

# Southend-on-Sea Borough Council

Agenda  
Item No.

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

to  
**Cabinet**

on  
**14 February 2017**

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**Housing Revenue Account Budget 2017/18 and Rent Setting  
Policy and Resources Scrutiny Committee  
Executive Councillor: Councillor Mark Flewitt  
*A Part 1 Public Agenda Item***

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## **1 Purpose of Report**

This report sets out the Housing Revenue Account (HRA) budget for 2017/18, 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 4.41% on shared ownership properties;
- 2.3 That the proposed rent changes in 2.1 and 2.2 be effective from 3 April 2017;
- 2.4 The increases in other charges as set out in section 5;
- 2.5 The proposed management fee and the proposed increases in service charges and heating charges by South Essex Homes, as set out in section 6;
- 2.6 The appropriations to the Repairs Contract Pensions earmarked reserve and the HRA Capital Investment earmarked reserve, as set out in section 8;
- 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 9 and Appendix 2 be noted; and

- 2.9 The value of the Council's capital allowance for 2017/18 be declared as £25.965M, 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**

- 4.1 The average weekly rent charged on HRA secure general needs tenancies is currently £89.27 and for sheltered accommodation £77.53.
- 4.2 Under changes introduced by the Government in the Welfare Reform and Work Act 2016, the Council is 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 only has 1 property 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 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 September 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 4.41%, 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 scope to increase hostel rents.
- 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. 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.
- 4.10 The effective date of any increase will be 3 April 2017, being the first Monday of the new rent year.

### **Pay to Stay**

- 4.11 The Council has received formal notification that the Government is no longer proceeding with its mandatory Pay to Stay policy, which would have seen higher rents being imposed on tenants with household income above £31,000, with the proceeds being collected by the Council and passed back 100% to the Government.

## **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 £11.00 per week for tenants (£13.20 being £11.00 plus VAT for non-tenants). It is recommended that these charges be increased to £11.20 per week for tenants (£13.44, being £11.20 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. When the 2016/17 HRA budget was set, it was proposed that the water company payment received for services rendered was passed directly over to South Essex Homes, and their management fee reduced accordingly. In practice this has not proved to be realistic, not least because it is not an income stream over which South Essex Homes has influence.

### 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 while remaining a robust and reliable service; it is provided in the most cost effective way.

5.5 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 roughly 10% increase, taking the weekly cost of the provision of the equipment and monitor service from £2.60 to £2.90 and the monitor only service from £1.50 to £1.60. These increased charges will still be below the average charged for these services across Essex. 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 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.

	<b>2016/17 Budget £000</b>	<b>2017/18 Forecast £000</b>
Management Fee	5,618	5,877
Service Charge Adjustment	(59)	
Water Adjustment	318	
Inflationary Pressures		164
Less:		
Savings Target		(50)
Inflation Absorbed		(164)
<b>Total Management Fee</b>	<b>5,877</b>	<b>5,827</b>

6.2 The inflationary pressures for South Essex Homes are in respect of primarily employee related increased costs.

- 6.3 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. Since setting that budget adjustments have been made to reflect the actual value of service and heating charges being billed, and for the return of the water company payment to the HRA as set out above. These adjustments are cost neutral on South Essex Homes, as set out in paragraph 6.9 below, and similarly cost neutral on the HRA.
- 6.4 Going forward 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. 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. 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.

#### **Heating Charges (SEH Charge)**

- 6.6 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.
- 6.7 Based on costs associated with heating, it is proposed that there is an average 1% increase in heating charges in 2017/18. The actual charge for 2017/18 will be the actual costs associated with each scheme.
- 6.8 On the basis that the Council agrees the proposed service and heating charge increase, the budgeted income to South Essex Homes derived from these charges will be:

	<b>Service Charges £000</b>	<b>Heating Charges £000</b>	<b>Total £000</b>
2016/17 Income	3,106	276	3,382
Inflation	31	3	34
<b>2017/18 Income</b>	<b>3,137</b>	<b>279</b>	<b>3,416</b>

Total funding to South Essex Homes will therefore be:

	<b>2016/17 Original Budget £000</b>	<b>2016/17 Revised Budget £000</b>	<b>2017/18 Forecast £000</b>
Management Fee (funded by the HRA)	5,618	5,877	5,827
Service & Heating Charges (charged to tenants etc)	3,641	3,382	3,416
<b>Total SEH Income</b>	<b>9,259</b>	<b>9,259</b>	<b>9,243</b>

## 7 Higher Value Voids

- 7.1 Members will recall that the Housing and Planning Act 2016 introduces 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 The Council has received formal notification that there will be no levy imposed on the HRA by Government in 2017/18, as they will now be funding a large-scale regional pilot of the Right to Buy extension directly. The possibility remains however that there could be a levy in future years.

## 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 The budget, based on the recommendations above, is shown at Appendix 1. That budget has been updated since January Cabinet to reflect the last positions on income and capital in particular. The budget shows an operating surplus of £3.742M. 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. Members will also recall that the reduction in rents is an on-going obligation for the next three years, by which time it will be reducing otherwise available resources by £3.750M per year.

8.3 £350,000 of the surplus will fund a revenue contribution towards the completion of the Shoebury new build project. It is recommended that £60,000 of the remaining surplus be diverted to the Repairs Contract Pensions Reserve under the five year arrangement put in place when the repairs contract was last let, with the remaining £3.332M be taken to the HRA Capital Investment Reserve where any revenue surpluses are being accumulated for use in support of future capital investment.

8.4 General HRA balances will still remain above the target of £3M at £3.502M.

## **9 HRA Medium Term Financial Plan and Strategy**

9.1 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.

9.2 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, a 3% allowance 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.

9.3 For income, it is assumed that rent will decrease by 1% in 2018/19 and 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.

9.4 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. The MTFs will be updated once a better understanding of the timing of any impact is known.

9.5 The Medium Term Financial Strategy demonstrates that the HRA is currently financially robust.

- 9.6 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.

## **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 £25.965M. 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** – given the statutory nature of the required reduction in rents, Members have limited scope to alter the budget.

## **12 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.

## **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  
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 – 8 November 2016

## **15 Appendices**

Appendix 1 – HRA Budget 2017/18

Appendix 2 – HRA Medium Term Financial Plan 2017/18 to 2020/21