

**Meeting of the Place Scrutiny Committee – 30th January 2017**

**Joint Report of the Strategic Director of Place and the Chief Officer, Finance and Legal Services**

**Medium Term Financial Strategy - Housing Finance**

**Purpose of Report**

1. To consult the Scrutiny Committee on the principles adopted in the proposed Housing Revenue Account (HRA) budget for 2016/17, 2017/18 and future years, in the context of rent reductions and the impact of the government's welfare reforms.

**Background**

HRA Budget 2016/17

2. The 2016/17 HRA revenue budget, rolling 5 year Public Sector Housing capital programme and 30 year HRA financial business plan were presented to Cabinet in February 2016 and took into account the annual reduction of 1% per year in social rent levels required within the Welfare Reform and Work Act 2016.
  3. A revised HRA budget for 2016/17 was presented to Cabinet in October 2016, taking into account the latest financial forecasts. This proposed a number of budget revisions owing to:
    - Updating the Public Sector Housing capital programme to take into account 2015/16 final outturn
    - Release of bad debt provision for housing rents as a result of good performance on rent collection and also a review of accounting for the bad debt provision on housing benefit overpayments, in the light of the 2015/16 audit.
    - Updating the Management budget to account for earmarked reserves brought forward into 2016/17 to support, for example, ICT developments and specific projects.
    - Minor variations to interest payable relate to savings on interest rates.
    - Increase in revenue contribution to capital expenditure using additional resources available to support future housing improvements and major works.
    - Increase in Discretionary Housing Payment HRA top-up in order to address increased demand mainly as a result of the reduction in the benefit cap from £26,000 per annum to £20,000 per annum for couples and families.
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- The transfer of Oak Lane Travellers' Site and Lye Homeless Centre from the General Fund to the HRA, in order to maximise efficient operation and reduce financial risks to the General Fund, enable consistent treatment of Lye Homeless Centre with other hostel accommodation already funded within the HRA, and facilitate future investment in these sites, subject to overall HRA resources and priorities.
4. Service pressures including the roll-out of welfare reforms, notably Universal Credit and the reduced benefit cap, as well as Right to Buy replacement targets for new build homes, the proposed sale of high value empty homes and the introduction of fixed term tenancies will all impact on HRA budgets in future years to increase, for example, the cost of management and the provision required for bad debts.

#### Formula Rent

- 5.. From 2001 to 2014, council rents increased above inflation, under a process known as "convergence", to bring them more in line with Housing Association rent levels and achieve more comparability between social sector rents. Convergence was scheduled to end in 2015/16, but the Government ended the process a year earlier, in 2014/15. In addition, in 2014/15, Cabinet agreed to implement a 1.5% rent increase, which was lower than the 5.2% allowed under the Government's rent increase formula, and in 2015/16 rents were frozen at the previous year's levels.
6. As a result of the early end to convergence, the total rent debit is £2.6m lower than it would be had we been able to continue to convergence. In October 2016, Cabinet agreed the proposal that, where a property becomes void, the rent for the new tenant will be set at the formula level, effectively achieving convergence at the point of a new let. Over 80% of properties will see an increase in rent of under £3 per week, with a further 17% having an increase of between £3 and £4 per week. The average weekly increase is £2.28 per week. Existing tenants in their current properties will not be affected.
7. It is estimated that, with an average tenancy length currently of around 11 years, this will bring in just over £200,000 additional rent income each year, with all tenancies eventually moving to formula rent. With rents reducing by 1% each year until April 2019 under current government rent policy, this will help to support our expenditure on maintaining, improving and managing stock. This new approach will be introduced from April 2017 and will apply for all new lets, including current tenants moving to a different property.

#### "Pay to Stay" (Higher Income Social Tenants)

8. The Government has now announced the withdrawal of its policy that from 2017/18 council tenants with household income of over £31,000 (outside London) will pay higher rents, moving towards market rent levels.

#### Government Policies – update

9. Although "Pay to Stay" has been withdrawn, we await further information on the Government's proposals to introduce mandatory fixed-term tenancies, and also to introduce a levy for housing authorities based on their higher value housing
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stock. At this point, we do not expect either of these policies to be introduced during 2017/18, as there is a great deal of work still to be done on their detailed operation. Both policies, however, will, when introduced, impact on the housing management functions and also on the HRA budget.

10. The national roll-out of Universal Credit continues. At present, only new claims from single people are processed as Universal Credit, with couples, families, and current claimants remaining on legacy benefits, including Housing Benefit. On average, we have seen around 5 new Universal Credit claims each week. From July 2017, all three jobcentres in the Dudley MBC area (Dudley, Halesowen and Stourbridge) are scheduled to start processing all new benefit claims (i.e. including couples and families) as Universal Credit. In addition, this stage of the roll-out also covers around 25 types of changes in circumstances which will trigger a move to Universal Credit. We expect this to significantly increase the number of Universal Credit claimants in the borough. Where these are our tenants, they will no longer receive Housing Benefit but will be responsible for paying their rent themselves, leading to an increased risk of rent arrears as well as increases in transaction costs and account management.

