

18 January 2017

Lead Officer: Director of Housing Need and Director of District Centres and Regeneration

Wards: All

Agenda Item: 6

Subject: Housing Revenue Account Rent, Service Charge, Garage Rent and Budget Setting

1. DRAFT RECOMMENDATIONS

The Panel is asked to note the following:

- 1.1 Rent levels for all council properties in 2017/18 to be decreased by 1% against the 2016/17 rate in line with the Government social rent policy.
- 1.2 The full cost of caretaking, grounds maintenance and bulk refuse collection services will continue to be recovered via service charges applied to tenants that receive the service. Service charges for tenants will increase by 2% (in line with RPI).
- 1.3 Garage and parking space rents will increase by 2% (in line with RPI).
- 1.4 Heating charges will increase by 2% (in line with RPI), see detail in Appendix One.

2. EXECUTIVE SUMMARY

- 2.1. This report provides information on the proposed rent and other charges made to council tenants and leaseholders for the financial year 2017/18.
- 2.2. The report also provides information on the Housing Revenue Account (HRA) budget for the financial year 2017/18 and the heating charges for council tenants in 2017/18 (see **Appendix 1**).

3. IMPACT OF CURRENT GOVERNMENT LEGISLATION ON THE HOUSING REVENUE ACCOUNT

- 3.1. The HRA is the main business account for the housing service. It continues to be a ring-fenced account, funded primarily from tenants' rents. The services provided to tenants and leaseholders are paid from this account. This includes responsive repairs, management services and caretaking.

- 3.2. Long-term financial planning is based on the 30 year HRA business plan which is updated annually to reflect actual expenditure, changes in stock numbers and other financial projections.
- 3.3. The Welfare Reform and Work Bill requires that councils must reduce rents by 1% per annum from 2016/17 for at least the next four years. The reduction in rents means that the HRA needs to make corresponding savings in expenditure, eventually reducing annual spending by a total of £13m over the four-year period in order to maintain a balanced position.
- 3.4. However, some changes have had to be made to the planned levels of investment included on the capital programme, most notably the removal of HRA resources committed to building new social housing. A budget was allocated for this in 2016/17, although no programme is in place and no money has been spent in the current year. The Council's Development Company Brick by Brick has plans for new affordable housing as part of its proposed schemes. Some other programmes have also been reduced and it is anticipated that additional borrowing of £11.4m will need to take place over the next 10 years to continue to fund planned capital works and maintain a balanced position.
- 3.5. The budget position of the HRA is subject to continued uncertainty in light of further policy proposals that have been issued by the government. The Council is awaiting the final outcome of the legislative process followed by detailed guidance still to be issued by government. However, assumptions about these policy changes and the current legislation, beyond the 1% reduction in rental income, have been incorporated into the 30 year business plan. These are explained below:

3.5.1. **Disposal of "higher value" properties and their replacement on a two for one basis:** The government has proposed an extension of the right to buy scheme to housing association tenants. The funding for this measure is intended to come from the proceeds of selling "higher value" council houses as they become available. The initial indications are that "higher value" homes would be those that are in the top third of values for their size and area, although precise details have yet to be released. Payments will be made to central government in the form of a levy which would be based on assumptions about receipts from void sales. It is therefore possible that actual receipts will fall short of the payments due. Where this is the case, local authorities would need to fund the payments from the HRA. The Housing Minister has recently written to councils to confirm that the national roll-out of this policy has been delayed until April 2018 at the earliest to ensure that there is sufficient time to consult. This has removed any financial impact for 2017/18. Furthermore, councils in London would have to replace the loss of social housing through this mechanism on a two for one basis. It is assumed that this requirement could be met by activity undertaken by 'Brick by Brick', the Council's Development company.

3.5.2. **Pay to Stay:** In November the Government announced that it would no longer be pursuing its policy of compulsory Pay to Stay. It had previously proposed that Councils would be required to charge market, or near market, rents for tenants where the household income exceeded £40,000 per annum in London (£31,000pa outside of London). Additional income could be retained by housing associations but would be payable to the Treasury by councils. The Government announced that this policy will no longer be compulsory but that local authorities would retain the power to implement something similar at their own discretion. This has removed any potentially adverse financial consequences for Croydon and there are no plans to exercise this discretionary power.

