

Southend-on-Sea Borough Council

Report of Corporate Director for Corporate Services
and Corporate Director for People

to
Cabinet

on
11 February 2016

Agenda
Item No.

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**Draft Housing Revenue Account Budget 2016/17 and Rent Setting
Policy and Resources Scrutiny Committee
Executive Councillor: Councillor David Norman
*A Part 1 Public Agenda Item***

1 Purpose of Report

This report sets out the Housing Revenue Account (HRA) budget for 2016/17, together with the information necessary to set a balanced budget as required by legislation.

This report has been drafted before new legislation, and associated regulations, proposed through the Welfare Reform and Work Bill affecting the rent levels for social housing and the Housing and Planning Bill imposing enforced sale of high value voids or an equivalent financial levy has been finalised, and therefore the assumptions made within this report may need substantial updating once the Government's proposals are made clear.

2 Recommendation

Cabinet are asked to recommend to Council

- 2.1 A rent reduction of 1% on General Needs tenancies, as required by the Welfare Reform and Work Bill;
- 2.2 A zero % rent increase on Sheltered Accommodation tenancies;
- 2.3 An average rent increase of 3.39% on shared ownership properties;
- 2.4 An increase in hostel rents to the appropriate Local Housing Allowance rate, less 10% plus £60, as allowed by national guidance;
- 2.5 That the proposed rent changes in 2.1, 2.2, 2.3 and 2.4 be effective from 4 April 2016;

- 2.6 The increases in other charges as set out in section 5;
- 2.7 Note the management fee proposed by South Essex Homes, as set out in section 6;
- 2.8 That from 1 April 2016, South Essex Homes be charged with setting and recovering service, heating and water charges directly, on a cost recovery only basis, and their management fee be reduced accordingly;
- 2.9 The appropriations to the Repairs Contract Pensions earmarked reserve and the HRA Capital Investment earmarked reserve, as set out in section 8;
- 2.10 Subject to 2.1 through to 2.9 above, the HRA budget as set out in Appendix 1;
- 2.11 That a report be brought back to Cabinet in the autumn on the HRA Medium Term Financial Strategy and Plan, as set out in section 9; and
- 2.12 The value of the Council's capital allowance for 2016/17 be declared as £34.073M, 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 Increase

General Needs Properties

- 4.1 The average weekly rent charged on HRA General Needs tenancies is currently £90.17.
- 4.2 Under changes introduced by the Government in the proposed Welfare Reform and Work Act, the Council is obliged to reduce social housing tenancy rents by 1%. This applies to both formula and affordable rents. This reverses the announcement made in the last year of the Coalition Government 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). 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. As currently written, the proposed Act obliges the rent reduction to apply to both general needs and sheltered accommodation, although there is provision for classes of accommodation to be exempted from the requirement through regulation. As yet no draft regulations have been published, although It is understood that sheltered accommodation is to be exempt for 2016/17.

- 4.3 The rent reduction requirement does not apply to rents on shared ownership properties or temporary accommodation.
- 4.4 The 1% reduction in rent for General Needs tenancies will see the average rent fall to £89.27.

Sheltered Accommodation

- 4.5 The average weekly rent charged on HRA Sheltered Accommodation tenancies is currently £77.53.
- 4.6 It was announced in a House of Commons debate on 27 January 2016 that the Government is minded to exempt “specialist” housing, which includes sheltered units, from the required 1% rent reduction for one year, so as to provide time to study the financial viability of this sector of housing. The Council therefore has the option to consider whether to continue with its current course of a rent reduction across the board, or revert to a normal CPI + 1% rent rise for the sheltered units. The CPI percentage used for rent rises is the previous September. That CPI rate was -0.1%, therefore the permissible rise for Sheltered Accommodation is 0.9%.
- 4.7 Given the lateness of the announcement, the views of Group Leaders were sought. Some were in favour of increasing rents by the permissible amount, others that the 1% reduction be implemented. It is recommended that a middle road is therefore followed, and that rent levels be kept the same for 2016/17.

Shared Ownership Properties

- 4.8 The rents for the Council’s 14 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 CPI +1%, plus a move towards final convergence. Across the 14 properties, the Council’s ownership ranges from 10% up to 75%. On average rents would increase by 3.39%, although individual rent rises will vary depending upon how near to rent convergence a particular rent is.

Hostels

- 4.9 Similarly rents in the Council's hostels have traditionally been set with reference to formula rents for Council Dwellings, notwithstanding that the hostels are let as temporary accommodation. As these temporary tenancies are not subject to the Government's rent reduction policy, it provides an opportunity to review and potentially charge higher rent levels in recognition of the additional costs associated with managing temporary accommodation. There is a national formula which is applied to managing temporary accommodation of the Local Housing Allowance rate, minus 10% plus £60 per week, equivalent to about £160 per week, compared to the current average charge for a room of £69. This level will be deemed to be inclusive of relevant service charges. This higher level of rent for temporary accommodation is fully admissible for Housing Benefit. It is recommended that this new approach to temporary accommodation rents be adopted.