#### HRA budget proposals

11. The proposed budget for 2017/18 is based on estimated resources available of around £89m. Of this:
    - a. Around 20% (£18m) is required to service historic housing debt of £470m of which £335m was taken on as a consequence of the HRA Self-Financing settlement that replaced the former HRA Subsidy system in 2012. This covers the payment of interest only. It is perfectly acceptable to set a budget to pay interest only, so long as sufficient investment in our housing stock is maintained to keep properties in good order and uphold their value. Our medium term financial strategy is to pay interest only, so that we have as much resource as possible to spend on maintaining, managing and improving our housing assets, rather than directing resources to repaying debt at this stage.
    - b. Around 19% (£17m) is required to fund the management of the housing service, including estate management, lettings, supported housing and rent collection. This includes a contribution to Discretionary Housing Payments of over £0.5m, council tax on empty homes of over £0.5m, buildings insurance of around £0.8m and central Council overheads of around £4m. As noted in paragraphs 4, 9 and 10 above, there are a number of service pressures relating to the management of the housing service, around, for example, welfare reform and proposed changes to Government housing policy.
    - c. Around 26% (£23m) is required for repairs and maintenance to the housing stock to keep our homes in good order and carry out essential statutory repairs to safely maintain properties and safeguard residents. This includes undertaking statutory servicing and repairs to gas appliances, maintaining and servicing lifts and electrical equipment and installations (particularly in flatted developments), grounds maintenance on estates and re-decoration works. However, it excludes any capital improvements required to maintain our assets' value by replacing major components such as kitchens, roofs, windows and heating. Our routine repairs and maintenance work contributes to keeping properties in good condition so
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that they can be re-let more quickly on a change of tenant, minimising the rent loss while the property is empty.

- d. The above accounts for 64% of available resources, leaving around 35% (£31m).

This is required to support major repairs, investment works and new build, and is categorised as capital expenditure. Based on the number, type and condition of our properties, external audit recommendations are that a minimum of £25m is required annually to ensure that our stock continues to be maintained at an acceptable level and value. We have to do this not only because it is the right thing to do for our tenants but also because if we do not, we may find ourselves unable to support our historic debt, as our ability to do so depends on the condition and value of our stock.

- e. The remaining £6m can be spent on other priorities, including new build. There is a recognised need to update and refresh our stock with modern homes that meet today's aspirations. We are also subject as a housing authority to Government targets on Right to Buy Replacement, where, if we do not spend the required level of funding on new council homes to replace those sold under Right to Buy, we will have to return the receipts to Government. Other pressures include a 30 year capital investment need of £683m at October 2016 with a catch-up investment need of £108m.

12. Detailed 2017/18 budget proposals for the HRA and the Public Sector Housing capital programme will be included in the report to Cabinet in February 2017 ahead of formal approval by Full Council in March in accordance with the Council's Constitution. The Committee are advised that the proposal will seek approval of:

- Dwelling rents decrease of 1% as required under the Welfare Reform and Work Act 2016.
- Increases in garage, garage plots and access agreements as scheduled every third year and in line with inflation over the period, subject to some rationalisation of charges to improve consistency across the Borough.
- Increases in sundry charges broadly in line with inflation.
- Revenue budget setting in line with the principles outlined in paragraph 11.
- A five year capital programme (2016/17 to 2020/21) which maintains current priorities as noted in paragraphs 13 – 15.

13. Over the last year, expenditure on empty properties has reduced substantially, following the in-depth review of our policies and specifications, which we reported in detail to Scrutiny Committee meetings during 2015 and 2016. Our aim remains to use savings largely flowing from a reduction in spend on empty homes to deliver planned programmes which can achieve better value for money. At the end of 2015/16, actual capital spend on empty properties was £12.4m against a budget of £14.3m, representing a reduction of £1.9m, mainly achieved during the second half of the year. In 2016/17, a capital budget was set of £7.8m and spend of £6.8m is forecast. This represents a reduction of £7.5m (53%) compared to the budget in 2015/16. Our latest projection of rent loss from empty properties is 2.57% compared to 3.18% at the end of 2015/16, which shows that we are letting empty properties more quickly, and we have also seen an average 10% reduction in the cost of bringing empty homes back into use.
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14. The proposed capital budget will represent a rolling programme to 2020/21, and will be reviewed in the context of the ongoing development of our long-term strategic investment management approach to housing stock. Previous reports to both the Place Scrutiny Committee (March 2016 and September 2016) and also earlier reports to the Adult, Community and Housing Services Scrutiny Committee (September 2014 and October 2014) have considered this approach, which focuses on identifying and measuring stock performance to inform investment, remodelling and de-investment decisions.
15. The budget proposals will continue to support wider community needs such as maintaining adaptations for people with disabilities and heating programmes to reduce fuel poverty. These programmes will contribute to reducing the burden on public health budgets by helping to provide independent living in affordable homes within safe communities.

. Budget Consultation

16. The Housing Board and DFTRA (Dudley Federation of Tenants' and Residents' Associations) have been consulted on the proposals for 2017/18 budgets.

## **Finance**

17. Section 76 of the Local Government and Housing Act places a duty on the Council to ensure that no action will be taken that may cause a deficit to arise on the HRA by the end of each financial year. A duty is also placed on the Council to review the financial prospects of the HRA from time to time. Reviews and regular monitoring carried out confirm that the HRA will comply with the requirements of the Act.

## **Law**

18. HRA finances are governed by Section 74-78B and 85-88 in Part IV of the Local Government and Housing Act 1989. Sections 167-175 in Part VII of the Localism Act 2011 abolish the HRA Subsidy system (Sections 79-84 in Part IV of the Local Government and Housing Act 1989) and introduce self-financing. The 1% rent reduction for social landlords which will apply from 2016/17 until 2019/20 is governed by Section 23 – 33 of the Welfare Reform and Work Act.

## **Equality Impact**

19. The proposals take into account the Council's Policy on Equality and Diversity.

## **Recommendations**

20. That the Committee notes the principles adopted in the proposed Housing Revenue Account (HRA) budget for 2016/17, 2017/18 and future years.
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**List of Background Papers – none**