Central Bedfordshire Council

EXECUTIVE Tuesday, 9 January 2018

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 2018/19. It sets out proposals that respond to legislative changes; make best use of the investment potential; mitigate pressures in the General Fund (GF) 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 2018/19, as set out in the report, as the basis for consultation with Corporate Resources Overview and Scrutiny Committee, tenants and the public.

Executive Summary

2. The Council's Housing Revenue Account remains in a strong financial position, as we approach the end of the sixth financial year since the introduction of Self Financing. Reserves of circa £27M are predicted for the 2017/18 financial year end. Having completed a large scale, award winning, 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 helping to reduce cost in the General Fund by acquiring and building properties that will address both demands for transitional accommodation and demographic changes.

3. The HRA continues to operate against a backdrop of uncertainty and potential challenges to the Business Plan. Government legislation requires a further 2 years of social rent reductions: however it has recently been announced that following that period rents will rise by the Consumer Prices Index (CPI) + 1%. Revenue efficiencies in 2018/19 of £1.681M have been identified to mitigate the effect of reduced income. Reserves are being maintained to address the potential requirement to pay a void levy, due to be applied by Government from 2018/19, but the amount required is still unknown, pending further clarification from Government.

4. Taking a strategic and balanced approach to long term investment, there is a commitment to repay the Self Financing debt of £165M. It is proposed to repay £2.1M over the 5 years between 2017/18 and 2021/22, with the entire debt being repaid within the 30 year Business Plan period. This is a rescheduling of the previous debt repayment profile, but will enable an additional £11.2M of acquisitions to occur, which will help to address the spiralling demand for transitional accommodation. In total circa £19M over the MTFP is proposed for property acquisition.

5. As in previous years, the other significant investment focus is on delivering Independent Living solutions, to address demographic pressures and enable efficiencies to GF Social Care budgets. Houghton Regis Central, estimated at a build cost of £35M, is the main programme within the HRA Investment Plan. The plan also allows for the regeneration of the Crescent Court Sheltered scheme, in Toddington, and for a number of smaller new build and refurbishment projects.

Budget Objectives

6. The primary objectives of the 2018/19 Budget have been:

    i. Reflect the financial implications of the previously announced rent reduction and make provision through Reserve balances for the impact of a prospective void sale levy by 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 3 for rental income, and year 5 for revenue expenditures. Debt interest rates have been assumed at 3.5% from year 6 (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.

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

Background

8. 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 to align tenant requirements with the Council's strategic priorities.

9. The HRA Budget for 2018/19 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.

10. The brought forward balance of unapplied Capital Receipts was £6.474M as at 1 April 2017. The brought forward balances for other HRA reserves was £23.771M as at 1 April 2017, split between contingencies of £2.2M, an Independent Living Development Reserve of £14.898M and a Strategic Reserve of £6.673M.

11. 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.

12. 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 and acquire new homes as part of the approach to create system resilience across Central Bedfordshire.

Self Financing Loan Portfolio and Debt Strategy

13. **Table 1** below shows the constituent loans and interest rates applicable in 2017/18:

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	0.46 (variable)	0.206
TOTAL	164.995		2.38 (average)	3.922

14. 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 0.46% for the year. This is considerably lower than any of the fixed rate debt.

15. 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.

16. 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 onwards. 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 2023/24 the average rate is 3.5%, and that this rate continues throughout the rest of the 30 year period.

17. 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 2022 £2.1M of the self financing debt is repaid. This is a considerable reduction on last year's assumptions on debt repayment, where it was forecast that £13.395M would be repaid by 2022. In an era of sustained low interest rates there is no imperative to repay significant amounts of debt in the short to medium term, particularly where there are competing demands for the use of these funds: in this case the acquisition of properties that will enable a reduction in expenditure in the GF. Even with the re-profiling of debt repayment, the current prediction is for full debt repayment after 26 years, which is the year 2043/44 and in line with last year's forecast.

18. 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

19. 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.

