

Summary Sheet

Council Meeting – 19 October 2016

This report is submitted for full council to note and consider the contents of the HRA Business Plan which was approved by Cabinet on 10 October 2016

Title: Impact of legislation on the Housing Revenue Account Business Plan 2016-17

Is this a Key Decision and has it been included on the Forward Plan?

Yes – this key decision was taken by Cabinet on the 10 October 2016

Strategic Director Approving Submission of the Report

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Report Author(s)

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Ward(s) Affected

All

Executive summary

The Housing Revenue Account (HRA) records all expenditure and income relating to the provision of council housing and related services, and the Council is required to produce a HRA Business Plan setting out its investment priorities over a 30 year period.

Following the introduction in 2012 of HRA self-financing, whereby the Council was awarded control over its HRA in return for taking on a proportion of national housing debt, Rotherham's HRA was in a strong position with a healthy level of reserves. However a number of policies have recently been introduced by central government that will result in a dramatic reduction to HRA resources, namely:

- Welfare Reforms
- Changes resulting from the Housing and Planning Act 2016

The cumulative effect of these changes is that £51m of savings are likely to be required by 2020-21 when compared to the previous business plan, meaning that the Council will need to take some difficult decisions about prioritisation, and how to achieve the best outcomes locally for Rotherham residents.

Further discussions will be required regarding how best the Council manages social housing and new housing delivery in the future and this will be the subject of further reports.

This report provides an overview of the current position and the reason for changes to the HRA Business Plan.

Recommendations

That the Council considers and notes the content of this report

List of Appendices Included

Appendix 1 – HRA Business Plan 2016-17 Cabinet report

Background Papers

HRA Business Plan 2015-16

Consideration by any other Council Committee, Scrutiny or Advisory Panel

Cabinet and Commissioners' Decision Making Meeting – 10 October 2016

Improving Places Select Commission – 26 October 2016

Council Approval Required

No

Exempt from the Press and Public

No

Impact of legislation on the HRA Business Plan 2016-17

1. Recommendations

- 1.1 That the Council consider and note the contents of this report.

2. Background

- 2.1. The Housing Revenue Account (HRA) records all expenditure and income relating to the provision of council housing and related services, and the Council is required to produce a HRA Business Plan setting out its investment priorities over a 30 year period.

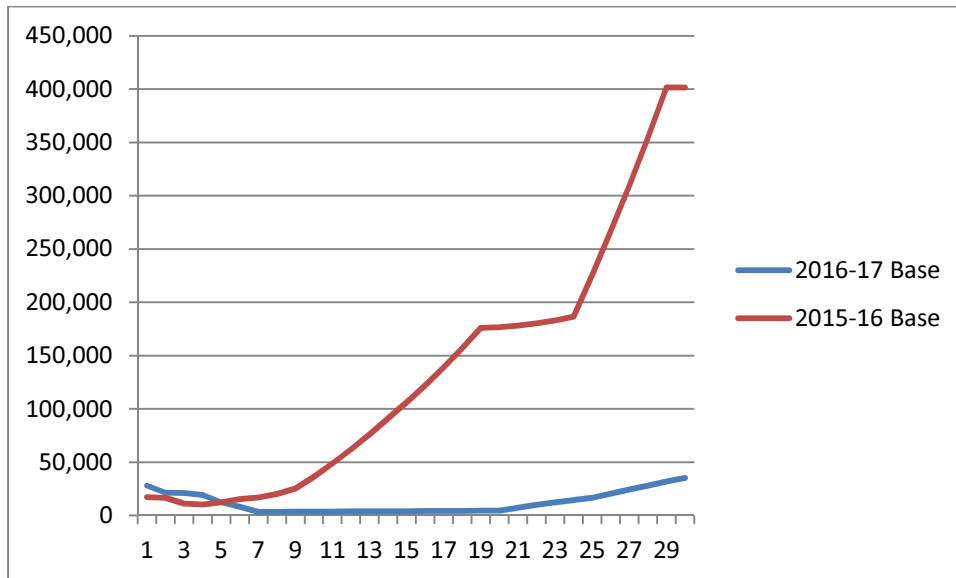
A decision to amend the 2015/16 HRA Business Plan was taken by Cabinet on 10 October 2016 and the decision making report is appended as Appendix 1. It is a technical report and sets out the key proposals for the HRA Business Plan for 2016-17 onwards and provides information on the scale of the financial challenges in future years.

