Meeting: **Executive**

Date: **5 February 2013**

Subject: Budget Report for the Housing Revenue Account (Landlord Service) Business Plan

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

Summary: The report sets out the financial position of the Housing Revenue Account (HRA) during the first year of the Self Financing regime and presents the proposed 30 year Landlord Service Business Plan. The report also looks at the budget setting process for 2013/14, and the assumptions that have been made in arriving at the projections in the Plan, to create the financial framework for the Landlord Service to operate within. There is a further proposal concerning the average increase to tenants' rents.

Within this report, recommendations are made concerning debt repayment over the Medium Term Financial Plan (MTFP), together with proposals that will effectively make resources available, to enable the Council to achieve the ambitions proposed in the developing Housing Asset Management Strategy (HAMS).

Advising Officer:	Julie Ogley, Director of Social Care, Health and Housing and Charles Warboys, Chief Finance Officer
Contact Officer:	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	Not applicable

CORPORATE IMPLICATIONS
Council Priorities: The report relates directly to the Council's priority to manage Growth effectively, to balance regeneration aims with Growth, through investment to promote economic benefit, employment and renewal.

Financial:

1. The Self-financing regime introduced on 1 April 2012, has given the Council greater control of the finances relating to its housing stock. This new regime has required the Council to take on a debt of £165m but preferential rates of interest were secured, along with the balanced portfolio of debt.

   The Business Plan shows rental income will exceed the anticipated costs of managing the stock over the 30 year period which will provide annual surpluses that could support regeneration aims, specifically to invest in the existing stock as well as to develop new build provision, for example Extra Care Housing. This provision could result in efficiency savings to the General Fund, as a result of reduced adult social care expenditure.

   The HRA has embarked on an efficiency programme which is forecast to deliver £0.400m of savings in the current year, 2012/13, which could be used to deliver additional investment in the stock.

Legal:

2. The Local Government Act 2003 (as amended) emphasises the importance of sound and effective financial management.

   The HRA revenue and capital programme forms part of the Council's budget as defined in the Constitution. The budget report sets out the resources that are required to enable the authority to discharge its statutory obligations.

Risk Management:

3. In considering the budget proposals, it is necessary to take account of the associated risks and in particular the assumptions contained within paragraph 53 below. Any changes to these could impact on the financial position of the HRA Business Plan.

   The Welfare Reform Act 2012 introduced a universal credit, which will simplify the benefits system by amalgamating a number of separate benefit payments, including Housing Benefit, into a single payment. This credit will now be made directly to clients, giving them the choice over how to spend this income. This is a significant change from the current system where Housing Benefit for Council tenants is an internal transfer that takes place within the Council, from the Revenues and Benefits Service to the Housing Service.

   Therefore there is a risk that some tenants may not prioritise payment of rent and the level of arrears may increase. The Housing Service is taking action on this matter by informing tenants of these changes and allocating further staff resources to monitoring arrears and supporting tenants with this change.

   The universal credit is planned to be introduced for working age customers making a brand new claim from October 2013, and it will be phased in for existing customers over four years.

The draft Universal Credit Regulations and Housing Benefit (Benefit Cap) Regulations 2012 are to come into force from April 2013. It is proposed to introduce an accommodation size regulation for social tenants of working age, allowing for one bedroom for each person or couple living as part of the household. An under-occupation deduction is made at 14% for a bedroom entitlement one fewer than in the property occupied, or 25% for a bedroom entitlement that is two or more fewer than in the property occupied.

The other main risks are in relation to the HRA Treasury Management Strategy. The variable rate loans, representing 27% of the debt portfolio, are secured at very low interest rates. Any increases in these rates would present additional cost and therefore close monitoring of financial market conditions is essential to mitigate the impact.

The fixed rates loans will begin to mature in 2024. At this point any new loans taken to replace the current portfolio could be at higher rates of interest and therefore would also have the potential for increased liabilities. As with the variable rate loans, close monitoring of financial market conditions is required to secure the best investment options for the HRA.

Staffing (including Trades Unions):

4. Consultation with staff is underway, in relation to proposals for a restructure of the Housing Service, so as to be better positioned in the future to take advantage of the benefits and opportunities which Self Financing offers. Whilst there are no direct staffing implications related to the budget, the proposals for change are intended to deliver improved Value for Money; better outcomes and improved customer focus.