20. The HRA is forecast to have sufficient funds available to undertake approximately £71M of additional investment, over and above that required to maintain the stock in good condition (circa £36M), in the next 6 years. A substantial portion of this expenditure is likely to be funded by 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.

21. 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 sheltered schemes require additional investment and therefore, a total of £1.663M has been provisionally allocated within the Investment Plan over 6 years.

22. There are opportunities to improve car parking on many estates and to enhance the estates including communal green spaces surrounding blocks. £1.617M of expenditure is earmarked against these projects over the 6 year period. The window replacement programme targets flats or houses where the current double glazed units are reaching the end of their useful life. The properties will be improved by replacing these units with modern windows that provide a greater degree of thermal and noise insulation. £1.32M has been set aside for this programme over 6 years.

23. Other significant areas of spend within the Stock Protection programme are Kitchen and Bathroom replacement (£5.917M), Central Heating installations (£4.716M), 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. In total £24.94M is set aside for Stock Protection over 4 years, rising to £36.394M over the 6 year Investment Plan period.

24. Major construction work at the Croft Green Development in Dunstable was planned to commence in the summer of 2017. The original plan was to demolish an existing block of 9 units (8 of which were bedsits) and replace it with a new block of circa 25 apartments. The contract sum received from the contractor was significantly higher than anticipated and means that the project in its current form is not financially viable. In the circumstances it is proposed instead to undertake a remodelling of the accommodation at Croft Green, which would take place during 2018/19, at an estimated cost of £0.5M.

25. The Sheltered Housing Review identified several schemes that require modernisation. Proposals for redevelopment of the Crescent Court site in Toddington were approved last year, with appraisal and design work undertaken throughout 2017/18. Initial design work suggests that a modern, well designed facility with excellent communal space and facilities could increase capacity from the current 21 to circa 45 units. Latest estimates point to a total cost of circa £9.5M.

26. The HCA have approved a bid for grant funding of £1.35M towards the scheme. 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 at Crescent Court, potentially £4.4M, to be recycled quickly enabling continued investment in future years.

27. Whilst Crescent Court remains as a project line in the Investment Plan, potentially the provision of new, older people's accommodation in Toddington could be delivered on alternative sites. Whilst this is reviewed, and to enable expenditure on acquisitions to be brought forward, there is no budgeted spend on the scheme during 2018/19.

28. To support the pressure around transitional accommodation and the usage of B&B accommodation, the Council has agreed to invest £3.7M in purchasing transitional accommodation over the last 2 years. To the end of October 2017 14 purchases have been completed, one of which is to be developed to provide multiple units. It is anticipated that the conversion and extension of this property, to transform it from a 5 bedroom house to a 13 bedroom block, will cost £0.535M. This investment will be funded from the stock remodelling budget.

29. In addition to these purchases, the site of the former Greenacre Care Home in Dunstable was transferred into the HRA in March 2017. Work is currently under way to convert the existing facility into 42 bedrooms that will provide transitional accommodation. Some of the cost of conversion will be incurred in 2018/19, estimated at £0.27M. Other projected stock remodelling works on the Council stock amount to £0.33M over 4 years, rising to £0.607M over 6 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 £9.451M, and over 6 years it totals £9.728M. 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 transitional 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. Planning approval has been received for the new Independent Living scheme at Houghton Regis, and the HCA have approved a bid for grant funding of £4.26M towards the scheme. 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 26 units (16%) for outright sale. The remaining 71 units (42%) are to be let at an affordable rent. The scheme will also comprise 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. The latest cost analysis suggests a total scheme cost of £35.333M (£31.073M net after HCA funding). It is currently forecast that initial design, appraisal and planning costs for the project will be £0.566M by the end of 2017/18, with £3.855M of slippage proposed. It is therefore proposed that £30.912M of expenditure is set aside over the MTFP.