3.5.3. **Right to Buy:** The government sets out that Local Authorities can only retain the receipts from right to buy (RTB) sales if they use them to create new stock and match fund the purchase of this new stock on a 70:30 basis. Therefore for every £30 retained the Council needs to source a further £70 from elsewhere (such as HRA, local authority or third party funds). If these criteria cannot be met the receipts will need to be repaid to Government with interest. Our current business plan assumes there will be 130 right to buy sales per year. As well as the loss of an asset to the HRA, this impacts on the level of rents collected year on year and therefore the availability of funds to match the 70:30 requirement. Options are currently being explored as to where the match funding could be sourced to boost investment in housing supply.

3.5.4. **Borrowing Cap:** The Government has imposed a borrowing cap on all HRAs nationally. Croydon have £11.4m remaining that can be borrowed before this limit is reached. The business plan currently assumes that this borrowing will be required for the years 2022 – 2026 in order to achieve a balanced budget. Once the borrowing cap has been reached further borrowing will not be available to fund on-going capital requirements.

4. HRA REVENUE BUDGET – 2017/18 INCOME

4.1. The main changes proposed to the HRA income budgets for 2017/18 are identified below:

4.2. Rent

4.2.1. The Welfare Reform and Work Bill requires all registered providers of social housing in England to reduce rents by 1% a year for four years from 2016/17. Rents for new tenants must also reflect this 1% per annum reduction. Therefore, for the second year in succession, all rents will reduce by the required 1%.

4.2.2. Where tenants are eligible for receipt of Housing Benefit, the level of benefit will reflect the lower rent.

4.3. Service Charges

4.3.1. In 2016/17 service charges covering caretaking, grounds maintenance and bulk refuse collection were not subject to any increase and remained at the same level as 2015/16.

4.3.2. The council is proposing an increase of 2% for tenant service charges in 2017/18. This is in line with RPI and reflects the fact that charges have not risen for two years during which time there have been inflationary increases to salaries and other costs associated with the provision of these services.

4.3.3. In 2017/18, service charges will be as follows:

Table 1

	2016/17	2017/18	Change
Tenant Service Charges			
Caretaking	£9.98pw	£10.27pw	£0.29pw
Grounds Maintenance	£2.05pw	£2.11pw	£0.06pw

4.4. Heating Charges

4.4.1. Only a small number of tenants use communal heating systems and are charged a fixed weekly amount for the gas they use. Apart from the Handcroft Road Estate, all other schemes are retirement housing schemes for older people. Heating charges will increase by 2% in line with RPI (see Appendix 1 for full details of the 2017/18 charges).

4.5. Garages and Parking Spaces

4.5.1. Rents for garages and parking spaces were increased by 2% in 2016/17 and it is proposed that the same increase will be applied for 2017/18. This has the following impact:

Table 2

	2016/17	2017/18	Change
Parking Spaces			
Tenants	£7pw	£7.18pw	£0.18pw
Non-Tenants	£10pw	£10.25pw	£0.25pw
Garages			
Avg. Rent*	£12.84pw	£13.10pw	£0.26pw

*Garage rents vary within a range of £12.73 to £20.01 in 2016/17 (although £12.73 is the most common charge). All will be subject to the 2% increase.

5. HRA REVENUE BUDGET – 2017/18 EXPENDITURE

5.1. The main changes proposed to HRA expenditure budgets for 2017/18 are identified below:

5.2. Management Savings

5.2.1. In order to balance the HRA budget position in the medium-term (particularly the impact of the 1% rent reduction), the Council has identified a range of management savings to ensure that it continues to drive value for money from the services that it provides. A summary of these savings is shown below:

Table 3

2017/18 Management Savings	£000s
Staff Savings (vacant posts)	212
Cost Efficiencies	416
Additional Income (traffic management)	180
TOTAL	808

5.2.2. The cost efficiencies identified above include reductions across a range of budgets that have been identified as under-spending in recent financial years. It also includes an initiative to identify efficiency options as part of a data benchmarking exercise undertaken with House Mark.

5.3. Provision for Bad Debts

5.3.1. With the introduction of Universal Credit and the Benefit Cap coming in during the latter months of 2016/17, it is anticipated that there will be a knock on effect for the recovery of rent payments. To mitigate this, an additional £500k has been set aside within the budget to increase the level of the HRA provision for bad debt.

5.3.2. This is in response to a recommendation from the council's external auditors to make a larger allowance for debt that has to be written-off and mitigate the risk of any serious financial impact to the HRA in the future. Meanwhile, the council will continue to rigorously pursue all outstanding balances as part of a concerted effort to improve its debt collection levels.

