Meeting: **Executive**

Date: **6 December 2011**

Subject: Draft Budget report for the Housing Revenue Account (HRA) within the new Self Financing regime

Report of: **Cllr Maurice Jones, Deputy Leader and Executive Member for Corporate Resources; and Cllr Mrs Carole Hegley, Executive Member for Social Care, Health and Housing.**

Summary: The Localism Act will enact fundamental reforms, which represent the dawning of a new era in council housing finance. The Act includes provisions that allow Councils a greater degree of local autonomy and influence over the financial management of their housing asset.

Under current arrangements, local authority landlords are required to make payments to central government from the rental income they generate from council housing. The government then assesses the costs that local authority landlords are likely to require to maintain and manage their housing stock and reallocates resource on a national basis, to those councils requiring more resources.

This process of annual assessment and resource re-distribution effectively means that some Councils, such as Central Bedfordshire, are making subsidy payments to central government. However, under the new self financing regime, authorities will be required to make a one off payment to government which enables them to secure the right to independently manage and maintain council housing locally.

The new regime will be brought in from the beginning of the next financial year. This investment, which can be repaid over a thirty year period, will allow the Council to manage and improve its housing stock of more than 5,000 properties, without making future payments to government. In Central Bedfordshire, the payment required is anticipated to be in the region of £165m, which will be funded from the Public Works Loans Board, which is a main source of local authority loan finance.

The report outlines the opportunities that the self financing regime would provide, including the potential for greater investment in new accommodation and improvements to existing housing. Tenant engagement will be a key element of the planning process which will commence immediately following Executive consideration of this report.

This report sets out the proposed model for the new 30 year HRA Finance Plan, under the self financing regime. This is set in the context of HRA reform and the new freedoms available to council landlords. Looking to the future, there is more flexibility to manage the asset, and plan for investment, so as to drive an improvement agenda related to Value for Money and productivity.

Advising Officer:	Julie Ogley, Director of Social Care, Health and Housing
Contact Officer:	Charles Warboys, Chief Finance Officer; and/or Tony Keaveney, Assistant Director Housing
Public/Exempt:	No
Wards Affected:	Those in which council houses are situated, entirely in the south of Central Bedfordshire.
Function of:	Council
Key Decision	Yes
Reason for urgency/ exemption from call-in	N/A

CORPORATE IMPLICATIONS

Council Priorities:

The report relates directly to the Council's priority to manage Growth effectively, in terms of balancing regeneration and renewal, with Growth.

Financial:

1. The financial implications are generally viewed as positive. Self-financing represents a fundamental change to the way the Council's HRA is financed and potentially releases additional resources to invest in the Council's Housing stock, which include new build provision, for example Extra Care Housing. This could result in efficiency savings to the General Fund, as a result of reduced adult social care expenditure. At the same time, the Landlord Service is actively embarking on its own efficiency programme which could lead to a more rapid repayment of debt, thereby reducing interest costs, whilst delivering additional stock investment.

Legal:

2. There are no direct legal implications arising from this report.

Risk Management:

3. There are no risk management issues arising directly from this report. However, the approach to financial risk management comes to the fore in terms of the Council's Treasury Management Strategy.

Staffing (including Trades Unions):

4. There are no direct staffing implications.

Equalities/Human Rights:

5. There are no Human rights or equality implications arising directly from this report, although the re-provision and re-modelling of sheltered housing, which this report could make possible through increased investment, would be subject to Equalities Assessment in taking any specific proposals forward.

Community Safety:

6. There are no issues to consider in this report.

Sustainability:

7 There are no direct implications arising from this report.

Procurement:

8. Not Applicable.

Summary of Overview and Scrutiny Comments:

9. The proposals related to the draft HRA budget, contained within this report, will be considered by the Social Care, Health and Housing Overview and Scrutiny Committee on the 12 December 2011.