34. On the basis of a projected £35.333M total scheme cost, the financing of the project is potentially: £4.26M of HCA funding, £20.415M sales receipts and £10.658M financed by the HRA over the long term. These are prudent sales value assumptions and could be improved, depending on house price inflation. 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 £20M of the net cost of £31M 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. 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 scheme at the Brook (formerly referred to as Windsor Drive), in Houghton Regis, envisages the development of 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 transitional accommodation, and let on an affordable rent basis. The estimated budget requirement is £2.074M, partially funded (£0.622M) by the use of retained one for one RtB receipts.

37. There is an additional scheme proposed at Potton Road, Wrestlingworth, for 8 units (a mixture of shared ownership and affordable rent). This scheme is a rural exception site, so is only eligible for development as the housing proposed is affordable and required by members of the local community.

The land is currently owned by Assets but it is proposed that it is transferred to the HRA at a cost of £0.096M. The project cost of £1.292M can be part funded by RtB receipts and commuted section 106 monies.

38. During 2016/17 and 2017/18 the Council has spent £3.7M on the purchase of 14 properties 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 transitional 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 the Council's housing stock occurring as a result of RtB.

39. Unmet housing need and homelessness are increasing in Central Bedfordshire, caused mainly by affordability problems and limited supply of rented housing at or below Local Housing Allowance (LHA) limits. The situation arises from what Government has called a 'broken housing market'. The Government has also broadened the scope of who shall be eligible from April 2018 for local authority assistance through the Homelessness Reduction Act. The size of potential new demand is difficult to predict, but it is likely to be substantial.

40. Pressures in neighbouring authorities have been evident for some years, but those same pressures are now appearing in Central Bedfordshire. Approximately 50% of the current Transitional Accommodation (TA) demand is from a volatile population of people who do not have a long-standing local connection to Central Bedfordshire. They are generally in low paid, uncertain employment, in and out of relationships and generally young and unsettled.

41. The TA demand is likely to increase from circa 200 households being housed (which had increased from circa 90 in 2016) to 669 households in 2020, on any given date. The annual flow rate throughout the year is due to increase from circa 339 households currently, to 1,134 households per annum (in 2020). These figures assume current supply and other factors are held constant in managing this demand.

42. A strategy is being formulated, that will address this situation by increasing affordable housing delivery via section 106 agreements, achieving greater delivery on our own land assets, and maximising our nomination rights. Some of these measures will take time to deliver results, but there is an opportunity for the HRA to make a significant impact in the short term. This can be achieved by diverting resources away from principal debt repayment to the acquisition of properties that can be converted to provide a large number of hostel/HMO (house in multiple occupation) properties.

43. It is proposed that by re-profiling debt repayments an additional £11.2M of funding is made available for the acquisition of properties that will initially address the TA demand. This would enable a total of £18.955M to be budgeted in the HRA Capital programme over the 4 years of the MTFP, with a large proportion (£9.965M) front loaded to accelerate delivery. As an adjunct to this policy, at its meeting in December 2017 Executive have approved the virement of £3.725M, of funding previously allocated to the Croft Green project, to the Acquisitions budget in 2017/18.

44. If these proposals are agreed it would enable expenditure of £13.69M on acquisitions by March 2019, and £22.68M over the MTFP period. It is cautiously estimated that this would deliver 300 tenancies, but this could be substantially higher if the Council is able to secure office blocks or larger buildings that could be converted to multiple unit sites.

45. During the last 2 years acquisitions have been pursued, and it has become evident that the larger buildings are rarely available in the Central Bedfordshire area, but they do exist in greater numbers in adjoining Local Authority areas. Whilst preference will continue to be given to purchasing sites within Central Bedfordshire it is proposed that, to enable the maximum number of tenancies from the budget available, where such opportunities emerge in close proximity to our boundaries these should be considered.

46. The transfer of the Greenacre site into the HRA has demonstrated that this is one of the most cost effective mechanisms for delivering a large concentration of units in a relatively short period of time. The next Council Care Home to become available will be the Birches in Shefford, which could be converted into circa 32 bedsits following the same model as Greenacre. It is anticipated that this will be vacated in February 2018. It is proposed that it is transferred into the HRA at a cost of circa £2M (the final figure to be based on a formal valuation).

