control. This presents an opportunity to be creative for the whole area and to optimise what can be achieved with limited resources. By achieving a solution across both sites, the Council is able to minimise disruption for residents of RHC (and potentially avert any anxiety), through re-development on a phased basis. This approach would provide alternative accommodation of a much higher standard quite literally on the doorstep of RHC itself.

36. Alternative sites for re-provision of RHC are limited. The proposal would involve two stages, with construction initially taking place on the Co Op site, to allow the current RHC residents to move to new Independent Living apartments, with much better facilities. The re-provision of the RHC scheme would provide a much higher quality offer in terms of the quality of accommodation and the facilities available.

37. This would enable the existing building (RHC) to be demolished, to then provide homes and new facilities on the existing site, as an integrated whole site development. It should be emphasised that these proposals are at an early stage and there has been no discussion with residents or local stakeholders, to influence the initial ideas.

38. In line with the principles of the Sheltered Housing Review, the offer to older people is being expanded and greatly improved. That offer is not just accommodation and facilities. In proposing a comprehensive mixed use scheme, there is opportunity to re-configure, re-provide and improve day opportunities for older people.

39. There is an under supply of suitable, accessible homes for older people in the Houghton Regis area. Providing attractive, accessible homes for older people creates an opportunity for people to downsize, so making larger family homes available in the Houghton Regis area to meet housing need. This type of “win, win” approach is well established within the Housing Service, as the best approach to optimise value and benefits.

40. At this early stage, the principles being examined are as follows –

    1. A mixed tenure development of circa 170 homes for older people

    2. An improved retail offer, complimentary to other retailers in Houghton Regis town centre

    3. An opportunity to deliver public services in the town centre

    4. An improved local heritage offer

    5. Creation of a community hub using space flexibly, complimentary to other community space/facilities within Houghton Regis. This would include provision of day opportunities for older people.

41. The proposed development is described as ‘mixed use’. Further work is required to establish the specific uses (activities etc) that should be facilitated or contained within the proposed development. Options will be examined, once the built form, style (modern or traditional) and concept for the scale/mass of the building has been established. This will be consistent with the adopted master-plan, the Conservation area and take account of site constraints and economic viability.

42. This building will be a local landmark, to define and invigorate the town centre street scene. Therefore, a building as striking as Priory View is envisaged for this site. Whilst no thought has been given to the design and visual concept for a building, the principle of delivering high quality development is well established.

43. There is opportunity to work closely with the Houghton Regis Heritage Society, to consider how best to configure the Red House within and in relation to the overall re-development. No assumptions are made at this early stage, with regard to the options available, given that the Red House is currently occupied. Consideration will be given to ideas and options, following the appointment of an architect and discussion with the current tenants.

44. The proposal for circa 170 mixed tenure homes underpins MTFP efficiency savings, whilst also securing a significant expansion of the Council's housing stock on one site. In effect, the Housing Service is able to deliver a substantial number of new homes, efficiently, so making best use of resource to meet housing need.

45. The Council's reputation for bringing forward exciting and vibrant developments should be enhanced by the proposed development of a landmark building that will be comparable, but on a larger scale, to Priory View, in Dunstable.

46. In the context of growth proposals for land to the north of Houghton Regis, the opportunity to improve the town centre will ensure the sustainability of new development, enabling people to live in the town centre itself and to benefit from access to services, shops, local amenities and to enjoy the better offer being proposed for Houghton Regis, as much as for older people to benefit from Independent Living.

Garage sites and other opportunities to build new homes

47. The Council's stock includes 75 garage blocks. Many of these blocks are under occupied, often because the garages are too small for modern cars; also tenants prefer to park directly outside their homes.

48. The Investment Plan targets 10 of these sites for redevelopment over the MTFP, with plans to deliver 33 new homes incorporating a mixture of outright sale/shared ownership and affordable housing. The units for sale will help to recycle the monies invested in the developments, whilst the affordable housing will yield rental incomes and offset the potential impact of RtB sales.

49. Further to this programme of regeneration, the Investment Plan has made provision for an additional £1.125m to be made available for other Renewal schemes, over the period of the MTFP. Proposals that are being considered include the remodelling of stock that no longer meets the demand of prospective tenants, such as bedsits, or improvements to HRA shops with flats above them.

50. The Investment Plan can be used to enhance communities throughout Central Bedfordshire. As part of a more detailed and refined Capital programme it is proposed to identify and quantify a strategic commitment to the northern and eastern part of the Council area, such that £1.625m is allocated over the MTFP period, and a total of £2.625m is provisionally set aside for this purpose over the next 6 years. Once the Sheltered Housing Review is complete, the Investment Plan will be re-balanced so that in the medium to longer term, the Landlord Business does operate, build homes and provide high quality services across the whole of Central Bedfordshire.

51. These regeneration schemes will help to increase affordable housing supply throughout the Council area, and improve the estates currently within the HRA portfolio, thereby enhancing communities for the betterment of all residents. Over the 4 years of the MTFP the proposed investment for new build and regeneration amounts to £34.930m, and over 6 years it totals £36.718m.

52. The planned programme of investment represents a significant expansion in the type and extent of development activity. To date the increase in workload has been met by some additional internal capacity (comprised of 2 Development Managers) and the use of consultancy services. Whilst specialist advice will continue to be required for bespoke pieces of work, it is important to strengthen the Development Team so that the new homes programme is established at a level that can be sustained, delivered to a high standard and is cost effective. Indeed, there are likely to be savings achieved by increasing the internal resources within the Development Team, so as to avoid the use of technical consultancy.

53. The Investment Plan has breadth and substance. The Council has set an ambitious and challenging development programme over the next 6 years. It is proposed therefore to increase capacity within the Housing Asset Management Team, with 3 new roles proposed at a total annual cost of £0.143m.