6. HRA INVESTMENT PROGRAMME – 2017/18

- 6.1. The table below sets out the summary of proposed investment expenditure in 2017/18 compared with 2016/17.

Table 4

Investment Type	2016/17 (£000)	2017/18 (£000)
Planned Maintenance and Improvements	26,771	26,771
New Build Council Housing	8,336	0
Larger Homes	100	100
Assisted Private Purchase Scheme (APPS)	500	0
Special Transfer Payments	250	180
Total Capital Expenditure	35,957	27,051
Responsive and Cyclical Repairs	12,611	12,652
Grand Total	48,568	39,703

6.2. Repairs and Planned Improvement Programmes

- 6.2.1. The proposed budget for repairs will remain broadly the same at £12.652m in 2017/18. This covers the resources available for responsive and cyclical repair work which is considered an on-going operating cost and is therefore included as part of the HRA revenue budget.
- 6.2.2. The capital maintenance and improvement budget, which provides the larger scale investment required to maintain homes at the decent home standard (alongside other major works), will also be maintained at the same level of £26.771m. Currently all homes meet the decent home standard and the council is committed to maintaining this with the necessary investment required to deliver an identified programme of work.

6.3. Housing Supply

- 6.3.1. The Housing Revenue Account has traditionally been used to fund a number of housing supply initiatives in order to increase the council's housing stock. In order to balance the HRA budget to the available resources, all new build schemes designed to increase housing supply have been removed from the current business plan. Alternative options to expand provision are being sought, the key one being opportunities that might be available via 'Brick by Brick', the Council's external development company.

6.3.2. Additionally, two other capital schemes have been reduced. The Assisted Private Purchase Scheme (APPS) budget will be removed entirely. This scheme traditionally assisted qualifying council tenants to purchase a home in the private sector. However, given that the scheme has not been utilised over the last two financial years the decision has been taken to remove the funding to provide a budget saving.

6.3.3. The Special Transfer scheme budget has also been reduced from £250k to £180k. This scheme provides financial help to under-occupying tenants who move to smaller homes. Like the APPS scheme above, this budget has been underspent for the last few years allowing the budget to be recalibrated in line with the current levels of utilisation.

7. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

7.1. The financial considerations contained in the main body of the report will allow the HRA to set a balanced budget for 2017/18. It also anticipates that the HRA budget will continue to hold a balanced position over the period to 2020 based on the assumptions that have been included in the HRA 30 year business plan.

7.2. This has been achieved in the face of decreases in available funding as a consequence of 1% rent reductions for four years. As the full implication of wider government legislation becomes known it is likely that further savings and consideration of alternative service delivery models will need to be developed. Tenants and leaseholders will be consulted and invited to comment as these emerge.

7.3. Assumptions have been made within the HRA budget model for a range of factors which remain unclear. These items represent a risk to the Council and the HRA until the final legislation is published and the full impact can be calculated. The key areas for which assumptions have been made within the budget are as follows:

7.3.1. **Higher Value Void Sales:** Any financial impact has been removed for 2017/18 following the Housing Minister's announcement that the roll-out of this policy will be delayed by at least another year. However, the model assumes that 60 units per year will qualify from 2018/19 onwards, with a potential value of up to £20m. The key risk to the HRA is that the formula that the government uses to derive the size of any levy leaves Croydon exposed to a payment that is higher than the value of the receipts collected.

7.3.2. **Right to Buy (RTB):** Croydon is currently estimating 130 sales per year, adding additional receipts to the current RTB balance held by the Council. In order to utilise this money as a means of increasing housing

supply, additional funding needs to be sought to meet the 70:30 match-funding requirement. Failure to identify viable options could lead to the Council having to transfer RTB receipts back to DCLG (with interest). The Council is currently exploring a range of initiatives that would allow it to utilise this funding.

8. COMMENTS OF THE COUNCIL SOLICITOR

- 8.1. The Solicitor to the Council comments that under section 25 of the Housing Act 1985 (the Act) the Council has the power to determine reasonable charges for its tenancies and leases, and is required by the Act to review these from time to time and to make such changes as circumstances may require. In addition, the housing authority is required, in exercising its functions under these provisions, to have regard to any relevant standards set under section 193 of the Housing and Regeneration Act 2008
- 8.2. In accordance with the Act the process for varying the rent and charges for secure tenancies and leases is determined by the terms of the tenancy agreement or lease, while for non-secure tenancies section 25 specifies the procedure to be followed. The Council is required to give tenants' written notice of the proposed changes to their rental.

