TENANTS' AND LEASEHOLDERS' PANEL
13 October 2015

Lead Officer: **Executive Director of Place**

Wards: **All**

Agenda Item: **9**

Subject: - **Housing revenue account (HRA) – impact of proposed rent reductions**

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1. Recommendation

1.1 The Panel is asked to note the significant impact on the Housing Revenue Account (HRA) business plan of the proposed changes in social rent policy and to recommend how the council should consult with tenants and leaseholders on a range of options to mitigate the impact of the rent reduction and to create savings and efficiencies which will bring the business plan back in line with projected income

2. Summary

2.1 The summer budget 2015 included a number of proposals that will significantly affect the HRA. The major element of this was the policy of reducing rents in the social housing sector by 1% a year for at least the next four years. This results in an annual loss in income of just over £3m. Over the lifetime of the 30 year business plan this creates a deficit of £481m based on the previously agreed assumptions of annual expenditure and investment.

2.2. This results in the need to review all expenditure assumptions and to consider the options available to reduce expenditure in line with the reduction in income. Given the current level of reserves and savings expected on procurement activity, the budget for the next year is unlikely to be affected. However, by 2017/18 more significant savings are needed and it is vital that work on these options starts now.

3. Policy Changes

3.1 On the 8 July, the Chancellor of the Exchequer announced that rents in the social housing sector will be reduced by 1% a year for the next four years. Quoting an increase in rents of 20% since 2010, he explained that the aim of this measure is to reduce the housing benefit bill, and he anticipated that landlords would be able to deliver the efficiency savings needed. This will be a legal requirement for all social housing landlords.

3.2 Applying an annual 1% rent decrease from 2016/17, followed by a return to the current rent formula from 2020, will reduce the income over the 30 year plan period by more than £400m, leaving an overall shortfall of £481m against planned levels of expenditure.

3.3 Two further measures will have an impact on social landlords. The first is the "pay to stay" proposal to require social housing tenants on higher incomes (over £40,000 in London, over £30,000 elsewhere) to pay rents at the market rate on the basis that their rents should not be subsidised by other working people. Whereas housing associations will be able to retain the additional rental income, local authorities will required to transfer the equivalent amount to the Treasury. Exact details on how this new provision will work in practice are not yet available.

3.4 Secondly, the benefit cap is to be reduced from £26,000 to £23,000 in London, and £20,000 elsewhere. This will reduce the ability of larger families with no one in work to afford rents on suitably-sized homes.

3.5 Legislative provision is contained in the welfare reform and work bill which received its second reading on 20 July. The other significant budget announcement concerned the extension of right to buy to housing association tenants, the costs of which are to be met through the sale of high-value local authority homes. The council currently has no homes above the values included in the Conservative manifesto. However, there is currently no certainty on the values to be set by the government and whilst there are no financial implications from this new proposal at present, it is possible that changes could be made which could have an impact on Croydon's housing stock

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4. IMPACT ON THE HRA BUSINESS PLAN

4.1 The council's 30 year HRA business plan is refreshed each year and incorporates a range of assumptions and policy implications including the projected level of right to buy sales, inflation, bad debt and capital investment programmes including building new homes.

4.2 When updated in 2014, the plan assumed full repayment of the council's self-financing debt in years 26 to 29. This was based on the principles established in the self-financing settlement, the calculations for which implied that additional debt would be repayable over 30 years. This version of the plan showed a final revenue surplus of £103m.

4.3 The 1% rent reduction over four years will reduce rental income in the plan from £3.466bn to £3.020bn i.e. by £446m. As an indication of the annual impact, the loss of rent in the first year will be £3.138m. Detailed modelling has been undertaken to reflect this loss of income. The modelling also takes account of a series of other recent local changes, namely: an upward trend in the level of right to buy sales; a reduced level of inflation (to 1%) for staff costs because of new public sector pay restraints; and savings against the planned maintenance and improvements programme as a result of re-procurement of general building works. The impact is to move the plan from a surplus to a shortfall of £481m of which £223m relates to the self-financing loan and £258m to the gap between income and the current projected level of expenditure and investment.

4.4 In light of these changes to rent levels the current business plan becomes unsustainable and the council will need to reduce annual expenditure (or otherwise increase income) by a total of £9.4m by 2017/18 rising to around £11m by 2020/21.