Landlord Business Plan & Reserves

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

£M	2015/16	2016/17	2017/18	2018/19
Income	(29.6)	(30.7)	(31.7)	(32.8)
Spending on Revenue	13.8	14.5	14.5	14.3
Direct Revenue Financing*	5.3	4.9	6.3	4.0
Debt costs (interest)	4.2	4.4	4.5	4.6
Debt repayment (principal)	0	0	1.4	1.5
Efficiency Savings	(0.2)	(0.1)	(0.1)	(0.0)
Contribution to ILDR**	6.5	6.2	4.8	3.5
Contribution to SR***	0.0	0.8	0.3	4.9
Net Balance	**0.0**	**0.0**	**0.0**	**0.0**

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

55. **Table 3** below shows a summary of the balances predicted to be available in Reserves as at 1 April 2015, together with transfers to and from Reserves over the period of the MTFP.

£M	2015/16	2016/17	2017/18	2018/19
Independent Living Development				
Balance b/fwd	9.2	11.5	4.7	0.0
Contributions to Reserve	6.5	6.2	4.8	3.5
Contributions from Reserve	(4.2)	(13.0)	(9.5)	(3.5)
Balance c/fwd	**11.5**	**4.7**	**0.0**	**0.0**
Strategic				
Balance b/fwd	5.3	1.5	0.3	0.4
Contributions to Reserve	0.0	0.8	0.3	4.9
Contributions from Reserve	(3.8)	(2.0)	(0.2)	(5.3)
Balance c/fwd	**1.5**	**0.3**	**0.4**	**0.0**
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	**15.2**	**7.2**	**2.6**	**2.2**

Efficiency and Value for Money

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

57. The analysis provided by benchmarking has assisted the Housing Service to identify the areas where budgets are higher relative to other stock retained authorities. The benchmarking work has been a tool to point to areas where the Service can look to improve. This has enabled efficiencies in recent years in staffing, greatly reduced void periods, increased income and reduced repair costs.

58. The 2014/15 HRA efficiency programme is on target to deliver £0.395m of savings. A further efficiency programme has been designed, incorporating £0.160m of savings in 2015/16, with savings identified throughout the Plan.

59. Since 2011 the Council has been re-letting properties at formula rent, such that at the current time 30% of tenancies are on the formula rent. The gradual increase in properties at this rent level will augment rental income by approximately £0.025m per year. Further information on rents is given below.

60. The Housing Service undertook a full review of charging during 2013, to determine whether the current level of service charges recouped the actual cost of providing those services. The review found that in total there was a shortfall of £0.149m annually between what is charged and the cost. From 2014/15 the Council has started to close this gap, limited to a maximum increase of £1.10 per week.

61. This protection is limited to existing tenants. The true cost is charged for all new tenancies, including those who are already Council tenants but are transferring to another Council property. (The increased charge is included in the property advertisement on the Choice Based Lettings site.) It is proposed to continue this process in 2015/16, leading to additional income of £0.035m for 2015/16.

62. Further efficiency saving targets for 2015/16 include improved tenancy sustainment (£0.080m), leading to reduced void loss, and improvements in the lead time for gas servicing and the subsequent maintenance cycle (£0.030m).

Rent increase

63. Income from rents and service charges is the main revenue funding for the HRA. The Business Plan assumes that rents will rise in line with inflation. For the last 12 years the policy of rent convergence aimed to move social housing rents to a position where the rents for similar properties in the same area are the same, whether managed by a Local Authority or a Housing Association.

64. The Policy uses a formula to determine rent levels, which includes three main factors – property size, market value and local earnings – to determine the rent. Council rents, and also the rents of Aragon Housing Association (mainly the stock of the former Mid Beds District Council), are typically below the level of rent which the formula determines as the prescribed rent level in Central Bedfordshire, but under rent convergence the gap was closing.

65. Under rent convergence, rents increased by the Retail Prices Index (RPI) + 0.5% + a contribution to close the gap (where it exists) to the formula rent. This is limited to a maximum individual increase of RPI + 0.5% + £2 per week. In July 2013 the Department for Communities and Local Government (DCLG) announced that rent convergence will cease in 2015/16. Going forward, until 2024/25, all rents will increase by the Consumer Prices Index (CPI) + 1%.

66. Generally, the movement from RPI + 0.5% to CPI + 1% is not likely to result in a significant decrease or increase in rental income, as historically CPI has been approximately 0.5% below RPI. However inflation was particularly low in September 2014, the month used for the calculation, with RPI at 2.3% and CPI at only 1.2%. The switch from RPI to CPI has therefore resulted in a 0.6% lower increase to rents for 2015/16, equivalent to approximately £0.160m.

67. Approximately 70% of the Council's stock will not achieve formula rent by 2015/16, and the removal of rent convergence means this gap will not automatically reduce at the beginning of each rent year. This will have a revenue implication for the Business Plan, which is estimated to be £0.6m per annum. The value of this reduction in income will diminish over time because the Council re-lets properties to new tenants at the level of the formula rent.

68. Currently, Council rents are approximately 55% of current private sector market rents, which is affordable and within limits eligible for Housing Benefit.

69. In January 2014 the Corporate Resources Overview and Scrutiny Committee requested that further work be undertaken to consider concerns over a perception of inequity in rents, to determine whether tenants – in particular Sheltered tenants – are being asked to pay an unfair level of rent. This exercise has now been undertaken and the review is presented at Appendix E.

70. There are nearly 700 Sheltered tenancies amongst the Council's stock of housing, the majority of whom will be entitled to a state pension. Many (38%) are protected from the rent increase as they are on full Housing Benefit.

71. For those Sheltered tenants who completely self-fund (20%) or partially fund (42%) their rent, the percentage rent increase will be lower than the increase to their state pension. This takes effect at the same time (April 2015) and will be 2.5% as a result of the Government's "triple lock" policy, which guarantees to raise pensions annually either in line with wages, inflation, or 2.5%.

72. Since 2013 a provision has been made in the budget, specifically to be able 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. This provision is budgeted at £0.200m for 2015/16.

73. It is proposed that rents are set in line with the Government's recommended rent increase of 2.20% for Central Bedfordshire Council tenants, for 2015/16. The proposed rent increase will result in an average increase per week of £2.38 from the 2014/15 average weekly rent of £108.17 to £110.55.

74. The Landlord Business Plan assumes an average annual increase to rents of 3.5%, in line with historical trends for inflation. This year's proposed increase of 2.2% saves them an average of £67 per annum when compared to the assumed level of rent increase. At a time of significant investment in the Council's Housing stock, amounting to £80m over the course of the MTFP, the current level of rent and proposed increase represent excellent value for money for our tenants.