- 2.2 It is important members recognise the scale of changes and challenges facing social housing going forward and this report sets out the key policy changes and their impact on the HRA business Plan. The key message is that future years will be profoundly different to the position the Council has been in previously in terms of finances and operation of Council Housing. At the end of the 30 plan period the Council had predicted over £400m of surpluses generated. With savings and adopting a more prudent plan the predicted outturn after 30 years is now a £35m surplus.
- 2.3 The reason for such a fundamental shift is the impact of the Chancellor's Summer 2015 Budget, the Planning Act 2016 and Welfare Reforms being implemented.
- 2.4 The combined effect of these changes is having a national effect on social housing and the nature of housing provision, not just in terms of Council Housing.

3. Key Issues

- 3.1 The Council currently owns circa 21,000 homes and 3,451 garages with a turnover from rents and other sources approaching £84m per annum.
- 3.2 The impact of the proposed changes on the HRA means there is a need to fundamentally restructure the budget over the coming years.
- 3.3 The HRA currently has a healthy financial position with a general reserve balance of £27.932m and a Major Repair Reserve of £3.873m as at the end of March 2016.
- 3.4 The following graph shows the impact on the Operating Account due to changes in underlying assumptions following new Government policies when compared to the previous business plan:

Operating Account Balance based on modelled assumptions



The impact of this scenario will be:

- By Year 30 of the plan forecasts the housing stock size will have reduced to circa 15,500 units i.e. a reduction of around 5,000 units.
- Strategic property acquisitions will cease in 2017-18, rather than 2020-21 as in the 2015-16 Base case. This will save £36.375m and mean around 360 fewer council properties are acquired.
- There will be £273m less to spend on property investment over 30 years
- There will be £98m less to spend on Supervision and Management over 30 years

3.5 Government Policy changes affecting the HRA Business Plan

3.6 **Introduction of 1% rent reduction** - This was introduced in April 2016 and will operate until 2019-20. This change has resulted in a loss of £638m income over the life of the business plan.

3.7 **Benefits Cap** - The Welfare Reform Act was passed by Parliament in March 2012 which introduced the concept of a Benefits Cap. The amount at which the cap would be introduced was reduced as part of the Summer Budget 2015, the details of how groups will be affected are below:

	£ per week now	£ per week Autumn 2016	£ per annum now	£ per annum Autumn 2016
Single	350.00	257.69	18,200	13,400
Lone Parent	500.00	384.62	26,000	20,000
Couple	500.00	384.62	26,000	20,000
Couple with children	500.00	384.62	26,000	20,000

3.8 Housing benefit is the first payment to be cut if a household is affected by the benefit cap. From data provided by the DWP (Department of Work and Pensions), 190 council tenancies will be affected in Rotherham.

- 3.9 Whilst this does not directly affect the HRA, it will mean that a number of tenants will have no immediate means to pay their rent, causing significant strain on bad debts over the medium to long term as well increase in void rates as tenants seek to move to smaller properties.
- 3.10 Other potential factors that will impact the HRA Business Plan include:
- Households in private rented accommodation may apply for re-housing to more affordable council accommodation.
 - Affected council tenants may require money advice to assist them with budgeting.
 - Rent arrears may increase from larger households in receipt of welfare benefits
- 3.11 **Spare Room Subsidy** - The Spare room subsidy commenced in April 2013. There are currently 3,022 tenancies affected. Total arrears balances have increased by 23% over the past 12 months.
- 3.12 **Universal Credit** - The way in which benefits will be paid to tenants in the future presents a risk. At the current time 64% of HRA income is received via direct payment of Housing Benefit, with the remainder paid direct by tenants.
- 3.13 Universal Credit commenced in Rotherham on 7 December 2015, in that time there have been a total of 159 tenants claiming Universal Credit.
- 3.14 As at 7 July 2016 the arrears balance of tenants on Universal Credit stood at £137,788; an average balance of £918.59. This is £595.82 higher than the average balance of tenants whose rent is paid by Housing Benefit or fully themselves.
- 3.15 **Backdating of Housing Benefit** - As of 1 April 2016 Housing Benefit claims will only be backdated by 4 weeks. This will impact on rent payments where a tenant was eligible for Housing Benefit but did not submit an earlier claim. As a result the Housing Income team now attend all tenancy sign up meetings to ensure that Housing Benefit claims are submitted at the start of a tenancy.
- 3.16 **Restriction of Housing benefit for 18 to 21 year olds** - From April 2017, 18-21 year olds submitting a claim for Universal Credit will not be automatically eligible for the housing cost element (equivalent of Housing Benefit).
- 3.17 **Pay to Stay** - Tenants in social housing who earn more than £31,000 outside of London are expected to pay market rent from April 2017 onwards. The increase in rent will be tapered at a rate of 15 pence to the pound. ie for every extra pound of earnings over £31,000 the tenant will be expected to pay an extra 15 pence per week rent until they reach average market rent (for Rotherham).
- 3.18 In 2017-18 only additional rent collected less reasonable Local Authority administration costs, will be paid to the Treasury.

