

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Corporate Director for People

to
Cabinet

on
10 November 2015

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Financial Pressures facing the Housing Revenue Account

Policy and Resources Scrutiny Committee
Executive Councillor: Councillor David Norman
A Part 1 Public Agenda Item

1 Purpose of Report

To bring to Members attention, ahead of the Housing Revenue Account (HRA) Budget and Rent Setting 2016/17 report, various financial pressures facing the HRA as a result of recent changes in Government policy and on-going work to ensure charges to tenants are reasonable.

2 Recommendation

- 2.1 That Cabinet note the report;
- 2.2 That the Cabinet approve the refund of overpaid heating charges; and
- 2.3 That from 2016/17 consideration be given to South Essex Homes be charged with setting and recovering service, heating and water charges directly, and their management fee be reduced accordingly.

3 Background

- 3.1 Since the introduction of self-financing for the Housing Revenue Account (HRA) in 2012, the financial stability of the HRA had improved, despite the requirement to take on additional debt under the settlement arrangements. Since then the Government has
 - Increased the discount available on right to buy to encourage additional purchases of council housing stock, allowing the Council to retain more of

- the subsequent capital receipt on the proviso that it is used to part fund new affordable housing;
 - Terminated the rent convergence process; and
 - Altered the guidance on rent increases from RPI plus 0.5% to CPI plus 1%.
- 3.2 The changes since the initial self-financing settlement have had limited impact on the HRA business plan.
- 3.3 As part of the June budget, the Chancellor announced various plans that will affect social housing tenants and the financial standing of the HRA. These are
- Reduction in rents by 1% a year, from 1 April 2016, for 4 years;
 - Obligatory “pay to stay” market rents for tenants earning over £30,000; and
 - Proposed duty to consider the disposal of higher value stock as it becomes void.
- 3.4 The June budget also set out plans to reduce the benefits cap and to freeze the level of working age benefits for the life of the Parliament. Additionally recently there have also been statements about changing the nature of the affordable housing obligations placed on developers.
- 3.5 There is a lack of firm detail as yet: The Welfare Reform and Work Bill and the Housing and Planning Bill are the routes for the introduction of these changes. Both Bills rely on regulations yet to be published.
- 3.6 Separately South Essex Homes and the Council have been reviewing charges levied on tenants through Heating, Service and Water Charges.

4 Decrease in Social Rents

- 4.1 Up to now, Government rent increase guidance has steered local authorities to steady increase rents above inflation through the convergence to “formula rents” and a RPI / CPI plus annual increase. Although essentially voluntary, as housing subsidy and latterly the self-financing settlement assumed compliance with Government policy, to set rents below policy levels would have been detrimental to the financial stability of the HRA.
- 4.2 Housing Association rent increases are enforced through regulation.
- 4.3 The Government has announced that through the proposed Welfare Reform and Work Act it will force local authorities and housing associations to reduce current rent levels by 1% a year for the next four years starting 1 April 2016. This applies to both formula and affordable rents. This reverses the announcement from Government made last year that rents would increase by CPI plus 1% for the next ten years, and the basis for planning the current HRA Medium Term Financial Forecast (MTFF).

- 4.4 Based on the Office of Budgetary Responsibility forecasts of CPI inflation (July 2015) over coming years, this change in policy will have the following impact on rental yield.

	Existing CPI + 1% policy £M	1% pa reduction policy £M	Loss in anticipated annual rental yield £M / %	
2015/16	26.450	26.450	0.000	0%
2016/17	26.950	26.190	0.760	2.8%
2017/18	27.650	25.930	1.720	6.2%
2018/19	28.450	25.670	2.780	9.8%
2019/20	29.250	25.410	3.840	13.1%
Cumulative loss of income			9.100	

