

Southend-on-Sea Borough Council

Report of Deputy Chief Executive - People
and Director for Finance and Resources

to
Cabinet

on
13 February 2018

Agenda
Item No.

Report prepared by: Ian Ambrose
Group Manager, Financial Management

**Housing Revenue Account Budget 2018/19 and Rent Setting
Policy and Resources Scrutiny Committee
Executive Councillor: Councillor Mark Flewitt
*A Part 1 Public Agenda Item***

1 Purpose of Report

This report sets out the Housing Revenue Account (HRA) budget for 2018/19, together with the information necessary to set a balanced budget as required by legislation.

2 Recommendation

Cabinet are asked to recommend to Council

- 2.1 A rent reduction of 1% on secure tenancies, as required by the Welfare Reform and Work Act 2016;
- 2.2 An average rent increase of 6.04% on shared ownership properties;
- 2.3 That the proposed rent changes in 2.1 and 2.2 be effective from 2 April 2018;
- 2.4 The increases in other charges as set out in section 5;
- 2.5 The proposed management fee and the proposed changes in service charges and heating charges by South Essex Homes, as set out in section 6;
- 2.6 The appropriations to HRA earmarked reserves, as set out in section 9;
- 2.7 Subject to 2.1 through to 2.6 above, the HRA budget as set out in Appendix 1;
- 2.8 That the HRA Medium Term Financial Plan as set out in section 10 and Appendices 2 and 3 to the report be noted; and

- 2.9 The value of the Council's capital allowance for 2018/19 be declared as £23.197M, as determined in accordance with regulation 16 of the Local Authorities (Capital Finance and Accounting) (England) Regulations.

3 Background

- 3.1 The Housing Revenue Account (HRA) is the statutory "landlord" account for the authority. For Southend therefore this expresses in financial terms the level of housing service provided within agreed policy guidelines.
- 3.2 The Council is obliged by law to set rents and other charges at a level to avoid a deficit on the HRA balance (i.e. the legal minimum balance at any time during the financial year must be greater than zero). This report proposes an HRA budget that avoids a deficit balance.
- 3.3 The estimates have been prepared alongside South Essex Homes, and incorporate their proposed management fee.
- 3.4 Summary estimates for the HRA are at Appendix 1.

4 Rent Levels

- 4.1 The average weekly rent charged on HRA secure general needs tenancies is currently £89.00 and for sheltered accommodation £77.15.
- 4.2 Under changes introduced by the Government in the Welfare Reform and Work Act 2016, the Council continues to be obliged to reduce secure tenancy rents by 1%. This applies to both formula and affordable rents. The Council will be able to continue with its policy to move rents to formula level on change of tenancy, although the formula rent will similarly need to fall by 1% as well.
- 4.3 Where a property is let at affordable rent, that rent will also be required to fall by 1%. Currently the Council has 14 properties subject to affordable rent. All new properties brought into the HRA will be at affordable rent levels.
- 4.4 The rent reduction requirement does not apply to rents on shared ownership properties or temporary accommodation.
- 4.5 The rents for the Council's 13 shared ownership properties have traditionally been set on the same basis as a full Council dwelling, pro-rata'd to the Council's ownership. As these properties are not covered by the Government's reduction policy, it is recommended that these rents continue to increase as would be normal by September CPI +1%, plus a move towards final convergence. Across the 13 properties, the Council's ownership ranges from 10% up to 75%. On average rents would increase by 6.04%, although individual rent rises will vary depending upon how near to rent convergence a particular rent is.
- 4.6 Rents in the Council's hostels are set with reference to the national formula which is applied to managing temporary accommodation of the Local Housing Allowance (LHA) rate, minus 10% plus £60 per week, equivalent to £164.87.

This charge is inclusive of service charges, but is subject to additional charges for heating and water. These temporary tenancies are not subject to the Government's rent reduction policy.

- 4.7 The government has however frozen LHA rates for the remainder of the parliament, so there is no practical scope to increase hostel rents, and none is proposed.
- 4.8 Notwithstanding the welfare reforms being brought in by the government, those whose rent is currently met through housing benefit should continue to receive the same degree of financial assistance. Clearly where rents are being reduced, any associated housing benefit will reduce pound for pound, leaving the tenant no better or worse off.
- 4.9 Members are however reminded that a proportion of tenants will be impacted by other welfare reforms regardless of the decrease in rent. Where working age tenants are in under occupation of their home, any housing benefit payable will be reduced by 14% for one extra bedroom or 25% for two or more extra bedrooms. Some tenants may also be affected by the benefit cap, which limits the totality of all benefits to a maximum of £20,000 per year for a couple or a single person with children. Where total benefits, including housing benefit, exceed the cap, the housing benefit will have to be reduced to bring the total package back down to £20,000. Single people with no dependent children are capped at £13,400.
- 4.10 The effective date of any change in rent will be 2 April 2018, being the first Monday of the new rent year.

