Meeting:	**Executive**
Date:	**14 February 2012**
Subject:	**Budget report for the Landlord Services Business Plan 2012/13 under 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 report sets out the Landlord Services Business Plan under the new Self Financing regime.

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:	Public
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. Self-financing 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.

   The HRA is actively embarking on an efficiency programme which could lead to reduced costs, whilst delivering additional investment in the stock.

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 revenue and capital budgets set out in the draft budget report, submitted to Executive on 6 December 2011, were considered by the Social Care, Health & Housing Overview and Scrutiny Committee on 12 December 2011.

The minutes from the Social Care Health & Housing Overview & Scrutiny Committee are attached at Appendix B of this report.

RECOMMENDATIONS:

That the Executive recommends Council to:

(a) note that the Housing Revenue Account (HRA) will borrow £165.7m as a result of legislation to implement the self-financing regime;

(b) that delegated authority be given to the Leader of the Council, the Deputy Leader and Executive Member for Corporate Resources in consultation with the Chief Finance Officer to agree the final debt structure, in conjunction with the Council's Treasury Management advisers;

(c) a reserve is initially earmarked for the re-provision and re-modelling of sheltered housing and for the development of the Asset Management Strategy, within the Landlord Service Business Plan model;

(d) **approve the Landlord Service Business Plan summary at appendix A, which includes the Landlord Service efficiency programme, being developed as part of the HRA Value for Money Strategy;**

(e) **note the feedback that has arisen from tenant engagement (as set out in paragraphs 39-41); and**

(f) **in line with the government's policy on Rent Convergence approve the average rent increase of 7.94% for 2012/13.**

Reason for Recommendation:	*To facilitate effective financial management and planning for the HRA under self-financing.*

Executive Summary

Central Bedfordshire's HRA is currently debt free, but decision making has been constrained by the requirement to make an annually determined subsidy payment to the government which was approximately £10m for 2011/12.

The Council will have to borrow £165.7m as a result of self financing, but will then benefit from the ability to invest in its housing stock, according to local needs and objectives. The 2012/13 budget proposes to increase tenants' rents by an average of 7.94%, in line with the government's rent restructuring policy.

INTRODUCTION

1. The Landlord Service Business Plan is intended to set out a sustainable and affordable Business Plan that addresses Council priorities in relation to its housing stock over a 30 year period.

2. Under the Self-financing regime, the Council must balance asset management and regeneration priorities, against the need to make debt repayments, whilst ensuring that homes remain affordable to meet local housing need.

3. The Business Plan incorporates a section for the Capital programme. The programme itself is not included within this budget report as it is subject to a separate report to Executive on this agenda. However, the revenue implications of the proposed programme are reflected here.

4. The Business Plan has been devised to maintain a prudent level for the HRA's General Reserve for contingencies. In addition it is proposed that a further reserve, earmarked for Sheltered Housing Re-provision (SHR), is created from 2012/13.

BACKGROUND

5. The draft budget report for the HRA went to Executive on 6 December 2011. This examined the difference between the subsidy and self-financing systems, and the implications for the HRA going forward.

6. The Localism Act, which gained royal assent on 15 November 2011, enacted fundamental reform to council housing finance. The housing subsidy system will be abolished on 1 April 2012, in favour of self-financing, which will allow Councils greater autonomy and influence over the financial management of their housing assets.

7. The Settlements Payment Determination was issued by the Department for Communities and Local Government (DCLG) on 21 November 2011. This valued Central Bedfordshire Council's HRA at £165.7m, all of which will be payable to the Treasury on 28 March 2011. The Determination is subject to consultation, but it is not anticipated that the debt settlement figure will change. The Consultation concluded on 6 January 2012 and a final determination was expected on 27 January 2012.

8. The HRA will be taking debt at a time when interest rates are at a historic low, which could release resources that would otherwise have been allocated to debt related expenses. The preferential interest rates being offered by the Public Works Loan Board (PWLB) mean that the most economically viable solution is to take the entirety of the debt by this means.

9. The Determination also gives the Government's recommended guideline rent increase, which is an increase of 7.94% for Central Bedfordshire.

10. Now that the likely debt settlement figure has been confirmed, the Council is in a better position to establish budgets for the medium term and to model projections for the longer term.

11. One of the key social and economic drivers of change within Central Bedfordshire is demographic growth, particularly amongst the elderly. There is a prediction of a 30% increase in the over 75s population and a 48% increase in the over 85s population by 2016.

12. The demographic growth referred to above is likely to place increasing demand on the care system in general, and on Adult Social Care budgets within the General Fund. As a result of the Personalisation agenda there is also a need 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. These new extra care housing schemes will be considered by an individual business case approach.