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. The Council has a statutory duty to do all that it can to prevent crime and disorder as part of its statutory duties under the 1998 Crime and Disorder Act. The ambitions set out in the developing Housing Asset Management Strategy include options to increase the investment in housing estates and in so doing ensure that it considers carefully how that investment will make a positive contribution to community safety and crime reduction.

Housing is a key element of supporting both victims and perpetrators of crime and disorder, be that through supporting victims of domestic abuse or the Integrated Offender Management programme, where the lack of available accommodation is often a key stumbling block to moving away from offending, or working with the vulnerable in sheltered housing.

Addressing financial hardship issues and debt is a way to change behaviours that can often break cycles of offending and low level crime. The options set out in the report provide valuable opportunities to work with community safety partners to ensure the best outcomes for Central Bedfordshire.

Sustainability:

7. If approved the new provision of Extra Care Housing will not only address the additional accommodation needs for older people but will also contribute to the regeneration of our town centres and provide wider economic benefits and employment.

   Other sustainability issues, such as climate change, represent opportunities for the Council to make buildings more efficient thus delivering savings by decreasing energy use and the total spend on energy. Failure to take action leaves the Council vulnerable to the impact of increasing energy prices.

Procurement:

8. Not applicable.

Overview and Scrutiny:

9. The revenue and capital budgets set out in this budget report were presented to the Corporate Resources and Social Care, Health and Housing Overview and Scrutiny Committees in the January cycle of meetings.

   The Corporate Resources Overview and Scrutiny Committee recommended that the Draft HRA budget be endorsed as set out.

   The Social Care, Health and Housing Overview and Scrutiny Committee meeting was postponed until 29 January 2013, so it has not been possible to include feedback from that Committee in this report. Comments from this Committee will be provided at the Executive meeting.

RECOMMENDATIONS:

That the Executive approves the HRA budget proposals for 2013/14 as set out below:

(a) note the HRA's debt portfolio and interest payments due in 2012/13;

(b) approve the proposal for no principal debt repayments in the current financial year or during the period of the Medium Term Financial Plan (MTFP), namely 2012/13-2016/17;

(c) approve the creation of a new reserve, to be called the Strategic Reserve.

(d) approve funding of the HRA's 2012/13 Capital programme from the negative HRA Capital Financing Requirement, thereby releasing additional funds for the Sheltered Housing Re-Provision Reserve (SHRR) and Strategic Reserve (SR);

(e) **approve the HRA Revenue Budget for 2013/14 and the Landlord Service Business Plan summary at Appendix A;**

(f) **approve the 2013/14 to 2016/17 HRA Capital Programme at Appendix B;**

(g) **approve the average rent increase of 4.67% for 2013/14 in line with the national rental increase as per the Government's Rent Convergence Policy; and**

(h) **approve the proposed allocation of £0.2m to support financial advice, money management and debt problems for customers.**

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

Executive Summary

10. The Localism Act of 2011 brought about fundamental reform to council housing finance. The anachronistic housing subsidy system was abolished on 1 April 2012, in favour of self-financing, which allows Councils greater autonomy and influence over the financial management of their housing assets.

11. These changes are a key element of the Government's Localism agenda, serving to devolve power to local authorities. These changes also support the Council's broader objectives for economic regeneration; offer the potential for new build council housing for rent or shared ownership and enable the Council to promote social mobility, as part of a change agenda that includes the Council's first Tenancy Strategy, which proposes to move to new fixed term tenancies from 1 April 2013.

12. On 28 March 2012, the Council took on a debt of £165m; this amount being a proportionate share of the national housing debt, that was re-distributed between all stock holding local authorities, as a once and for all settlement, to enable the anachronistic housing subsidy system to be abolished. Fortunately this occurred during a period when interest rates are at a historic low. The overall effect on the HRA business plan shows rental income will exceed the anticipated costs of managing the stock over the 30 year period. The predicted annual surpluses can either be used for debt repayment; or to invest in local regeneration projects that support employment and deliver economic benefit within the Central Bedfordshire area as well as making the housing estates better places to live.