5 Other Fees and Charges

- 5.1 The HRA benefits from a number of income streams other than dwelling rents, the majority of which are set by the Council and therefore need a resolution for any increases.

Garages

- 5.2 Standard garages are currently charged at £11.20 per week for tenants (£13.44 being £11.20 plus VAT for non-tenants). It is recommended that these charges be increased to £11.40 per week for tenants (£13.68, being £11.40 plus VAT for non-tenants), being a 2% rise, being consistent with the standard approach taken across the Council's fees and charges. All variants on a standard garage will receive a proportionate increase.

Water Charges

- 5.3 The Council collects the water rates on behalf of Northumbrian Water Company (trading locally as Essex & Suffolk Water) in respect of all unmetered Council houses and remits this to the water company in full including void properties. The Council is compensated separately by the water company for collecting these water rates including a void loss allowance. The Council renewed this arrangement with Northumbrian Water Company with effect from 1 April 2017.

Careline

- 5.4 Careline is an important service provided to more vulnerable tenants and non-tenants alike, enabling them to feel secure in their own homes and reassured that help, if needed, is at hand. The Council, alongside South Essex Homes, are keen to ensure that whilst remaining a robust and reliable service, Careline is provided in the most cost effective way.
- 5.5 Careline is provided by South Essex Homes, with the cost included within the management fee. Separately, those eligible to be charged are billed. Negotiations have taken place to transfer the Careline business formally to the company. This will not only secure the current service arrangements for the Council's sheltered tenants, but also allow South Essex Homes to fully exploit the commercial potential to sell the service to other users and areas. The transfer will be budget neutral on the HRA.

6 Management Fee to South Essex Homes

- 6.1 A management fee bid by the Board of South Essex Homes has been received by the Deputy Chief Executive - People, which following negotiations has been agreed. The proposed fee has been set mindful of the financial pressures within the HRA. The bid is summarised in the table below.

	2017/18 Budget £000	2017/18 Forecast £000
Management Fee	5,827	5,827
Care Line Adjustment		(316)
Inflationary Pressures		100
Less:		
Inflation Absorbed		(79)
Total Management Fee	5,827	5,532

- 6.2 The inflationary pressures for South Essex Homes are in respect of primarily employee related increased costs.
- 6.3 South Essex Homes have also requested one-off financial support of £47,000 to ensure compliance with new legislation around General Data Protection Regulations, including data cleansing, training and embedding new data protection practices.
- 6.4 Following decisions made as part of last budget setting, South Essex Homes also receive a significant proportion of their income from service and heating charges levied directly on tenants and leaseholder. It is beholden on South Essex Homes and the Council to ensure that service charges to tenants are reasonable, and as near as possible are set on a cost recovery basis. South Essex Homes has therefore proposed increases in these charges as set out below for Members endorsement.

Service Charges (SEH Charge)

- 6.5 2010/11 saw the completion of the current round of service charge unpooling from the main rent. This was the process where previous "all-in" rent payment was split between the rent element and the service charge element. There are no proposals as part of this budget to unpool further costs from the main dwelling rental. There is therefore only the need to consider the uplift of the existing service charges currently levied. Over the past year, there has been a detailed review of the cost-recovery of service charges, which has confirmed that the overall income derived covers the cost of provision. South Essex Homes are therefore only recommending an average 3.7% inflationary increase in service charges. As service charges are based on actual costs for each block, individual charges could change by more or less than the average rise. This will enable service charges to be kept in line with the cost of providing the service. Service charges are generally covered by housing benefit where applicable.

Heating Charges (SEH Charge)

- 6.6 Heating charges for sheltered housing and hostel tenants are monitored on a scheme by scheme basis, with the aim that each scheme broadly covers its costs.
- 6.7 Based on costs associated with heating, South Essex Homes are proposing that there is an average 3.3% reduction in heating charges in 2018/19. The actual charge for 2018/19 will be the actual costs associated with each scheme.

