Central Bedfordshire Council

EXECUTIVE 10 January 2017

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

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This report relates to a non-Key Decision

Purpose of this report

1. The report sets out the Draft Housing Revenue Account (HRA) Landlord Business Plan Budget for 2017/18, with proposals that respond to legislative changes; make best use of the investment potential; account for the rent reduction; and align to the debt strategy in the context of long term Business Planning.

RECOMMENDATIONS

The Executive is asked to approve the Draft HRA budget proposals for 2017/18, as set out in the report, as the basis for consultation with Overview and Scrutiny Committees and more broadly, through public consultation.

Executive Summary

2. The Council's Housing Revenue Account remains in a strong financial position, as we approach the end of the fifth financial year since the introduction of Self Financing. Reserves of circa £20M are predicted for the 2016/17 financial year end. Having completed a large scale, mixed use Independent Living development at Priory View there is confidence and ambition to deliver further new build schemes which, directly and through chains of moves, meet local housing need. As well as helping to regenerate communities and promote economic growth, the HRA is assisting the Council's General Fund (GF) to make efficiency savings through an invest to save approach, that responds to housing demand pressures and demographic change.

3. The HRA continues to operate against a backdrop of uncertainty and potential challenges to the Business Plan. Government legislation requires a further 3 years of social rent reductions. A void levy is also being applied by Government, although this will not be implemented until 2018/19. The extension of Local Housing Allowance (LHA) to the social sector could impact on the ability to fully recoup rent via Housing Benefit in certain circumstances. These risks are being managed, mainly through a robust approach to business planning.

4. The HRA Business Plan has been reviewed, to fully reflect current economic indicators, such as debt interest rates, thereby ensuring that assumptions within the General Fund MTFP – Medium Term Financial Plan – are applied consistently to the HRA. Revenue efficiencies in 2017/18 of £0.750M have been identified to mitigate the effect of reduced income. Reserves are being maintained to address the requirement to pay a 'Voids levy', which in effect re-opens the Self Financing settlement.

5. Taking a strategic and balanced approach to long term investment, there is commitment to repay the Self Financing debt of £165M. To date there have been no principal repayments, but previous reports have set out that debt repayment would commence from 2017/18. It is proposed to maintain this approach by repaying £9.73M over the 4 years between 2017/18 and 2020/21, with the entire debt being repaid within the 30 year Business Plan period. Adopting this strategy reduces the risk from refinancing at a potentially higher rate of interest than the HRA Business Plan is currently benefiting from.

6. The Sheltered Housing Review identified several schemes that need to be modernised, or entirely renewed. There is commitment to delivering the outcomes from the review and resources have been identified to enhance the existing stock and estates, with a value of £11.5M over 6 years. This represents additional funding above that required to maintain the stock in good condition, estimated at £36.7M.

7. As in previous years, it is proposed to focus investment on delivering Independent Living solutions, to address demographic pressures and enable efficiencies to General Fund (GF) Social Care budgets. Houghton Regis Central (estimated at a build cost of £34M), is the main programme within the HRA Investment Plan; incorporating 168 apartments for older people; a strong retail offer; re-ablement suites; a Community Hub and improved heritage offer, complementary to the Houghton Hall Park project. It will also be possible to regenerate the Croft Green and Crescent Court Sheltered schemes, increasing the number of apartments overall.

8. There are increasing homelessness pressures, which are impacting upon GF temporary accommodation (TA) budgets. The approach being taken is to create “system resilience” for the future, establishing flexible provision across Central Bedfordshire, to be managed intensively as either TA and/or supported housing; thereby to enable the Council to avoid the high level of costs that is seen in other local authority areas. Aligned to this approach is an increased focus on cost reduction and maximising income through a modernisation approach that includes technologically enabled services and business process re-engineering.

Budget Objectives

9. The primary objectives of the 2017/18 Budget have been:

i. Reflect the financial implications of the rent reduction and make provision through Reserve balances for the impact of a prospective void sale levy from Government;

ii. Review long term assumptions concerning inflation on rental income and revenue expenditures, setting these in the Business Plan at the estimated CPI+1% from year 4 for rental income, and year 5 for revenue expenditures. Debt interest rates have been assumed at 3.5% from year 5 (based on the latest longer term forecasts);

iii. Taking into account the items above, produce a sustainable Business 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;

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

v. Maintain HRA Balances at £2.0M, with a further contingency of £0.2M in the Major Repairs Reserve (MRR), this additional contingency being immediately available to address one off emergencies such as the provision of temporary accommodation and repairs required in the event of fire or other major incident;

vi. A continuing commitment to a value for money approach; underpinned by strong performance, delivering reduced unit costs, increased income and enhanced business efficiency; mainly through technologically enabled services and business process review.

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

Background

11. The HRA Budget balances priorities to maintain 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 strategy is benefits optimisation, thereby to achieve "win, win'' solutions that have tenant support, whilst being aligned to the Council's strategic priorities.

12. The HRA Budget for 2017/18 sits within the context of the thirty year Business Plan and so strikes a balance between current and future expenditure and income. The Business Plan includes annual budgets for the HRA Capital and Revenue programmes, incorporating management and maintenance costs and sums set aside for capital investment, both in the existing stock and new build. The Capital programme is financed from revenue contributions, Reserves, and capital receipts retained after housing pooling. An explanation of the pooling system is given under External Assumptions in Appendix D.