RECOMMENDATIONS:

That the Executive Committee:

(a) note that the Housing Revenue Account (HRA) will have debt of approximately £165m as a result of legislation to implement the self-financing regime for council housing finance;

(b) consider the proposal to create a reserve for the re-provision and re-modelling of sheltered housing, within the HRA Finance Plan model;

(c) consider the draft HRA Revenue Budget for 2012/13, and the Finance Plan summary at Appendix 1, which includes the Landlord Service efficiency programme being developed as part of a Value for Money Strategy;

(d) note that any feedback arising from tenant engagement and communication about the change will be reported to the Executive in February 2012; and

(e) note the provisional level of average rent increase for 2012/13.

Reason for Recommendations: *To facilitate effective financial management and planning.*

BACKGROUND

10. The Landlord Service manages 5,211 properties in the south of Central Bedfordshire, as well as 330 former Council owned leasehold properties, which are homes (flats) purchased under the right to buy scheme.

11. The Council's Housing Revenue Account (HRA) is summarised in financial terms at Appendix 1. The total amount of HRA related income and expenditure, per annum, is £25m in 2012/13. The HRA maintains a £3m Reserve Balance.
The HRA is a relatively self contained operating business, although all relevant General Fund (GF) costs, related to corporate support services, including Legal, HR, Finance and accommodation costs; are re-charged to the HRA.

12. The Housing Revenue Account subsidy system has operated in its present form since 1989. Housing Revenue Accounts are ring-fenced to ensure that rents are not used to fund non-housing activity; and that in turn General Fund revenues are not used to fund the management and maintenance of council housing.

Central Government has used a system of grant allocations and subsidies to re-distribute rental income between Local Authorities and to the Treasury. Annual determinations are calculated by determining each Landlord's expected rental income and operating costs. Housing Revenue Accounts operating with notional surplus income are required to pay negative subsidy to Central Government, and this money is distributed between landlords with operating costs (including the cost of servicing HRA debt) in excess of the rental income they can generate from their stock (i.e. they receive subsidy).

13. Under the Self Financing regime, the yearly re-distribution of resources between landlords will cease. Instead, on 28 March 2012, landlords with a Housing Revenue Account which is deemed able to generate rental income in excess of costs will pay a one-off settlement to the Treasury. The sum payable is based on the amount of debt which each HRA is deemed able to service alongside the cost of managing and maintaining the stock, and will be funded by borrowing, typically from the Public Works Loans Board (PWLB).

Landlords with costs in excess of income will receive a one-off subsidy payment which will be used to redeem Housing Revenue Account Debt, leaving a landlord business which should be able to meet its costs

14. The new system incentivises landlords to mange their assets well and yield efficiency savings. There will be greater certainty about future income, enabling councils to develop long-term plans and to retain income for re-investment. Council landlords' will have greater flexibility to manage their stock in the way that best suits local priorities. However, it should be noted that the Housing Revenue Account will remain ring-fenced under the new regime, and should operate on the principle that 'who benefits pays'.

THE SETTLEMENT DETERMINATION

15. Under Self-financing, individual landlord businesses have been valued by calculating how much the service is worth over 30 years, based on the rental income it can generate in that time and the cost during that time of managing and maintaining the stock.

16. The ebb and flow of income, as a result of projected Right to Buy sales, and of demolitions proposed up to 31 March 2015, are accounted for in the valuations. The valuation assumes that the authority collects 100% of rent owed by tenants, and that properties are void 2% of the time. Standard accounting principles have been applied to these figures, in order to arrive at a capital sum which is the present-day value of the service.

17. The valuation method uses a more generous method for calculating management, maintenance and Major Repairs costs than that used in the HRA subsidy system, and includes additional funding for Aids and Adaptations, as all adaptations to council properties are funded by the HRA. Overall funding for management and maintenance, Aids and Adaptations, and Major Repairs is 14% higher under the self-financing system.