4.5 ‘Pay to stay’ requires tenants with household income in excess of £40,000 (in London) be charged market rents. “Household” is expected to refer to tenants named on the tenancy agreement and the spouse, civil partner or partner where s/he resides in the accommodation. Income is taxable income for the tax year ending in the year prior to the rent year i.e. for 2016/17 this would be 2014/15 taxable income. Analysis of the impact of the ‘pay to stay’ has not been undertaken pending further detail emerging.

4.6 The Government proposes to extend the right to buy to housing association tenants, and to compensate housing associations from the proceeds of selling “high value” council houses as they become vacant. We are awaiting details of the scheme but initial information indicates this will apply to properties with values in excess of the following amounts in London:

1 bedroom	2 bedrooms	3 bedrooms	4 bedrooms	5 + bedrooms
£340,000	£400,000	£490,000	£790,000	£1,205,000

4.7 If these values are confirmed there would be minimal impact on the Council and no adjustments have been made to the business model. However, there is a risk that these values would be locally adjusted for example to relate to a percentage of dwellings.

5. OPTIONS TO MITIGATE THE IMPACT OR MAKE SAVINGS

5.1 A series of options have been modelled to assess the impact of different mitigation and savings options. These can be summarised as follows:

Option 1 - Debt review

The business plan makes provision for repayment of the self-financing debt in years 26 to 30. Re-scheduling this debt would have a significant impact and reduce the shortfall in the latter years of the plan by £198m to £283m. This would mean the debt is refinanced rather than repaid.

Option 2 – Estate regeneration reduction

We could reduce the money that is targeted for estate improvements. These improvements could embrace a wide range of measures including “enveloping” works such as over cladding and modernisation of the outside of homes (in particular properties with solid walls or otherwise poor insulation), improved estate and block security, environmental measures and landscaping, lighting, parking, street furniture, disability-friendly access across estates, signage, community facilities and features providing a sense of neighbourhood . We have not yet started any of these works.

Option 3 - Reduction in housing management costs

A reduction in general management costs of 10% for services such as tenancy management and dealing with anti-social behaviour, income collection and advising tenants on managing their money and paying their rent, community development, overheads and recharges, whether through efficiency savings or reductions in low priority services, would reduce the shortfall by £118m

Option 4 – Reduction in the repairs programme

A reduction in the responsive repairs and cyclical maintenance programmes. The council has recently re-procured the responsive repairs service, making £2m annual efficiency savings as a result, and further budget reductions are likely to involve real cuts to services or standards. However, because a high proportion of these works are mandatory and are in discharge of our statutory responsibilities, the scope for savings will be necessarily limited.

Option 5 – Cut in planned major repairs and improvements

A number of investment areas within the overall programme are neither subject to statutory regulation nor key to the achievement of strategic objectives such as maintaining all homes at the decent home standard. There is some flexibility even within high-priority aspects of the programme for example by reducing standards slightly. The new contract will give the flexibility to reduce expenditure on works should this be necessary to achieve savings.

Option 6 – Review of service charges

Income from tenants consists of rents and service charges, average weekly payments amounting to £111.54 and £9.98 respectively (based on a 50 week rent year). An increase of 10% in the average service charge would make a small contribution (£12m) to the shortfall. However, we will want to ensure that we continue to maintain a direct relationship between the cost of these services and the charge to residents.

Option 7 – Reduction in new-build programme

Provision for building new homes amounts to £29.9m over the four years to 2018/19 which will fund in the region of 100 new homes. We could reduce this programme or transfer responsibility to a new development company (outside the HRA). However, the loss of future rental income from the new properties which, over 30 years, would offset any savings from the reduced expenditure.

A combination of these options could be considered.

6. CONSULTATION

6.1 We are required to consult tenants and leaseholders on any substantial changes to the housing service, and the views of residents will be crucial in ensuring that high-priority and highly-valued services are protected, and that the interests of specific groups of residents, in particular those who are in some way vulnerable or belong to protected characteristic groups, are identified and addressed. It is proposed that a programme of consultation, involving existing forums and panels but also extending to residents who are not actively engaged, is developed.

6.2 The council would welcome the Panel’s views on how this consultation should be conducted.

Report Author: Elaine Wadsworth, Head of Assets & Involvement

Contact Person: As above