BRIEFING PAPER FOR OVERVIEW AND SCRUTINY COMMITTEE- IMPLICATIONS OF THE SUMMER BUDGET ON THE HOUSING REVENUE ACCOUNT

BACKGROUND

On the 8th July 2015 the Government in their Summer Budget announced several new policies which will have an impact on the delivery of housing services in Chesterfield and the financial viability of the Housing Revenue Account Business Plan.

Additional policies announced in the Comprehensive Spending Review Autumn Statement may further exacerbate these implications.

These policies include;

Welfare Reform and Work Bill

- Freeze on working age benefits, including the Local Housing Allowances for 4 years from 2016-17 to 2019-20

- Removal of automatic entitlement to housing support for new claims in Universal Credit from 18-21 year olds who are out of work (exemptions include vulnerable young people, those who cannot return home to parents, those who were in work for 6 months prior to claim) from April 2017.

- Reduce rents in social housing by 1% a year for 4 years from April 2016, to ensure that Local Authorities and Housing Associations deliver efficiency savings, in order to make better use of the £13 billion annual subsidy (Housing Benefit) they receive and play their part in reducing the welfare bill.

  This reduction, which moves us away from the 10 year certainty we were previously given for rents in 2015/16 (rises restricted to CPI + 1% each year), is confirmed as a 'rent freeze' at the 8th July 2015 with a 1% reduction from that rent in each of the next 4 financial years from April 2016/17 to 2019/20. It is also assumed at this stage that rents will no longer be allowed to move to target rent on re-let (and indeed those that have moved to target since 8th July may need to revert back), although this could change as the Welfare Reform and Work Bill is finalised in Parliament.

Housing and Planning Bill

- An extension of the Right to Buy to Housing Association tenants.

- Local Authorities with a Housing Revenue Account being required to 'make a payment to the Government for a financial year, reflecting the market value of high value housing likely to become vacant during that year less costs, whether or not receipts are realised' from April 2017. This receipt will help fund the extension of the Right to Buy to Housing Associations and the provision of new housing.

  Whilst unclear at the time of writing, it is likely that some properties will be exempt from this policy e.g. new build housing, rural housing and sheltered / supported housing.

  The values had initially been set at a 'regional average', however this is still subject to change and 'regulations' will determine high value as applicable to different areas. The Government have started a data collection exercise which is likely to inform the calculation of the levy payable by local authorities (we need to return this information by 23rd December 2015). This information will initially be collected on an annual basis and ultimately the data provided will be audited along with the RTB receipts pooling returns, so it is critical that the information is accurate and error free.

  As the payments will be based on assumptions about the receipts from void sales it may be the case that actual receipts will fall short of the payments due.

  The local authority must consider selling its interest in the high value asset, however as the required payments will be formula driven and not based on actual sales, contributions could be met in part or solely by other means.

- Social Housing Tenants with household incomes of £30,000 and above (£40,000 in London) will be required to 'Pay to Stay' by paying a market rent or near market rent. Local Authority landlords will be required to pay the difference between the social rent and the market rent direct to the Treasury, whilst Housing Associations will be able to retain the difference to contribute to the provision of new affordable housing.

It is likely that there may be a regulation to require tenants to provide information and evidence of their income and / or this may be provided through HMRC tax records. Guidance at present suggests that;

- A household relates to the tenant(s) named on the tenancy agreement and their spouse, civil partner, partner (where they reside in the accommodation)
- Income is the taxable income for the tax year ending in the year prior to the rent year (i.e. for 2017/18 this would be 2015/16 taxable income)
- Rents would be reviewed if the household experiences a sudden and ongoing reduction in income
- Household income takes into account the two highest incomes earned by the household

At the time of writing it is understood that the introduction of a taper is being considered, so that tenants earning just above the high income threshold may not have to pay market or near market rents. Instead, rent will be gradually increased as household income rises further above the threshold.

As a result of the policy, RTB might become more attractive for a household required to pay market rents, particularly with the recent increase in discounts available for tenants.

- A review of lifetime tenancies in social housing to limit their use and ensure that households are offered tenancies that match their needs and ensure the best use is made of the social housing stock.

  There will be no further consultation on this policy prior to its implementation as local authorities were given the flexibility to limit their use in the Localism Act 2011. It is expected that these fixed term tenancies will be for a period of between two to five years.

  The review will only affect new tenants to social housing. There will be no change to existing tenants, as long as they remain in their current home.