18. Central Government are still finalising the details upon which settlements will be based. Indicative settlement determinations were published in February 2011. Draft determinations are expected in November 2011; final determinations are due in January 2012. Time is limited within the Council's budget setting process.

19. The indicative determination suggests that Central Bedfordshire Council's debt-free HRA is worth between £158 and £165 million, all of which will be payable to the Treasury on 28 March 2012. The draft Finance Plan (see Appendix 1) indicates that the HRA will, for 2012, make interest/principal payments of around £6 million on its newly acquired housing debt, in contrast to £10 million per year paid in negative subsidy under the current system.

ASSET MANAGEMENT STRATEGY

20. A stock-condition survey was completed on a 40% sample of the housing stock, between March and July 2011. The remaining stock will be surveyed during 2012. The information gathered in this survey has been used to inform the development of a 30 year Asset Management Strategy, which forecasts repairs, maintenance and capital costs. These are reflected in the HRA Finance Plan summary, attached in Appendix 1.

21. There are a number of Asset Management priorities for investment in the medium term. Central Bedfordshire Council achieved the Decent Homes Standard across its stock in 2010. The aim going forward is to maintain 100% decent homes, which involves primarily identifying those kitchens and bathrooms which will fall below the standard required within the life of the plan and budgeting to refurbish them before this happens.

22 The Council have invested considerably over recent years to improve the warmth and energy efficiency of its homes. This includes loft and cavity wall insulation to virtually all homes; as well as a programme of boiler and heating replacements. All properties have double glazing. The result of these improvements is an average SAP energy rating of 68 (Stock Condition survey 2011), which is above average for all housing in Central Bedfordshire and compares well nationally, for a similar stock profile.

23. Fuel prices have increased by around 20% in the last year and are predicted to increase further. It is therefore a high priority to examine innovative, renewable energy solutions for homes in areas with no gas supply and are looking for external funding to implement a programme of solid wall insulation (for older, solid wall homes).

24. The Finance Plan contains a 30 year programme of investment in the Council's sheltered housing stock. This investment will transform properties, typically built during the 1960's and 1970's, which increasingly are becoming hard to let.

Individual sheltered schemes have been prioritised for possible refurbishment or re-provision, depending on their current condition and fitness for purpose. Consultation has commenced at Crescent Court and Croft Green, as part of a review of Older Persons Housing in the south of Central Bedfordshire. Where re-provision is an option, the Council could examine opportunities to increase the provision of extra-care sheltered housing, where so doing would meet identified need.

25 There is a potential efficiency saving to the Council's General Fund. It is proposed to reduce the reliance on residential placements for older people by increasing the use of extra care housing, as an alternative to traditional sheltered housing. Thereby reducing cost. Draft efficiency targets have been included in the General Fund Medium Term Financial Strategy as a result.

26. It is proposed to create a specific reserve for Sheltered Housing Re-provision, which could be used to fund the capital programme in future; or alternatively, this Reserve could be used to repay debt. This will allow balances to build prior to cost being incurred.

27. However a provision of £2.75m has been made in the Finance Plan, and is included at this amount (plus inflation) in each future year. See appendix 1. A substantial reserve will materialise in the short to medium term, giving the Council flexibility in its decision making; either to repay debt or to fund the capital programme, when this reserve may be called upon to fund the re-modelling or re-provision of sheltered housing. Contributions to the reserve are shown in the Finance Plan as expenditure; whilst contributions to the capital programme are shown as a negative figure. At the same time, minimum levels of HRA reserve will be maintained to protect against unforeseen events.

INCOME

28 The policy of rent restructuring is due to continue under the self-financing regime. The aim of this policy is to achieve convergence between local authority rents and those charged by Housing Associations. The current target date for convergence to occur is April 2015.

29. The national Rent Convergence policy is distorted to some extent by the introduction of the new Affordable Rent regime, at rents of up to 80% of market rents. This new regime applies to some Housing Associations (but not to local authorities), as a means to fund new development of affordable housing. However, at this time, Council rents are typically in the range of 50% to 55% of market rents in Central Bedfordshire. Looking to the future, and on the basis of current national Policy, it is likely that council rents will remain within this range, relative to market rents, in the medium to long term.