13. An extensive independent survey of the Council's housing stock indicates that the stock is in good condition overall, and that the current level of capital investment will maintain the stock in that condition, in the medium term. This is in line with the Council performance in maintaining the stock at the Decent Homes standards over recent years. However, a number of sheltered schemes are in need of improvement to bring them up to modern standards, and there are other parts of the stock that would benefit from remodelling, as part of a strategic regeneration plan, that is set out within the developing Housing Asset Management Strategy.

14. This report proposes that the Council defer debt principal repayment, until at least 2017/18, to enable resources to be invested, to achieve strategic impact through increased investment in the local economy and wider regeneration aims. In addition an adjustment to the Capital Financing Requirement is proposed, that will effectively increase the level of Reserves that are available as at the end of the financial year, to fund new investment projects.

15. The budget proposes to increase tenants' rents by an average of 4.67%, in line with the Government's rent restructuring policy.

Introduction

16. The Landlord Service Business Plan is intended to set out a sustainable and affordable plan that addresses a range of Council priorities in relation to its housing stock and to provide a housing management service to tenants and leaseholders over a 30 year period.

17. Under the self-financing regime, the Council must balance asset management objectives for the existing stock with the opportunities for new investment, including new build housing, broader regeneration aims and more targeted objectives that are set out within the developing Housing Asset Management strategy, against the need to manage debt effectively and to make debt repayments in line with the Council's Treasury Management Strategy.

18. A Sheltered Housing Re-Provision Reserve (SHRR) has been set up as a source of funding for investment in new build Extra Care accommodation and improvements to the existing sheltered accommodation.

19. A further reserve, to be called the Strategic Reserve (SR), is proposed. This Reserve could be used to finance specific projects or to finance the building of general needs housing.

20. The Business Plan has been devised to maintain a prudent level for HRA Balances for contingencies.

21. The Business Plan includes annual proposed budgets for the HRA Capital programme, split between the existing programme required to maintain stock in its current condition and an allocation for Sheltered Housing Re-Provision. The financing of the programme is comprised of capital receipts retained after housing pooling, revenue contributions and Reserves. The revenue implications of the proposed programme are reflected in the Expenditure section of the Business Plan.

Implementation of Self Financing

22. Central Bedfordshire Council was required to make a settlement payment of £164.995m on 28 March 2012, as part of the self-financing arrangements that was legislated for, in the Localism Act 2011.

23. Due to the discretionary rates of interest made available by the Government, as part of the national debt settlement and as a one time only offer to local authorities, the entire loan portfolio was arranged via the Public Works Loan Board, with the constituent loans presented in the table below:

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	0.58 (variable)	0.261
TOTAL	164.995		2.41 (average)	3.977

24. The Council decided upon a mixed portfolio of debt, 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.

25. Due to the prevailing low level of interest rates the Council has saved a significant sum in the current financial year by taking out 27% of its debt portfolio on a variable basis, as that rate has been confirmed at an average of 0.58% for the year. Whilst interest rates could rise in the future the current expectation in financial markets is for rates to remain low in the short to medium term.

26. 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. At the same time surpluses generated over a 30 year period should still enable the Council to repay the entire HRA debt by 2039. The assumption within the Business Plan is that the total debt of £165m will be repaid and the projection of overall surplus' generated within the Plan period are sufficient to achieve this aim. Indeed, the aim can still be achieved on the basis that no repayments of principal debt are made in the period up to 2016/17.

27. The debt taken to finance the settlement has resulted in approximately a doubling of the Council's existing debt portfolio. The existing portfolio was entirely General Fund (GF) debt, with the HRA being debt free prior to self financing.

28. Following consultation with the Council's auditors the HRA's self-financing debt has been allocated to a separate "pool" from the GF debt. This means that there will not be an average interest rate across all the Council's loans, so the HRA only will be charged the annual average interest rate on the loans it took out for self-financing. The principle of a ring fence between the General Fund and HRA was retained as part of the Self Financing settlement.

The Benefits of Self-Financing

29. Whilst the Council took out loans for £164.995m, the HRA's Capital Financing Requirement (CFR) currently stands at £157.256m, the difference being comprised of £7.739m of negative CFR (over funding).

30. Under self financing the authority's debt cap is set at £164.995m. This enables the Council to increase borrowing (the CFR) fully up to this level.