13. The brought forward balance of unapplied Capital Receipts was £2.996M as at 1 April 2016. The brought forward balances for other HRA reserves was £19.452M as at 1 April 2016, split between contingencies of £2.2M, an Independent Living Development Reserve of £9.004M and a Strategic Reserve of £8.248M.

14. By not repaying principal debt in the first 5 years following the self-financing settlement (2012), the Council has been able to use annual surpluses to build substantial reserves, which leave it in a better position to address challenges posed by the recent legislative changes.

15. The Council has also been able to embark upon a major investment strategy, supported by the use of Right to Buy (RTB) receipts, that addresses the aspirations of existing tenants whilst expanding our offer to residents across the whole of Central Bedfordshire. This strategy is tied to an exacting timeline, given that RTB receipts are subject to an agreement with Government to replace homes sold through the Right to Buy with new homes. It is important that the Council maintains momentum to deliver or, if necessary, to acquire new homes as part of the approach to create system resilience across Central Bedfordshire.

Self Financing Loan Portfolio and Debt Strategy

16. **Table 1** below shows the constituent loans and interest rates applicable in 2016/17:

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	0.57 (variable)	0.258
TOTAL	164.995		2.41 (average)	3.974

17. 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 0.57% for the year. This is considerably lower than any of the fixed rate debt.

18. The current expectation in financial markets is for rates to remain very low in the short to medium term (1 to 4 years), and for longer term debt (30 years) to be available for the Council to borrow at an average rate of 3.5%. 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 1% increase in the variable interest rate would incur an additional £0.450M cost per year.

19. It is worth considering the risk of interest rate increases when the Council comes to refinance some or all of the £120M of fixed rate debt that matures from 2024. It is unlikely that the Council will achieve the preferential interest rates available at the time of the Self Financing settlement. The Business Plan anticipates a gradual increase in the average interest rate so that by 2021/22 the average rate is 3.5%, and that this rate continues throughout the rest of the 30 year period.

20. As a means to reinforce the longer term viability of the HRA Business Plan, it is proposed to commence principal debt repayment in 2017/18, with an intention to make annual repayments such that by 2021 £9.73M of the self financing debt is repaid. The current prediction is for full debt repayment after 27 years, which is the year 2043/44.

21. In order to avoid early redemption penalties, debt repayments in the period to 2022 will be made from the variable rate portion (£44.995M).

Housing Investment Plan

22. The HRA 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 within the 30 year horizon of the Plan, taking into account prudent estimations of interest rates; inflation on expenditure and income; Right to Buy (RtB) sales; sales of shared ownership and outright sales; whilst also delivering annual surpluses for continued investment.

23. The HRA is forecast to have sufficient funds available to undertake approximately £46M of additional investment, over and above that required to maintain the stock in good condition (circa £37M), in the next 6 years. A substantial portion is likely to be receipts from sales and/or investment by the HCA – Homes and Communities Agency. The Investment Plan is a 6 year budget projection for the HRA Capital programme The Tenant Investment Panel (TIP) has been consulted on the Plan, to ensure they are supportive of the proposed split of funding between stock protection and future investment.

24. Whilst recent stock condition surveys give assurance that our portfolio of Council housing is generally in good condition, there are areas where the stock would benefit from modernisation, or improvement. The Sheltered Housing Review, undertaken in partnership with tenants, has revealed that several schemes require additional investment and therefore, a total of £1.369M has been provisionally allocated within the Investment Plan over 6 years.

25. There are opportunities to improve car parking on many estates and to enhance the estates including communal green spaces surrounding blocks. A programme to improve the efficiency of lighting in communal areas, including the installation of Passive Infra Red (PIR) sensors to save energy, is due to complete in 2017/18. This will save tenants on their service charges and by reducing electricity usage will also reduce impact on the environment. £1.723M of expenditure is earmarked against these 3 projects over the 6 year period.

26. Other significant areas of spend within the Stock Protection programme are Kitchen and Bathroom replacement (£5.829M), Central Heating installations (£4.744M), Aids and Adaptations to properties to help sustain tenancies (£2.681M), and an Energy Conservation programme (£2.586M) which will significantly improve thermal insulation at many of the Council's least thermally efficient homes. A programme of window replacements (£1.297M) will involve updating older windows with units that provide improved levels of thermal and noise insulation.

In total £24.093M is set aside for Stock Protection over 4 years, rising to £36.672M over the 6 year Investment Plan period.

27. Construction work at Croft Green, Dunstable, is due to commence in the Spring of 2017, with completion due in Autumn 2018. The project will involve demolishing an outdated block of bedsit flats and replacing it with a high quality facility built to modern accommodation standards with adaptable communal spaces. 9 units will be replaced with 24 and the scheme will provide a central facility for the use of tenants of other schemes. The proposed budget in the Investment Plan is £2.720M, before slippage of circa £2M from 2016/17.