7 Higher Value Voids

- 7.1 Members will recall that the Housing and Planning Act 2016 introduced a duty on councils to consider selling higher value vacant social housing when it becomes vacant. The Act also empowers the Secretary of State to require an upfront levy payment from the Council, to fund the extension of the Right to Buy to Housing Association tenants. That levy will be calculated by reference to the market value of the Council's "higher 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.
- 7.2 As part of the Government's autumn budget proposals, there was confirmation that a £200 million large-scale regional pilot of the Right to Buy for housing association tenants in the Midlands will proceed. It is assumed that this relates to a previous announcement, for which the government has found its own direct funding. It is understood that as a result there will be no levy imposed on the HRA by Government in 2018/19. The possibility remains however that there could be a levy in future years as the ability remains on the statute books.

8 Options to Balance the HRA

- 8.1 The HRA budget has been constructed using realistic estimates wherever possible, however as indicated in the report there are a number of areas where legislation is pending that has the potential to significantly alter the proposed budget.
- 8.2 Since the draft budget was presented to Cabinet on 18 January, the following changes have been made;
- The revised budget 2017/18 has been updated for the latest information arising from budget monitoring; and
 - The 2018/19 budget has been updated for the latest forecast of interest costs, adding an additional £146,000 of cost, offset by an equal and opposite reduction in the amount appropriated to earmarked reserves.
- 8.3 The updated budget, based on the recommendations above, is shown at Appendix 1. The budget shows an operating surplus of £4.547M. On that basis the HRA is clearly in balance and Members can choose to take no other action. However that surplus is less than it otherwise would have been had the Government not required the Council to reduce rents, and therefore the HRA has less resource for future investment into its stock than it otherwise would have done. Had the Government not forced reductions in secure tenancy rental levels, the surplus would have been some £2.700M higher. Members will also recall that the reduction in rents is an on-going obligation for 2019/20 as well, by which time it will be reducing otherwise available resources by an estimated £3.300M per year.
- 8.4 £1.925M of the 2018/19 surplus will fund a revenue contribution towards the completion of the current new build programme; with the remaining £2.622M being appropriated to earmarked reserves.
- 8.5 General HRA balances will still remain above the target of £3M at £3.502M.

9 Appropriations to Earmarked Reserves

- 9.1 The main reason why the HRA continues to generate significant surpluses, despite on-going reductions in rental income, is the fact that an accounting review of the way depreciation is calculated on the housing stock was undertaken with the view to better reflect the economic value “consumed” each year. This approach has both lowered the value of depreciation payable and made it more stable year on year. Under accounting rules for the HRA, depreciation charges get transferred into the Major Repairs Reserve - a capital resource to fund amongst other things future decent homes expenditure.
- 9.2 The revised depreciation charge is below the amount assumed to be transferred to the major repairs reserve in the 30 year HRA business plan. Whilst additional amounts could be voluntarily transferred into the major repairs reserve to match the business plan, this would reduce future flexibility as the revenue surplus would convert into capital funds, with the consequential restrictions on future use.

9.3 The need to reinvest into the existing housing stock in future years is measured and quantified through the stock condition survey. A comprehensive stock condition survey was last undertaken in 2006, and has since been updated annually through surveys of void properties. There is merit as the Council refreshes its housing strategy to undertaking a more detailed survey again and officers are reviewing this with South Essex Homes. In the meantime it is proposed that the revenue earmarked reserve for HRA Capital Investment be split between major repairs and new investment, with the major repairs element reflecting the difference between the amount being transferred to the capital Major Repairs Reserve via depreciation and that assumed to be transferred in the business plan, so as to ensure that sufficient resources (both capital and revenue) are being set aside for the future maintenance of the current stock. It will also then clearly demonstrate the level of reserves available for new investment.

9.4 It is therefore recommended that the £2.622M residual surplus be appropriated to HRA earmarked reserves as follows

- £60,000 to the Repairs Contract Pensions Reserve under the five year arrangement put in place when the repairs contract was last let;
- £1,519,000 to the Major Repairs Reserve; and
- £1,043,000 to the Capital Investment Reserve.

10 HRA Medium Term Financial Plan and Strategy

10.1 The HRA Medium Term Financial Plan is shown at Appendix 2. The forward forecast of the HRA is based on a general assumption of an underlying 2.0% CPI, consistent with the Bank of England's latest forecasts.