HRA Capital Programme

75. The Draft 2015/16 – 2018/19 Housing Revenue Account (HRA) detailed Capital programme is attached at Appendix C. The capital 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 this financing is shown at the bottom of Appendix A.

Engagement with Overview & Scrutiny Committees and Tenants

76. The draft HRA budget report will be presented to the Social Care, Health & Housing and Corporate Resources Overview & Scrutiny committees in January 2015. The Investment Plan was presented to the Tenant Investment Panel on 25 November 2014, for their consideration. The draft budget and Investment Plan will be presented to the Way Forward Panel, Sheltered Tenants Action Group (STAG) and Tenants Investment Panel (TIP) on 16 January 2015. Feedback from these tenant groups will appear in the final budget report, as will all comments received from stakeholders engaged with during the consultation on the Draft HRA Budget.

Council Priorities

77. 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

78. The budget sets out the resources that are required to enable the authority to discharge its statutory obligations.

Financial Implications

79. These are set out within the report. In summary, the Business Plan shows that rental income will exceed the anticipated costs of managing the stock over the 30 year period, which will provide annual surpluses that will create opportunities for new investment, whilst repaying self-financing debt (£165m).

Equalities Implications

80. 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

81. 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.

82. The main risk is in relation to the HRA Debt Strategy. The current average rate of interest on HRA debt is 2.43%. 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.

83. There are risks that relate to income collection, arising from Welfare Reform, in particular the spare room subsidy. The mitigation of those risks is a proactive approach being taken to enable tenants to move. During the current year, 58 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. It is the Council's commitment to being customer focussed, supporting community self reliance and providing a high quality housing management service that is the primary mitigation of risk in this area.

84. 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. It is apparent that the Housing Service is getting closer to customers, as a result of welfare reform and being able to resolve problems.

85. 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 Right to Buy were increased in April 2012. From July 2014 the maximum percentage discount for tenants living in houses increased from 60% to 70%.

86. This brought the maximum percentage discount for houses in line with the maximum for flats. At the same time the maximum cash discount was raised from £75,000 to £77,000, increasing annually in line with the Consumer Prices Index (CPI) from the previous September. Another proposed incentive is a reduction in the qualifying period from 5 to 3 years (subject to legislation).

87. Whilst there has been an increase in RtB sales since April 2012, with 30 sales in 2013/14 and 18 in the financial year up to the end of December 2014, this represents a small percentage of the stock of approximately 5,200 homes. For further information, see Appendix D.

Community Safety

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

Sustainability

89. 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 and next Steps

90. It is forecast that the HRA will have a total of £16.713m in its Reserves as at 31 March 2015, comprising £9.177m in the Independent Living Development Reserve, £5.336m in the Strategic Reserve, and £2.200m of contingencies. In addition it is forecast that £3.146m will be available for capital investment from unapplied Capital Receipts.

91. As a result of the flexible debt strategy, the Council has an opportunity to increase the resources available to deliver its Council wide objectives by deferring debt repayments. It is proposed to defer debt repayments until 2017/18, whilst monitoring closely all fluctuations in interest rate costs.

92. A balance is to be struck between investing in improvements to the existing stock, developing Independent Living and other new build and regeneration projects, and making progress towards repayment of the self financing debt, so that future generations are not constrained by debt servicing costs.

93. Consultation with tenants, in particular the newly created Tenant Investment Panel (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 going forward. In its first year the Tenant Investment Panel has supported in principle an ambitious programme of increased investment over the next 6 years, incorporating £65m of investment over and above that required to maintain the existing stock.

94. The Priory View development is due to be completed during 2015/16, offering 83 affordable, modern and aspirational homes to some of the more vulnerable members of the community. Provision within the budget has been made to deliver another, larger Independent Living Scheme by 2018/19. The Investment Plan will be used to benefit all wards in Central Bedfordshire and to address a range of regeneration requirements and the growing demand for affordable housing.

Appendices

95. 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 2015-2021

iii. Appendix C: 2015/16 – 2018/19 Housing Revenue Account (HRA) detailed Capital programme

