For publication

Housing Revenue Account Business Plan 2015/16 Onwards (621)

Meeting:	Cabinet Cabinet Member for Housing
Date:	17 May 2016 9 May 2016
Cabinet portfolio:	Cabinet Member for Housing
Report by:	Housing Manager

For publication

1.0 Purpose of Report

1.1 To advise Members of the implications arising from the introduction of the new Welfare Reform and Work Bill, Housing and Planning Bill and the announcements in the Comprehensive Spending Review for the Housing Revenue Account Business Plan.

1.2 To recommend strategy and policy changes to mitigate the impacts of these on the long term viability of the Housing Revenue Account Business Plan.

2.0 Recommendations

2.1 That Members note the implications arising from the introduction of the new Welfare Reform and Work Bill, Housing and Planning Bill and the announcements in the Comprehensive Spending Review for the Housing Revenue Account Business Plan.

2.2 That Members support the recommended strategy and policy changes identified in section 6 to ensure the long term viability of the Housing Revenue Account Business Plan.

2.3 That further reports are brought to Members as the mitigation actions are developed and as the full implications of Central Government policies become known.

3.0 Report Details

Background

3.1 On the 8 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. The policy changes are described below.

3.2 Welfare Reform and Work Bill

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

3.2.2 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.

3.2.3 Reduce rents in social housing by 1% a year for 4 years, 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.

3.2.4 This rent reduction, which for the first time is set out in legislation, moves us away from the 10 year certainty we were previously given for rents in 2015/16 (rises restricted to CPI + 1% each year), was confirmed as a ‘rent freeze’ at 8 July 2015 with a 1% reduction from that rent in each of the next 4 financial years from April 2016/17 to 2019/20.

3.2.5 Where a property is re-let during the financial year (and where it is not already at the target rent for that property) the rent level can continue to be increased to the target rent for that property decreased by 1%.

3.2.6 On 26 January 2016, Cabinet considered the rent and service charge levels for 2016/17 and agreed a rent reduction of 1% in line with this legislative requirement for all stock with the exception of rents for the sheltered housing schemes which increased at the rate of CPI + 1%. Supported housing schemes were exempt from this policy change nationally, in order to allow a Government review of the costs associated with the provision of supported housing.

3.3 Housing and Planning Bill

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

3.3.2 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'. This receipt will help fund the extension of the Right to Buy to Housing Associations and the provision of new housing.

3.3.3 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.

3.3.4 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. 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.

3.3.5 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.

3.3.6 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.

3.3.7 In 2012 Chesterfield owned 108 family houses within the HRA that were valued at £120,000 or above. Given that the average semi-detached house price in Chesterfield is £131,000 it is

therefore highly likely that these could be considered ‘high value’. Should all of these properties become vacant or be likely to become vacant in the future then this could result in a total payment of £12.960 million being required to be made to the Treasury. In addition the sale of these properties will lead to an ongoing annual rent loss and a reduced number of family homes for allocation to the waiting list.

3.3.8 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.

3.3.9 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

3.3.10 At the time of writing it is understood that the introduction of 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.

3.3.11 As a result of this policy the Right to Buy (RTB) might become more attractive for households required to pay market rents, particularly with the recent increase in discounts available for tenants.

3.3.12 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.

3.3.13 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 and the phasing in of this policy direction was announced on the 10 December 2015. It is expected that these fixed term tenancies will be for a period of between two to five years.

3.3.14 The review will only affect new tenants to social housing and there will be no change to existing tenants, unless in future successions, (other than when a spouse or civil partner is succeeding), it will result in the granting of a new five-year tenancy.

3.3.15 The only other definite exception will be where an existing secure tenant is required to move, for example because their property is scheduled for demolition. However the Secretary of State will also have the power to allow councils to grant a traditional secure tenancy in some other circumstances. These will be set out at a later date.

3.4 Comprehensive Spending Review – Autumn Statement

3.4.1 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 cap has also been deferred for supported housing schemes for twelve months in accordance with the Government review identified at paragraph 3.2.1of this report.