- 3.19 In addition to the extra administrative burden this policy places on the Housing Service such as income verification for all 21,000 tenancies and calculation of market rents annually by property type, this policy is also expected to increase the rate of Right to Buy given this may be a far more financially attractive option.
- 3.20 The Council is awaiting regulation from the Secretary of State.
- 3.21 **Local Housing Allowance** - As part of the 2015 Autumn statement it was announced that for new tenancies Housing Benefit in the social rented sector will be paid up to the Local Housing Allowance rate – the rate that applies to the private sector. In particular this means for single people aged under 35 without children, they will be restricted to shared accommodation rates. These rates are below typical council rents for one bed properties.
- 3.22 The policy applies to all tenancies signed from 1 April 2016, with the new rate commencing on 1 April 2018.
- 3.23 In such cases we therefore require tenants to make up the shortfall from other sources, with a subsequent increase in bad debts as a result.
- 3.24 There will also be an adverse impact on Council tenancies that are offered as 'furnished' through the Rotherham Furniture Solutions scheme (RFS). Whilst the service can continue to be delivered with some changes to packages offered, there will no longer be the ability to generate significant surpluses on an annual basis. This may have an impact on the Council's Medium Term Financial Strategy as £1.35m income is factored into this plan in 2017/18.
- 3.25 **Fixed term tenancies** - The Housing and Planning Act introduced the requirement for fixed term tenancies of up to 10 years for social housing with the aim of making best use of the stock so only people in housing need remain. Whilst this will not reduce income to the HRA, it will probably increase the turnover rate for stock so increasing housing management and void costs at a time when cost savings are required.

The key elements to note are;

- It does not affect existing tenants
 - From April 2017 LAs are to issue tenancies for 2 – 5 years
 - Exemptions for families with children under 9 to minimise disruption to education
 - Longer tenancies may be issued to people with disabilities
 - Tenancies to be renewed at LAs' discretion
 - Awaiting regulation from Secretary of State
- 3.26 **Higher Value Property Sales** - This duty is a result of the introduction of Right to Buy for Housing Association tenants. Originally it was intended that this would be funded by the sale of higher value council properties when they became vacant. It is now clear that Local Authorities will receive an annual determination from the DCLG which may or may not reflect the actual turnover of higher value properties.

3.27 It will be for Rotherham MBC to consider if it wishes to sell a higher value property when it becomes vacant.

3.28 As of August 2016 no detailed regulations have been issued. For planning purposes it has been assumed the HRA will incur a charge of £2m per annum under this policy. Once the regulations have been published a review of this assumption will take place. This is a significant risk to the HRA Business Plan.

4. Options considered and recommended proposals

4.1 Detailed options are contained in the main body of the HRA Business Plan report. The proposed option going forward is Base Case 2016-17. This will result in the HRA having an Operating Surplus of £35.3m by Year 30.

5. Consultation

5.1 The Cabinet Member for Housing has been consulted over these proposals. The Tenants Quality and Standards Group was be consulted on 11 October 2016 and their comments will be incorporated into future revisions of the plan.