Other Matters

- 4.10 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.
- 4.11 Members are however reminded that a proportion of tenants will be impacted by other welfare reforms regardless of the rent rise. 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. The other major change that may affect some tenants is the imposition of the lower benefit cap, which would limit the totality of all benefits to a maximum of £20,000 per year (currently £23,000). 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.
- 4.12 The effective date of any increase will be 4 April 2016, 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 £10.80 per week for tenants (£12.96 being £10.80 plus VAT for non-tenants). It is recommended that these charges be increased to £11.00 per week for tenants (£13.20, being £11.00 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.

Service and Water Charges

- 5.3 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. The reduced rental payment then resumed its convergence path with the formula rent. There are no proposals as part of this budget to unpool further costs from the main dwelling rental, although the situation will continue to be monitored for any new unpooling opportunities. 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. It is therefore only necessary to recommend an average 1% 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.
- 5.4 Water charges are collected by the Council on behalf of Essex and Suffolk Water, with the actual cost being passed on to the tenant. The Council receives a commission payment from the water company for providing this service.

Heating Charges

- 5.5 Heating charges for sheltered housing tenants are monitored on a scheme by scheme basis, with the aim that each scheme broadly covers its costs. Following consultation last year, the basis of charge is now calculated using actual costs for each scheme based on the previous year.
- 5.6 Based on costs associated with heating, it is proposed that there is an average 1% decrease in heating charges in 2016/17. The actual charge for 2016/17 will be the actual costs associated with each scheme.

Careline

- 5.7 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 while remaining a robust and reliable service; it is provided in the most cost effective way.
- 5.8 The service is currently estimated to be operating at a loss. To bring the service back into a breakeven situation, it is estimated to require a 20% increase, taking the weekly cost of the provision of the equipment and monitor service from £2.42 to £2.90 and the monitor only service from £1.35 to £1.60. Although these increased charges are justifiable, and will still be below the average charged for these services across Essex, it is considered that a single increase of this magnitude may discourage vulnerable clients from using the service, which in time has the potential to increase costs elsewhere. It is therefore recommended that the service be restored to breakeven in a phased basis, with the equipment and monitor service increasing to £2.60 and the monitor only service increasing

to £1.50. Many of the recipients receive this service free of charge, with the Council picking up the cost through Supporting People.

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 Director for People, which following negotiations has been agreed.
- 6.2 The fee is normally made up of two principal elements; the core management fee which covers the day to day cost of running the service and an administration fee levied on the decent homes programme. The proposed fee has been set mindful of the financial pressures within the HRA. The bid is summarised in the table below.

	2015/16 Budget £000	2016/17 Forecast £000
Core Management Fee	9,264	9,264
Inflationary Pressures		153
Less:		
Savings Target		(120)
Inflation Absorbed		(88)
Total Management Fee	9,264	9,209

- 6.3 The inflationary pressures for South Essex Homes are in respect of primarily employee related increased costs.
- 6.4 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.
- 6.5 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; South Essex Homes provide the service, the Council collects income. Therefore from time to time reviews are carried out.
- 6.6 Given that South Essex Homes have full details of their costs associated with the provision of chargeable services, it is recommended that South Essex Homes sets and recovers the charges directly on a cost recovery basis, albeit ratified by the Council as part of the introduction of the new management agreement from 1 April 2016, with the management fee being reduced accordingly. South Essex Homes have been consulted on this proposal and are in agreement with it. This will cover service charges, water charges and heating charges. As Careline at present is operating below breakeven, it is considered that it is premature to transfer this income stream too.

- 6.7 This change will see £3,641,000 income flow directly to South Essex Homes, with the headline management fee reduced by the same amount.
- 6.8 Separately the savings plans for the General Fund include a proposed new charge of £50,000 into the HRA by way of the transfer of a function to be delivered by South Essex Homes (PE7). The total Management Fee for 2016/17 will therefore be as follows:

	2016/17 Forecast £000
Core Management Fee	9,209
Less Service Charge Income Transferred	(3,641)
Add PE7 Allocation Service	50
Management Fee	5,618

7 Enforced sale of Voids

- 7.1 Members will recall that 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.
- 7.2 There has been a data gathering exercise carried out by the Department for Communities and Local Government which closed 24 December 2015 that is anticipated to form the basis for any proposed levy, but as yet there is no indication as to the likely amount. At the time of writing this report, it is not therefore possible to predict the resource implications of any levy arrangement. A verbal update will be given at Cabinet.

8 Options to Balance the HRA

- 8.1 The draft Housing Revenue Account Revenue budget for 2016/17 was considered by Cabinet on 19 January 2016. It was referred to Policy and Resources Scrutiny Committee on 28 January 2016 for detailed Member consideration.
- 8.2 The draft budget considered has been updated for the latest position on rent income and on interest payments following the appropriation of Queensway garages and parking areas to the General Fund. The HRA has been rebalanced through increasing the proposed appropriation to reserves.

