Meeting: **Executive**

Date: **4 February 2014**

Subject: **Budget for the Housing Revenue Account (Housing 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). There are proposals concerning the debt strategy, investment potential and increases to rents.

Advising Officer:	Julie Ogley, Director of Social Care, Health and Housing and Charles Warboys, Chief Finance Officer
Contact Officer:	Tony Keaveney, Assistant Director Housing Nick Murley, Assistant Director, Resources
Public/Exempt:	Public
Wards Affected:	There is investment potential to enable homes to be provided in all wards in 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, to balance regeneration aims with growth, through investment to promote economic benefit, employment and renewal.

Financial:

1. The Business Plan shows that rental income will exceed the anticipated costs of managing the stock over the 30 year period, which will provide annual surpluses that will create opportunities for new investment, as well as repaying the self-financing debt (£165m).

Legal:

2. The budget 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 Appendix D attached. Any changes to these could impact on the financial position of the HRA Business Plan.

The main risk is in relation to the HRA Debt Strategy. The current average rate of interest on HRA debt is 2.40%. Increases to this rate would have an immediate effect on the variable rate loans, and could affect the fixed rate loans that mature from 2024. Close monitoring of financial market conditions, allied to a consideration of principal debt repayment, is required to deliver a debt strategy that will support the Housing Service Business Plan.

There are risks that relate to income collection, arising from Welfare Reform. The mitigation of those risks is a proactive approach being taken to enable tenants to move. During 2013/14, more than 150 new tenancies have been created through enabling Mutual Exchanges and Transfers, so that people are able to secure accommodation that they can afford to occupy in the long term.

The Housing Service is informing tenants of Benefit changes and allocating additional staff resources to monitoring arrears and supporting tenants to manage their income. During 2014/15, an approach will be developed to assist tenants with employment advice, to complement the advice services that are currently provided, which include money management and debt advice.

There is a further risk that future Right to Buy (RtB) sales will reach levels that adversely affect the Business Plan, by significantly reducing income streams. The government is committed to helping those tenants with an aspiration to own their own home and to this end, the discounts available under Right to Buy were increased in April 2012. Further incentives are proposed, such as a reduction in the qualifying period from 5 to 3 years (subject to legislation). Whilst there has been an increase in RtB sales since April 2012, with 19 sales in 2012/13 and 20 in the financial year up to December, this represents a small percentage of the stock of approximately 5,200 homes. Further information is provided at Appendix D.

Staffing (including Trades Unions):

4. There are no staffing implications arising directly from this report.

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 and general needs 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 options set out in the report provide opportunities to work with community safety partners to ensure the best outcomes for Central Bedfordshire.

Sustainability:

7 Investment in the housing stock will contribute to regeneration across Central Bedfordshire and provide wider economic benefits and employment.

Procurement:

8. Not applicable.

Overview and Scrutiny:

9. Detailed comments from the Overview & Scrutiny (O&S) Committee meetings will be set out in Appendix E (if required). At the time of writing this report the O&S Committees had not met. Appendix E will therefore be tabled if required at the Executive meeting on 4 February.

RECOMMENDATIONS:

Executive is asked to recommend to Council to approve the HRA budget proposals for 2014/15, as follows:

(a) note the HRA's debt portfolio and interest payments due in 2013/14;

(b) approve the proposal for principal debt repayments to begin in 2017/18;

(c) approve the use of £3.237m from the Major Repairs Reserve to finance part of the HRA Capital programme for 2013/14;

(d) approve the development of an Investment Plan during 2014/15 to set out future development objectives, subject to consultation with stakeholders;

(e) approve the HRA Revenue Budget for 2014/15 and the Landlord Service Business Plan summary at Appendix A and B;

(f) approve the 2014/15 to 2017/18 HRA Capital Programme at Appendix C; and

(g) approve the average rent increase of 5.46% for 2014/15 in line with the national rental increase as per the Government's Rent Convergence Policy.