47. Since the increase in RtB discounts in 2012 it has been assumed that sales will be broadly in line with the amount of new build properties and acquisitions, keeping the stock at around its current level (circa 5,200 properties). With the injection of capital proposed above, and the increase in stock (circa 300 tenancies) in a short time frame, it is anticipated that by 2022 the stock could be sustained at 5,500 properties/tenancies. As a result, sufficient additional net rent will be generated to enable the Council to match one for one receipts over the entire Business Plan period (assuming RtB sales remain at current levels), with circa £4M per annum set aside for new build/acquisitions.

48. There is a continuing, albeit modest, provision related to other site developments and renewal schemes, totalling £0.252M over 4 years and £2.508M over a 6 year period. An element of this budget is assigned to redevelopment of the garage blocks. Prior to the rent reduction announced in July 2015 a far greater budget provision had been made for redevelopment of these sites. Whilst there is the potential to convert many sites into residential dwellings there are a number of additional challenges involved. Many garages were sold so would need to be bought back, access is often restricted, and existing services (e.g. water/sewerage) under the sites require diversion.

49. In the context of the urgent need for a significant amount of transitional accommodation, it is not proposed to assign large budgets to garage site development over the MTFP period. However 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. Other renewal schemes that could be funded over the 6 year period include 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.

50. Over the MTFP period, the amount proposed to fund new build, acquisitions and regeneration is £51.4M, and £61.1M over the 6 year Investment Plan period, inclusive of Houghton Regis Central. When combined with proposals for spend on stock protection and new funding for existing stock, the programme totals £85.7M over 4 years and £107.2M 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

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

£M	2018/19	2019/20	2020/21	2021/22
Income	(28.7)	(29.5)	(30.9)	(32.1)
Spending on Revenue	16.4	16.8	17.2	17.3
Direct Revenue Financing*	3.1	2.2	1.8	1.9
Debt costs (interest)	4.1	4.1	4.0	4.1
Debt repayment (principal)	0.2	0.3	0.5	1.0
Efficiency Savings	(1.7)	(0.6)	(0.4)	(0.2)
Contribution to ILDR**	1.2	0.4	5.8	1.5
Contribution to SR***	5.4	6.3	2.0	6.5
Net Balance	**0.0**	**0.0**	**0.0**	**0.0**

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

52. **Table 3** below shows a summary of the balances forecast to be available in Reserves as at 1 April 2018, together with transfers to and from Reserves over the period of the MTFP.

£M	2018/19	2019/20	2020/21	2021/22
Independent Living Development				
Balance b/fwd	18.6	19.0	3.4	0.0
Contributions to Reserve	1.2	0.4	5.8	1.5
Allocations from Reserve	(0.8)	(16.0)	(9.2)	(1.5)
Balance c/fwd	**19.0**	**3.4**	**0.0**	**0.0**
Strategic				
Balance b/fwd	6.0	0.5	1.7	0.5
Contributions to Reserve	5.4	6.3	2.0	6.5
Allocations from Reserve	(10.9)	(5.1)	(3.2)	(3.7)
Balance c/fwd	**0.5**	**1.7**	**0.5**	**3.3**
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	**21.7**	**7.3**	**2.7**	**5.5**

HRA Debt

53. The HRA Business turnover, or annual rent debit (before void loss), was £31.845M in 2016/17 (£30.575M in 2015/16). Total current and former tenant arrears were £0.950M at the year end (£0.910M in 2015/16), with current arrears at £0.437M or 1.37% of the annual rent debit (£0.428M or 1.4% at March 2016). The figure of 1.37% is a 0.43% positive variance against a target of 1.8%. Former tenant arrears (FTA) were £0.513M, or 1.61% of the annual rent debit, against a target of 1.5% (£0.482M or 1.58% at March 2016).

54. A significant proportion of the current tenant arrears (£0.288M or 66%) 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; enabling moves to happen; 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.