- 4.5 As can be seen, the HRA will have a cumulative £9 million less resources over the next four years, and even though it is assumed that rent increase policy will revert back to CPI + 1% from April 2020, the HRA will by then have some £4M less rental income each year than otherwise would have been the case. Based on a rough and ready extension of the HRA MTF, by 2018/19 the HRA will no longer make a surplus, and in 2019/20 will be in deficit by around £1M.
- 4.6 Surpluses accrued within the HRA are currently being set aside in a reserve for future HRA capital investment, particularly for new build and regeneration. The loss in rental yield will mean, all things being equal, that there will be £9M less in the reserve than previously anticipated over the next four years, and more worryingly unless action is taken to rebalance the HRA through efficiency, the reserves created will need to be used to underwrite the on-going deficit from 2019/20 onwards. Either way the ability of the HRA to undertake new build or major refurbishment will be severely hampered and the Council will need to look at alternative funding sources if it wishes to continue with a programme of building social housing for rent.
- 4.7 Tenants will see their rents go down. The average weekly rent is currently running at £87.41. Had the rent increase policy remained unchanged, average rents would have been expected to rise by £9.31 to £96.72. However under the Government's policy of reducing rents, average rents will instead fall by £3.45 to £83.96. This will leave average rents £12.76 or 13% lower than they otherwise would have been by 2020.
- 4.8 For those tenants that are not on housing benefit, they will see a reduction in their weekly out goings as a result; for the approximately 75% of tenants on housing benefit, their benefits will go down £ for £ in line with the reduction in their rent, and so all things being equal, will be no better off.
- 4.9 Work will be undertaken by the Council and South Essex Homes to give Members at least some options to consider during the forthcoming budget round for rebalancing the HRA.

<http://researchbriefings.files.parliament.uk/documents/SN01090/SN01090.pdf>

5 Pay to Stay

- 5.1 Up to now the Council has had the discretionary option to charge tenants who have household income of £60,000 or more a market rent for their property.
- 5.2 As part of the Sumer Budget 2015 the Chancellor announced that the discretionary 'pay to stay' scheme would be made compulsory and that new, lower, household income thresholds would be introduced. These thresholds are expected to be £40,000 in London and £30,000 elsewhere. It is anticipated that some form of taper will be introduced, increasing rent as household income rises above the threshold; until such time as market rent is reached. It is not known at this stage how the Government will define market rent.
- 5.3 Local authorities will be expected to pay the additional rental income to the Treasury, while housing associations will be able to use the additional income to reinvest in new housing.
- 5.4 The move to a mandatory 'pay to stay' scheme will require primary legislation introduced through the Housing and Planning Bill; the Government has issued a consultation on the proposal, including how income will be calculated for those affected. It appears the intention is a scheme of income declaration by tenants, backed up by a verification process involving HMRC.
- 5.5 For tenants not in receipt of housing benefit, the Council does not have details of household income, and therefore it is not possible to estimate the number of tenants that may be affected or the amount of additional rent that may be raised. In any case the Council will be acting as a revenue collecting agency for the Treasury, not raising additional revenue for itself.
- 5.6 Some commentators have argued that this policy will encourage more right to buy, in that the tenant may prefer to pay a mortgage rather than increased rent. Alternatively it may encourage them to move into the private sector, (although security of tenure may be a factor in their decision making). Ultimately it would be a personal decision for the affected tenant.
- 5.7 The policy is due to come into effect from 1 April 2017.

<http://researchbriefings.files.parliament.uk/documents/SN06804/SN06804.pdf>

6 Housing Association Right to Buy and Vacant High Value Local Authority Housing

- 6.1 As part of its manifesto, the Government announced plans to give housing association tenants the right to buy, on the same terms as Council tenants. As part of the proposal, the Government has announced that the cost of the discounts offered to housing association tenants will be funded through the enforced sale of local authority's "most expensive properties" as they fall vacant.
- 6.2 Housing Association right to buy was to be brought in through the proposed Housing and Planning Act. However the National Housing Federation, which represents Housing Associations, has negotiated a voluntary agreement which

will allow for housing association tenants to exercise right to buy from 2016. This voluntary agreement is included within the draft Housing and Planning Bill, by giving the Secretary of State to pay a grant to cover the cost of the discounts provided, and by giving the Homes and Communities Agency a role in monitoring the performance of housing associations on 'right to buy' and home ownership.