10.2 For expenditure, the variations from the 2% assumption are:

- Insurance costs, where a 5% allowance has been made
- Provision for Bad & Doubtful Debts, where in recognition of the heightened risks of rent arrears arising from the governments welfare reforms, especially now that universal credit is being rolled out in Southend, a 2% allowance on rent roll has been made
- South Essex Homes management fee, where a real terms increase of £50,000 per annum is provided for, before efficiency savings
- Depreciation and Interest Charges are based on the underlying business plan and treasury management strategy. The plan allows for borrowings to rollover on maturity.

10.3 For income, it is assumed that rent will decrease by 1% in 2019/20, as required by legislation, with a return to CPI only increases thereafter. Other income rises will be limited to an assumption of 2%, in line with the Council's MTFS assumptions for the General Fund. The recharge to capital varies in line with the agreed HRA capital programme.

10.4 Members will be aware of the proposed regeneration of Queensway. The HRA MTFS assumes this to be broadly revenue neutral at this stage, on the basis

that lost rental income will be largely offset by a reduced need for management and maintenance. Some basic allowance has been made for a net loss in future years. Clearly much will depend on the final nature of the redevelopment proposal, including how any decant process works. The MTFS will be updated once a better understanding of the timing of any impact is known.

- 10.5 The Medium Term Financial Strategy demonstrates that the HRA is currently financially robust. Each year of the HRA MTFS an operational surplus is forecast, which will be appropriated to HRA earmarked reserves. HRA reserves are shown at Appendix 3.
- 10.6 The Council is embarking on a significant refresh of its Housing Strategy and the establishment of a shared vision for Housing. Clearly the HRA is only part of the housing landscape in Southend, and its assets and resources have some government imposed constraints over their use. However it does represent a significant lever at the Council's disposal to respond to increasing pressures around homelessness and challenges relating to a shortage of suitable affordable housing. As such the HRA MTFS will continue to be developed as the new Housing Strategy emerges and detailed proposals surface.
- 10.7 However what cannot be modelled is the impact of any higher value voids levy that the government may choose to impose in future years. It is not possible to estimate the level of any levy given that the government is still running the extension of right to buy to housing association tenants as a pilot, and are funding the consequences from their own resources rather than a levy on Councils' HRAs. Should the levy be implemented in future years, clearly it will have a detrimental impact on the finances of the HRA.

11 Capital Allowance

- 11.1 The HRA capital programme is reported elsewhere on this agenda. This proposes an indicative programme of works over the next 4 years totalling £23.197M. At the same time, capital receipts generated by the sale of HRA assets continue to be subject to pooling arrangements with up to 75% of proceeds being paid over to government. The Council can take action to preserve the full value of its non-right to buy capital receipts however by declaring a capital allowance under regulation 16 of the Local Authorities (Capital Finance And Accounting) (England) Regulations. This equates to the value of investment back into affordable housing, and as such is equal to the value of the HRA capital programme.

12 Other Options

- 12.1 Given the statutory nature of the required reduction in rents, Members have limited scope to alter the budget.

13 Reasons for Recommendations

Part of the process of maintaining a balanced budget for the HRA is to consider and set a rent rise (and associated increases in other income streams). Full Council need to approve the HRA budget prior to the start of the financial year.

14 Corporate Implications

14.1 Contribution to Council's Vision & Critical Priorities

The recommendations in this report contribute directly to the Council's corporate priority to enable well-planned quality housing and developments that meet the needs and expectations of all of Southend's residents.

14.2 Financial Implications

As set out in the report

14.3 Legal Implications

None at this stage

14.4 People Implications

None at this stage

14.5 Property Implications

The recommendations in this report assist in the proper management of the Council's housing stock

14.6 Consultation

The proposals contained in this report have been considered by the Policy and Resources Scrutiny Committee, which sought clarification about the use of HRA resources to provide assistance with homelessness.

An appropriate period of notice of proposed increases in rents and charges has been factored into the timetable for implementing the recommendations of this report.

14.7 Equalities Impact Assessment

None at this stage

14.8 Risk Assessment

The financial risks associated with these proposals have been considered throughout this report, and in particular have been factored into the development of the self-financing business plan, and is incorporated into the

report on the robustness of the budget and the reserves policy presented elsewhere on this agenda.

14.9 Value for Money

The proposals within this report are consistent with the Council's plans to continue to improve value for money within the services it offers.

14.10 Community Safety Implications

None at this stage

14.11 Environmental Impact

None at this stage

15 Background Papers

None

16 Appendices

Appendix 1 – HRA Budget 2018/19

Appendix 2 – HRA Medium Term Financial Plan 2018/19 to 2021/22

Appendix 3 – HRA Reserves 2018/19 to 2021/22