31. It is proposed to make a one off adjustment and use the majority of the negative CFR (£6.352m) to fund the HRA's capital programme for 2012/13, thereby releasing an equivalent amount from the HRA's revenue budget to transfer to Reserves, in readiness for future investment. This will leave a residual negative CFR balance of £1.387m.

32. After interest payments for 2012/13, the HRA is forecast to make a surplus of £5.396m due to budgeted contributions to reserves, additional rental income, and monies set aside. If the proposals above relating to the CFR are adopted this creates a total potential surplus of £11.748m, which could be allocated to Reserves, to invest in new build or to achieve regeneration aims.

33. Freed from the constraints of the Subsidy system, the HRA is forecast to generate surpluses after interest repayments of approximately £5m each year for the next 4 financial years. This compares favourably to the Subsidy system, where approximately £10m a year was paid to Central Government, to be re-distributed to other local authorities. The Council has therefore benefitted from the new Self Financing regime.

The Case for Investment in Regeneration and Extra Care

34. One of the key social and economic drivers of change within Central Bedfordshire is demographic growth, particularly amongst older people. Overall the population of Central Bedfordshire is expected to increase by 18% over the next 30 years. This growth is distorted by the increased life expectancy of people aged over 75 years, as this group of people are expected to increase in number, by 193% between 2009 and 2030.

35. There is a need for additional accommodation for older people, to replace existing sheltered provision and to meet the support and care needs of frail older people. 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. There is also increasing demand to adapt the homes of older people, to enable them to remain safe and independent.

36. The Council is taking a strategic approach to meeting the care, support and housing needs of older people; specifically to develop new provision of extra care housing across Central Bedfordshire in the period up to 2020. The expansion of extra care housing is likely to be delivered by the Council and partners working to a common aim. The Landlord Service can take a leading and significant role in the expansion of extra care housing, in part to provide an alternative to, or to replace the existing provision of sheltered housing, some of which is outmoded and potentially costly to re-model. The Landlord service is investigating potential development opportunities for extra care housing in the Central Bedfordshire area.

37. This analysis of potential development opportunities, on a site specific basis, has taken into account surpluses/deficits occurring over a 45 year period, break even points and net present value, whilst also giving consideration to location, size of scheme, and the potential for economic benefit as well as wider regeneration aims.

38. A proposal is emerging, for the Landlord Service to develop an extra care housing scheme in Dunstable town centre during 2014, as part of a larger development, which incorporates nursing care provision and also residential development. This proposal will achieve strategic impact in terms of town centre regeneration.

39. The anticipated total cost for this scheme is £12.300m, spread over the financial years 2013/14 and 2014/15. Whilst partial funding will be sought from the Homes and Communities Agency there is the possibility that the complete cost will fall to the HRA. A detailed report will be presented to the Executive early in 2013, to consider this investment opportunity.

40. In addition to the cost of the Extra Care scheme, there are a number of sheltered housing schemes that are in need of improvement to bring them up to modern standards. The Council's Sheltered Tenants Action Group (STAG) is working closely with the Landlord Service to evaluate individual schemes, in terms of investment need and preferred outcome, on a scheme by scheme basis.

41. There are also other investments projects that have been identified through work undertaken to develop a draft Housing Asset Management Strategy for consultation. Work is underway to determine the best options in each situation, as these projects are challenging mainly because they require consideration as to the best use of the asset, which could be an alternative use; or disposal; or re-development; or investment and re-modelling. In many cases an input of financial resources will be required, to enable a preferred option to be achieved.

42. The Landlord Service Business Plan, as summarised in Appendix A, indicates that more significant surpluses will materialise after the first 10 years of the 30 year plan, allowing for greater repayment of debt in the longer term. In the first ten years of the plan a net operating income of £130m is forecast, compared to a figure of £472m in the next 20 years.

43. This pattern indicates that repayment of debt in the early years of the Business Plan will constrain investment capability to a far greater extent than will debt repayment that occurs further on into the Business Plan period. Essentially, there is greater scope to repay debt in the medium to longer term.

44. 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 to meet a range of objectives that include sheltered housing re-provision; targeted investment projects; new build provision and broader regeneration aims.