6. Timetable and Accountability for Implementing this Decision

6.1 This report is for information and noting by Council.

7. Financial and Procurement Implications

Policy	Issue	Potential financial impact	Year of implementation
Benefit Cap	Reduction in Housing Benefit income leading to an increase in rent arrears, resulting in an increased bad debt provision	£400k per annum	October 2016
Social Sector Size Criteria (Bedroom tax)	Reduction in Housing Benefit Income	£100k per annum	Ongoing
Universal credit	Reduction in Local Housing Allowance income. Increase in rent arrears, resulting in an increased bad debt provision	£200k per annum and increasing	Ongoing
Restriction of Housing Benefit for 18-21 year olds	Fewer tenancies to 18-21 year olds. Increasing arrears, leading to increased bad debt provision	Up to £500k per annum	April 2017

Policy	Issue	Potential financial impact	Year of implementation
Pay to stay	Increasing RTB Charging market rents, leading to increased rent arrears Increased administration costs	Not yet know	April 2017
Local Housing Allowance (LHA) rate capped for under 35's	Fewer tenancies to single under 35's. Harder to let properties Increase rent arrears, leading to increased bad debt provision	£1.3m per annum	April 2018
Cap Social rents to Local Housing Allowance (LHA) rate	Cost of a furnished tenancy not covered fully by Housing Benefit due to LHA cap	Up to £1.3m per annum to General Fund	April 2018
Fixed term tenancies	Increase tenancy turnover, leading to increased void costs	Not yet known	April 2018
Higher Value property levy	Sale of properties becoming vacant and/ or payment of annual determination from DCLG	£2m per annum (awaiting Regulations)	2016/17?

8. Legal and Procurement Implications

8.1 The Legal Implications where known are covered in main body of this report. Further detail is awaited from central government on some recent legislative changes under the Housing and Planning Act 2016, such as the pay to stay and higher value property sales provisions, which may alter some of the estimates made in this report.

9. Human Resources Implications

9.1 The report indicates income reductions over the next three years and therefore there is potential for service reviews across those service areas funded from the HRA. Opportunities to reduce through natural wastage should also be taken where staff leave housing services.

10. Implications for Children and Young People and Vulnerable Adults

10.1 There are no implications for CYPS or Vulnerable Adults.

11 Equalities and Human Rights Implications

11.1 There are no Equalities and Human Rights implications.

12. Implications for Partners and Other Directorates

12.1 This proposal is about making effective use of council assets and managing them to best effect. It contributes to the sustainable neighbourhood's agenda by addressing future investment needs and will help deliver a better quality of affordable housing to the community.

13. Risks and Mitigation

13.1 Self-financing involved a significant transfer of risk from Central Government to the Council. Variables such as interest rates, cost inflation, number of homes owned etc. are all risks managed by the Council.

13.2 Any adverse changes in rental income (for example as a result of welfare reform or changes in the number of Right-to-Buy sales) must be managed locally.

13.3 The risks associated with the HRA Business Plan demand a smarter approach to risk management. The Council will closely monitor the viability of the HRA Business Plan; through the governance structure described in the Business Plan at Appendix A, by building a HRA Business Plan monitoring report to monitor key variables such as:

- Number of homes
- Rental income
- Rent arrears and bad debts
- Voids and void rent loss
- Debt levels and repayment
- Reserve levels, and
- Maintenance backlog

13.4 The risk management plan for the HRA Business Plan is contained in the HRA Business Plan. The plan follows the Council's risk management methodology and approach.

13.5 The risk management plan is updated, tracked and monitored. The management plan will be revised as the situation changes - especially regarding interest rates and inflation - in light of Government announcements such as continuing welfare reforms as part of process of monitoring changes in variables and performance.

13.6 Significant risks will be placed on the Corporate Risk Register and risk issues will be escalated through the Council to Departmental Leadership Team and Senior Leadership Team as necessary.

13.7 The Council has risk based reserves to ensure that HRA reserves are maintained at the appropriate level. The reserves will be maintained at the appropriate level to fund potential future financial pressures from risks such as welfare reform and investment requirements.

14. Accountable Officer(s)

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This report is published on the Council's website or can be found [here](#).