Agenda Item No. 6

Meeting of the Place Committee – 20th January 2016

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 and future years, in the context of rent reductions and the impact of the government's welfare reforms.

2. To report on the outcome of consultation to charge council housing and garage rents over 52 rather than 50 weeks from April 2016, which will allow closer alignment with the monthly payments that more of our tenants are now making, and which will also be used for benefit payments under the government's programme of welfare reforms.

Background

HRA Budget

3. The 2015/16 HRA revenue budget, rolling 5 year Public Sector Housing capital programme and 30 year HRA financial business plan were presented to Cabinet in February 2015 on the basis of the allowable rent increases and inflationary trends that were expected at that time. In particular, rent increases were predicated on the Government formula using CPI in the September prior to the new financial year plus 1%, as agreed for all social landlords in 2014. The Government had stated that this new rent increase formula would apply for the next ten years, in order to allow social landlords certainty of budget planning for a considerable period.

4. In the Chancellor's July budget, however, he announced that social landlords' rents would be reduced by 1% annually for the next 4 years (2016/17 through to 2019/20) and would then revert to the rent increase formula of September CPI plus 1%.

5. The impact of this reduction in rents over the next four years is a cumulative shortfall in income compared to the forecast when original 2015/16 budgets were set of £27.8m:

2016/17 £2.5m
2017/18 £5.4m (cumulative £7.9m)
2018/19 £8.4m (cumulative £16.3m)
2019/20 £11.5m (cumulative £27.8m)

In addition, 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, differential rates for tenants who have income greater than £30,000 (the Pay to Stay policy), the proposed sale of high value empty homes and the introduction of fixed term tenancies will all impact on HRA budgets to increase, for example, the cost of management and the provision required for bad debts.

Overall, based on latest forecasts, for costs as well as rental income, and taking into account efficiency savings already budgeted, it is expected that the overall HRA budget shortfall over this period (compared to original resource forecasts) will be:

2016/17 £2.9m
2017/18 £5.8m (cumulative £8.7m)
2018/19 £7.7m (cumulative £16.4m)
2019/20 £9.8m (cumulative (£26.2m)

By 2020/21, although rents are able to start to increase again in this year, the cumulative shortfall compared to the previous medium term financial strategy is expected to be £36.6m.

Budget Consultation

6. In formal community engagement at the Tenants' Conference in October 2015, consultation focused on the impact of the above budget reductions. 48 people attended the event (including 5 councillors) and after delegates received presentations and contributed in workshops on the impact of the rent reduction on resources, delegates were asked to consider the impact on a number of services:

- Anti-social behaviour service
- Estate management and caretaking service
- Income collection
- Repairs
- Investing in existing homes
- Adaptations
- Empty homes
- Community improvements
- Waiting list and lettings
- Sheltered and supported housing

Delegates were asked to consider if the above services were:

- where efficiency savings could likely deliver acceptable standards
- where substantial savings should be identified
- capable of being delivered in part or whole by the community.
- no longer required and could be withdrawn

Generally responses acknowledged the budget reduction as inevitable, and that whilst communities should assist with service provision where possible, overwhelmingly no services were 'no longer required', but the majority of substantial savings should be identified across all services, many of which could be delivered through efficiency savings.

Significantly:

- 68% thought savings should be delivered in housing management with a further 29% considering this could be achieved through working with the community;
- 48% thought that savings should be delivered to improve the efficiency in income collection through use of IT, with a further 45% supportive of increasing enforcement rather than offering support to tenants having difficulty in paying rent;
- Over 80% were in support of substantial savings in the repairs, capital improvements, voids and adaptations services (95% in voids).

<u>HRA budget proposals</u>

7. The proposed budget for 2016/17 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 £0.8m and central Council overheads of £3.8m. As noted in paragraph 5 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. Specific examples include additional pressure on Discretionary Housing Payments (DHP) which are supported by the HRA in relation to claims by tenants: currently, most claims relate to a shortfall of benefits owing to underoccupancy, but the reduction in the benefit cap from 2016/17 and other proposed changes to housing policy are likely to increase demand further and as a result a review of our current policy on awarding DHP will

be required in the near future. We are also experiencing significant increases in court fees in recent years with further increases expected.