55. 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.

56. 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 seen recoveries increasing to £0.130M, compared to previous annual recoveries not exceeding £0.020M.

57. The service is confident with the current approach and anticipates further improvements in recovery rates. This performance is strong compared with other Registered Providers (Housing Associations and stock retained Authorities) and reflects the Service’s work to strengthen the payment culture, enforcing the responsibility of our tenants to prioritise the payment of their rent.

58. 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 at year end 2012/13 to £0.575M at year end 2016/17. 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 4 years, with £0.064M written off in 2013/14, £0.051M in 2014/15, £0.015M in 2015/16, and £0.051M in 2016/17. As result, the contribution to the provision in 2016/17 was only £0.086M, a saving on the budget of £0.119M of £0.033M.

Business Efficiency and System Resilience

59. 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.

60. A significant component (£0.235M over 3 years) 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. A 'self serve' customer interface is being implemented, using First Touch apps aligned to 'end to end' system integration between contractor and Council systems. A further £0.1M of efficiencies relate to savings achieved from digitalisation and First Touch technology. The success of these projects will be reliant upon strong collaboration and partnership working with colleagues in corporate ICT.

61. 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 in two stages. Initially, there is the creation of a lean, fit for purpose, mainly self service customer interface across all repairs operations; this is 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 is to improve the sustainability of the workforce, whilst partnering with Repairs contractors to benefit from their expertise.

62. Complementing this approach is the continued investment in learning and development, to support successful and sustained recruitment across the 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. The Workforce Plan for the HRA includes an ambitious apprenticeship programme, with an increase from 7 to 18 apprentices envisaged over the MTFP.

63. The strategic approach is to create 'System Resilience', which will enable the Council to avoid the high level of costs relating to transitional accommodation that is being seen in other local authority areas.

As part of the approach, the Housing Service has created 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.

64. Over time, it is envisaged that this provision will increase to circa 500 units (homes, single rooms, shared accommodation). These 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 higher for this type of accommodation, the greater concentration of tenancies will also generate additional income for the HRA, through rents and service charges. Should TA demand recede these units could be converted into general needs tenancies, either for families or single adults.

65. 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…”.

66. Whilst an increasing number of tenant transactions will be handled remotely (for example via the Council’s website) there is also the recognition that there is a benefit to an increased physical presence on our estates. Estate and Tenancy Support officers are being encouraged to be more visible, and spend more of their time in tenants’ properties, particularly with more vulnerable clients who need additional assistance. The improvements to technology (i-pads and the “First Touch” system) mean that tenants can be assisted with budgeting, repairs can be requested, and personal information updated whilst in the property, without the need to return to the office.

67. 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. £0.193M of efficiencies over the MTFP relate to business process review and management rationalisation.

68. 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.

69. By providing this service to the Children’s Services Directorate we maximise the potential income for the HRA (in converting a single tenancy into 3 tenancies with management support), but also deliver savings to Children’s Services, who would otherwise have to source the accommodation externally. Efficiency targets of £0.2M exist for this type of activity within the HRA.

70. Housing are constantly looking at options to assist with TA pressure in the Council’s GF. This could include management of properties for other landlords, using the expertise that exists within the Housing Operations teams in the HRA. There is potential for such a scheme in Caddington, owned by the Caddington and Slip End Trust (CASE), where housing would charge a management fee, generating income for the GF whilst providing much needed accommodation to address TA.

71. 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. This strategy helps to reduce arrears (caused for example by the spare room subsidy), and therefore reduces the risk of lost rental income. This has been reflected in the efficiencies, with £0.090M allocated to savings from tenancy sustainment. A further benefit is that this approach 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.

72. 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 500 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.

73. Over the MTFP, there is a £1.8M income target related to rental and service charge income from the circa 300 tenancies created by the proposed acquisitions budget. A proportion of this income will be offset by additional resources required to manage and maintain these specialised tenancies. Management is more intensive than for conventional HRA tenancies. Also, there is a commitment to developing staff internally in the Workforce Plan, with a particular emphasis on the entry level (apprenticeship scheme).