iv. Appendix D: HRA Budget Assumptions

v. Appendix E: Review into the Fairness of the Rent Restructuring System

Background Papers

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

None

LANDLORD BUSINESS PLAN

Revenue Account	2015/16 £'000s	2016/17 £'000s	2017/18 £'000s	2018/19 £'000s	2019/20 £'000s	2020/21 £'000s	2021/22 £'000s	2022/23 £'000s	2023/24 £'000s	2024/25 £'000s	2025-45 £'000s	TOTAL £'000s
Income	**(29,633)**	**(30,679)**	**(31,725)**	**(32,806)**	**(33,951)**	**(35,136)**	**(36,362)**	**(37,631)**	**(38,945)**	**(40,304)**	**(1,178,764)**	**(1,525,938)**
Expenditure												
Housing Management	5,182	5,294	5,242	5,230	5,395	5,559	5,728	5,902	6,080	6,264	173,589	
Financial Inclusion	280	200	200	200	207	214	222	230	238	246	7,196	
Asset Management	1,134	1,146	1,123	1,100	1,138	1,178	1,219	1,262	1,306	1,352	39,565	
Corporate Services	1,710	1,710	1,710	1,710	1,770	1,832	1,896	1,962	2,031	2,102	61,525	
Maintenance	5,392	6,007	6,077	5,894	5,816	5,970	6,158	6,369	6,587	6,813	198,037	
Debt Related Costs	119	119	119	119	123	127	132	136	141	146	4,278	
Direct Revenue Financing	5,302	4,904	6,270	4,014	4,878	7,154	6,937	7,213	7,501	7,797	237,301	
Landlord Service Efficiency Programme	(160)	(105)	(65)	(35)	(50)	(52)	(54)	(55)	(57)	(59)	(1,738)	
Total Expenditure	**18,959**	**19,274**	**20,675**	**18,232**	**19,277**	**21,983**	**22,238**	**23,018**	**23,827**	**24,661**	**719,754**	**931,897**
Net Operating Expenditure	**(10,675)**	**(11,405)**	**(11,050)**	**(14,575)**	**(14,674)**	**(13,153)**	**(14,124)**	**(14,613)**	**(15,118)**	**(15,644)**	**(459,011)**	**(594,041)**
Interest payments	4,166	4,391	4,503	4,575	4,752	5,251	6,211	6,074	7,399	7,254	68,958	123,534
Debt Repayment	0	0	1,460	1,575	2,849	3,840	3,413	3,881	2,899	3,401	141,677	164,995
Net surplus	**(6,509)**	**(7,014)**	**(5,087)**	**(8,425)**	**(7,073)**	**(4,063)**	**(4,500)**	**(4,658)**	**(4,821)**	**(4,989)**	**(248,375)**	**(305,512)**
Memorandum												
Debt Repayment Profile												
Capital Financing Requirement (CFR) b/fwd	**164,995**	**164,995**	**164,995**	**163,535**	**161,960**	**159,111**	**155,271**	**151,858**	**147,977**	**145,078**	**141,677**	
Increase in CFR (int/ext borrowing)	0	0	0	0	0	0	0	0	0	0	0	
Reduction in CFR (principal repayment)	0	(0)	(1,460)	(1,575)	(2,849)	(3,840)	(3,413)	(3,881)	(2,899)	(3,401)	(141,677)	
CFR c/fwd	**164,995**	**164,995**	**163,535**	**161,960**	**159,111**	**155,271**	**151,858**	**147,977**	**145,078**	**141,677**	**0**	
Independent Living Development Reserve												
Balance Brought Forward	**(9,177)**	**(11,511)**	**(4,687)**	**0**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	
Contribution to Reserve (from Net Surplus)	(6,509)	(6,176)	(4,813)	(3,501)	0	0	0	0	0	0	0	(20,998)
Contribution from Reserve (to fund expenditure)	4,175	13,000	9,500	3,500	0	0	0	0	0	0	0	
Balance Carried Forward	**(11,511)**	**(4,687)**	**0**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	
Strategic Reserve												
Balance Brought Forward	**(5,336)**	**(1,468)**	**(300)**	**(400)**	**0**	**(1,624)**	**(161)**	**(3,068)**	**(6,093)**	**(9,243)**	**(12,502)**	
Contribution to Reserve (from Net Surplus)	0	(838)	(274)	(4,924)	(7,073)	(4,063)	(4,500)	(4,658)	(4,821)	(4,989)	(146,032)	(182,171)
Contribution from Reserve (to fund expenditure)	3,868	2,006	174	5,324	5,449	5,526	1,593	1,632	1,671	1,730	32,160	
Balance Carried Forward	**(1,468)**	**(300)**	**(400)**	**0**	**(1,624)**	**(161)**	**(3,068)**	**(6,093)**	**(9,243)**	**(12,502)**	**(126,374)**	
Major Repairs Reserve												
Balance Brought Forward	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	
Contribution to Reserve (from Net Surplus)	0	0	0	0	0	0	0	0	0	0	0	0
Contribution from Reserve (to fund expenditure)	0	0	0	0	0	0	0	0	0	0	0	
Balance Carried Forward	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	
HRA Balances												
Balance Brought Forward	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	
Contribution (to)/from Reserve	0	0	0	0	0	0	0	0	0	0	(102,343)	(102,343)
Balanced Carried Forward	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(104,343)**	
												(305,512)
Unapplied HRA Capital Receipts												
Unapplied Capital Receipts b/fwd	**(3,146)**	**(3,046)**	**(1,846)**	**0**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	
Contribution (to) Capital Receipts	(3,500)	(3,800)	(2,654)	(4,700)	(3,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(20,000)	
Use of Captial Receipts	3,600	5,000	4,500	4,500	3,000	1,000	1,000	1,000	1,000	1,000	20,000	
Unapplied Capital Receipts c/fwd	**(3,046)**	**(1,846)**	**0**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	
Capital Programme												
Existing HRA Programme	12,770	11,910	10,944	13,838	13,327	13,680	9,530	9,845	10,172	10,527	289,461	406,004
Independent Living Development	4,175	13,000	9,500	3,500	0	0	0	0	0	0	0	30,175
Total Capital programme	**16,945**	**24,910**	**20,444**	**17,338**	**13,327**	**13,680**	**9,530**	**9,845**	**10,172**	**10,527**	**289,461**	**436,179**
Financed by:												
Capital Receipts	3,600	5,000	4,500	4,500	3,000	1,000	1,000	1,000	1,000	1,000	20,000	45,600
Revenue Contributions	5,302	4,904	6,270	4,014	4,878	7,154	6,937	7,213	7,501	7,797	237,301	299,271
Contributions from Reserves	8,043	15,006	9,674	8,824	5,449	5,526	1,593	1,632	1,671	1,730	32,160	91,308
Total Capital programme	**16,945**	**24,910**	**20,444**	**17,338**	**13,327**	**13,680**	**9,530**	**9,845**	**10,172**	**10,527**	**289,461**	**436,179**

