Southend-on-Sea Borough Council

Agenda Item No.

Report of Corporate Director for People

to

Cabinet

on

8 November 2016

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Financial Pressures facing the Housing Revenue Account

Policy and Resources Scrutiny Committee
Executive Councillor: Councillor Mark Flewitt
A Part 1 Public Agenda Item

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1 Purpose of Report

To update Members, ahead of the Housing Revenue Account (HRA) Budget and Rent Setting 2017/18 report, on various financial pressures facing the HRA as a result of recent changes in Government policy.

2 Recommendation

2.1 That Cabinet note the report.

3 Background

3.1 As part of the June 2015 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.

3.2 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.

3.3 Notwithstanding the enactment of both the Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016, which are the routes for the introduction of these changes, both Acts rely on regulations yet to be published; there is a lack of firm detail as yet.

4 Decrease in Social Rents

4.1 The Welfare Reform and Work Act 2016 forces local authorities and housing associations to reduce current rent levels by 1% a year for four years starting 1 April 2016. This applies to both formula and affordable rents.

4.2 The Government exempted sheltered housing from this rent reduction in 2016/17 whilst it reviewed supported housing, but has confirmed that these rents too will be reduced by 1% each year from 1 April 2017.

4.3 Based on the Bank of England's forecasts of CPI inflation (August 2016) over coming years, this rent reduction policy will have the following impact on rental yield.

	Previous CPI + 1% policy £M	1% pa reduction policy £M	Loss in anticipated annual rental yield £M / %	
2015/16	25.940	25.940	0.000	0%
2016/17	26.340	25.700	0.640	2.4%
2017/18	26.940	25.440	1.500	5.6%
2018/19	27.740	25.190	2.550	9.2%
2019/20	28.690	24.940	3.750	13.1%
Cumulative loss of income			**8.440**	

4.4 As can be seen, the HRA will have a cumulative £8.4 million less resources over the next four years, and even though it is assumed that rent increase policy will revert back to CPI from April 2020, the HRA will by then have some £3.750M less rental income each year than otherwise would have been the case.

4.5 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 £8.4M less in the reserve than previously anticipated over the next four years, meaning that the ability of the HRA to undertake new build or major refurbishment will be more restricted.

4.6 Tenants will see their rents go down. At the time of setting the 2016/17 HRA budget, the average weekly rent for general needs was £89.27 and for sheltered accommodation £77.53. Applying government policy, these rents will fall to £88.38 and £76.75 for 2017/18. Had the rent increase policy remained unchanged, average rents would have been expected to rise by £8.38 to £98.55 for general needs and by £7.20 to £84.73 for sheltered units by 2020. However under the Government's policy of reducing rents, average rents will instead fall by £3.54 to £86.63 and by £2.31 to £75.22 respectively.

4.7 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.

5 Pay to Stay

5.1 As part of the Sumer Budget 2015 the Chancellor announced that a compulsory 'pay to stay' scheme would be introduced. The thresholds were expected to be £40,000 in London and £30,000 elsewhere.

5.2 Measures to introduce a mandatory pay to stay scheme for local authorities are included in the Housing and Planning Act 2016. Detailed provisions will be set out in regulations which will be published in due course. Those Regulations will need to be approved by both Houses of Parliament.

5.3 Although no draft regulations have been proposed as yet, various statements by Government Ministers have added more information to their proposals, namely;

- Pay to Stay will be voluntary for housing associations, and if they choose to apply the scheme, they will retain any proceeds in full;
- Pay to Stay will be mandatory for local authorities, with any proceeds being passed to HM Treasury;
- The thresholds have been confirmed as household income of £40,000 in London and £31,000 elsewhere. These rates will be uprated each year by CPI inflation;
- Household income means the taxable income of tenants or joint tenants and their spouses and partners – if there are other people living in the household (for example, adult children), their income is unlikely to count towards the £31,000 limit;
- Child benefit, Disability Living Allowance and tax credits will not count as part of household income for Pay to Stay and anyone who gets housing benefit or Universal Credit will be exempt from Pay to Stay;
- Once household income is above £31,000 a year, rent will increase by 15 pence for every pound above this threshold. That is for each £1,000 extra in household income, rent will increase by £150 a year - that is, £12.50 a month or £2.88 a week; and
- There is no commitment to exempt people over the age of 65 from Pay to Stay

5.4 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.

5.5 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 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 Housing and Planning Act 2016, by giving the Secretary of State power 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 Housing and Planning Act places a duty on councils to consider selling higher value vacant social housing when it becomes vacant. The Act 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 "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.