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

Executive Summary

10. The HRA business plan shows that rental income will exceed the anticipated costs of managing the stock over the 30 year business plan period. There are many opportunities for investment. Inevitably, there are competing priorities. The predicted annual surpluses can be used for debt repayment, or to invest in the stock itself, as well as making better places to live. Several sheltered schemes are in need of improvement to bring them up to modern standards. Alternatively, the focus for investment could be to deliver new build homes as part of local regeneration schemes or to respond to demographic change.

11. As part of a balanced approach towards investment and debt repayment it is proposed to commence the repayment of principal debt from 2017/18, such that by 2019/20 an estimated £15m of repayment could occur. Forecasts in the Housing Service Business Plan indicate that over the 6 years to 2019/20 a further £56m is available. This report proposes that an Investment Plan is developed during 2014/15, to formulate proposals for the use of these funds.

12. The budget proposes to increase tenants' rents by an average of 5.46%, in line with the Government's rent restructuring policy, whilst also making provision of £0.220m specifically to tackle hardship and facilitate moves to smaller properties.

Budget Objectives

13. The primary objectives of the 2014/15 Budget have been:

    i. Produce a sustainable plan which enables the Housing Service to achieve the objectives within the Housing Asset Management Strategy (HAMS), by maintaining investment in the existing stock whilst continuing to expand the new build programme and promote regeneration.

    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, with a further contingency of £0.2m in the Major Repairs Reserve (MRR).

    v. A continuing commitment to a value for money approach as a means of reducing unit costs, increasing income and maximising business efficiency.

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

Introduction

15. The HRA Budget should balance priorities for maintaining the existing assets with opportunities for new investment. A similar balance is sought between the Council's strategic priorities, as well as tenant aspirations for improvement. In developing a draft HRA Budget, the aim is to achieve "win, win'' solutions wherever possible, that have tenant support, aligned to the Council's strategic priorities. The HRA Budget for 2014/15 also relates to the thirty year business plan and so strikes a balance between current and future investment.

16. The Business Plan includes annual budgets for the HRA Capital programme, split between investment in the existing stock and an allowance for new build. The Capital programme is financed from revenue contributions, use of Reserves, and capital receipts retained after housing pooling. The brought forward balance of unapplied Capital Receipts was £0.657m on 1 April 2013.

17. The brought forward balance in HRA Balances was £2.0m on 1 April 2013.

18. The brought forward balance in the Major Repairs Reserve (MRR) was £3.437m on 1 April 2013. It is proposed that £3.237m of this balance will be used to finance the HRA Capital Programme in 2013/14, thereby reducing the direct revenue financing of the programme and enabling an equivalent amount to be transferred to the Strategic Reserve at the 2013/14 year end. This would leave an amount of £0.2m as a contingency.

19. It is proposed to focus the Sheltered Housing Re-Provision Reserve (SHRR) on the provision of Extra Care housing, and therefore to rename it the Extra Care Development Reserve (ECDR). The brought forward balance in this reserve was £8.653m on 1 April 2013.

20. The Strategic Reserve (SR) could be used to finance specific projects or to finance the building of general needs housing, or to transfer funds back to revenue to repay debt. The brought forward balance in this reserve was £1.284m on 1 April 2013.

Self Financing Loan Portfolio and Debt Strategy

21. The constituent loans and interest rates applicable in 2013/14 are 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	0.56 (variable)	0.252
TOTAL	164.995		2.40 (average)	3.968

22. All loans have been taken on a maturity (interest only) basis. This approach enables money to be released, for investment purposes, in the early years of the Plan, without the need for principal debt repayments.

23. The Council has saved a significant sum in the current financial year by taking 27% of its debt portfolio on a variable basis, as that rate has been confirmed at an average of 0.56% for the year. The current expectation in financial markets is for rates to remain low in the short to medium term (1 to 3 years).

24. Interest rates are difficult to predict. Relatively minor increases to rates could lead to a significant increase in interest costs, for example a 2% increase would incur an additional £0.900m of interest cost on the variable debt.