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LANDLORD BUSINESS PLAN

Revenue Account	2015/16 £'000s	2016/17 £'000s	2017/18 £'000s	2018/19 £'000s	2019/20 £'000s	2020/21 £'000s	TOTAL £'000s
Income	**(29,633)**	**(30,679)**	**(31,725)**	**(32,806)**	**(33,951)**	**(35,136)**	**(193,931)**
Expenditure	**18,959**	**19,274**	**20,675**	**18,232**	**19,277**	**21,983**	**118,399**
Net Operating Expenditure	**(10,675)**	**(11,405)**	**(11,050)**	**(14,575)**	**(14,674)**	**(13,153)**	**(75,531)**
Interest payments	4,166	4,391	4,503	4,575	4,752	5,251	27,638
Debt Repayment	0	0	1,460	1,575	2,849	3,840	9,724
Net surplus	**(6,509)**	**(7,014)**	**(5,087)**	**(8,425)**	**(7,073)**	**(4,063)**	**(38,170)**
Memorandum							
Independent Living Development Reserve							
Balance Brought Forward	**(9,177)**	**(11,511)**	**(4,687)**	**0**	**(0)**	**(0)**	
Contribution to Reserve (from Net Surplus)	(6,509)	(6,176)	(4,813)	(3,501)	0	0	(20,998)
Contribution from Reserve (to fund expenditure)	4,175	13,000	9,500	3,500	0	0	
Balance Carried Forward	**(11,511)**	**(4,687)**	**0**	**(0)**	**(0)**	**(0)**	
Strategic Reserve							
Balance Brought Forward	**(5,336)**	**(1,468)**	**(300)**	**(400)**	**0**	**(1,624)**	
Contribution to Reserve (from Net Surplus)	0	(838)	(274)	(4,924)	(7,073)	(4,063)	(17,172)
Contribution from Reserve (to fund expenditure)	3,868	2,006	174	5,324	5,449	5,526	
Balance Carried Forward	**(1,468)**	**(300)**	**(400)**	**0**	**(1,624)**	**(161)**	
Major Repairs Reserve							
Balance Carried Forward	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	**(200)**	
HRA Balances							
Balanced Carried Forward	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	**(2,000)**	
							(38,170)
Unapplied HRA Capital Receipts							
Unapplied Capital Receipts b/fwd	**(3,146)**	**(3,046)**	**(1,846)**	**0**	**(200)**	**(200)**	
Contribution (to) Capital Receipts	(3,500)	(3,800)	(2,654)	(4,700)	(3,000)	(1,000)	(18,654)
Use of Capital Receipts	3,600	5,000	4,500	4,500	3,000	1,000	
Unapplied Capital Receipts c/fwd	**(3,046)**	**(1,846)**	**0**	**(200)**	**(200)**	**(200)**	
Capital Programme							
Existing HRA Programme	12,770	11,910	10,944	13,838	13,327	13,680	76,469
Independent Living Development	4,175	13,000	9,500	3,500	0	0	30,175
Total Capital programme	**16,945**	**24,910**	**20,444**	**17,338**	**13,327**	**13,680**	**106,644**
Financed by:							
Capital Receipts	3,600	5,000	4,500	4,500	3,000	1,000	21,600
Revenue Contributions	5,302	4,904	6,270	4,014	4,878	7,154	32,522
Contributions from Reserves	8,043	15,006	9,674	8,824	5,449	5,526	52,522
Total Capital programme	**16,945**	**24,910**	**20,444**	**17,338**	**13,327**	**13,680**	**106,644**

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Central Bedfordshire Council

Capital Programme

Medium Term Financial Plan 2015-16

Housing Revenue Account (HRA) Capital Schemes

Stock Protection

Directorate	Scheme Title	2015/16 Capital Budget			2016/17 Capital Budget			2017/18 Capital Budget			2018/19 Capital Budget			Total Budget 2015/16 - 2018/19		
		Gross Expenditure £'000	External Funding £'000	Net Expenditure £'000	Gross Expenditure £'000	External Funding £'000	Net Expenditure £'000	Gross Expenditure £'000	External Funding £'000	Net Expenditure £'000	Gross Expenditure £'000	External Funding £'000	Net Expenditure £'000	Gross Expenditure £'000	External Funding £'000	Net Expenditure £'000
HRA	General Enhancements	105		105	111		111	120		120	130		130	466		466
HRA	Garage Refurbishment	31		31	32		32	33		33	34		34	130		130
HRA	Paths & Fences Siteworks	150		150	160		160	175		175	195		195	680		680
HRA	Estate Improvements	265		265	271		271	280		280	290		290	1106		1106
HRA	Energy Conservation	812		812	818		818	830		830	859		859	3319		3319
HRA	Roof Replacement	550		550	505		505	510		510	515		515	2080		2080
HRA	Central Heating Installation	1040		1040	1050		1050	1060		1060	1070		1070	4220		4220
HRA	Rewiring	375		375	382		382	399		399	413		413	1569		1569
HRA	Kitchens and Bathrooms	1202		1202	1231		1231	1247		1247	1371		1371	5051		5051
HRA	Central Heating communal	78		78	25		25	26		26	27		27	156		156
HRA	Door Replacement	286		286	292		292	302		302	313		313	1193		1193
HRA	Lift Replacement	50		50	52		52	54		54	56		56	212		212
HRA	Structural Repairs	259		259	265		265	168		168	174		174	866		866
HRA	Aids and Adaptations	550		550	500		500	450		450	450		450	1950		1950
HRA	Capitalised Salaries	500		500	510		510	520		520	530		530	2060		2060
HRA	Asbestos Management	360		360	370		370	290		290	300		300	1320		1320
HRA	Drainage and Water Supply	50		50	55		55	60		60	65		65	230		230
HRA	Fire Safety & Alarm Systems	100		100	102		102	104		104	106		106	412		412
HRA	Assisted Living Technology	65		65	65		65	0		0	0		0	130		130
Subtotal - Stock Protection		6828	0	6828	6796	0	6796	6628	0	6628	6898	0	6898	27150	0	27150

Future Investment

Directorate	Scheme Title	2015/16 Capital Budget			2016/17 Capital Budget			2017/18 Capital Budget			2018/19 Capital Budget			Total Budget 2015/16 - 2018/19		
		Gross Expenditure £'000	External Funding £'000	Net Expenditure £'000	Gross Expenditure £'000	External Funding £'000	Net Expenditure £'000	Gross Expenditure £'000	External Funding £'000	Net Expenditure £'000	Gross Expenditure £'000	External Funding £'000	Net Expenditure £'000	Gross Expenditure £'000	External Funding £'000	Net Expenditure £'000
HRA	Green Space Improvement	100		100	105		105	110		110	115		115	430		430
HRA	Stock Remodelling	200		200	205		205	260		260	277		277	942		942
HRA	Parking Schemes	125		125	130		130	135		135	140		140	530		530
HRA	Investment Panel Programme	100		100	103		103	106		106	110		110	419		419
HRA	Sheltered Housing Reprovision	0		0	0		0	0		0	4100		4100	4100		4100
HRA	Mixed Tenure Independent Living Scheme, Houghton Regis	50		50	15000	-2000	13000	11500	-2000	9500	3500		3500	30050	-4000	26050
HRA	Communal/PIR Lighting	700		700	700		700	0		0	0		0	1400		1400
HRA	Targeted Door Replacement	75		75	77		77	80		80	84		84	316		316
HRA	Garage Site Assembly	174		174	174		174	174		174	374		374	896		896
HRA	Creasey Park New Homes	600		600	0		0	0		0	0		0	600		600
HRA	Garage Site Development	318		318	1305		1305	2121		2121	890		890	4634		4634
HRA	Croft Green	3000		3000	1000		1000	0		0	0		0	4000		4000
HRA	Sheltered Housing Refurbishment	300		300	315		315	330		330	350		350	1295		1295
HRA	Priory View	4977	-852	4125	0		0	0		0	0		0	4977	-852	4125
HRA	New Homes, North Central Bedfordshire	125		125	500		500	500		500	500		500	1625		1625
HRA	Major Renewal Schemes	125		125	500		500	500		500	0		0	1125		1125
Subtotal - Future Investment		10969	-852	10117	20114	-2000	18114	15816	-2000	13816	10440	0	10440	57339	-4852	52487
Subtotal - Stock Protection		6828	0	6828	6796	0	6796	6628	0	6628	6898	0	6898	27150	0	27150
Grand Total		**17797**	**-852**	**16945**	**26910**	**-2000**	**24910**	**22444**	**-2000**	**20444**	**17338**	**0**	**17338**	**84489**	**-4852**	**79637**