28. The Sheltered Housing Review identified several schemes that require modernisation. It is proposed that the next sheltered project to be redeveloped would be the Crescent Court site. Crescent Court is a 21 unit Sheltered scheme, built in the 1960s, that is no longer fit for purpose but is situated on a large site in an excellent location in Toddington, close to local amenities and services. At the time of last year's budget report it was not expected that this project would commence before 2020, but careful examination of cash flows within the Business Plan demonstrate that, subject to HCA funding, work to bring forward a proposal could commence in the next financial year.

29. Initial design work suggests that a modern, well designed facility with excellent communal space and facilities could increase capacity to 45 units. Latest estimates point to a total cost of circa £9.5M, a proportion of which (£1.35M) may be financed by a grant from the Homes and Communities Agency (HCA), subject to approval of a bid made in September 2016. It is proposed to further assist the financing of the scheme by offering 24 apartments for shared ownership, with 21 homes for affordable rent. Recent marketing of the 31 shared units at Priory View suggests there is a great demand for shared ownership, with an average purchase percentage of circa 65%. This approach enables a proportion of the build cost, potentially £3.5M, to be recycled quickly enabling continued and sustained investment in future years.

30. Over the 4 years of the MTFP the proposed investment in schemes relating to existing HRA stock, over and above that defined as Stock Protection, amounts to £11.218M, and over 6 years it totals £11.49M. The Plan seeks to balance improvements and regeneration of 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 respond to the challenges posed by demographic changes and increasing homelessness pressures, which translate into demand for temporary accommodation on an emergency basis.

31. The Priory View Independent Living development in Dunstable, which opened in April 2016, demonstrates the potential for HRA investment to extend the Council's portfolio of housing, mitigate the effect of Right to Buy (RtB) sales on the Business Plan, and address the under provision of Independent Living accommodation for older people, which is both a local and national issue as a result of demographic change.

32. The HRA Budget report from last year approved a proposal in principle to bring forward a new Independent Living scheme at Houghton Regis. This is an more ambitious project than Priory View, as the site available is central to Houghton Regis and could deliver 168 apartments with at least 6 retail units; two re-ablement suites; a community hub and an improved heritage offer, aligned to the Houghton Hall Park project.

33. Last year the Investment Plan made provision for a net spend (after potential HCA funding) of £29.476M. After a process of consultation, adjustments to the design, and a thorough costing assessment, it is proposed to increase this provision to £30M net. A bid for £4.26M of funding from the HCA was made in September 2016. The Business Plan has been modelled on the basis of a significant proportion (71, or 42%) of the apartments being made available for shared ownership. For the first time in the history of the Council's HRA it is proposed to build units for outright sale, offering 26 apartments (15%) on this basis.

34. On the basis of a projected £34.26M total scheme cost, the financing of the project is potentially: £4.26M of HCA funding, £17M sales receipts and £13M financed by the HRA over the long term. These are prudent sales value assumptions and could be improved, depending on house price inflation over the next four years. A key learning point from Priory View is to maintain quality, to properly allow for Whole Life Building Costs, as well as to achieve the optimum sales and rental values.

35. The advantage of this approach is that a large proportion of the initial cost of the scheme can be recycled (enabling continued investment in future years), with current estimates (which will vary depending upon actual valuations and percentages purchased at the time) suggesting circa £17M of the net cost of £30M could be recycled in this way. These sales receipts are at the heart of the Housing Investment Plan approach, forming an intrinsic part of the Business Plan over the 30 year period; and without them the Council would not be able to pursue all of the programmes referred to in this report. The approach to HRA investment is strategic, balanced and makes best use of resources.

36. A further opportunity has emerged on HRA land in Windsor Drive, Houghton Regis, where there is the potential to develop a 20 unit, 3 storey supported bedsit accommodation scheme that can be used for a variety of client groups, for example single homeless entitled to emergency temporary accommodation, and let on an affordable rent basis. The estimated build cost is circa £2.2M, a proportion of which (£0.6M) may be financed by a grant from the HCA, subject to approval of the bid made in September.

37. During 2016/17 the Council has budgeted £2.11M for the purchase of properties in the private sector, with spend of £2.015M achieved and 7 properties purchased across the Council area. Purchasing properties in this way has several advantages. The purchase can be part funded (30%) by the use of RtB receipts retained for one for one replacement (see Appendix D). After any necessary conversion the properties can very quickly be used to supply accommodation for vulnerable clients presenting as homeless, thereby saving General Fund expenditure on costly temporary accommodation where only a proportion of the rent would be paid for by Housing Benefit. Purchasing properties in this way also offsets some of the reduction in stock occurring as a result of RtB. It is proposed that this programme should continue, with £1M over 4 years and £1.75M over 6 years.

38. There is a continuing, albeit modest, provision related to other site developments, totalling £0.288M over 4 years and £1.144M over a 6 year period. This relates to redevelopment of the garage blocks, and for other renewal schemes that would enable the remodelling of stock that no longer meets the needs of prospective tenants, such as bedsits, or improvements to HRA shops with flats above them. Schemes will be analysed with a view to bringing forward those that are most viable, or deliver the greatest community benefit, to a design and planning stage, with an open minded approach to delivery which could involve onward sale. In addition, provision has been for a small scale development (2 units) at Havelock Road in Biggleswade, on land transferred from the General Fund in 2016/17, at a cost of £0.2M.