25. It is worth considering the risk of an increase in interest rate costs when refinancing some or all of the £120m of fixed rate debt that matures between 2024 and 2034. It is unlikely that the Council will achieve the preferential interest rates that were available at the time of the Self Financing settlement.

26. As a means to reinforce the longer term viability of the Housing Service Business Plan, it is proposed to commence principal debt repayment in 2017/18, with an intention to make annual repayments such that by 2020 approximately £15m of the self financing debt is repaid.

27. In order to avoid early redemption penalties, any debt repayments that occur in the period up to 2022 would be made from the variable rate proportion of the debt (which totals £44.995m).

Housing Service Investment Plan

28. The HRA is forecast to generate surpluses after interest repayments of £6-8m each year for the next 6 financial years. 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. It is proposed that a Housing Service Investment Plan is developed that will balance improvements to existing stock and estates with other investment projects. A crucial part of this process is to engage with tenants so that their priorities are taken into account.

29. If the proposals for principal debt repayment above are accepted, with the first instalment occurring in 2017/18, it is forecast that (excluding contingencies of £2.2m) there is a total amount of approximately £48m available for investment over the MTFP and a total of £56m in the 6 year period to 2020.

30. The Council has committed to the creation of a new Extra Care facility at Priory View in Dunstable. Expenditure at this site will utilise part of the resources identified above. £14m has been provisionally allocated for 2014/15 and 2015/16.

31. This leaves a forecast balance of approximately £34m over 4 years (£42m over 6 years) that could be invested.

Housing Business Plan & Reserves

32. **Table 1** below shows a summary of the Plan for the period of the Council's Medium Term Financial Plan (MTFP).

£M	2014/15	2015/16	2016/17	2017/18
Income	(28.7)	(29.7)	(30.7)	(31.7)
Spending on Revenue	12.2	12.0	12.1	12.2
Direct Revenue Financing*	6.7	7.2	7.4	7.6
Debt costs (interest)	4.0	4.0	4.1	4.2
Debt repayment (principal)	0	0	0	6.0
Efficiency Savings	(0.4)	(0.1)	(0.1)	(0.1)
Contribution to ECDR**	5.2	5.5	1.6	1.2
Contribution to SR***	1.0	1.1	5.6	0.6
Net Balance	**0.0**	**0.0**	**0.0**	**0.0**

* Financing of Capital programme by Revenue
** Extra Care Development Reserve *** Strategic Reserve

33. **Table 2** below shows a summary of the balances predicted to be available in Reserves as at 1 April 2014, together with transfers to and from Reserves that are forecast to occur during the MTFP.

£M	2014/15	2015/16	2016/17	2017/18
Extra Care Development				
Balance b/fwd	11.4	6.7	8.0	5.5
Contributions to Reserve	5.2	5.5	1.6	1.2
Contributions from Reserve	(9.9)	(4.2)	(4.1)	(4.2)
Balance c/fwd	6.7	8.0	5.5	2.5
Strategic				
Balance b/fwd	6.4	7.4	8.5	14.1
Contributions to Reserve	1.0	1.1	5.6	0.6
Contributions from Reserve*	-	-	-	-
Balance c/fwd	7.4	8.5	14.1	14.7
Major Repairs				
Balance c/fwd	0.2	0.2	0.2	0.2
HRA Balances				
Balance c/fwd	2.0	2.0	2.0	2.0
TOTAL c/fwd	16.3	18.7	21.8	19.4

*Proposals for use of this Reserve will be developed in the Investment Plan.

Efficiency and Value for Money

34. 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.

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

36. The 2013/14 HRA efficiency programme is on target to deliver £0.190m of savings. A further efficiency programme has been designed, incorporating £0.395m of savings in 2014/15, with further savings identified throughout the HRA Business Plan. Work continues in developing a Value for Money (VfM) Strategy, in particular to develop a methodology that will measure the benefits of investment (as a cost benefit analysis), so as properly to evaluate the return on investment.