Budget Objectives

13 The principle objectives of the 2012/13 Budget have been to:

- produce a sustainable plan, enabling the Housing Service to achieve the investment objectives within its Asset Management Strategy;
- maintain a realistic level of expenditure on supervision and management;
- provide for debt repayment costs based on a prudent estimation of interest rate charges, in effect a low and efficient cost of debt;
- maintain an HRA General Reserve at or around the existing level;
- begin to make contributions to a new earmarked reserve initially for Sheltered Housing Re-provision (SHR) and the delivery of the Asset Management Strategy; or to enable debt to be repaid;
- a commitment to efficiency as a means of improving unit costs; and
- increase rents in line with the Government's recommended guideline rent increase policy over the period 2013/14 to 2015/16 in order to reach rent convergence by April 2015.

Landlord Service Business Plan

14. As part of the legislation surrounding housing finance, stock retaining authorities have been required to keep and maintain a Financial Plan since the 1989 Local Government and Housing Act.

15. Generally Landlord Service Business Plans are presented over a 30 year basis. This is due to the requirement to plan ahead for significant capital investment over the longer term. The housing stock is comprised of a variety of archetypes constructed at different times. Careful analysis is needed to prepare for peaks in expenditure in repairs and maintenance over this period.

16. 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 Landlord Service Business Plan summary, attached at Appendix A.

17. Income from rents and service charges form the main funding for the HRA. The model assumes that rents will rise in line with inflation, as measured by the Retail Prices Index. This is consistent with the policy of rent restructuring, which was introduced by Central Government in April 2002 in line with the Rent Convergence policy.

18. 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. In effect, Council rents will remain affordable.

19. Table 1 below shows a summary of the plan for the period of the Council's Medium Term Landlord Service Business Plan (MTFP).

Table 1 Total Capital & Revenue Resources

£M	2012/13	2013/14	2014/15	2015/16
Income	(25.6)	(26.9)	(28.2)	(29.5)
Spending on Revenue	11.2	11.7	12.1	12.5
Spending on Capital	6.1	10.5	10.2	6.2
Debt repayment costs	5.9	6.4	7.5	8.2
Efficiency Savings	(0.4)	(0.4)	(0.4)	(0.4)
Contribution to / (from) SHR*	2.8	(1.3)	(1.2)	3.0
Net Balance	**0.0**	**0.0**	**0.0**	**0.0**

* Sheltered Housing Re-provision and development of Asset Management Strategy

2012/13 Budget

20. Following the base budget build exercise undertaken for the 2011/12 budget cycle, a similar approach has been adopted for 2012/13. The build has been based upon the forecast outturn position for 2011/12 taking account of the budget management information as at 30 September 2011.

21. This base budget position was presented to the Social Care, Health and Housing Overview and Scrutiny Committee in October. As at the end of December, the forecast outturn for 2011/12 for the HRA was on budget.

22. The change from subsidy to self-financing has released approximately £4m, which has initially been allocated to the earmarked reserve for Sheltered Housing Re-provision (SHR) and development of the Asset Management Strategy (£2.8m) and the existing capital programme (£1.2m). The money allocated to the existing programme is partially earmarked to replace wooden fascia boards with plastic boards, which will create savings within the external decorations budget. The other element is earmarked for stock remodelling projects, which range from replacing flat roofing to solid wall insulation.

23 **Assumptions**

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

Economic

- For 2012/13, inflation of 0% on pay, 2% on supplies and services and 5% on rental income (2% on service charge income);

- inflation of 3.5% on pay, supplies and services and capital programme expenditure in the following years;

- inflation of 5% on income for years 2013/14 – 2015/16 to allow for the increases in rent required to achieve rent convergence in April 2015; and

- 3% interest rates on debt in 2012/13, increasing by 0.5% per year until reaching 5% in 2016/17 and remaining at this level for the remainder of the plan. Current rates suggest that borrowing costs could be lower than this, however actual rates of borrowing will not be known until 26 March 2012.

Financial

- HRA General Reserve to remain at approximately £3.7m until such time as the debt is repaid, thereby reducing debt related costs rather than building up unnecessary levels of reserves;

- surpluses that remain after revenue expenditure, capital expenditure, and debt repayment costs are to be initially allocated to the earmarked reserve for Sheltered Housing Re-provision (SHR) and development of the Asset Management Strategy. This reserve is then available, either for further investment or if economically advantageous to pay off more of the debt;

- 2% allowance for voids in calculation of rental income over plan period;

- a Value for Money (VFM) strategy relating specifically to the Efficiency Programme that is set out within the Landlord Service Business Plan Summary, 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; and

- a prudent Treasury Management strategy with a debt profile balanced between an element of variable rate loans and fixed rate loans.

Operational

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

- the creation of a Vision for the Landlord Service, more focused on its landlord role; and

- an improvement in the Council's offer to tenants and leaseholders, as well as delivery of estate improvements and regeneration.

External

- Potential loss of income arising from a number of Right to Buy (RtB) sales and the losses associated from increased discounts on RtB will be nullified. This will be achieved by ensuring that the percentage of debt associated with individual properties is deducted from the receipt transferred to Central Government (Housing Pooling). This policy change is currently being consulted upon; and

- future governments will not re-open the debt settlement and increase the amount payable.

