Supplementary note to Report – Item 21 Review of the Arm's Length Management Organisation (ALMO) - South Essex Homes

Introduction

1. At the Housing Working Party meeting held on 16th September 2015 Members asked Officers to confirm why the proposed 3 year extension was chosen and why a longer extension was not suggested instead and what South Essex Homes reaction was to the proposals.

Length of Extension

2. In the Report mention is made of the major national changes in housing policy being proposed by the Government which includes a rent reduction of 1% over the next 4 years, which will have a major impact on the Housing Revenue Account's Business Plan of around £9 million in reduced income over that period. In addition there will be a new Housing Bill published in October which is likely to include extending the Right to Buy to Housing Association tenants and the possibility that Local Authorities will be expected to sell of its most expensive stock to help fund that initiative. This is also likely to a have a further impact on the HRA Business Plan.

As part of the June budget, the Chancellor announced various plans that will affect social housing tenants and the financial standing of the Housing Revenue Account. 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 forced sale of higher value stock as it becomes void.

Recently there have also been statements about changing the nature of the affordable housing obligations placed on developers.

There is a lack of firm detail as yet: The Welfare Reform and Work Bill, and the forthcoming Housing Bill are likely routes for the introduction of these changes.

3. Officers considered a longer extension of the Contract but with these major national changes to Housing Policy it was felt that any longer extension would not be sensible in these circumstances. If a longer extension was proposed then there is a strong likelihood that this would have to be reviewed in the short term as a result of these major changes and the financial implications associated with them.

Decrease in Social Rents

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).

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 MTFF, by 2018/19 the HRA will no longer make a surplus, and in 2019/20 will be in deficit by £1M.

Either way the ability of the HRA to undertake new build or major refurbishment will be severely hampered.

Pay to Stay

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.

As part of the Summer 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. Local authorities will be expected to repay the additional rental income to the Treasury, while housing associations will be able to use the additional income to reinvest in new housing.

The move to a mandatory 'pay to stay' scheme will require primary legislation; the Government has said it will consult and set out details, including how income will be calculated for those affected, in due course.

Enforced sale of higher value stock

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.

Housing Association right to buy was to be brought in through the proposed Housing Bill. 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.

It is not clear which statutory route the Government will choose to force councils to sell their vacant high value stock, or the nature of the actual scheme. 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.

The Prime Minister announced at the October Conservative Party Conference a change in 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 the potential for reducing the provision of affordable rented stock, and therefore reducing the options for those on the housing waiting list.

Housing Associations are similarly warning that their development plans for affordable units are being reduced as a result of the rent reduction proposals.

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.

4. The 3 year extension gives some certainty for S.E.H to continue to operate as "business as usual "and to continue to provide an excellent service to the Council's tenants.

South Essex Homes' position

5. Officers have had discussions with S.E.H senior management on the recommendation put forward to the Cabinet for a 3 year extension to their contract and they have made the following comments:-

6. "Given the rapidly developing landscape for social housing, we welcome the proposal to extend the management agreement by three years. We see that as supporting the view that that current model of management agreement has been both robust and flexible enough to enable delivering the Council's objectives over the period of the existing agreement. A three year extension will enable the close collaboration that will be needed to work out a sustainable way forward in the challenging times ahead taking into account the proposed changes to rent setting, welfare reform and the acute housing needs. The Board and Executive will welcome the opportunity of working with the Council to further develop the existing partnership to deliver:-

- the service that residents deserve and require
- the outcomes that the Council requires
- within the financial constraints foreseen
- greater value for the Council and the community.

Ultimately we want to work with the Council to secure a long term role for South Essex Homes which will enable effective business planning for housing services for both the Council and the company."

Conclusion

7. The Housing Working Party was unanimous in their support to extend S.E.H's contract subject to having this Supplementary Paper produced for the Cabinet to consider in addition to the Report on the Agenda.