- 6.3 The proposed Housing and Planning Act will be the statutory route through which the Government will introduce a duty on councils to consider selling high value vacant social housing when it becomes vacant. The Bill has changed the understanding of the nature of the scheme, in that it empowers the Secretary of State to require an upfront payment from the Council calculated by reference to the market value of their "high value" housing stock, rather than just paying over the proceeds of the actual sales, raising the possibility that should insufficient properties be sold, the HRA will have to fund the levy through other resources.
- 6.4 From the little published it would appear that the receipt generated from each sale will be expected to:
- Repay the (assumed) debt associated with the property;
 - Compensate housing associations for the right to buy discount they will have to offer (so between the proceeds from their right to buy receipt and the compensation received, housing associations will get full market value for their sold stock);
 - Replace the sold council house "in the same area" on a "one for one basis"; and
 - Go towards the creation of a £1bn Brownfield Regeneration Fund.
- 6.5 High value homes have yet to be defined, and the methodology for calculating any levy has yet to be proposed. Previously the Conservative Party published a table setting out the market value thresholds for the sale of high value.

	1 Bed	2 Bed	3 bed	4 Bed	5 Bed or more
North East	80,000	125,000	155,000	250,000	310,000
North West	90,000	130,000	160,000	270,000	430,000
Yorkshire & the Humber	85,000	130,000	165,000	265,000	375,000
East Midlands	105,000	145,000	175,000	320,000	430,000
West Midlands	100,000	145,000	180,000	305,000	415,000
East	155,000	220,000	265,000	440,000	635,000
London	340,000	400,000	490,000	790,000	1,205,000
South East	165,000	250,000	320,000	495,000	755,000
South West	135,000	200,000	260,000	375,000	535,000

- 6.6 What is not clear at present is whether the definition of high value stock will include specialised units, such as sheltered and extra care, or new build properties, or whether these thresholds will ultimately remain.
- 6.7 However based on these values, and the latest market value information for our stock, it would appear that the Council has 200 1 bed and 141 2 bed properties that are of "high value", nearly 6% of the total stock, with another 35 2 beds and 125 3 beds just below the threshold.

<http://researchbriefings.files.parliament.uk/documents/CBP-7224/CBP-7224.pdf>

7 Affordable Housing and Welfare Benefits

- 7.1 The Prime Minister announced at the October Conservative Party Conference the intention to change the nature of the affordable housing obligations put on developers, such that it can be discharged through the provision of affordable units for sale to first time buyers, rather than for on-going rent as at present. This has been confirmed in the Housing and Planning Bill. This has the potential for reducing the provision of affordable rented stock, and therefore reducing the options for those on the housing waiting list.
- 7.2 Housing Associations are similarly warning that their development plans for affordable units are being reduced as a result of the rent reduction proposals.
- 7.3 Whilst not an immediate issue for the HRA, it will clearly increase demand for the limited Council housing stock, and is likely to increase the need for the Council to provide temporary accommodation to discharge its housing duties.
- 7.4 Separately through the Welfare Reform and Work Bill, the Government has stated its intention to simultaneously reduce the benefits cap from £23,000 down to £20,000, and freeze the level of Working-age benefits, including tax credits and Local Housing Allowance for four years from 2016/17. Given the lower rent levels, even before the forthcoming reductions, of council housing, this change are not expected to immediately impact on the housing benefit available to our tenants, but is predicted to reduce housing benefits payable to out of work families and lone parents with two or more children in the private rental sector.
- 7.5 A more detailed report on these issues will be brought to a future meeting of Cabinet.