9. HUMAN RESOURCES IMPACT

- 9.1. This 2017/18 HRA budget does include some management efficiencies that will result in a reduction in the number of staff posts. However, the posts that were identified within the management review are all vacant. This means there are no immediate Human Resource considerations that directly affect LBC staff.

10. CUSTOMER IMPACT

- 10.1. The proposed HRA budget for 2017/18 includes a rent decrease of 1%, along with a 2% increase for service charges (per RPI). Charges for rent and service charges are eligible for Housing Benefit.
- 10.2. Non-dwelling rents will also increase by 2% in line with RPI. Charges for garages and parking are not eligible for Housing Benefit and will therefore represent a real increase to tenants.

11. EQUALITIES IMPACT

- 11.1. The decrease in rental income will have a limited direct effect on tenants. A large proportion of tenants in Council housing claim Housing benefit and so they will see no direct impact on their expenditure. However, the decrease in rental income has made the current level of expenditure within the HRA unsustainable. It has been necessary to make significant savings in

expenditure across the four years from 2016/17 onwards which may have an adverse effect on service delivery and tenants. A full equalities impact assessment will be carried out on all savings options put forward.

- 11.2. The effect of self-financing and the previous rent increases is a higher level of investment in new housing supply measures and in improving the council's existing stock which will have a positive impact on many groups with protected characteristics because they are more dependent than average on social housing. One of the areas of expenditure which people struggle with is heating costs and this is particularly true for those living in homes which are hard to heat because of their construction or design. The capital programme, next year and in the longer term, will include investment in homes with solid wall construction and other hard-to-heat properties so will be of particular benefit to tenants with the highest heating bills.

12. ENVIRONMENTAL IMPACT

- 12.1. Energy efficiency measures (including upgrades to boilers, central heating systems and insulation; double-glazing, and the kind of measure referred to above for hard-to-heat homes such as external cladding) are a key investment priority within the repair and improvement capital programme. These measures will contribute to a reduction in CO2 emissions as well as reducing heating bills to ensure that keeping the home warm is affordable.

13. CRIME AND DISORDER REDUCTION IMPACT

- 13.1. There are a range of measures within the council's repairs and improvement programme that support the council's wider objective to improve community safety. These include installation of security entry door systems to flats, environmental improvements, improved lighting, and a targeted security door programme.

14. HUMAN RIGHTS IMPACT

- 14.1. There are no human rights considerations arising from this report.

15. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

- 15.1. The information contained in this report will be accessible as part of the Council's Publication Scheme maintained under the Freedom of Information Act, while information held by the Council supporting the report may also be accessible under that Act subject to consideration of any relevant exemptions.

Appendix One

Proposed Weekly Heating Charges (from April 2017)

Scheme	Accommodation	2016/17 (£)	2017/18 (£)	Change (£)
Allington Court	1 Bed	10.96	11.23	0.27
Arthur Court	Bedsit	7.84	8.04	0.20
	1 Bed	11.57	11.86	0.29
Arun Court	1 Bed	10.38	10.64	0.26
Bell Court	1 Bed	10.00	10.25	0.25
Borough Grange	1 Bed	10.66	10.93	0.27
Brookhurst Court	Small 1 Bed	10.59	10.85	0.26
	Large 1 Bed	11.28	11.56	0.28
Creed Court	1 Bed	10.17	10.42	0.25
Freemans Court	Small 1 Bed	10.66	10.93	0.27
	Large 1 Bed	11.28	11.56	0.28
Frylands Court	Small 1 Bed	9.70	9.94	0.24
	Large 1 Bed	10.56	10.82	0.26
Handcroft Road	1 Bed	10.17	10.42	0.25
	2 Bed	18.14	18.59	0.45
Kuala Gardens	Bedsit	6.79	6.96	0.17
	1 Bed	10.37	10.63	0.26
Laxton Court	Bedsit	6.93	7.10	0.17
	1 Bed	11.49	11.78	0.29
Purvis House	1 Bed	11.14	11.41	0.27
Southlands	1 Bed	10.66	10.93	0.27
Southsea Court	Small 1 Bed	10.33	10.59	0.26
	Large 1 Bed	10.73	11.00	0.27
Toldene	1 Bed	9.87	10.12	0.25
	2 Bed	16.41	16.82	0.41
Truscott	Small 1 Bed	11.26	11.54	0.28
	Large 1 Bed	11.42	11.71	0.29