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 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 65% 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 £638m at April 2015 with a catch-up investment need of £85m.

8. In order to set a balanced budget, our main areas to review will include service standards and specifications in particular for repairs and maintenance and the timing and programming of capital improvement schemes.

9. As the Committee will be aware from previous reports, one of the key issues for the service is the cost of works in empty properties, largely as a result of deferred capital works with previous tenants refusing work. This impacts on budgets in a number of ways: the longer a property is empty, the higher the rent loss; the HRA as the landlord must pay council tax on the property while it is empty; while the cost of works to being the property back to a lettable condition has been identified as higher than the sector average.

10. There is a balance between repairs and planned spend to be considered but in principle the savings largely flowing from a reduction in spend on empty homes will be used to deliver planned programmes as we are striving more towards strategic planned works and less reactive spend.

11. Work has been undertaken and is ongoing through the Place Scrutiny

Committee on reviewing the works undertaken when homes are empty with a view to returning empty properties to lettable condition as quickly as possible whilst only undertaking only necessary work. Specifications of works are being reviewed with an emphasis on programming works that are not required urgently, to be undertaken later as part of planned programmes. This will be more cost-effective than undertaking them on an ad hoc basis determined by when a property becomes empty. This refocused approach is already beginning to demonstrate significant cost savings during the last quarter of the current financial year. Any impact of the reduced expenditure on the lettability of empty homes is anticipated to be more quantifiable by March 2016, but as at 7th January the lettings position is that we have 651 vacant homes, of which 58 are preallocated and being prepared for letting, and a further 96 are under offer and undergoing pre tenancy checks. These include 45 homes that have been difficult to let. This leaves 497 homes vacant and not yet allocated, which may be further divided into four groups

a. 145 are homes for which it would normally be easy to find tenants, and the majority are relatively new voids going through the advertising process. Only 20 of these have reached the point of being ready to let without already being allocated.
b. 216 are homes for which there is little or no demand, typically being advertised several times with few or no bids. These are high and low rise flats, bedsits, some sheltered housing and a few houses, maisonettes and bungalows.
c. 71 are homes for which there is little or no demand <u>and</u> that would not be able to be let anyway without major investment. These are mainly high rise flats with water ingress.
d. 65 are homes for which it would normally be easy to find tenants, but which have not been released for advertising because the budget has not been available to commit to prepare them for letting. These will be released now, but will continue to impact on void figures in the immediate future as both the repairs process and the advertising/allocating/letting process have still to be completed. This group also includes a handful of houses that are not economical to repair.

It follows that the next few months will continue to be challenging as we clear those voids for which there is demand. We are moving back to advertising in the notice period when there is one, or otherwise on receipt of the void. Beyond that, the issues of low demand and high investment need (and in some cases both) will need to be tackled so that vacancies as a percentage of stock, and rent loss as a percentage of debit, can be brought back to viable levels.

12. A similar approach is therefore proposed with regard to capital improvement works in general. The principles of the new budget proposal will significantly reduce spend on empty homes but compensate by increasing planned spend in roofing, external doors and windows and internal works such as kitchens and bathrooms. With the specification of works being reviewed (e.g. installing combi-boilers as the preferred standard above systems boilers allowing more heating installations to be undertaken for the same budget) investment will be focused on priority need and planned programmes rather than works undertaken that react to tenants' requests.

13. Details of the proposed 5 year programme will be outlined in the report to the Council's Cabinet of 10th February 2016 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 a revised 5 year capital programme of around £190m, which is some £21m less over 5 years than the current £211m 5 year programme, and will be supported by a revenue programme of around £23m per year, which is around £2.5m to £3m per year less than forecast in the current medium term financial strategy.

14. Budgetary provision also needs to be considered to address failing stock where sustainability modelling identifies that there is low demand for current assets. As part of this approach, proposals may also need to consider the disposal of some properties that are low demand and high investment need. This will reduce unnecessary expenditure and also provide additional capital income that can be ploughed back into replenishing stock with homes that are required. Whilst this will provide a robust and transparent rationale for future long term decision-making, it also facilitates engagement with tenants and residents to address wider estate expenditure on communal assets to assist in sustaining communities.