APPENDIX D

BUDGET ASSUMPTIONS: HRA BUDGET

The budget is based upon, and includes, the following key assumptions:

Economic

i. For 2015/16, inflation of 1% on pay, inflation on supplies and services where contractually agreed, 2.20% on rental income in line with the latest Government guidance, and 2% on other income;

ii. Inflation of 1% on pay, inflation on supplies and services where contractually agreed, and 2% on other income, up until 2018/19, with 3.5% in the following years;

iii. Inflation of 3.5% on rental income for future years (forecast of the Consumer Prices Index + 1%)

iv. An average interest rate on debt of 2.52% in 2015/16, 2.66% in 2016/17, 2.73% in 2017/18 and 2.80% for 2018/19. This reflects the known average interest on fixed rate loans and forecasts for variable interest rates used in the Council's Treasury Management Strategy.

Financial

i. HRA Balances to remain at approximately £2.000m until such time as the debt is repaid, thereby reducing debt related costs rather than building up unnecessary levels of reserves;

ii. Surpluses that remain after revenue expenditure, capital expenditure, principal debt repayment and debt interest costs are to be allocated to the earmarked reserve for Extra Care Development (ECDR) and the Strategic Reserve (SR). The SR is then available to support the Business Plan, e.g. for further investment;

iii. 1.6% allowance for voids in the calculation of rental income over the Plan period. Voids performance is improving which has enabled the Housing Service to achieve an efficiency saving during 2014/15.

iv. An Efficiency Programme that is set out within the Landlord Business Plan Summary, which identifies a saving of £0.160m against the cost of the Housing Service in 2015/16, and projects year on year savings over the life of the plan; and

v. A prudent approach to treasury management with a debt profile balanced between an element of variable rate loans and fixed rate loans in accordance with the Council's Treasury Management Strategy.

Operational

i. The plans for stock investment are in line with the stock condition survey data over a 30 year period;

ii. The delivery of the priorities set out in the HAMS; and

iii. A continuing improvement in the Council's offer to tenants and leaseholders, as well as delivery of estate improvements and wider regeneration aims.

External – Changes to Right to Buy

i. Potential loss of income arising from an increased number of Right to Buy (RtB) sales will not adversely affect the Landlord Service Business Plan.

ii. New RTB discounts and proposals for re-investing the capital receipts came into effect from April 2012, with revisions in July 2014, which increase the maximum discount available to tenants from £0.034m to £0.077m.

iii. Central Government have increased the discounts in order to incentivise tenants to exercise their Right to Buy, as it is the intention to replace each property sold in this way with a new build property.

iv. The self-financing settlement was based on the average amount of RtB sales in the 4 preceding financial years, and therefore did not take into account the changes to discounts.

v. Government have altered the Housing Pooling regulations to compensate Local Authorities for this change, so that the proportion of debt attributable to those extra properties sold by RtB, as a result of the increased discount, is deducted from the sale receipt prior to the calculation of the amount to be transferred (or "pooled").

vi. The calculation of pooling also takes into account the receipts for the Council and Government as modelled into the self-financing calculations. The residual (or "surplus") receipt, after the allowance for debt attributable and receipts modelled in the self-financing settlement, is retained by the Council, under the strict condition that the Council facilitates new social housing on a one for one basis for each property sold.

vii. For the additional properties sold as a result of increased discounts there is a resultant loss of rental income, which affects the 30 year cash flows in the Business Plan. However there will also be a reduction in expenditure on each of these properties, which will vary depending upon the archetype and condition of each property.

viii. In the majority of cases, each property will add a financial value to the Business Plan so there is a loss experienced as a result of the extra RtB sales. The compensation for debt attributable to each property mitigates this loss, providing funds that can either be used for debt repayment or capital investment (with no requirement to fund one for one replacements).

ix. As at the second quarter of 2014/15 the Council has useable HRA capital receipts of £2.895m, of which £1.253m is reserved for investment in one for one replacements

x. Careful monitoring of RtB sales will be required. Current projections suggest that these will not have a material impact on the Business Plan, particularly if the number of new build properties exceeds the properties sold. However if annual RtB sales were to make up a significant percentage of the Housing Stock , such that it diminished by 10% or more over the period to 31 March 2019, then this would pose a threat to the surpluses predicted both in the medium and longer term.

xi. If a high rate of sales continued into the medium term the viability of the Council’s HRA Business Plan could be called into question as unit costs would be likely to increase.

Other

i. Future governments will not re-open the debt settlement and increase the amount payable. The Government retained the power to re-open the settlement.

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APPENDIX E

REVIEW INTO THE FAIRNESS OF RENTS AT CENTRAL BEDFORDSHIRE COUNCIL TENANCIES

Background

Prior to the rent increase in April 2014, an exercise was undertaken to compare the level of proposed rent for 2014-15 to comparable rents in the private rented sector (market rents). A briefing note was prepared that included a specific analysis of Sheltered tenant rents compared to average market rents. This analysis was presented to the meeting of the Corporate Resources Overview and Scrutiny Committee that took place in January 2014.