8 Service Charges, etc

- 8.1 A significant proportion of income to the HRA comes from service, heating and water charges. The income comes directly into the HRA, with the costs of providing these services being incurred by South Essex Homes and therefore included within the management fee.
- 8.2 It is beholden on South Essex Homes and the Council to ensure that service charges are reasonable, and as near as possible are set on a cost recovery basis. This process is however hampered by a mismatch of responsibilities and lack of clarity; SEH provide the service, SBC collects income. Therefore from time to time reviews are carried out.
- 8.3 Where service charges are found to be under-recovering, the Council has the ability to increase the charges going forward. Where there is over-recovery, there is an obligation to rectify the situation, either through reduced charges going forward, or by making a refund.
- 8.4 Such a situation has occurred in relation to heating charges made to residents of sheltered schemes. Despite only increasing heating charges by just under

10% since 2008/09, a significant over-recovery has occurred amounting to £1M. It is recommended that this be refunded to tenants. Full provision for the refund was made in last year's accounts, and so will have no impact on existing budgets. Appendix 1 is a briefing note prepared by South Essex Homes giving more background to the issue.

- 8.5 As stated in 8.2 above, South Essex Homes have full details of their costs associated with the provision of chargeable services, and although it collects the charges on the Councils behalf, it is the Council that actually sets the charge. Going forward it may make more sense if South Essex Homes sets and recovers the charges directly on a cost recovery basis, albeit ratified by the Council. This will give greater clarity over the setting of service charges and hopefully avoid significant over recovery situations in the future. It is therefore suggested that this proposal be explored as part of the introduction of the new management agreement from 1 April 2016.

9 Corporate Implications

9.1 Contribution to Council's Vision & Critical Priorities

The proposed statutory provisions will make it more difficult for the Council to address its priorities in relation to the provision of new mixed tenure affordable housing and its ability to enable the planning and development of quality, affordable housing.

9.2 Financial Implications

The financial implications, as far as they can be predicted at this stage, are included throughout the report. The reduction in rent yield within the HRA will have a destabilising impact on the HRA business plan, and will require work by the Council and South Essex Homes to, at least partially, offset the loss in income through further efficiencies to rebalance the HRA.

9.3 Legal Implications

The report refers to two proposed statutory instruments; the Welfare Reform and Work Act and the Housing and Planning Act, both of which are at the Bill stage. Their development through the Houses of Parliament may bring about changes to the detail of their operation, as will the proposed regulations arising from the legislation once enacted.

9.4 People Implications

There are no people implications arising from this report

9.5 Property Implications

There are no immediate property implications arising from this report, although the statutory provisions referred to are likely to see an acceleration of the reduction of the Council's housing stock, and a decrease in the provision of new affordable homes for rent.

9.6 Consultation

There are no consultation implications arising from this report

9.7 Equalities Impact Assessment

There are no equalities implications arising from this report

9.8 Risk Assessment

There are no risk implications arising from this report

9.9 Value for Money

There are no value for money implications arising from this report

9.10 Community Safety Implications

There are no community safety implications arising from this report

9.11 Environmental Impact

There are no environmental implications arising from this report

10 Background Papers

Hyperlinks within the report point Members to House of Commons Library briefing papers relating to these issues.

11 Appendices

Appendix 1 Briefing paper on the proposed Heating Charge refund

Briefing note on the need to make a refund of Heating Charges to Tenants of Sheltered Housing Schemes

The heating charges for sheltered housing schemes from 2008/9 to 2014/15 were based on 2007/8 actual costs plus an allowance for estimated increase in gas costs each year. The charge for each dwelling (adjusting for a bed sit or one bed) was divided equally across all tenancies in the sheltered schemes. This did, however, lead to a position whereby the Council was recovering more than the cost of energy consumed.

At its meeting of 15th February 2015 Cabinet changed the basis of charge to tenants in sheltered schemes for 2015/16 onwards. The basis of charge is now calculated using actual costs for each scheme based on the previous year. The Sheltered Housing Focus Groups were consulted on this and accepted the change in approach.

This has led to a reduction in charges for residents in all sheltered schemes for 2015/16.

A petition was subsequently received from Adams Elm House stating that they felt they had been overcharged and requesting a refund for previous years.

The total refund would be in the region of £1,033,000. Full provision has been made in the Council's accounts for this sum at the end of 2014/15. The total refundable to individual sheltered scheme tenants would be £4.30p per week for a one bed and £2.87p per week for a bed sit for the duration of their tenancy up to seven years.

It is proposed to write to all tenants in sheltered schemes setting out the position and stating that a refund will be made, less any arrears of rent or Council tax.