45. In order to avoid early redemption penalties, any debt repayments that occur in the period of the Medium Term Financial Plan (MTFP) would be made from the variable rate proportion of the debt (which totals £44.995m). It is worth noting that currently the average interest charge on this debt is only 0.58% per annum, and the interest cost for the year is just £0.261m.

46. If the Council does choose to redeem debt it is very unlikely that it would be able to borrow in the future at these low rates of interest.

47. Given the current low cost of financing for its variable debt, together with the benefits to tenants of potential new investment, it is proposed to defer any repayments of debt principal, for the period of the MTFP. That is, not to repay debt until 2017/18 at the earliest. This position would be kept under review during this period; and any new investment proposals would be subject to approval by the Executive on a case by case basis. This would afford the Executive an opportunity to consider whether the benefits of investment in this period continue to outweigh the risks and financial consequences of an approach where debt is not repaid in the relatively short term, to 2017.

48. In the meantime it is proposed that the interest rate on variable debt should be carefully monitored. Since this rate only changes every 6 months there would be an opportunity to react if rates were to increase. However this is not predicted to occur.

49. If the above measures are implemented, the surplus of £11.748m referred to above could be allocated to the Sheltered Housing Re-provision Reserve (SHRR) and the Strategic Reserve (SR). It is proposed that the greater majority of this sum - £8.653m - is transferred to the SHRR to allow funding for the development of an Extra Care scheme, with £3.095m transferred to the SR.

50. Over the last 5 years the HRA Balances have been maintained at or around £4.000m (current balance £3.905m). This was a sensible contingency during the era of the Subsidy system, when strategic planning was constrained by the requirement to pay negative subsidy of about £10m per year to Central Government.

51. Given the changes brought about by the Self Financing regime, an updated risk assessment has been carried out and it is proposed to reduce this balance to a still prudent level of £2.000m, as a more suitable contingency. The residual £1.905m will be used to enhance the SR so the balance of the SR reserve carried forward as at 31 March 2012 is £5.000m. Having reviewed the Landlord Service Business Plan, together with the investment plans identified within this report, the Responsible Finance Officer, (S151 officer) has assessed the proposed allocation of HRA Balances as being appropriate to provide a buffer against unexpected financial developments. In the context of the Self Financing regime it is important to hold some balances for this purpose, whilst optimising the resources available for the development of the service.

Budget Objectives

52. The principle objectives of the 2013/14 Budget have been:

i. produce a sustainable plan which enables the Landlord Service to achieve the objectives within its Asset Management Strategy, by maintaining investment in the existing stock, consistent with the level of investment that was achieved in the period 2002-2012 and in accordance with the Stock Condition Survey, to maintain the asset in good condition;

ii. maintain a realistic level of expenditure on supervision and management;

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

iv. maintain HRA Balances at £2.000m;

v. allocate sufficient resources to the SHRR to enable the commencement of works at the Council’s first new build Extra Care scheme and the capability to undertake other projects to enhance the Council’s existing Sheltered Accommodation;

vi. allocate resources to the SR to support the business plan, for example to fund other regeneration projects; and

vii. a continuing commitment to efficiency as a means of reducing unit costs; increasing income and maximising business efficiency.

53. **Assumptions**

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

Economic

i. For 2013/14, inflation of 1% on pay, 2% on supplies and services and 4% on rental income (2% on service charge income);

ii. Inflation of 2% on pay, supplies and services and capital programme expenditure up until 2016/17, with 3.5% in the following years;

iii. Inflation of 4% on income for years 2013/14 – 2015/16 to allow for the increases in rent required to achieve rent convergence in April 2015, and 3.5% in the years that follow; and

iv. 3% average interest rate on debt in 2013/14, increasing to 3.5% for 2014/15 and 2015/16, 4% up to 2022/23, and 5% for the remainder of the plan. This reflects the potential for variable interest rates to rise in the medium term and for interest rates to be higher when the Council comes to refinance its longer term fixed interest debts.