The Committee requested that further work be undertaken to address concerns over a perception of inequity in rents, to determine whether tenants – in particular Sheltered tenants – are being asked to pay an unfair level of rent.

Rent Restructuring

Current rent levels are entirely the result of the Council's adherence, and the legacy authority of South Bedfordshire District Council's adherence, to the Government policy of rent restructuring. Any consideration of fairness must therefore look carefully at the origins and aims of that policy.

By the end of the last century a significant gap had emerged between the rents being charged for social housing provided by Housing Associations and the rents being charged by Local Authorities. At the beginning of this century, proposals emerged for a change to the way that social rents were calculated.

The Government's policy was initially set out in the December 2000 policy statement, "Quality and Choice: A Decent Home for All - The Way Forward for Housing". This was followed in March 2001 by a publication called "Guide to Social Rent Reforms", which sets out the details underpinning the ministerial statement. This guide is available at:

www.gov.uk/government/uploads/system/uploads/attachment_data/file/7836/139187.pdf

The policy statement reiterated Ministers' objectives for social rent setting that were originally set out in the Housing Green Paper, published in April 2000. These included:

• that social rents should remain affordable in the long term;

• that social rents should be fairer and less confusing for tenants;

• that there should be a closer link between rents and the qualities which tenants value in properties; and

• that unjustifiable differences between the rents set by local authorities and by registered social landlords should be removed.

The main objectives of the new policy were to keep social rents at affordable levels without compromising the financial health of the providers of the social housing. Ministers concluded that rent setting should take the following variables into account: property values (relative to national average), local earnings (relative to national average) and the bedroom size of each property.

Property values provide a relatively simple, transparent way of reflecting the relative attractiveness of properties to tenants. Local earnings moderate the impact of property values on rent levels, ensuring that rents reflect local incomes and are affordable. Property size helps to ensure a sensible pattern of rent differentials between properties with different numbers of bedrooms.

The guide goes on to state that:

“Ministers believe that the approach which they are proposing strikes an appropriate balance between the different policy objectives and that, once fully implemented, it will provide a system of social rents that is both more coherent and fairer to tenants.”

Under rent restructuring, for each and every property an individual formula rent is calculated, using the criteria above. Each year, rents are increased on the basis of the previous year’s rent + Retail Prices Index (RPI) + 0.5%. Where properties are below the formula rent a maximum additional incremental rise of up to £2 per week is allowed, so that social rents become harmonised between Local Authorities and Housing Associations.

The government’s aim in 2002 was for social rents to be harmonised by 2012, so that tenants would be paying the formula rent for their property, which would be identical for their type of property in their area regardless of whether they were the tenant of a Housing Association or Local Authority. In reality, due to the size of the average gap between Central Bedfordshire Council tenants’ rent and the formula rent, and the £2 per week limit to the incremental rise, only 30% of the Council’s homes have achieved this level.

This means that at the current time the rent at approximately 3,600 Council properties is lower than the appropriate social rent should be for their properties according to the Government formula, and they have benefitted from this situation for 12 years. The average difference between the formula rent and the current (transitional) rent is £3.10 (48 week charging basis), equating to a saving of approximately £150 per year.

In July 2013 the Department for Communities and Local Government (DCLG) announced that rent convergence will cease in 2015/16. Going forward, until 2024/25, all rents will increase by the Consumer Prices Index (CPI) + 1%. As a result of this change, the current tenancies identified above that have not yet achieved the formula rent will no longer incur an incremental rise and will continue to pay a lower level of rent for at least 10 years.

Government guidelines advise authorities to relet properties (to non existing tenants) at the formula rent, and the Council has adopted this approach since 2011. However, where an existing tenant moves to another Council property they are charged the transitional, not formula rent. In this way existing tenants are not discouraged from moving to more appropriate accommodation (for example down sizing), whilst new tenants are aware of the rent they will be required to pay when the property is advertised.

The approach to rent setting prior to 2002

Councils and other Registered Providers were given greater freedom to set rents in the period prior to rent restructuring, resulting in a widening disparity between rent levels, to the benefit of Council tenants but the detriment of those in Housing Association properties.

The Council’s approach to rent setting involved a points system, where points were awarded dependent on the improvements that each individual property had recently received. For example, if a property received a new kitchen or bathroom it would accrue more points, and the higher the final point score the higher the rent would be.

Whilst this system attempted to be equitable to tenants, based on the relative standards of their properties, it could be argued that tenants were paying a surcharge for refurbishment work that their previous rent payments had financed. Meanwhile the improvements in question would not necessarily increase the property value, nor would earnings necessarily be rising sufficiently to enable tenants to finance the increase in rent.

Just as rents are inextricably linked to property values in the private rented sector, there is a good justification for this to form part of the calculation for rents in the social rented sector, alongside a weighting for relative earnings and property size. This provides a more balanced approach to the setting of a social rent, which together with the provision of an incremental increase, has enabled an element of harmonisation across the sector.

The previous approach still has a limited influence and impact on current rents. Properties that benefitted from a significant amount of improvement work just prior to the change in rent setting methodology would have been on a higher rent than neighbouring, identical properties that did not receive this work until after the new rent regime was introduced.

The initial calculation of their new rent in 2002 would have used their current rent as a starting point, before applying RPI + 0.5% + an increment no higher than £2. As neighbouring properties would have had a range of rents being charged at this point, minor disparities have continued since that date (until formula rents are achieved). In the majority of cases these properties are still paying less than the formula rent, but potentially more than their neighbouring properties, even though they could be in identical condition.

Affordability relative to the private rented sector

The average monthly rent for tenants is £432.60 (£99.83 per week), for the 2014-15 rent year. A comparison of Council rents to private rented market rents is shown in table 1, broken down by bedroom size.