74. 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.

Rent reduction and Service Charges

75. 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 2 years of the MTFP, in accordance with legislation. In October 2017 The Government announced that from 2020 rents would rise by CPI + 1% for a five year period. For the purposes of the Business Plan it has been assumed that this approach will continue until the end of the Business Plan period. However longer term rent policy is unknown, so to mitigate the risk it has also been assumed that inflation on management, maintenance and capital investment costs will also be at CPI + 1%, for the same period.

76. The current 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 40% of tenants now paying a rent determined by the ‘formula’. Whilst this figure is increasing every year, if the movement to formula rent only occurs at change of tenancy then it will take many years before all tenancies are at the formula rent.

77. Approximately 37% of all the Council’s tenancies are funded entirely by Housing Benefit. This group will gain no benefit from the 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 of 21% have occurred in the Central Bedfordshire area in the 3 years prior to 2017/18.

Council rents are falling below 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. This will make it increasingly difficult for Council tenants who may aspire to move out of social housing and into the PRS.

78. It is proposed that rents are set in line with Government statute, a reduction of 1% for Central Bedfordshire Council tenants, for 2018/19. The proposed rent reduction will result in an average decrease per week of £1.08 from the 2017/18 average weekly rent of £108.38 to £107.30. At a time of significant investment in the Housing stock, amounting to £86M over the MTFP, the current level of rent and the proposed reduction represent excellent value for money for tenants.

79. 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.

80. 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 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 related to 2012/13 another full review was undertaken last year to assess the current gap, based on the actual cost for the year 2015/16.

81. The revised actual cost data was used to calculate the current difference between what the Council is paying and the tenant is being charged, so that service charges were adjusted in 2017/18. However, the policy of limiting the maximum increase to £1.10 per week continued. As a result the gap between the cost to the Council and the amount recouped has dropped to circa £0.026M, which represents a considerable improvement from the position in 2013/14. It is proposed to continue this approach for 2018/19, so that the gap closes further.

The Void Levy, changes to LHA, funding for Supported Housing and the HRA Debt Cap

82. 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.

83. During 2016/17 and 2017/18 a limited pilot of the scheme has taken place. Government have funded the cost of Housing Association discounts during this period. Government have announced that piloting of the scheme will continue in 2018/19, but have not confirmed if Councils will be required to make a payment in relation to the sale of high value voids (a "Void Levy") in 2018/19.

84. 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.

85. 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.

86. 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. In October 2017 the Prime Minister announced that the LHA cap will not be applied to the social housing sector, so any risk to future rental income streams from this policy has disappeared.

87. One of the largest areas of concern about this policy had been the impact on supported accommodation, where the costs of managing tenancies and maintaining properties is generally higher than the average cost for social housing. There was a concern within the social housing sector that if rents were restricted to LHA then many supported schemes, particularly future developments, would become financially unviable. The Council's new build programme mainly comprises supported accommodation for older/vulnerable tenants, for example Priory View or Houghton Regis Central, so this was a potential risk.

88. Government policy in this area has evolved. A further announcement in September 2016 indicated that the LHA restriction 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 system would have devolved funding to English local authorities to provide additional top-up funding to Providers, from a 'ring fenced pot'. There was, however, a fear within the Housing sector that the top up fund would not fully compensate social housing providers for the differential between LHA and the affordable rent.

89. Government have reacted to this concern and have recently proposed a new funding regime that is tailored to the 3 different types of supported housing. For sheltered and extra care housing a "Sheltered Rent" is envisaged from April 2020; this will take into account the higher cost of these types of housing compared to general needs housing. Meanwhile short term supported housing, such as TA, will be funded by a new ring-fenced grant to Local Authorities from 2020, based on current projections of future need. Longer term supported housing for working-age tenants (for example, housing for people with learning or physical disabilities or mental ill health) will continue to be funded through the welfare system (housing benefit/Universal Credit).