30. The rental increase is based on the Retail Prices Index (RPI) for September, plus 0.5% and an incremental contribution to close the gap between average Local Authority rents and Housing Association rents. RPI stood at 5.6% for September, which is a 20 year high for that measure. The likely average increase for Council rents will be approximately 8%. However, the proposed increase will be set out in the Budget reports during February 2012.

31. The emergence of an Affordable Rent regime, at up to 80% of market rents, is significant for Social Housing, but does not have implications for the 2012/13 HRA Budget, because Affordable Rents do not apply to local authorities.

TREASURY MANAGEMENT

32. The Government is due to announce the final debt settlement figure during November 2011. The debt settlement figure will be reported to Executive on the 6 December 2011. Earlier in the year, the Government announced a provisional Debt figure for Central Bedfordshire of £158.8m. This figure is not yet confirmed, but is likely to rise, to approximately £165m, due to the RPI for September resulting in increased rental income to the Finance Plan.

33. In recent weeks, work has been undertaken to examine options for Treasury Management, in terms of the potential debt profile, related to over-arching objectives for stock investment and the HRA Business Plan. This work will be progressed during January 2012, once a final debt figure is known.

34. The legislation and regulations are still evolving prior to the commencement of the self-financing regime on 1 April. It is likely that the situation will continue to evolve prior to Executive and Council consideration in February 2012. All matters related to the Final determination, including the Debt figure and the proposed rent increase, will be reported to Executive and Council in February, within the Budget report for the HRA and related to the Council’s Treasury Management Strategy.

35. On the 18 September, the Chief Secretary to the Treasury announced that PWLB will offer reduced rates of interest to Authorities due to make payments to the Department for Communities and Local Government as part of the HRA reforms. This applies to variable and fixed rate loans. The discounted rate will only be available for loans taken out as part of the self-financing settlement, and will cease to apply beyond the 28 March 2012. The loan portfolio, described in paragraphs 32 and 33 below, will be determined with reference to the Council's Treasury Management Strategy.

36. At this time, it is proposed to create a mixed portfolio of debt, with approximately £50m borrowed on a 10 year variable rate basis and the remainder spread between 10 and 20 year fixed rate debt. The variable rate debt is redeemable, as and when required, with no early redemption penalties and therefore affords an element of flexibility. It is proposed to take out all loans on a maturity (interest only) basis; however further work is being undertaken to evaluate interest rate risk, given that interest rates are likely to be higher when these loans are re-financed. This approach enables money to be released, to invest to save, in capital projects, in the early years of the Plan; but at the same time could enable the Council to repay the HRA debt by 2042.

37. Currently, variable rate debt is at a historic low and is likely to continue at a very low level in the short to medium term. This element of variable debt could significantly reduce interest payments in the early years of the HRA Finance Plan, enabling the Council to invest to save in the longer term, with efficiency savings to both the HRA and the General Fund, through investment in extra care housing.

38 A further proposal is to consider whether a separate debt pool will be required for the new HRA debt. Previously, the HRA was debt free so the only debts held have been GF debt. If the Council is allowed to add the new debt to the existing pool it could lead to a reduced overall rate of interest being payable, thereby benefitting the GF. However, further indicative feedback from the Department of Communities and Local Government (DCLG) and the Chartered Institute for Public Finance and Accounting (CIPFA) is that this approach may be blocked or prohibited. The position will be closely monitored.

VALUE FOR MONEY (VFM)

39 A Value for Money (VFM) strategy is being developed (relating to the Landlord Service), to be considered by Overview and Scrutiny prior to consultation with tenants and leaseholders during 2012. Executive approval will be sought during the summer of 2012.