Table 1: Comparison of average CBC rents to current average market rents (all tenancy types) (analysis undertaken Dec 13)

Bed Size	Average Monthly Rent 14-15	Advertised market rents							
		Sandy/ Bedford BRMA		Dunstable/ Luton/ Houghton Regis BRMA		Leighton Buzzard/ Milton Keynes BRMA		Arlesey/ Stevenage &North Herts. BRMA	
	Rental	Rental	%	Rental	%	Rental	%	Rental	%
1 bed	£379	£540	70	£515	74	£520	73	£465	82
2 bed	£431	£605	71	£745	58	£695	62	£590	73
3 bed	£467	£825	57	£970	48	£945	49	£700	67
4 bed	£504	£1,300	39	£1,520	33	£1,615	31	£1,025	49
Weighted Average	£433			£778					

With one exception, the Council's properties are all located within the Dunstable/ Houghton Regis/Leighton Buzzard BRMAs (Broad Rental Market Areas), so rents lie in the region of 31-74% of current market rents.

In order to fine tune this analysis, a weighted average can be used to show how Council rents compare to market rents. In this method the average takes into account the proportion of tenancies at each bedroom size, so that a realistic comparison can be made with the BRMA data above. This reveals that the average Council rent is £433, whereas a current comparable market rent is £778. In percentage terms this means that the rent paid by our tenants is 56% of the equivalent market rent.

The average monthly rent for sheltered tenants is £383.07 (£88.40 per week), for the 2014-15 rent year. A comparison of Council rents for Sheltered tenants compared to private rented market rents is shown in table 2, broken down by bedroom size.

Table 2: Comparison of sheltered rents to current average market rents (all tenancy types) (analysis undertaken Dec 13)

Bed Size	Average Monthly Rent 14-15	Advertised market rents							
		Sandy/ Bedford BRMA		Dunstable/ Luton/ Houghton Regis BRMA		Leighton Buzzard/ Milton Keynes BRMA		Arlesey/ Stevenage &North Herts. BRMA	
	Rental	**Rental**	**%**	**Rental**	**%**	**Rental**	**%**	**Rental**	**%**
1 bed	£378	£540	70	£515	73	£520	73	£465	81
2 bed	£421	£605	70	£745	57	£695	61	£590	71
Weighted Average	£383			£540					

As the Council's Sheltered schemes are all located within the Dunstable/ Houghton Regis/Leighton Buzzard BRMAs, proposed rents would lie in the region of 57-73% of current market rents.

However as the majority of Sheltered tenants (610 out of 687) occupy 1 bedroom properties a weighted average reveals that on average they are paying £383 per month compared to a market rent of £540. In percentage terms this means that the rent paid by Sheltered tenants would be 71% of the equivalent market rent.

Rents at Sheltered properties are closer to market rents largely because they are predominantly for 1 bed properties at the lower end of the rent spectrum. 1 bed properties will always attract the lowest rents, particularly in the market rented sector. It is important to note that the comparison above is between Council Sheltered and all private rented tenancy types, the majority of which will not be Sheltered. Demand for 1 bedroom non Sheltered accommodation in the private rented sector will be low, as it will be unsuitable for families.

Element of rents funded by Housing Benefit

Out of approximately 5,100 current tenancies, the rent due at 37% was funded entirely by Housing Benefit, so the calculation of the rent has no impact on their financial wellbeing. At a further 29% the rent is partially funded by Housing Benefit, so only a proportion of the rent has to be met from the tenant's income. This leaves 34% of tenants who entirely fund their rent.

Local Housing Allowance (LHA) is used to put a maximum cap on the amount of Housing Benefit payable at private rented properties. Whilst it is not currently used to restrict Housing Benefit due on Council tenancies it is worth noting that rents at each property in the Council's stock are all significantly below the Local Housing Allowance (LHA) rates for the Council's BRMAs.

Table 3: Proportion of tenancies that are funded by Housing Benefit – all tenancy types

	Total	%	1 Bed	2 Bed	3 Bed	4 Bed+
All accounts	5105		1453	1509	2004	139
Full Self Financed	1755	**34.4**	295	494	905	61
Full HB	1864	**36.5**	729	587	515	33
Partial Payers	1486	**29.1**	429	428	584	45
Full & Partial Hb	3350	**65.6**	1158	1015	1099	78

When we consider Sheltered tenancies in isolation, the proportion who are funded entirely by Housing Benefit is similar (38%) but a significantly higher proportion are on partial benefit (42%), leaving only 20% who are required to self-fund the total amount of their rent.

Table 4: Proportion of tenancies that are funded by Housing Benefit – Sheltered tenancies

Sheltered	Total	**%**	1 Bed	2 Bed	3 Bed	4 Bed+
Sheltered Accounts	676		594	82		
Full Self Financed	134	**19.8**	112	22		
Full HB	259	**38.3**	227	32		
Partial Payers	283	**41.9**	255	28	0	0
Full & Partial Hb	542	**80.2**	482	60	0	0

2015/16 Proposed increase of 2.2% - the context for Sheltered tenants

There are nearly 700 Sheltered tenancies amongst the Council's stock of housing, the majority of whom will be entitled to a state pension. Many (38%) are protected from the rent increase as they are on full Housing Benefit.

For those Sheltered tenants who completely self-fund (20%) or partially fund (42%) their rent, the percentage rent increase will be lower than the increase to their state pension. This takes effect at the same time (April 2015) and will be 2.5% as a result of the Government's "triple lock" policy, which guarantees to raise pensions annually either in line with wages, inflation, or 2.5%.

Conclusions

Overall Council rents are affordable, being on average 56% of equivalent market rents and well within Housing Benefit limits. Indeed, the majority of Council properties are provided at rent levels that are below the formula rent level and provide better value for money than do most Housing Association properties.

Whilst affordability relative to the private rented sector represents an important benchmark, individual affordability will be dependent upon individual circumstances and income. Housing Benefit is available to assist those tenants who do not have sufficient resources to fully fund their rent payments.

The rent at over a third of all tenancies is fully funded by Housing Benefit, so these tenants are unaffected by the cost of their rent. A further proportion, just under a third, receives partial assistance with their rent payments from Housing Benefit, assisting vulnerable tenants on lower incomes

The current system for calculating rents is based on a national standard endorsed by Central Government and designed to be affordable whilst allowing social landlords to generate sufficient income to maintain and improve their stock of social housing. The movement away from rent convergence from 2015/16 will ensure that the majority of tenants continue to benefit from rents below this national standard, for at least the next 10 years.

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