- 8.3 The HRA budget has been constructed using realistic estimates wherever possible, however as indicated through the report there are a number of areas where legislation is pending that has the potential to significantly alter the proposed budget.
- 8.4 The budget, based on the recommendations above, is shown at Appendix 1. That budget shows an operating surplus of £4.081M. On that basis the HRA is clearly in balance and Members could 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. Members will also recall that the reduction in rents is an on-going obligation for the next four years, by which time it will be reducing available resources by nearly £4M per year, and is predicted to move the HRA into deficit.
- 8.5 There is also the currently unknown impact of the enforced sale of voids regime.
- 8.6 Clearly action will need to be planned through the HRA medium term financial strategy. However as an immediate action, work has been jointly undertaken by South Essex Homes and the Council to identify a proposed reduction in the repairs budget of £500,000. This reduction will not compromise any health and safety work, instead it will target primarily contingent items. Should there be urgent or emergency works that cannot be contained within the reduced budget, then there would need to be a call on reserves.
- 8.7 Separately the savings plans for the General Fund include a proposed new charge of £50,000 into the HRA relating to the allocations policy (PE7) and £68,000 for the management of HRA related Aids and Adaptations (PE5).
- 8.8 These two changes bring the total operating surplus to £4.463M. Of this amount, £2.176M will be used to fund previously agreed revenue contributions to capital in relation to the new build at Shoeburyness and for the Queensway project, leaving £2.287M of the surplus unused. £60,000 of this will be diverted to the Repairs Contract Pensions Reserve under the five year arrangement put in place when the repairs contract was last let. Then rather than just take the residual £2.227M surplus to the HRA balances, it is recommended that it be taken to the HRA Capital Investment Reserve where any revenue surpluses are being accumulated for use in support of future capital investment.
- 8.9 General HRA balances will still remain above the target of £3M at £3.502M.

9 HRA Medium Term Financial Plan and Strategy

- 9.1 It would be normal practice to set out the HRA Medium Term Financial Plan and Strategy as part of this budget setting report. However Members will appreciate the large degree of uncertainty there currently is around the future of the HRA given that two major pieces of legislation affecting the finances of the HRA are still passing through Parliament. Both pieces of draft legislation also allow for regulations to be issued by the Secretary of State, and as yet there has been no consultation on the content of those regulations. It is

therefore considered premature to draw up a HRA Medium Term Financial Plan and Strategy at this stage.

9.2 Clearly though there is a need to develop a new business plan for the HRA that reflects the new environment within which it needs to operate. To that end work is underway to identify

- The impact of the Welfare Reform and Work Bill and the associated regulations once issued, that deal with the required reduction in rents and Pay to Stay;
- The impact of the Housing and Planning Bill, and the associated regulations once issued, that deal with the enforced sale of high value stock and fixed life tenancies;
- An up to date 30 year business plan for capital investment, repairs and maintenance;
- A reassessment of the HRA depreciation policy, looking at realistic component life cycles, and reflective of the need to reinvest back into the stock;
- Required efficiency targets for South Essex Homes;
- Any proposals arising from the Sheltered Housing review; and
- The impact of Better Queensway.

9.3 It is proposed that the HRA Medium Term Financial Plan and Strategy be brought back to Cabinet in autumn 2016 to inform the debate on the 2017/18 and later years HRA budgets.

10 Capital Allowance

10.1 The HRA capital programme is reported elsewhere on this agenda. This proposes an indicative programme of works over the next 4 years totalling £34.073M. 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.

11 Other Options

Options available to Members are set out throughout the report, particularly in relation to the proposed rent rise.

12 Reasons for Recommendations

Part of the process of maintaining a balanced budget for the HRA is to consider and set any 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.

13 Corporate Implications

13.1 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.

13.2 Financial Implications

As set out in the report

13.3 Legal Implications

None at this stage

13.4 People Implications

None at this stage

13.5 Property Implications

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

13.6 Consultation

The proposals contained in this report were considered by Policy & Resources Scrutiny Committee on 28 January 2016. The Committee made observations about the level of the proposed rent rise for shared ownership properties, but otherwise offered no comment on the HRA Budget.

Subsequently Group Leaders were consulted on the rent rise for sheltered accommodation, given the lateness of notice that these properties are to be exempt from the statutory 1% reduction in rent. There was a split of views, with some recommending an increase in rents, some recommending a reduction.

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

13.7 Equalities Impact Assessment

None at this stage

13.8 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 will be incorporated into the report on the robustness of the budget and the reserves policy to be presented to the March Cabinet.

13.9 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.

13.10 Community Safety Implications
None at this stage

13.11 Environmental Impact
None at this stage

14 Background Papers

Cabinet Report – Financial Pressures facing the HRA – 10 November 2015

15 Appendices

Appendix 1 - HRA Budget 2016/17