40. The VFM Strategy will relate specifically to the Efficiency Programme that is set out within the Finance Plan summary (Appendix 1), which identifies a saving of £400k against the cost of the landlord service in 2012-13, and projects year on year savings over the life of the plan.

41. The Council participates in Housemark which is a national benchmarking scheme. The VFM benchmarking analysis, which is now 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. In addition, the VFM Strategy will include productivity measures, and specific efficiency targets related to income maximisation; procurement savings; process related savings and also efficiencies related to staffing and management costs. The VFM Strategy will also drive improvements in Performance, on the basis that the Council should aim to be ‘high performing at low cost’.

42. The proposed Efficiency programme, set initially at £ 400k in 2012/13 is likely to include the following proposals, with each area being set a specific target that is related to benchmarked figures. These are set out below to illustrate the scope and purpose of the VFM Strategy –

- Income Maximisation – savings targets will be set, related to void rent loss; increased rent income collection; and proposals to increase Careline Sales, to grow the current service in Central Bedfordshire. Other business opportunities will be explored.

- Business process related efficiency – implementation of the new QL Housing IT system, for example, enables a new target to be set to increase the level and functionality of web based Repairs reporting, so as to improve customer choice and achieve savings. There are other opportunities to achieve business process related efficiencies that will be examined within the VFM Strategy.

- Contract related efficiency – the track record related to procurement efficiencies is monitored and is currently strong. This can be evidenced over several years, but there is potential to increase those savings, for re-investment to improve the stock; or to re-pay debt.

- Staffing/Management efficiency – examine the cost effectiveness of the contract management function, in relation to Repairs and Maintenance. In addition, the Council is exploring opportunities for Apprenticeships.

CONCLUSION

43 Central Bedfordshire Council is well placed to benefit from the new Self Financing regime, being introduced as part of the Government’s Localism agenda. The stock is in relatively good condition and the approach taken to rent setting during recent years has been prudent and business like. Yet Council rents remain affordable at typically 50% to 55% of market rents.

44. Looking to the future, there is more flexibility to manage the asset, and plan for investment, so as to drive an improvement agenda related to Value for Money and productivity. The Council has undertaken an independent due diligence exercise, which indicates that the Council will benefit from the introduction of the new Self-financing regime, with more money to invest over 30 years than would have been possible under the current subsidy system.

45. During the next year or so, it is imperative to create the Vision for the Landlord Service, more focused on its landlord role. The VFM Strategy will be an important milestone on that journey, as part of the Council's overall approach to the new Self Financing regime. The new regime, created by the Localism Act, offers tremendous opportunity to deliver additional investment and to improve the Council's offer to tenants and leaseholders, as well deliver estate improvement and regeneration.
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46. To improve VFM, and to drive continuous service improvement, it will be necessary to re-shape the Housing Service, in a way that is more commercially focussed and business-minded. New models of housing management are emerging at this time, which merit further investigation. For example, a model has been proposed by Cheshire West and Chester Council, which has the support of tenants, to outsource the management of the Council's stock in the Ellesmere Port and Neston area.

47. There is opportunity to engage with council tenants and leaseholders in Central Bedfordshire, to consider alternative arrangements to manage the Landlord Service. In so doing, the Council will, during 2012/13, begin to shape its Vision for the Landlord Service with more focus on being a landlord, operating within the Self Financing regime.

Appendices:

Appendix 1 10 year forecast of Landlord Service capital and revenue expenditure; and also income, which is the summary of the HRA Finance plan model

Background/Briefing Papers (open to public inspection):

Implementing self-financing for council housing. Department for Communities and Local Government (DCLG), February 2011

Modelling business plans for council landlords. (DCLG) February 2011

Self financing: planning the transition. (DCLG) February 2011

All stated papers are located at Watling House, Dunstable, Room 46, High Street North, LU6 1LF. Alternatively, they are available online at www.communities.gov.uk, or on request from Tony Keaveney, Assistant Director Housing.