39. Over the MTFP period, the amount proposed to fund new build and regeneration is £33.1M, and £34.7M over the 6 year Investment Plan period, inclusive of £30M provisionally allocated to Houghton Regis Central. When combined with proposals for spend on stock protection and new funding for existing stock, the programme totals £68.4M over 4 years and £82.9M over 6 years. At a time of significant housing pressures, where housing supply is constrained, this level of investment will enhance and increase the housing stock, whilst being aligned to and supporting the achievement of all of the Council's strategic priorities.

Housing Revenue Account Business Plan & Reserves

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

£M	2017/18	2018/19	2019/20	2020/21
Income	(28.6)	(28.4)	(28.3)	(29.0)
Spending on Revenue	15.6	15.6	15.5	15.5
Direct Revenue Financing*	2.3	2.0	0.0	0.0
Debt costs (interest)	3.9	3.9	3.9	4.0
Debt repayment (principal)	1.5	1.6	2.8	3.8
Efficiency Savings	(0.8)	(0.5)	(0.3)	(0.2)
Contribution to ILDR**	5.8	3.1	2.4	4.9
Contribution to SR***	0.3	2.7	4.0	1.0
Net Balance	**0.0**	**0.0**	**0.0**	**0.0**

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

41. **Table 3** below shows a summary of the balances forecast to be available in Reserves as at 1 April 2017, together with transfers to and from Reserves over the period of the MTFP.

£M	2017/18	2018/19	2019/20	2020/21
Independent Living Development				
Balance b/fwd	13.8	17.6	9.7	3.1
Contributions to Reserve	5.8	3.1	2.4	4.9
Allocations from Reserve	(2.0)	(11.0)	(9.0)	(8.0)
Balance c/fwd	**17.6**	**9.7**	**3.1**	**0.0**
Strategic				
Balance b/fwd	3.7	2.0	1.2	2.8
Contributions to Reserve	0.3	2.7	4.0	1.0
Allocations from Reserve	(2.0)	(3.5)	(2.4)	(0.9)
Balance c/fwd	**2.0**	**1.2**	**2.8**	**2.9**
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	**21.8**	**13.1**	**8.1**	**5.1**

HRA Debt

42. The HRA Business turnover, or annual rent debit (before void loss), was £30.575M in 2015/16 (£30.370M in 2014/15). Total current and former tenant arrears were £0.910M at the year end (£0.926M in 2014/15), with current arrears at £0.428M or 1.40% of the annual rent debit (£0.5M or 1.7% at March 2015). The figure of 1.40% is a 0.4% positive variance against a target of 1.8%, which has decreased from a target of 2% in 2014/15. Former tenant arrears (FTA) were £0.482M, or 1.58% of the annual rent debit, against a target of 1.0% (£0.426M or 1.45% at March 2015).

43. A significant proportion of the current tenant arrears (£0.263M or 61%) was less than 8 weeks old, and generally relates to minor timing issues between rents becoming due and payments being made. With the background of welfare reform, the Housing Operations Team have implemented a pro-active approach to managing the impact on rent arrears, known as Tenancy Sustainment. This includes early intervention; 'Right-sizing' where appropriate; increased contact with our residents; supporting tenants in making the right decisions regarding payment of rent; and strong enforcement action when all other options have been exhausted.

44. Relationships with other Registered Providers of social housing have enabled us to benchmark, research good practice, and ensure genuine unrecoverable debts are presented for write off quarterly. This ensures the FTA officer is concentrating their time on cases with the highest probability of recovery. Since 2015 recovery of FTA debt has taken on a completely different approach from previous years as research has shown that the probability of recovery can actually increase with the age of the debt. For example, if a family is evicted from one of our properties it can take between 3 to 12 months for the family to resettle, enabling a trace to be made and thus the debt can be pursued.

45. Debt recovery plans may be put in place and take several years to settle. An affordable payment plan reviewed on a regular basis increases the probability of full recovery. Where contact is maintained, debt can be recovered up to 6 years after becoming an FTA, however where a period of 2 to 3 years has elapsed and no contact or trace has been possible the debt will be put forward for write off. The current approach to FTA debt has resulted in recovery in the previous year exceeding £0.130M, compared to the previous two years total recovery not exceeding £0.020M. The service is confident with the current approach and anticipates further improvements in recovery rates. This performance is strong compared with other Registered Providers.

46. Importantly, arrears will only become a cost to the HRA when they are written off, or when additional provision is made to allow for the possibility of bad debts being written off. The provision has been increased steadily since 2013/14 to allow for the potential threats posed by Welfare Reform, increasing from £0.380M to £0.541M at year end 2015/16. However, the efficiency savings related to the Tenancy Sustainment approach and strong performance generally, has resulted in this provision being only partially utilised during the last 3 years, with £0.064M written off in 2013/14, £0.051M in 2014/15, and only £0.015M in 2015/16. As result, the contribution to the provision in 2015/16 was only £0.042M, a saving on the budget of £0.119M of £0.077M.

Business Efficiency and System Resilience

47. As well as financial uncertainties relating to interest rates, inflation on rents and expenditures, and the financial implications of Government legislation, there are risks to the Business Plan posed by potential problems with labour supply and supply chains within the Construction and Repairs/Maintenance sector. The Housing Service is reliant upon construction/maintenance contractors for repairs and capital works, and with such an ambitious new build programme the prevailing market conditions for these skills is a key element to achieving those aims.