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, and debt interest costs are to be allocated to the earmarked reserve for Sheltered Housing Re-provision (SHR) and the Strategic Reserve (SR). The SR is then available to support the business plan, e.g. for further investment;

iii. 2% allowance for voids in calculation of rental income over plan period. Voids performance is improving which has enabled the Landlord Service to achieve an efficiency saving during 2012/13;

iv. 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 £0.190m against the cost of the landlord service in 2013/14, 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 Housing Asset Management Strategy; 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, which increase the maximum discount available to tenants from £0.034m to £0.075m.

iii. Central Government are keen to incentivise tenants to exercise their RtB, 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 properties sold by RtB is deducted from the sale receipt prior to the calculation of the amount to be transferred (or "pooled").

vi. The calculation of pooling takes into account the receipts for the Council and Government as modelled into the self-financing calculations. The residual (or "surplus") receipt is retained by the Council, under the strict condition that the Council facilitates new build 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 surplus receipt will mitigate this loss.

ix. 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 2017, then this would pose a threat to the surpluses predicted both in the medium to longer term.

x. If a high rate of sales continued into the medium term the viability of the Council's HRA 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.

2013/14 Budget

54. Following the base budget build exercise undertaken for the 2012/13 budget cycle, a similar approach has been adopted for 2013/14. The starting point for the budget build has been the forecast outturn position for 2012/13 taking account of the budget management information as at 31 July 2012.

55. This base budget position was adjusted for inflation and efficiencies secured and has now been used to populate the Landlord Services Business Plan.

56. The budget predicts total income for the year of £27.378m with expenditure of £17.665m, delivering a net operating income before debt costs of £9.713m. If proposals on debt repayment are approved this would result in a net surplus of £4.805m (after interest costs of £4.908m).

Engagement with Overview & Scrutiny Committees and Tenants

57. The draft HRA budget report was presented to the Social Care, Health and Housing and Corporate Resources Overview and Scrutiny Committees in January.

58. In addition a presentation on the draft budget and potential Extra Care Scheme developments were given to the Way Forward Panel and Sheltered Tenants Action Group (STAG) on 15 January 2013.

59. Tenants had discussions about the opportunities provided by Self-Financing contained within the HRA Business Plan. This included the risks and rewards of the Treasury Management Strategy and but were very supportive of the approach, recognising that the overall HRA business plan presented a real development opportunity for the Council.

60. Council tenants and leaseholders will still have the opportunity to be involved in any consultation on any specific initiatives regarding opportunities for investment.

Landlord Service Business Plan

61. There has been a legislative requirement for stock retaining authorities to keep and maintain a Financial Plan since the 1989 Local Government and Housing Act.

62. 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 property archetypes constructed at different times. Careful analysis is needed to prepare for peaks in expenditure related to repairs and maintenance over this period.

63. A stock condition survey of the entire stock was completed during 2012/13. The information gathered in this survey has been used to inform the development of a 30 year Housing Asset Management Strategy, which forecasts repairs, maintenance and capital costs. These are reflected in the Landlord Service Business Plan summary, attached at Appendix A.

64. 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.

65. 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. 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.

66. 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

£M	2013/14	2014/15	2015/16	2016/17
Income	(27.4)	(28.5)	(29.5)	(30.5)
Spending on Revenue	11.4	11.3	11.5	11.8
Direct Revenue Financing*	6.5	6.2	6.3	6.4
Debt costs (interest)	4.9	5.7	5.7	6.5
Efficiency Savings	(0.2)	(0.1)	(0.1)	(0.1)
Contribution to SHRR**	3.9	4.2	5.5	5.0
Contribution to SR***	0.9	1.2	0.6	0.9
Net Balance	**0.0**	**0.0**	**0.0**	**0.0**

* Financing of Capital programme by Revenue
** Sheltered Housing Re-provision Reserve
*** Strategic Reserve

Value for Money (VfM)

67. 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.

68. The analysis provided by benchmarking has assisted the Council in identifying the areas where HRA budgets are higher relative to other stock retained authorities. This has enabled efficiencies in staffing, reduced void periods, increased rental income and reduced repairs costs to be identified.

69. The 2012/13 HRA efficiency programme is on target to deliver £0.400m of savings. A further efficiency programme has been designed, incorporating £0.530m of savings over 4 years.

70. 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

71. The Government’s Rent Convergence Policy aims to ensure that the rents for similar properties in the same area are the same, whether managed by a Council or Housing Association landlord. The Policy essentially uses a formula to determine rent levels, which includes three main factors: property size; market value and local earnings to determine what rents should be in an area. Council rents, and also the rents of Aragon Housing Association, (AHA) (as 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.