6.4 Details of how 'higher-value' is to be defined, and how the levy is to be calculated, are not yet known. The change in language from 'high-value' used in the draft Bill to 'higher-value' was made in response to concerns raised by peers about the severe impact the policy may have in Central London if a regional definition of high-value were applied. Higher-value is instead thought to indicate that local market conditions will be taken into account.

6.5 An assessment of the impact on the Housing Revenue Account must wait for these details to be clarified. If homes are sold to pay the levy, this would reduce the capacity to rehouse households on the waiting and transfer lists, increase the number of households in temporary accommodation and reduce long-term Housing Revenue Account (HRA) income. The alternative of funding the levy from the HRA itself – effectively from tenants rents – will reduce capacity within the HRA to maintain and regenerate the council housing stock. The Regulations setting out the detail of the plans along with what definition of higher-value will be used are due to come back before Parliament. Further information on the timescales for implementation is also expected at this point.

7 HRA Medium Term Financial Plan

7.1 The previous financial issues paper (Cabinet – 10 November 2015) predicted that the reduction in rents over the financial years to 2019/20 would move the HRA from a position of annual surplus to one of deficit. As a consequence decisions were taken as part of setting the HRA budget for 2016/17, in consultation with South Essex Homes, to seek further efficiencies in the management fee and to reduce the revenue repairs budget. Officers also undertook to review the depreciation policy with a view to making this charge more stable and sustainable into the future for the revenue account, and at the same time ensuring sufficient funds are being set aside for the future capital maintenance needs of the stock.

7.2 That latter piece of work is only partially complete. Depreciation has been substantially reduced and made more stable, but further work needs to be undertaken to ensure that sufficient resources are being set aside for future capital maintenance. This work is nearing completion. Therefore the major repairs allowance assumed in the original self-financing business plan has been used as a proxy within the HRA MTFP.

7.3 Fundamentally it is still difficult to model the HRA MTFP with any certainty given the lack of information from the government as to the proposed level of any levy in relation to higher value voids from 2017 onwards. Based on what is currently known, the tables below set out the HRA MTFP up until 2020. Appendix 1 sets out a more detailed version of the HRA MTFP.

	2016/17 Budget £000	*2017/18 Forecast £000*	*2018/19 Forecast £000*	*2019/20 Forecast £000*
Total Expenditure	23,688	24,182	24,715	25,088
Total Income	(28,151)	(27,917)	(27,722)	(27,512)
Net Operating Surplus	**(4,463)**	**(3,735)**	**(3,007)**	**(2,424)**
Revenue Contribution to Capital	2,176	0	0	0
Surplus taken to Reserves	**(2,287)**	**(3,735)**	**(3,007)**	**(2,424)**

Table makes no allowance for the impact of the proposed Higher Value Voids Levy

7.4 As a result of reducing the cost base of the HRA, notwithstanding that the on-going required rent reductions are reducing resources available, the HRA MTFP indicates that the HRA will remain in surplus, albeit reducing whilst the government require the Council to continue to reduce rent levels. Surpluses being generated are lower than they otherwise would have been, but nonetheless still remain positive.

7.5 However what remains clear is that the HRA will only be able to support a higher value voids levy payment in the region of £3.0M a year from the revenue account, without the need to dispose of properties or use existing balances to raise the required funds. Until the government publish the draft regulations and determinations, it is difficult to propose a definitive course of action.

8 Corporate Implications

8.1 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.

8.2 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 reduces the amounts available for future reinvestment in the Council Housing Stock.

The proposed Higher Value Voids Levy will further reduce available housing reserves.

8.3 Legal Implications
The report refers to two statutory instruments; the Welfare Reform and Work Act and the Housing and Planning Act. Statutory Regulations that will bring some of the provisions into effect are still awaited.

8.4 People Implications
There are no people implications arising from this report

8.5 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.

8.6 Consultation
There are no consultation implications arising from this report

8.7 Equalities Impact Assessment
There are no equalities implications arising from this report

8.8 Risk Assessment
There are no risk implications arising from this report

8.9 Value for Money
There are no value for money implications arising from this report

8.10 Community Safety Implications
There are no community safety implications arising from this report

8.11 Environmental Impact
There are no environmental implications arising from this report

9 Background Papers

Hyperlink within the report point Members to a House of Commons Library briefing paper relating to this issue.

Financial Pressure facing the Housing Revenue Account - report to Cabinet – 10 November 2015

10 Appendices

Appendix 1 Detailed HRA Medium Term Financial Plan 2016/17 – 2019/20