48. A significant component of the efficiency programme identified for the HRA relates to the Repairs service, with a view to creating a new Repairs Delivery model by bringing together several contracts in late 2018, whilst considering a range of delivery options. The starting point is to implement a ‘self serve’ customer interface using First Touch apps aligned to ‘end to end’ system integration between contractor and Council systems, all of which is in progress.

49. By late 2018, the aim is to create a Repairs Delivery model that is better able to respond to the problems within the labour market, so as to retain a sustainable, skilled workforce, in terms of maintenance and repair type operations. The project is therefore ‘two-stage’. Initially, to create a lean, fit for purpose, mainly self service customer interface across all repairs type operations; aligned to the creation of a sustainable model to deliver high quality repairs and servicing. This will be developed through an Options Appraisal process, to include the potential for a Joint Venture model, offering the Council greater control; the aim being to improve the sustainability of the workforce, whilst partnering with Repairs contractors to benefit from their expertise.

50. Complementing this approach is the continued investment in learning and development, to support successful and sustained recruitment across the Housing Service. The Housing Service benefits from strength in depth, particularly at Team Leader and Manager level, with managers who are bringing through new, well trained talent.

There is succession planning and a commitment to provide employment opportunities for those aged 18-24 (through the apprentice programme), increasingly across a range of skills levels. There is an increasing focus on tenancy sustainment; a capable, experienced work force will be able to get closer to the customer, achieving great results.

51. The Council has reacted to increasing homelessness demand by allocating properties within the HRA for temporary accommodation (TA) usage. It has actively purchased properties in the private sector, throughout the Council area, converting them into social housing for single person households and also to be used as supported housing for vulnerable persons, as part of the Independent Living offer. Up to November 2016, 8 properties have been purchased for this intent, with further purchases proposed before the year end.

52. The strategic approach is to create ‘System Resilience’, which will enable the Council to avoid the high level of costs relating to temporary accommodation that is being seen in other local authority areas. As part of the approach, the Housing Service is creating an Intensive Property Management Team (within the HRA) that will manage all of the properties and rooms that are used for TA on a ‘hotel-style’ basis, in part to maximise income; but more importantly, to avoid cost at the level seen in neighbouring local authorities.

53. Over time, it is envisaged that this provision will increase to circa 250 units (homes, single rooms, shared accommodation). The use of this ‘circa 250 units’ will function flexibly, as both TA and accommodation based supported housing, the main aim being to avoid cost to the system. Whilst management and maintenance costs are significantly higher for this type of accommodation, the greater concentration of tenancies will also generate additional income for the HRA.

54. More importantly, this approach directly facilitates the Housing General Fund (GF) efficiencies, to reduce TA Budget provision over a three year period. As part of last year’s MTFP process it was agreed to reverse out the additional budget provision that was allocated in the GF for TA, in response to the large increase in demand seen in 2014-15 and 2015-16. The measures implemented by the Housing Service will enable this to occur, thanks to a joined up approach across the Housing Service, between the HRA and Housing Solutions (GF) where benefits are achieved as a direct result of a clear pathway through the Service, as well as ‘end to end’ system resilience.

55. At the point of first contact with customers, whether our own tenants or customers presenting in housing need or homeless, the approach is ‘prevention’ led, whether through tenancy sustainment; or actions that extend the client’s existing housing arrangement. This includes greater use of modern media methods (such as YouTube videos); and a focus on the outcome in each case, avoiding distraction, with a philosophy that “…every penny, every minute and every action counts...”.

56. This mind-set will help to eliminate waste by achieving the right result, on a first time basis. This is being achieved through a comprehensive modernisation approach that includes review and re-engineering of business processes to eliminate waste and ensure the housing system is 'fit for purpose'. A sustained approach to efficiency and re-investment, in particular to create 'system resilience', is imperative.

57. Efficiency in this context is not simply about doing more for less, but about the effective management of our stock and our staff resources; which unlike many Registered Landlords, includes significant investment in Tenancy Support and accommodation based support models. For example, the Housing Service has created a 'Children's Offer' using a first property for Unaccompanied Asylum Seeker Children, aged under 18 years, which includes support and is a progression model towards permanent settled accommodation.

58. In order to maximise the best use of our properties, there is a strategy to incentivise "Rightsizing" that encourages tenants who are under occupying properties to vacate larger homes and move to properties that will be easier to manage for them and more appropriate for their needs. In turn this frees up accommodation for those on the Housing Register. Priory View is a good example of this scenario where residents have freed up either Council or non Council properties. This approach is vital during a period in which supply is constrained and where demand for accommodation has outstripped supply.

59. The Independent Living model is therefore much more than just schemes like Priory View, or Houghton Regis Central, although these projects will provide solutions to help address the demographic pressure and a growing older population. The flexible model of circa 250 units (homes and rooms) will provide supported housing to a range of vulnerable client groups. In addition, the progression model through the system will in time become the default approach. This will be aided through the Council's Tenancy Strategy, which introduced Introductory and Fixed Term Tenancies in 2013 where previously the Council had offered open ended, secure, tenancies.

