Central Bedfordshire Council

EXECUTIVE - 13 January 2015

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

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

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

This report relates to a non-Key Decision

Purpose of this report

1. The report sets out the financial position of the Housing Revenue Account (HRA) and the Draft Budget for 2015/16. There are proposals concerning the debt strategy, investment potential and rent increases.

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

1. **note the HRA's debt portfolio and interest payments due in 2014/15;**
2. **note the intention to commence principal debt repayments from 2017/18, as approved previously by Council in February 2014;**
3. **approve the Landlord Business Investment Plan, which proposes HRA investment throughout the Council area;**
4. **approve the Draft HRA Revenue Budget for 2015/16 and the Landlord Business Plan summary at Appendix A and B;**
5. **approve the Draft 2015/16 to 2018/19 HRA Capital Programme at Appendix C; and**
6. **approve the draft average rent increase of 2.20% for 2015/16 in line with the national rental increase as per Government guidance.**

Executive Summary

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

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

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

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

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

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

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

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

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

Budget Objectives

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

i. Produce a sustainable plan which enables the Housing Service to achieve the objectives within the Housing Asset Management Strategy (HAMS), maintaining investment in the existing stock, yet expanding the new build programme and promoting regeneration;

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

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

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

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

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

Introduction

13. The HRA Budget balances priorities for maintaining the existing assets with opportunities for new investment. A similar balance is sought between the Council's strategic priorities, as well as tenant aspirations for improvement. In developing a draft HRA Budget, the aim is to achieve "win, win'' (and where possible "win, win, win") solutions that have tenant support and are aligned to the Council's strategic priorities.

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

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

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

Self Financing Loan Portfolio and Debt Strategy

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

Loan Type	Amount £m	Maturity Date	Rate %	Annual interest payment £m
Fixed	20.000	2024	2.70	0.540
Fixed	20.000	2026	2.92	0.584
Fixed	20.000	2028	3.08	0.616
Fixed	20.000	2030	3.21	0.642
Fixed	20.000	2032	3.30	0.660
Fixed	20.000	2034	3.37	0.674
Variable	44.995	2022	0.66 (variable)	0.299
TOTAL	164.995		2.43 (average)	4.015

18. All loans have been taken on a maturity (interest only) basis. This approach enables money to be released, for investment purposes, in the early years of the Plan, without the need for principal debt repayments. The Council has saved a significant sum in the current financial year by taking 27% of its debt portfolio on a variable basis, as that rate has been confirmed at an average of 0.66% for the year. This is considerably lower than any of the fixed rate debt.

19. The current expectation in financial markets is for rates to remain low in the short to medium term (1 to 3 years). However, Interest rates are difficult to predict. Due to the size of the variable proportion of the debt, relatively minor increases in rates could have a significant impact, for example a 2% increase in the variable interest rate would incur an additional £0.900m cost per year.

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

21. As a means to reinforce the longer term viability of the Landlord Business Plan, it is proposed to commence principal debt repayment in 2017/18, with an intention to make annual repayments such that by 2021 approximately £10m of the self financing debt is repaid. Even allowing for an average interest cost of 5% from 2023/24, the Business Plan currently predicts complete debt repayment after 25 years, which is the financial year 2039/40. The Business Plan is in a strong position.

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

Landlord Business Investment Plan

23. The Business Plan allows the Council to have flexibility as to whether it repays debt in the early years of the plan or chooses to invest its surpluses, in the existing stock or new build. The debt strategy proposed above is designed to enable full debt repayment well within the 30 year horizon of the Plan, taking into account prudent estimations of interest rates, inflation on expenditure and income, and Right to Buy (RtB) sales, whilst also delivering annual surpluses for investment.

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

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

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

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

28. The Plan seeks to balance improvements to existing stock with other Council objectives, in particular enhancing Central Bedfordshire by providing new homes, especially homes that will help to protect and improve the lives of more vulnerable people in the community and meet the challenges posed by demographic changes that are predicted to occur over future years. For example, accessible homes.