15. The budget proposals will also 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.

16. Repairs and maintenance service standards will also be reviewed as part of delivering efficiency savings through the repairs service. This will be required to deliver the required year on year budget savings and will require support from stakeholders as low priority repairs may take longer to be undertaken, or may be withdrawn from service standards where the service is an enhanced one above the statutory minimum.

17. Work is also being undertaken to review management cost savings that are being delivered through the corporate restructure and ongoing efficiency improvements. It is expected that over £1.5m savings will be incorporated into the budget proposals, largely by collaborative procurement and more efficient delivery models such as increased use of framework contracts and procurement consortia.

18. Overall, the budget proposals for repairs and improvements will seek to make a significant contribution towards delivering the savings identified in paragraph 5, but will look to redress the balance of unplanned ad-hoc expenditure with a more strategic asset based investment programme.

<u>Charging rents over 52 weeks</u>

19. Currently, rents are charged over 50 weeks a year with two "free weeks" at the end of December. We are proposing that from April 2016, rents will be charged over 52 weeks. As rents are calculated as an annual charge, the amount of rent that is paid over the course of a year will only change by inflation: following the announcement in the Chancellor's July 2015 budget regarding social rents, for 2016-17 this will be -1%.

20. The average rent in 2015/16 is £82.50 over 50 weeks. With the 1% rent reduction, the new average rent from April 2016 will be £81.67. Charged over 52 weeks rather than 50 weeks, the average rent would be £78.53 weekly (based on current stock).

21. We are proposing this change firstly because an increasing number of tenants are paying their rent monthly by Direct Debit or Standing Order. Secondly, as Universal Credit replaces Housing Benefit, the housing element will be paid monthly. Moving to a 52 week rent year will better align charges with these tenants' income streams. It will also facilitate the introduction of weekly Direct Debit as a more efficient payment option for tenants who do not wish to move to monthly rent payments.

22. The change to 52 weeks will result in a smaller weekly payment for all tenants but, for those tenants who are still paying weekly, it will mean making a payment every week. If tenants wish to still enjoy a "rent free" period at Christmas, they can still pay a higher weekly amount to build up a credit to be used later.

23. The new charging weeks will not directly affect any tenants who are in receipt of full Housing Benefit at the moment. However, as tenants move to Universal Credit over the next few years, many will become responsible for making payments themselves and having rent charges over 52 weeks will help to make it easier for them to budget, and will better match the monthly payments of Universal Credit. It will also facilitate the introduction of weekly Direct Debit payments as an additional option for tenants who would like to take advantage of an efficient and automated payment system but who would like to continue to manage their budgets weekly.

24. Consultation has been undertaken with tenants via an online survey to 4,000 tenants. We had 331 responses, equating to a return rate of just over 8%. Of these, 115 replied that they already paid monthly so were not affected, 81 said that they would be happy to pay over 52 weeks with a slightly lower weekly rent, and 118 said that they would prefer to keep the "free" weeks.

25. Overall, 8,000 (36%) of our tenants receive full Housing Benefit and 5,600 (26%) pay monthly so 62% of tenants will not be affected by this change. Those on Housing Benefit, however, will be affected when they move to Universal Credit and receive equal monthly payments towards their housing costs.

26. Moving to charge rents over 52 rather than 50 weeks will support rent collection with the introduction of Universal Credit and the encouragement of efficient payment methods such as Direct Debit. The response to consultation indicates that of those tenants who replied over 59% were unaffected or content with the proposal. In addition, as 62% of all tenants would be unaffected by this change, and those receiving Housing Benefit would be positively affected when they move to Universal Credit, it is proposed that from April 2016, rents will be charged over 52 weeks.

Finance

27. 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

28. 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.

Equality Impact

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

30. This is a financial report concerned with forecasting of income and application of resources. Some areas of proposed expenditure are intended to promote independence and improve quality of life for protected groups.

Recommendations

31. That the Committee notes the principles adopted in the proposed Housing Revenue Account (HRA) budget for 2016/17 and future years, and notes the report on the outcome of consultation to charge council housing and garage rents over 52 rather than 50 weeks from April 2016.

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List of Background Papers – none