3.4.2 This reform will mean that Housing Benefit will no longer fully subsidise families to live in social houses that many working families cannot afford, and will better align the rules in the private and social rented sectors. This will apply to tenancies signed after 1 April 2016, with Housing Benefit entitlement changing from 1 April 2018 onwards.

3.5 Current Position

3.5.1 At the time of writing this report, both the Welfare Reform and Work Bill and the Housing and Planning Bill are still progressing through Parliament and have been coming under significant

pressure in the House of Lords. Proposed amendments will now need to be re-debated in the House of Commons and it is therefore unlikely that any assent will be made before the 23 June 2016.

3.5.2 The implications that can be modelled at this stage within the HRA Business Plan Model have been considered and this report focuses on those specifically and the initial analysis of the modelling at this stage, this includes:

- The roll out of Universal Credit to all claimants from 2016/17 onwards
- The reduction of social and affordable rents by 1% per annum from 2016/17 for 4 years

3.5.3 Other policies included within the Housing and Planning Bill, are difficult to model with any degree of accuracy at this stage and therefore further work to the HRA Business Plan and subsequent reports to Members will be required on an ongoing basis to ensure it remains viable.

4.0 HRA Business Plan Models

4.1 Two versions of the HRA Business Plan model have been prepared for 2015/16 onwards as a comparator to the 2015/16 Base Model (prior to the Welfare Reform and Work Bill and Housing and Planning Bill with assumed rent increases at CPI + 1% per annum for 10 years), of which a copy of the Self Financing Table is attached at **Appendix A.** These versions are:

1) 2015/16 Model – with rent reduction of 1% per annum for 4 years from April 2016/17 (returning to CPI + 1% from April 2020/21). A copy of the Self Financing Table is attached at **Appendix B**

2) 2015/16 Model – with rent reduction of 1% per annum for 4 years from April 2016/17 and policy changes in respect of interest rates, debt management and a re-phased capital programme, as detailed in this report. A copy of the Self Financing Table is attached at **Appendix C**

4.2 The two updated (Appendices B and C) models have the same base assumptions as follows:

- RPI at 1% for 2016/17 (rate for September 2015) increasing to 2.5% by 2018/19

- CPI at 0% for 2016/17 (rate for September 2015) increasing to 2% by 2018/19

- Void provision increasing from 2.5% in 2015/16 to 4.2% in 2016/17 on the assumption that a further sheltered housing scheme will be phased out, the surplus 1 and 2 bed flats as a result of changes to the Allocations Policy will start to emerge and a decision is still to be taken on the future of the Unity properties.

- Bad debt assumed losses (rent arrears) increasing from 5% in 2015/16 to 8% in 2017/18 as a result of Universal Credit (which will be paid direct to tenants on a four weekly basis in arrears) being extended to all claimants from April 2016 (not for CBC) and the capping of Housing Benefit for new tenants after April 2016, but being brought under control by 2019/20 and reducing to 5% again. This also provides some mitigation against increased arrears due to charging a market rent for households with an income over £30,000, as it is anticipated local authorities will need to stand the debt and not the Treasury who will receive the additional rental income.

- Stock lost to RTB – 70 in 2015/16, 50 in 2016/17 and 2017/18, 35 in 2018/19 and 2019/20 reducing to 25 (self-financing figure) from 2020/21

- Stock lost through other disposals / demolition – 11 in 2015/16, 14 in 2016/17 and 29 in 2017/18

- Stock Investment (Decent Homes Standard only) as per the Stock Condition Survey with actual capital programme for 2015/16

- New Build of 22 units (Parkside) in 2015/16 with provision for a further 82 units, although they are not 'turned on' in the modelling as at this stage they are unaffordable

5.0 'With Rent Reduction' Model (Appendix B)

5.1 This model includes the rent reduction of 1% per annum for four years from 2016/17 to 2019/20, in addition to the base assumptions set out at para 4.2 of this report,. The rent reduction

equates to a **loss of £10 million in rental income** in real terms over the four year period and **£172.4 million** over the life of the Business Plan (30 years). This model also assumes that rents are allowed to increase by CPI + 1% from 2020/21 onwards.

5.2 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 current 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

5.3 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.

5.4 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.

5.5 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.

5.6 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.

5.7 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.