60. The latest MTFP includes efficiency savings for General Fund Housing Budgets of £1.633M (equivalent to 45%). £0.605M of this efficiency relates to reduced spend on temporary accommodation, with a further £0.3M related to generating income via business initiatives, £0.25M arising from a reduction in Supported Housing funding, and £0.201M from savings connected to intensive property management. This can only be achieved as a result of a joined up approach within a single Housing service, and as one Council, to avoid cost as well as to generate income. Put simply, reducing cost on front line Homelessness could result in more cost elsewhere – 'cost shunt'. So, our approach is always to function as a single Housing Service, operating within a 'one council' joined up approach.

61. There are risks and uncertainties in the economic environment. The strategy being proposed, choosing expansion rather than contraction, does involve an additional dimension to core activities that will require new skill sets and pose its own challenges. The approach will take time to develop. However, taking this direction will see cost in the GF being avoided and reduced as the HRA expands and enhances its asset base, whilst at the same time expanding and developing the skills of staff who will deliver a wider range of accommodation options and also new services. There are risks, however these risks are being managed.

62. The Housing Service is changing perceptions of what council housing is – and what is offered – aligned to the Council's core social purpose. Both the HRA and Housing General Fund includes income/surplus targets, with the first GF target of £0.1M being on track to be achieved in 2016/17. The second GF target for new income/surplus in 2017/18 is set at a further £0.3M; and whilst this target is considered a 'stretch' target (and ambitious in the short term), the Housing Service will identify short term compensatory savings, so as to mitigate the impact – yet remain focused upon bringing forward new income streams. This approach is aligned to an efficiency strategy where the main saving is cost avoidance through effective demand management.

Rent reduction and Service Charges

63. Rental and service charge income are the main funding sources for the HRA. The Business Plan has been adapted to accommodate the 1% reduction in rent for the first 3 years of the MTFP, in accordance with legislation. The former Chancellor announced that after the 4 years of rent reductions, which commenced in 2016/17, the guidance will return to CPI + 1%. However, the rent reduction has led to increased caution surrounding the longer term future of rent setting. The assumptions within the HRA Business Plan are prudent, assuming that future increases are 2% from year 4 to 30, equivalent to CPI at 1% plus 1%.

64. The policy interrupts the journey towards all tenants paying a rent for their home that is determined by a 'formula'. This approach to rent setting had already been diluted for 2015/16 as all rents increased by CPI+1%, regardless of whether a tenant was on the formula or the lower, transitional rent. However re-lets continue to be made at formula rent, with approximately 36% of tenants now paying a rent determined by the 'formula'. Still, national Rent Policy is unclear.

65. Approximately 37% of all the Council's tenancies are funded entirely by Housing Benefit. This group will gain no benefit from rent reduction. Whilst other tenants will benefit, this will lead to a widening of the gap between Council and Private Rented Sector (PRS) rents, where supply has not kept pace with demand and rent increases over the next 3 years are likely.

Council rents are approximately 50% of private sector rents (depending on property size), but by 2020 it is likely that the gap between private sector and Council rents will have increased further.

66. It is proposed that rents are set in line with Government statute, a reduction of 1% for Central Bedfordshire Council tenants, for 2017/18. The proposed rent reduction will result in an average decrease per week of £1.09 from the 2016/17 average weekly rent of £109.68 to £108.59. At a time of significant investment in the Housing stock, amounting to £68M over the MTFP, the current level of rent and the proposed reduction represent excellent value for money for tenants.

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

68. 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. This approach has succeeded in reducing the shortfall to £0.055M, as at the beginning of the financial year 2016/17. However, as the base data for actual costs relates to 2012/13 another full review has now been undertaken to assess the current gap, based on the actual cost for the year 2015/16.

69. The revised actual cost data has been used to calculate the current difference between what the Council is paying and the tenant is being charged, so that service charges can be adjusted in 2017/18. However, it is proposed that the policy of limiting the maximum increase to £1.10 per week will continue. Provided this approach is approved for 2017/18, it is estimated that the gap between the cost to the Council and the amount recouped will drop to circa £0.026M, which represents a considerable improvement from the position in 2013/14.

Sale of High Value Void Properties, Pay to Stay and changes to LHA

70. Government has announced the extension of RtB to Housing Association tenants. This involves offering qualifying Housing Associations tenants a discount, which may be funded via the sale of high value void properties by stock retained Authorities. The legislation does not force Authorities to sell their high value voids, but does make provision for Government to calculate "…the market value of the authority's interest in any high value housing that is likely to become vacant during the year…" and collect this payment less allowable costs, the nature of which will be set out once a determination is made.

71. During 2016/17 a limited pilot of the scheme took place. Government have decided to expand this pilot in 2107/18 and will fund the cost of Housing Association discounts during this period. Therefore, the Council will not now be required to make any payments in relation to the Sale of High Value Voids in 2017/18. However this policy still represents a significant long term risk as it is unknown how many Housing Association tenants will execute the RtB each year, and therefore the sum that will be required from each stock retained authority. At this point, the formula that will be used to make future determinations is unknown, so the amounts that may be due from Central Bedfordshire are also unknown. As with any estimation of future activity, the actual void rate and financial value of voids will differ from the calculation made by Government.