Comprehensive Spending Review – Autumn Statement

- Cap the amount of rent that Housing Benefit will cover in the social sector to the relevant Local Housing Allowance, which is the rate paid to private renters on Housing Benefit, including the Shared Accommodation Rate for single claimants under 35 who do not have dependent children.

  This reform will mean that Housing Benefit will no longer fully subsidise households to live in social housing and will better align the rules in the private and social rented sectors. The announcement at this stage does not state whether there will be any exemption for older people or those living in supported housing, where costs are usually higher due to service and support charges. This will apply to tenancies signed after 1 April 2016, with Housing Benefit entitlement changing from 1 April 2018 onwards

IMPLICATIONS ON THE HRA BUSINESS PLAN

Since the Summer Budget, work has been and still is ongoing in terms of modelling these announcements in our Housing Revenue Account Business Plan. Initial findings show that;

The introduction of the rent reduction of 1% per annum for four years from 2016/17 to 2019/20, in addition to the base assumptions already included in the Business Plan, equates to a **loss of £10 million in rental income** in real terms. Over the life of the Business Plan (30 years) this is a **loss of £172.4 million** in rental income, assuming that rents are allowed to increase by CPI + 1% from 2020/21 onwards.

Assuming we continue to deliver services and invest in the housing stock as planned, we will need to **use up headroom and borrow up to the debt cap** of £155.6 million by 2018/19 and go **below the minimum HRA working balance** of £3 million in 2017/18. As the plans assume that we continue to set aside for the repayment of debt, we need to borrow up to the debt cap again in 2029/30

Despite this additional borrowing and use of the HRA working balance, there will still be a **shortfall on the Housing Capital Programme** of £12.671 million in 2018/19 and a further £1.991 million in 2029/30.

By 2019/20 the **HRA working balance will be negative** (-£1.291 million) and will remain negative until 2028/29 which is illegal and therefore re-phasing of work and other policy changes / efficiencies will be required.

The outstanding debt at 2044/45 (year 30 of the Business Plan) will still be £124.047 million (despite having set aside for 30 years) and there will be insufficient HRA working balance reserves to repay this debt if required.

The above position will have impacts on our plans to remodel, dispose or demolish our surplus 1 and 2 bed flats as they become vacant as this will result in a further loss of income and the borrowing headroom that was available to do this has been lost.

In addition, due to the absence of new build / acquisitions within the Business Plan, there will be a requirement to repay 1-4-1 unused retained RTB Receipts to CLG with interest (4.5%) from 2017/18 to 2020/21 unless they can be used by another RP locally. This is also assuming that RTB's do not exceed the number assumed within the self-financing valuation (25) after year 6.

CURRENT POSITION

Clearly the position described above is not financially viable, both in the short and medium term. Therefore the Housing Services Manager (Business Planning and Strategy) has been modelling changes within the HRA Business Plan in order to identify a viable position. A series of reports are currently being prepared which will be presented to Cabinet in January / February 2016. These cover the above announcements and the implications in more detail and include;

- The Annual Housing Revenue Account – Rent and Service Charge Review – due at Cabinet on 26th January 2016. This will set the now known 'rent decrease' and service charge increases for 2016/17.
- The Housing Revenue Account Business Plan – due at Cabinet on 9th February 2016. This report will cover the implications covered in this briefing paper on the Housing Revenue Account and will start to set out mitigating policy changes in order to develop a financially viable Business Plan. These mitigating changes may include changes in how we treat interest payments on contracts, manage our debt portfolio / borrowing, the disposal of assets / land our ability to acquire or develop new social housing and a re-profiling of our expenditure on the housing stock. It will also set

out that there will be a need to start to consider the types and levels of services we provide for housing tenants. Not all of the mitigating actions will be identified and agreed in this report, they will need to considered and reviewed over time and on an ongoing basis as further details are released on central government policy.

- The Housing Capital Programme: New Programme for 2016/17 onwards – due at Cabinet on 9th February 2016. This report will set the capital investment programme in the housing stock for the new financial year and set a provisional programme for each of the following two years. In light of the Business Plan report above, this is likely to be significantly reduced.
- The Housing Revenue Account Budget 2016/17 – due at Cabinet on 9th February 2016. This report will set the day to day revenue expenditure budgets for 2016/17.
- The Housing Repairs Budget 2016/17 – due at Cabinet on 9th February 2016. This report will set the day to day responsive and cyclical repairs budgets for 2016/17.