6.0 Developing a Financially Viable Business Plan – with Mitigation Actions Model (Appendix C)

6.1 The financial strategy for the HRA is to deliver a balanced and sustainable budget which is self-financing in the longer term and

which reflects both the requirements of tenants and the strategic vision and priorities of the Council. It **cannot** run at an overall deficit.

6.2 Clearly the position identified in Section 5 of this report is not financially viable and the re-phasing of work and other policy changes and efficiencies are required. This position is not new to the Housing Service, having been required to deliver significant changes and efficiencies to services over the last 10 years as a result of the 2005 Housing Stock Option Appraisal. Indeed current reviews and restructures to the Customer Division and to Careline will deliver efficiencies through changes to staffing structures, functions and a move to ensuring tenancy sustainment. It is therefore recommended that the following mitigation actions are implemented:

6.3 That any additional borrowing required to deliver the 2016/17 onwards Housing Revenue Account Revenue and Capital budgets is taken.

6.4 Applying inflation to contracts at CPI instead of RPI. If our income is only increased at CPI in future then it is recommended that expenditure follows suit.

6.5 The Council's ambition to commence a reasonable programme of new build affordable housing within the HRA is no longer viable in the short to medium term, unless it is at the detriment to something else. However, the Government has made it clear that they expect local authorities to be delivering more and to not do so, puts the expected retained 1-4-1 RTB Receipts at risk of being paid back to the Treasury. It is therefore recommended that a small enough new build / acquisition programme (approximately 8 units per annum) to retain these and/or pass 1-4-1 receipts onto a Registered Provider to build on our land in exchange for nomination rights is implemented. This was agreed by Cabinet as part of the Housing Capital Programme Report on 23 February 2016.

6.6 It is recommended that in the immediate term the work included in the stock condition survey for both the traditional and non-traditional housing stock is re-phased, including deferring work to later years. This was agreed by Cabinet as part of the Housing Capital Programme report on 23 February 2016, where works for the 2017/18 and 2018/19 programmes were re-phased resulting in smaller programmes of improvements. However even with this re-phasing there are still further efficiencies to be made as re-phasing

and deferring works means that the stock is at risk of potentially becoming ‘non decent’.

6.7 It is therefore further recommended that a review of the way in which the Council will deliver its future maintenance programmes to the housing stock is carried out, this will include:

- A review of the standards that the stock is maintained against in consultation with tenants and elected members – the standard we expect the stock to be maintained against and the lifecycle of building components will affect the amount of monies available in the Business Plan for other services to tenants.
- Review of procurement strategy, investment plan and capital / revenue mix
- Ensuring that the Repairs and Maintenance Service is structured to deliver the needs of the stock in the most efficient way
- Asset Performance, to ascertain whether individual types of stock are income generating or running at a loss
- Development Potential
- Ensuring that the stock condition survey and the HRA Business Plan are based on the conclusions derived from above

6.8 A reduction in the responsive repairs budget by £200,000.

6.9 Pass the true costs of delivering services onto tenants and increase service charges to ensure that services breakeven. This was agreed by Cabinet on 26 January 2016 as part of the rent setting process.

6.10 It is recommended that all of the HRA land at Linacre is sold on the open market and use the capital receipt to fund additional new build units / acquisitions in the early years of the plan. This could realise £6.60 million to the HRA over three years from 2017/18 (£2.20 million per annum based on £600k per acre) and will mitigate the loss of all the retained RTB 1-4-1 receipts. This site can easily be delivered by the market and the Community Infrastructure Levy (CIL) will require a proportion of affordable housing on site of between 20-30%

6.11 The current debt repayment policy is to set aside a sum from the Revenue Account each year, calculated as 1.5% of the Opening

Debt figure. The debt repayment provision amounts to £2m per annum. If the debt repayment provision could be suspended it would relieve pressure on the Revenue Account but would mean that we are maintaining the debt level at the Debt Cap with no Headroom and incurring interest changes on that debt. The Model in Appendix C shows that, if making provision for debt repayment is suspended from 2016/17 onwards, it will not be until around 2026/27 before there are any significant balances, above the £3m minimum level, available to recommence providing for debt repayment. By the end of the 30-year Plan the HRA balance of £129m will not be sufficient to repay the £156m of debt. The option of ceasing, reducing or deferring the charge needs to be investigated further and any change will have to be agreed with the External Auditor.