72. The Council will need to consider its strategy in relation to this legislation. Even if sufficient high value voids materialise, to enable sales income to cover the amounts that will be due, it may not necessarily be the best option to sell some or all of the properties concerned, as they may provide a better longer term return to the Business Plan than the value of the capital receipt. Given this uncertain context, the Business Plan has been constructed to ensure that sufficient funds are available in Reserves to offset the risk that income from void sales will not equal or exceed the amount determined by Government as due from Central Bedfordshire Council.

73. The Government established powers in the Housing and Planning Act 2016 to require local authorities to set higher rents for higher income council tenants (households earning over £40,000 a year in London and £31,000 a year in the rest of the country). The extra income was to be transferred to Government to assist with deficit reduction. This policy is known as “Pay to Stay”. In a statement on 21November 2016 the Minister of State for Housing and Planning announced that Government have decided not to proceed with this policy; the Council will therefore not be required to implement it.

74. In the Autumn Statement of November 2015 the Chancellor announced that Local Housing Allowance (LHA) caps would apply to social housing from April 2018, for tenancies that commenced after April 2016. The effect would be to limit housing benefit payments to LHA rates for Council tenancies. Whilst the vast majority of Council rents are well below LHA levels, newly built properties are generally charged an affordable rent which would generally exceed the LHA rate.

75. The Council’s new build programme mainly comprises supported accommodation for older/vulnerable tenants, for example Priory View or Houghton Regis Central. A further announcement in September 2016 indicated that the policy would not be applied to supported accommodation until April 2019, at which point Government will bring in a new funding model which will “…*ensure the supported housing sector continues to be funded at current levels..*.”.

This is an important assurance from Government which will devolve funding to English local authorities to provide additional top-up funding to Providers, from a ‘ring fenced pot’. This should ensure that vulnerable people continue to be supported, avoiding the cost of more expensive options.

76. There is a fear within the Housing sector that the top up fund will not fully compensate social housing providers for the differential between LHA and the affordable rent. A consultation is currently underway (concluding February 2017) concerning the future funding of supported housing. This area is being monitored; and the Council will seek to influence the Government’s thinking, thereby to ensure sustained, long term commitment to supported housing, as being more cost effective than alternative options.

HRA Capital Programme

77. The Draft 2017/18 – 2020/21 HRA detailed Capital programme is attached at Appendix C. The programme is expected to be financed by Homes and Communities Agency grant funding; contributions from retained rentals (revenue contributions), capital receipts from Right to Buy (RtB); capital receipts from shared ownership and outright sales, as well as land sales, and contributions from Reserves. A breakdown of financing is shown in Appendix A. The overall position on financing within the Housing Revenue Account is increasingly varied.

Engagement with Overview & Scrutiny Committees and Tenants

78. The draft HRA Budget report will be presented to the Social Care, Health & Housing Committee on 23 January 2016 and Corporate Resources Committee on 24 January 2016. Consultation with the Tenant Investment Panel (TIP) over the Investment Plan occurred during the autumn of 2016, with full tenant approval of all project lines.

79. Tenant involvement in the budget process has been greater than in previous years. Tenants were keen to be informed of the legislative changes and the impact on the Investment Plan, and then to have an influence over the revisions required. The draft Budget and Investment Plan will be presented to the Way Forward Panel, Sheltered Tenants Action Group (STAG) and TIP on 10 January 2017.

80. 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

81. The proposed actions support the Council's priority to enhance Central Bedfordshire by providing great resident services, 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 wellbeing of the more vulnerable members of the community.

82. The Housing Service approach clearly demonstrates and supports the journey towards being a more efficient and responsive council.

Corporate Implications

Legal Implications

83. The Budget sets out the resources that are required to enable the authority to discharge its statutory obligations as a Housing Authority.

Financial Implications

84. These are set out within the report. The HRA Business Plan shows that rental income will exceed the anticipated costs of managing the stock over 30 years, which will provide annual surpluses that will create opportunities for new investment, whilst repaying debt (£165M).

Equalities Implications

85. 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

86. 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.

87. Given the sudden and unexpected change in rent policy announced in the Emergency Budget of July 2015, there can be little long term certainty in terms of Government rent policy. Whilst latest guidance indicates that rent setting may return to CPI+1% from 2020, rental income in the Business Plan has been assumed to rise at 2% per year from year 4 to year 30, equivalent to CPI at 1% + 1%. Whilst this has the potential to be understated over the longer term, this cautious approach reflects current uncertainty, and will be reviewed on an annual basis along with all the assumptions in Appendix D.

88. The opening balances on Reserves, over and above the contingency of £2.2M, are predicted to be £17.5M as at 1 April 2017, with contributions from Reserves amounting to only £4M to fund investment in the year 2017/18. The estimated balance in Reserves, excluding contingency, as at 31 March 2018, is £19.6M. Whilst most of this amount is provisionally earmarked for the schemes proposed in the future years of the Investment Plan, it could (if required) be diverted to address shortfalls in amounts due to Government in relation to the void levy, or to repay debt if the interest rate environment changed.

89. Another key risk is in relation to the HRA Debt Strategy. The current average rate of interest on HRA debt is 2.41%. 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 HRA Business Plan.