37. This methodology being developed will identify the true value yielded from the Housing Service approach to efficiency. That approach is typically focussed on creating additional value, meaning we look for 'more for less', 'more for the same' or 'a lot more for a little more'. The approach overall could be described as 'invest to save'. The main thrust of the efficiency programme is to optimise income (as well as benefits), rather than just to reduce unit cost.

38. Value will be measured in terms of Quality, Customer Satisfaction and Cost and it can be related to both capital and revenue resources. The approach to VfM is in everything that we do and is particularly relevant to procurement. The efficiency savings for 2014/15, valued at £0.395m, will include specific proposals in the following specific areas:

- Invest in Electronic Content Management (ECM) to create a paperless office, reduce office space to support the corporate Your Space Programme and improve operational processes.
- Prevent homelessness through tenancy sustainment.
- Strengthen the approach to Troubled Families, to reduce costs related to managing problems like Anti-Social Behaviour or costs related to other council interventions, or support to help generate further General Fund efficiency.
- Utilise Housemark benchmarking to identify activities where unit cost is an outlier. Learn from what others are doing well or more efficiently.
- Optimise income from Leaseholders.
- Optimise income, through re-letting properties at target rent.
- Optimise income, through actions to promote financial inclusion, and a focus on improving the approach to Former Tenant Arrears.
- Additional service charge income (recouping of under-charged service charges).

39. The Housing Service approach is forward thinking, to avoid upstream costs or knock on costs to other services, that could arise from these or any further proposals. Efficiency must lead to better outcomes, as well as financial savings. The Service will think creatively, or laterally, as to how best to add value, or increase income, or produce additional benefit, so as to optimise the Return On Investment (ROI).

40. Since 2011 the Council has been reletting properties at the formula rent, such that by 2014/15 it is anticipated that 27% of tenancies will be on the formula rent. The gradual increase in properties at this level of rent will augment rental income by approximately £0.020m per year. An explanation of formula rent is given in the Rent Increase section below.

41. The Housing Services undertook a full review of charging during the summer/autumn of 2013, to determine whether the current level of service charges recouped the actual cost of providing those services.

42. The review found that a small number of charges can be reduced, but a number – especially for heating, lighting and cleaning – should be increased to properly reflect the cost of providing these services. Fuel costs in particular have seen a significant increase in prices over the last few years. In total there is a shortfall of £0.149m annually between what is charged and the cost to the Housing Service.

43. In order to minimise the potential financial impact on tenants, but to ensure that the Council begins to recover the true cost of these items, it is proposed that any increase in service charges for 2014/15 will be limited to a maximum overall increase of £1.10 per week.

44. This protection is limited to existing tenants. The true cost however will be charged for all new tenancies, even those who are already Council tenants but are transferring to another Council property. (The increased charge will be included in the property advertisement on the Choice Based Lettings site.) The anticipated savings for 2014/15 are £0.050m and for 2015/16 are £0.040m.

45. Further savings are forecast as a result of the additional net rent received from the new build properties, in particular the Extra Care Facilities that become operational from 2015/16. These are estimated at a total of £0.192m over the MTFP.

Rent increase

46. Income from rents and service charges is the main revenue funding for the HRA. The model assumes that rents will rise in line with inflation, consistent with the Government's Rent Convergence policy, introduced in April 2002.

47. The 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. 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 (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.

48. The proposed rent increase for 2014/15 is based on an increase in rent of the Retail Prices Index (RPI) + 0.5% + a contribution to close the gap between average local authority rents and Housing Association Rents. This is limited to a maximum individual increase of no more than RPI + 0.5% + £2.

49. In July 2013 the Department for Local Government and Communities (DCLG) announced that the policy of rent convergence will cease in 2015/16. From that point forward, until 2024/25, all rents will increase by the Consumer Prices Index (CPI) + 1%. The movement from RPI + 0.5% to CPI + 1% is not likely to result in a significant decrease or increase in rental income, as in recent times CPI has been approximately 0.5% below RPI.