6.12 Whilst these mitigating actions could secure the immediate financial viability of the HRA Business Plan, the full financial impact of all of the Government's new policies identified in Section 3 of this report have yet to be factored in.

6.13 Finally, it is recommended that:

- the HRA Business Plan is reviewed and updated on a regular basis
- an Officer, Member Steering Group and Tenant Sub Group be established to oversee these reviews, make recommendations on further efficiencies and make recommendations to changes in policy, and;
- further reports are brought to Members as and when further details of these policies are known.

7.0 Risk Management

Description of Risk	**Impact**	**Likelihood**	**Mitigating Action**	**Residual Impact**	**Residual Likelihood**
Reduced resources within the HRA business plan due to the loss of rent income through the rent reduction, increased arrears and loss of	H	H	Using the Business Planning system to model the implications of possible scenarios. Re-profiling of work / policies and procedures to achieve tenancy sustainment, deliver	H	H

stock			new policies Re-phasing of capital investment Increased borrowing Use of working balance Removal of setting aside to repay debt Review of repairs and maintenance standards and lifecycles of building components / asset performance / procurement to achieve efficiencies / revised stock condition survey against these revised standards Work with other Self Financing Local Authorities considering a legal challenge of Government Policy contrary to the self-financing settlement		
Inability to replace stock which is sold either through the RTB or disposal of high value properties	H	H	Maintain a modest programme of new build and strategic acquisitions in order to retain 1-4-1 Right to Buy Receipts or pass on to a Registered Provider in exchange for nomination rights	H	M
Inability to maintain the Decent Homes Standard / invest in stock in a timely manner	H	H	Review of repairs and maintenance standards and lifecycles of building components / asset performance / procurement to achieve efficiencies / revised stock condition survey against these revised standards	M	M
Increased levels of homelessness and poverty due to a lack of affordable housing	H	H	Work with other Registered Providers to ensure a pipeline of new affordable housing Direct staffing resources towards sustainment of tenancy sustainment and	H	H

			homeless prevention		
Risk of being required to repay retained Right to Buy 1-4-1 receipts to Government	H	H	Maintain a modest programme of new build and strategic acquisitions in order to retain 1-4-1 Right to Buy Receipts or pass on to a Registered Provider in exchange for nomination rights	L	L

8.0 Financial Implication

8.1 The financial implications are an intrinsic element of this report.

9.0 Equalities Considerations

9.1 When applying the new legislation highlighted within the report, the government impact assessments alongside local quality analysis have been considered and helped to inform implementation. We will continue to review this information as more and when more information is available on the application of the legislation and possible impacts. There will also be further equality analysis undertaken to inform future work highlighted in this report including the review of the council housing maintenance programmes.

10.0 Recommendations

10.1 That Members note the implications arising from the introduction of the new Welfare Reform and Work Bill, Housing and Planning Bill and the announcements in the Comprehensive Spending Review for the Housing Revenue Account Business Plan.

10.2 That Members support the recommended strategy and policy changes identified in Section 6 to ensure the long term viability of the Housing Revenue Account Business Plan.

10.3 That further reports are brought to Members as the mitigation actions are developed and as the full implications of Central Government policies become known.

11.0 Reason For Recommendations

11.1 To deliver a sustainable HRA Business Plan

ALISON CRAIG
HOUSING SERVICES MANAGER – BUSINESS PLANNING AND STRATEGY

Further information on this matter can be obtained from Alison Craig on Tel: 01246 345156.

Decision information

Key decision number	**621**
Wards affected	**ALL**
Links to Council Plan priorities	

Document information

Report author	**Contact number/email**
ALISON CRAIG	345156 alison.craig@chesterfield.gov.uk
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
• Summer Budget 2015 Policy Paper • Welfare Reform and Work Bill • Housing and Planning Bill • Comprehensive Spending Review – Autumn Statement • LOCATION: Business Planning and Strategy	
Appendices to the report	
Appendix A	Finance Table
Appendix B	Finance Table
Appendix C	Finance Table