72. Over recent years, Council rents and also the rents of AHA have been increasing at a rate that is above inflation, in line with the formula, so as to converge by 2015/16 with the prescribed level of rents that is set by the formula itself. Currently, Council rents are in the range of 50-55% of current market rents, which is affordable and within limits that are eligible for Housing Benefits.

73. The formula prescribes and also limits the rate of increase. The proposed rent increase for 2013/14 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 3 years.

74. It is proposed that rents are set in line with the Government's recommended guideline rent increase (i.e. the formula), which is an increase of 4.67% on average for Central Bedfordshire Council tenants. This will result in an average increase per week of £4.58 from the 2012/13 average weekly rent of £97.78 to £102.36. In a limited number of cases the weekly increase is higher, up to 6.41%.

75. It is recognised that some customers are experiencing financial hardship and in particular, are experiencing problems related to money management and debt. The Housing Management team is focussed on financial inclusion and assisting people to be able to budget, to ensure they are able to pay their rent as well as meet other financial obligations and ordinary living costs.
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76. It is proposed that a £0.200m provision is made within the budget, specifically to be able to support financial advice; and tackle money management and debt problems for customers. Further work will be undertaken to develop the proposal, which could include innovative ideas to relieve hardship, for example, the possibility of nominal zero interest hardship loans to customers, in specific circumstances. The resource will be used to promote financial inclusion, at a time of economic hardship for some customers.

77. The Council is developing its first Tenancy Strategy 2013-18, which proposes to introduce fixed term tenancies, for a period of five years, from 1 April 2013. The impact of the proposed change, from 2018/19 onwards is difficult to predict but there is a potential for increased rent income loss and also increased voids costs, when a property is re-let. This may be offset by Government proposals, which include 'Pay to Stay', which could result in increased income to the Business Plan. The risk to income is not immediate or predictably significant in terms of value. Therefore, no adjustment has been made at this time, in the forecast either of void cost or rental income over the 30 year business plan.

HRA Capital Programme

78. The draft 2013/14 – 2016/17 Housing Revenue Account (HRA) detailed Capital programme is attached at Appendix B.

79. The capital programme is financed by capital receipts from RtB and land sales, contributions from retained rentals (revenue contributions), and contributions from Reserves.

80. A breakdown of this financing is shown at the bottom of Appendix A.

Conclusion

81. Central Bedfordshire Council is ideally positioned to take advantage of the opportunities provided by the self-financing regime, to benefit the local economy and to support wider aims including regeneration and to manage effectively what is a valuable asset. The Landlord service is well placed to invest in new build housing for rent and shared ownership as well as Extra Care housing to meet the needs of older people and to replace outdated sheltered provision.

82. As the first year of self-financing draws to a close, Central Bedfordshire Council is already benefiting from the ability to be more strategic in planning how best to manage the asset, to benefit tenants and residents, as well as to achieve wider council objectives.

83. For the first time in over 30 years the Council has the potential to build new homes and by focussing on the needs of an older population, there is scope to also achieve General Fund efficiency savings, through provision of Extra Care housing.

84. Self-financing also transforms the Housing Offer to existing tenants by delivering the potential for estate improvement and re-modelling of sheltered and general needs stock.

85. The debt portfolio selected for the self-financing settlement has delivered lower than anticipated interest rate costs, to make available additional resources to fund the Housing Asset Management Strategy.

86. As a result of the flexible debt strategy, the Council has an opportunity to increase the resources available to deliver its district wide objectives by deferring debt repayments. It is proposed to defer debt repayments during the course of the MTFP, whilst monitoring closely fluctuations in interest rate costs.

87. It is also recommended that the HRA's Capital programme for 2012/13 is financed by the negative CFR, thus releasing further resources for investment over the MTFP.

88. If these proposals are approved it is forecast that the HRA will have a total of £15.653m in its Reserves as at 31 March 2013, comprised of £8.653m in the Sheltered Housing Re-provision Reserve, £5.000m in the Strategic Reserve, and £2.000m in HRA Balances.

Appendices:

Appendix A 30 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 2013/14 – 2016/17 Housing Revenue Account (HRA) detailed Capital programme

Background/Briefing Papers

None