50. However, a significant proportion of the Council's stock will not achieve rent convergence by 2015/16. This will have a revenue implication for the Business Plan, which is estimated to be £0.700m per annum. The value of this dis-benefit will diminish over time because the Council re-lets properties, when vacant, at the level of the formula rent.

51. Currently, Council rents are approximately 55% of current private sector market rents, which is affordable and within limits eligible for Housing Benefit. Further analysis of affordability, compared with market rents locally will be undertaken during 2014/15, as an action within the Housing Service Plan.

52. 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 5.46% on average for Central Bedfordshire Council tenants.

53. The rationale to implement this level of rent increase is to optimise income to the business plan for the next 30 years, thereby to maximise the investment potential, enabling the council to provide new homes, meet housing need, and maintain the stock in good condition.

54. In order to mitigate any hardship that results from a relatively high level of rent increase, a provision is being made in the budget of £0.220m, (an increase of £0.020m), specifically to be able to support tenants who experience hardship. This resource will be used to provide financial advice and tackle debt and money management problems. It will be used to enable individual solutions to be achieved, for example to facilitate moves that enable tenants to downsize to smaller sized accommodation.

55. This level of resource is significant, to mitigate any hardship experienced by some tenants. In effect, the relatively high level of rent increase overall is enabling the Council to target a significant resource towards the resolution of individual problems and to create solutions in individual cases that are long term.

56. The proposed rent increase will result in an average increase per week of £5.59 from the 2013/14 average weekly rent of £102.52 to £108.11. In a limited number of cases, the weekly increase is higher, up to a maximum of 6.82%.

HRA Capital Programme

57. The 2014/15 – 2017/18 Housing Revenue Account (HRA) detailed Capital programme is attached at Appendix C.

58. The capital programme is financed by capital receipts from Right to Buy (RtB) and land sales, contributions from retained rentals (revenue contributions), and contributions from Reserves. A breakdown of this financing is shown at the bottom of Appendix A.

Engagement with Overview & Scrutiny Committees and Tenants

59. The draft HRA budget report has been presented to the Social Care, Health & Housing and Corporate Resources Overview & Scrutiny committees in January 2014. The draft budget and Investment plan were presented to the chairs of the Way Forward Panel and Sheltered Tenants Action Group (STAG) during November 2013, and further discussion occurred in January 2014.

60. Feedback from the tenant groups was generally positive, however they stressed the importance of balancing new build against the need to remodel and enhance the existing stock.

61. Council tenants and leaseholders will still have the opportunity to be involved in any site specific or area based proposal for investment. For example, it is proposed to establish a tenant led approach to Estate Improvement proposals, on the basis of a Dragon's Den type approach. The aim is to strengthen our approach to Pride of Place and neighbourhood management more generally.

62. Concerns were also raised about the average increase to tenants rents, and views were expressed by a proportion of tenants that the average percentage increase, as determined by the rent convergence formula, did not match the level of increases in wages or pension uplifts.

NEXT STEPS

63. 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 the Council's strategic objectives.

64. 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 until 2017/18, whilst monitoring closely all fluctuations in interest rate costs.

65. It is forecast that the HRA will have a total of £19.992m in its Reserves as at 31 March 2013, comprised of £11.416m in the Extra Care Development Reserve, £6.376m in the Strategic Reserve, and £2.200m of contingencies. In addition it is forecast that £1.957m will be available for capital investment from unapplied Capital Receipts.

66. The Housing Service is well placed to deliver regeneration, through investment 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. The Investment Plan can be used to benefit all wards in Central Bedfordshire.

Appendices:

Appendix A	30 year forecast of Housing Service capital and revenue expenditure; and also income, which is the summary of the Housing Service Business Plan
Appendix B	Summary of the Business Plan for the period 2014-2020
Appendix C	2014/15 – 2017/18 Housing Revenue Account (HRA) detailed Capital programme
Appendix D	HRA Budget Assumptions
Appendix E	Overview and Scrutiny Comments to be table (if required)

Background/Briefing Papers

None