90. There are risks that relate to income collection, arising from Welfare Reform, in particular the spare room subsidy and introduction of Universal Credit. The mitigation of the impact of the spare room subsidy is a proactive approach being taken to enable tenants to move. During the current year, 7 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 Council is committed to being responsive; customer focussed; and supporting community self reliance through provision of a high quality housing management service that mitigates risk in this area.

91. The Housing Service is informing tenants of Benefit changes; allocating additional staff resources to controlling arrears and supporting tenants to manage their income. The Housing Service performs well on income collection and re-letting properties. The Housing Service is getting closer to customers, having established the approach known as “tenancy sustainment”. Whilst this approach incurs higher revenue costs, the approach is a benefit to tenants and saves money to the whole system, benefitting the Council as well as the Health system.

92. 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 RtB were increased in April 2012.

93. The current maximum discount is £77,900, and this rises each year in line with inflation. From July 2014 the maximum percentage discount for tenants living in houses increased from 60% to 70%, to provide parity with those purchasing their own flats, and from May 2015 the qualifying period for the RtB was dropped from 5 to 3 years.

94. Whilst there has been an increase in RtB sales since April 2012, with 33 sales in 2015/16 and 15 in the financial year up to the end of October 2016, this represents a small percentage of the stock of approximately 5,200 rented homes. For further information, see Appendix D.

95. In terms of strategic direction, it is imperative that the replacement of homes sold through Right to Buy is maintained through an ambitious new build and/or acquisition programme that maintains ‘pace’. Were the stock level (circa 5,500 including Leasehold managed properties) to reduce substantially, the Business Plan (and all that we are able to do) would need to contract. Therefore, the pace of progress (new build or acquisitions) must be maintained; to avoid the immediate risk of having to repay RtB receipts to Government, or the risk of having to contract.

Community Safety

96. The options set out in the report provide opportunities to work with community safety partners to ensure the best outcomes. There is a pro-active approach to casework as well as close monitoring of performance, which ensures Anti Social Behaviour is well managed by the Housing Service.

Sustainability

97. 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; as well as significant town centre impact. The investment in Crescent Court, Toddington supports the sustainability of the village.

Conclusion

98. It is forecast that the HRA will have a total of £19.644M in its Reserves as at 31 March 2017, comprising £13.778M in the Independent Living Development Reserve, £3.666M in the Strategic Reserve, and £2.200M of contingencies. In addition it is forecast that £4.896M will be available for capital investment from unapplied Capital Receipts.

99. The Priory View Independent Living scheme demonstrates the opportunities afforded to the Council under Self Financing. Several more large scale developments are planned, generating approximately 260 homes over the MTFP period. This portfolio of investment will help regenerate communities; promote economic growth; and provide good quality housing for our more vulnerable residents.

100. Government legislation has been designed to facilitate a reduction in the Housing Benefits bill and extend the RtB to Housing Association tenants, the latter being funded mainly from the sale of high value void local authority properties. This has had both a quantifiable impact (in terms of the rent reduction), and an impact that is harder to assess (pending future determinations related to the sale of high value voids).

101. This has been addressed thorough close examination of both the Revenue Account and the Investment Plan. The resulting strategy balances a prudent approach to risk against the opportunities that continue to exist, thanks in part to the careful management of resources both before and after the introduction of Self Financing.

102. Careful monitoring of the impact of the legislative changes will be required and a strategy will be considered to address the challenges posed, in particular by the potential sale of high value voids. In the meantime – until more is known – it is proposed to maintain significant Reserves that could be used to develop life changing facilities and properties, such as those proposed at Houghton Regis Central. In the short term they are available to address unknown financial liabilities.

103. A balance is always to be struck between maintaining the stock in good condition, delivering new homes, regeneration projects, and making progress towards repayment of the self financing debt, so that future generations are not constrained by debt servicing costs. The current Business Plan continues the commitment to debt repayment, commencing in 2017/18 with a view to full debt repayment by 2044.

104. Not only is the Housing Service seeking to expand its stock but it is also embarking on new areas of business activity, principally an Intensive Property Management approach that will co-ordinate lettings across a stock of properties, the intent being to address homelessness pressures. This shows no sign of abating and poses a threat to General Fund revenue budgets. At the same time, the Housing Service will identify cost savings and reconfigure business processes to drive out waste and avoid failure demand.

105. As a modern business and complete Housing Service, operating in the self financing era, the Council has good reason to be confident, whilst proactively managing uncertainty and risk. The Housing Service is providing a contemporary and responsive customer offer (known as Independent Living). The teams perform well; and they are ambitious, as they seek to innovate and develop new business opportunities, thereby to mitigate the impact of changes to Government Policy; the rent reduction; and to avoid General Fund cost. The Council’s Housing offer is aligned to the Council’s core social purpose and affords tight grip and close management of the local housing system.

Next Steps

106. A period of public consultation will commence from January 2017.

107. Overview and Scrutiny Committees will consider the Budget proposals in their January 2017 cycle of meetings and comments will be included in the final Budget report to be presented to Council at its February 2017 meeting.

Appendices

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 2017-2023

iii. Appendix C: 2017/18 – 2020/21 Housing Revenue Account (HRA) detailed Capital programme

iv. Appendix D: HRA Budget Assumptions

Background Papers

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

None