90. A consultation has been launched on these proposals, and concludes in January 2018. Whilst the initial reaction within the sector is positive there is still uncertainty as to what the "sheltered rent" will be set at, particularly as it will now be based on a "gross eligible rent" that will include eligible service charges. There is also the risk that the grant for short term supported housing will not be sufficient to cover future need. The policy statement issued by Government stresses that discussions will occur with Local Authorities (via consultation) to ensure that the sheltered rent and grant amount "take account of the cost of provision".

91. When the Self-Financing system was introduced in 2012 every stock retained Authority was given a debt cap, set at the level of its Self-Financing settlement figure. In the case of Central Bedfordshire this is £164,995,000. As the Council's debt is currently at this level it is prohibited from further borrowing to develop new housing. Recently there have been indications that Government may relax this restraint.

92. In 2014 the Chancellor offered Councils £300M of additional HRA borrowing capacity, with a target of 10,000 new homes. That programme was wound down as there was insufficient take up of the offer, with circa £220M allocated and plans for just 3,000 new homes nationally. In the White Paper of February 2017 there was reference to the opportunity for "bespoke housing deals" with Local Authorities in "high demand areas, which have a genuine ambition to build".

93. In the budget of 22 November 2017 the Chancellor developed this approach further by announcing that Government would lift HRA debt caps in areas of high demand. According to Budget documents, Local Authorities will be invited to bid for increases in their caps from 2019/20 up to a total of £1Bn by the end of 2021/22. Further details will emerge over coming weeks, and the potential for schemes that cannot currently be funded from existing budgets will be explored with a view to bidding.

HRA Capital Programme

94. The Draft 2018/19 – 2021/22 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, commuted Section 106 contributions 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

95. The draft HRA Budget report will be presented to the Corporate Resources Committee on 25 January 2018. Consultation with the Tenant Investment Panel (TIP) over the Investment Plan occurred during the autumn of 2017, with full tenant approval of all project lines.

96. The draft Budget and Investment Plan will be presented to the Way Forward Panel, Supported Involved Residents Forum (SIRF) and TIP on 9 January 2018. 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

97. 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.

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

Corporate Implications

Legal Implications

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

Financial Implications

100. 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

101. 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

102. 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.

103. Given the sudden and unexpected change in rent policy announced in the Emergency Budget of July 2015, there is always the risk that Government rent policy will be adjusted. However the announcement that rent setting will return to CPI+1% for a 5 year period from 2020 does establish some partial reassurance that long term rent increases will be based on CPI +1%. As a result rental income in the Business Plan has been assumed to rise at 3.5% per year from year 3 to year 30, equivalent to CPI at 2.5% + 1%. CPI has fluctuated dramatically over recent years, but 2.5% represents a longer, historical average.

104. The opening balances on Reserves, over and above the contingency of £2.2M, are predicted to be £24.6M as at 1 April 2018, with contributions from Reserves amounting to £11.7M to fund investment in the year 2018/19. The estimated balance in Reserves, excluding contingency, as at 31 March 2019, is £19.5M. 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.

105. Another key risk is in relation to the HRA Debt Strategy. The current average rate of interest on HRA debt is 2.38%. 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.

106. 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, 17 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.

107. 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.

108. 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. The current maximum discount is £78,600, 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.

109. Whilst there has been an increase in RtB sales since 2012, with 29 sales in 2016/17 and 20 in the financial year up to the end of October 2017, this represents a small percentage of the stock of approximately 5,200 rented homes. For further information, see Appendix D.

110. 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

111. 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

112. 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

113. There is an ongoing ambition for the HRA to be a modern, growing business, operating efficiently by using technology, avoiding cost, and growing income and productivity. 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

114. A period of public consultation will commence from January 2018.

115. Overview and Scrutiny Committees will consider the Budget proposals in their January 2018 cycle of meetings and comments will be included in the final Budget report to be presented to Council at its February 2018 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 2018-2024

iii. Appendix C: 2018/19 – 2021/22 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