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

Mixed tenure, Independent Living scheme in Houghton Regis

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

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

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

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

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

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

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

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

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

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

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

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

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

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

    4. An improved local heritage offer

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

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

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

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

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

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

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

Garage sites and other opportunities to build new homes

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

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

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

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

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

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

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

Landlord Business Plan & Reserves

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

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

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

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

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

Efficiency and Value for Money

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

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

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

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

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

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

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

Rent increase

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

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

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

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

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

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

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

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

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

72. Since 2013 a provision has been made in the budget, specifically to be able to support tenants who experience hardship. This resource has been used to provide financial advice and tackle debt and money management problems. It is also used to enable individual solutions to be achieved, for example to facilitate moves that enable tenants to downsize to smaller sized accommodation. This provision is budgeted at £0.200m for 2015/16.

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

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

HRA Capital Programme

75. The Draft 2015/16 – 2018/19 Housing Revenue Account (HRA) detailed Capital programme is attached at Appendix C. The capital programme is financed by capital receipts from Right to Buy (RtB) and land sales, contributions from retained rentals (revenue contributions), and contributions from Reserves. A breakdown of this financing is shown at the bottom of Appendix A.

Engagement with Overview & Scrutiny Committees and Tenants

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

Council Priorities

77. The proposed actions support the Council's priority to enhance Central Bedfordshire by managing growth effectively and balancing regeneration aims with growth, through investment to promote economic benefit, employment and renewal. At the same time, improvements are focused on enhancing the living conditions of the more vulnerable members of the community.

Corporate Implications

Legal Implications

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

Financial Implications

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

Equalities Implications

80. There are no Human rights or equality implications arising directly from this report, although the re-provision and re-modelling of sheltered and general needs housing would be subject to Equalities Assessment.

Risk Management

81. In considering the budget proposals, it is necessary to take account of the associated risks and in particular the budget planning assumptions contained within Appendix D attached. Any changes to these could impact on the financial position of the HRA Business Plan.

82. The main risk is in relation to the HRA Debt Strategy. The current average rate of interest on HRA debt is 2.43%. Increases to interest rates would have an immediate effect on the variable rate loans, and could have an impact on refinancing costs for the fixed rate loans that mature from 2024. Close monitoring of financial market conditions, allied to a consideration of principal debt repayment, is required to deliver a debt strategy that will support the Landlord Business Plan.

83. There are risks that relate to income collection, arising from Welfare Reform, in particular the spare room subsidy. The mitigation of those risks is a proactive approach being taken to enable tenants to move. During the current year, 58 new tenancies have been created through enabling Mutual Exchanges and Transfers, so that people are able to secure accommodation that they can afford to occupy in the long term. It is the Council's commitment to being customer focussed, supporting community self reliance and providing a high quality housing management service that is the primary mitigation of risk in this area.

84. The Housing Service is informing tenants of Benefit changes and allocating additional staff resources to monitoring and controlling arrears and supporting tenants to manage their income. It is apparent that the Housing Service is getting closer to customers, as a result of welfare reform and being able to resolve problems.

85. There is a further risk that future Right to Buy (RtB) sales will reach levels that adversely affect the Business Plan, by significantly reducing income streams. The government is committed to helping those tenants with an aspiration to own their own home and, to further this aim, the discounts available under Right to Buy were increased in April 2012. From July 2014 the maximum percentage discount for tenants living in houses increased from 60% to 70%.

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

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

Community Safety

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

Sustainability

89. Investment in the housing stock and specifically the proposed mixed tenure, mixed use Independent Living scheme in Houghton Regis will contribute to regeneration across Central Bedfordshire and provide wider economic benefits and employment.

Conclusion and next Steps

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

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

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

93. Consultation with tenants, in particular the newly created Tenant Investment Panel (TIP), has helped to shape a balanced approach, and engagement will continue to evolve, in the hope that greater numbers will wish to be aware of and influence the investment decisions going forward. In its first year the Tenant Investment Panel has supported in principle an ambitious programme of increased investment over the next 6 years, incorporating £65m of investment over and above that required to maintain the existing stock.

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

Appendices

95. The following Appendices are attached:

i. Appendix A: 30 year forecast of Housing Service capital and revenue expenditure; and also income, which is the summary of the Landlord Business Plan

ii. Appendix B: Summary of the Business Plan for the period 2015-2021

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

iv. Appendix D: HRA Budget Assumptions

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

Background Papers

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

None