Treasury Management

24. Central Bedfordshire Council will be required to make a settlement payment of £165.7m on 28 March 2012.

25. It is important that the Treasury Management Strategy and the resulting structure of the debt supports the Landlord Service Business Plan in that:

    - it is taken at the most advantageous rates to achieve low repayment costs;

    - it flexible in its structure to deliver funds that can be used for investment in the Landlord Service or to repay debt; and

    - the Council is in a position to repay the full debt within a 30 year period.

26. The additional debt taken to finance the settlement will result in approximately a doubling of the Council's existing portfolio. The existing portfolio is entirely GF debt, with the HRA being debt free prior to self financing.

27. Current guidance from the Chartered Institute for Public Finance and Accounting (CIPFA) gives Local Authorities some flexibility in the accounting treatment of the existing and new debt. It may be suitable for some authorities to maintain separate "pools" for their General Fund and HRA debt, whereas other authorities may find it more appropriate to use a "one pool" approach.

28. Subject to any changes to guidance and consultation with the Council's external auditors, the Council is seeking to adopt a one pool approach. This would allow better management of treasury management risks, including refinancing and interest rate risk, across the Council's debt as a whole. This can be achieved by ensuring that new HRA debt complements the existing debt already in place.

29. The reduced margin available from the Public Works Loan Board (PWLB) equates to a rate of approximately 0.12% above gilts (the UK Government's cost of borrowing). Other sources of funding have been investigated but there is no other available solution that could match this cost of borrowing and it is therefore proposed that the full debt is financed by this mechanism.

30. The Council can only secure the discounted rate by applying for loans on 26 March 2012, using a special web portal created and administered by PWLB.

31. It is proposed that a mixed portfolio of debt is taken, comprising variable rate and 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 also proposed to take all loans on a maturity (interest only) basis. This approach enables money to be released, to invest to save, in capital projects, in the early years of the Plan. At the same time surpluses generated over a 30 year period could still enable the Council to repay the HRA debt by 2042.

32. The final structure of the debt will not be agreed until the 26 March 2012 and will be in line with the Councils Treasury Management Strategy. Initial analysis is suggesting that a quarter of the debt will be made on a variable basis maturing in 10 years. Fixed term debt will then be taken for the remainder of the debt, in blocks that will mature in twelve, fifteen and twenty years.

33. It is recommended that delegated authority is given to the Leader of the Council, the Deputy Leader, Executive Member for Corporate Resources in consultation with the Chief Finance Officer to approve the final debt portfolio on 26 March 2012 in conjunction with the Council's Treasury Management consultants.

Value for Money (VfM)

34. A Value for Money (VfM) Strategy is being developed, with a view to seeking Executive approval during the summer of 2012. This will include productivity measures, and specific efficiency targets related to:

- Income maximisation
- Procurement savings
- Process related savings
- Staffing/Management efficiency

35. VfM 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.

36. The VfM Strategy will drive improvements in Performance, on the basis that the Council should aim to be “high performing at low cost”.

Rent increase

37. It is proposed that rents are set in line with the Government’s recommended guideline rent increase, which is an increase of 7.94% on average for Central Bedfordshire Council tenants.

38. The formula is based on an increase in rent of RPI + 0.5% + a contribution to close the gap between average local authority rents and Housing Association Rents. The contribution element is reliant upon the convergence timeframe, which has been set by Government at 4 years. This will result in an average increase per week of £7.16 from the 2011/12 average weekly rent of £90.18. In a limited number of cases the weekly increase is higher, up to 9.75%.

Tenant Engagement

39. A presentation on Self-Financing, incorporating the proposed rents increase for 2012-13, was given to the Way Forward and Sheltered Tenants Action Group (STAG) on 13 December 2011.

40. Tenants and other interested parties had initial discussions about the opportunities provided by Self-Financing. No material objections were made.

41. Council tenants and leaseholders will have the opportunity to be involved and consider alternative arrangements to manage the Landlord Service, the opportunities for investment and the programme of efficiencies.

CONCLUSION

42. All of the information currently available indicates that Central Bedfordshire 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. In addition, there is more flexibility with which to plan our Investment Strategy for the stock and to drive an improvement agenda related to Value for Money and productivity.

43. A debt portfolio for the HRA is proposed that will give the Council flexibility in its debt pooling decisions, whilst minimising risks relating to refinancing or interest rate fluctuations.

44. Looking to the future, it is imperative to create the Vision for Landlord service. 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 Bill, offers tremendous opportunity to deliver additional investment and to improve the Council's offer to tenants and leaseholders, as well as delivering estate improvement and regeneration.

45. 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.

Appendices:

Appendix A 10 year forecast of Landlord Service capital and revenue expenditure; and also income, which is the summary of the Landlord Service Business Plan model

Appendix B Social Care, Health & Housing Overview & Scrutiny Committee minutes for the meeting on 12 December 2011

Background/Briefing Papers (open to public inspection):

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

Modelling business plans for council landlords. Local authority financial model user guide. Department for Communities and Local Government, February 2011

Self financing: planning the transition. Department for Communities and Local Government, February 2011

All stated papers are located at Watling House, Dunstable, Rm 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.