

17 January 2018

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

Wards: All

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 2018/19 to be decreased by 1% against the 2017/18 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.

1.3 Garage and parking space rents will continue to be charged at 2017/18 rates.

1.4 Heating charges will continue to be charged at 2017/18 rates.

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 2018/19.

2.2. The report also provides information on the Housing Revenue Account (HRA) budget for the financial year 2018/19 and the heating charges for council tenants in 2018/19.

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 to 2020/21. 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. The cumulative loss of revenue over the 4 years amounts to £31m.

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. All investment in new-build is now to be undertaken by the council's Development Company, Brick by Brick, which is planning new affordable housing as part of its proposed schemes. 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 2017 Autumn budget indicated that a central government funded pilot of the extended right to buy scheme will begin in July 2018 with no further mention of the sale of high-value council homes as the intended funding mechanism longer term. The higher value void levy remains in the business plan for 4 years from April 2019/20.

3.5.2. 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.

3.5.3. 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 2023 – 2027 in order to achieve a balanced budget. It was announced in the 2017 Autumn Budget statement that an additional £1 billion of borrowing would be allocated to

Housing Revenue Accounts across 'areas of high affordability pressure'. It is anticipated that Croydon will be eligible to receive an allocation or to bid for a raise in the current borrowing cap, but until there is further indication as to the mechanism for allocation it is difficult to anticipate the amount of additional borrowing that will be available to Croydon and the business plan has not yet been adjusted.

3.5.4. Welfare Reform: The introduction of Universal Credit in Croydon has begun to have an impact on rent collection rates. Rates are likely to continue to drop as tenants move from receiving housing benefit to universal credit when they experience a change in circumstances. The benefit cap is also impacting on tenants' ability to avoid entering into rent arrears. Maintaining a sufficient provision for bad debt within the HRA is therefore likely to continue to be a growth cost item, even as rents fall.

4. HRA REVENUE BUDGET – 2018/19 INCOME

4.1. The main changes proposed to the HRA income budgets for 2018/19 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 third 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 2017/18 the council increased tenant service charges by 2%. This was 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.

4.3.2. It is proposed that service charges remain at 2017/18 levels in 2018/19, with the intention that a review of the costs of provision and the allocation of those costs across Croydon properties to be reviewed in relation to the costs of providing these services before any changes are made to 2019/20 charges.

Table 1

	2017/18	2018/19	Change
Tenant Service Charges			
Caretaking	£10.27pw	£10.27pw	£0.00pw
Grounds Maintenance	£2.05pw	£2.05pw	£0.00pw

4.5. Garages and Parking Spaces

4.5.1. Rents for garages and parking spaces were increased by 2% in 2017/18 and it is proposed that no increase will be applied for 2018/19.

Table 2

	2017/18	2018/19	Change
Parking Spaces			
Tenants	£7.18pw	£7.18pw	£0.00pw
Non-Tenants	£10.25pw	£10.25pw	£0.00pw
Garages			
Avg. Rent*	£13.10	£13.10	£0.00pw

*Garage rents vary within a range of £12.98 to £20.41 (although £12.98 is the most common charge).

5. HRA REVENUE BUDGET – 2018/19 EXPENDITURE

5.1. The main changes proposed to HRA expenditure budgets for 2018/19 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

2018/19 Management Savings	£000s
Staff Savings - restructuring to standardise service	443
Cost Efficiencies	454
Responsive Repairs	200
Central budget review and consolidation	381
TOTAL	1,478

5.2.2. The cost efficiencies identified above include savings made from restructuring to make savings on staff costs as well as identifying where efficiencies can be made on running costs. A new compliance team has been created, funded from part of the savings made, to ensure that Croydon complies with recommendations made by the London Fire Brigade in the wake of the fire at Grenfell Tower.

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, a knock on effect for the recovery of rent payments has been

seen with average collection rates dropping from 97.5% within 2015/16 to 93.6% within the first part of 2017/18. To mitigate this, an additional £250k 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. A review of aged debt to write-off amounts deemed unrecoverable against existing provisions and focus attention on recoverable debt is planned for 2018/19.

6. HRA INVESTMENT PROGRAMME – 2018/19

6.1. The table below sets out the summary of proposed investment expenditure in 2018/19 compared with 2017/18.

Table 4

Investment Type	2017/18	2018/19
Planned Maintenance and Improvements	21,771	26,771
Larger Homes	100	0
Special Transfer Payments	180	80
Fire Safety	5,000	5,000
Asset management systems procurement	0	434
Total Capital Expenditure	27,051	32,285
Responsive and Cyclical Repairs	12,692	12,492
Grand Total	39,743	44,777

6.2. Repairs and Planned Improvement Programmes

6.2.1. The proposed budget for repairs is to be reduced by £200k to £12.492m in 2018/19. 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. A

development programme is being planned and managed within 'Brick by Brick', the council's external development company. The management of new build properties on completion is currently planned to be undertaken by the charity 'Croydon Affordable Homes', of which LBC owns a 1% share. Depending on the amount of a likely raise of the HRA borrowing cap, it could be possible to bring the management of newly built affordable housing back within the HRA as an alteration to current plans.

6.3.2. As a direct response to the Grenfell tragedy in June 2017, Croydon has committed to installing sprinklers in all HRA tower blocks of 8 stories or above, as well as addressing other fire safety concerns that have arisen and may continue to be uncovered. The investment programme budget now includes £10m across 2017/18 and 2018/19 for these projects. It is expected that the majority of the programme will now be delivered in 2018/19, with a forecast spend of £1.5m for 2017/18.

6.3.3 The re-procurement of the Asset Management and Housing Database systems are to be undertaken as a single project, with implementation expected by April 2020. Budget included for 2018/19 is £434k as the HRA contribution towards the purchase and implementation costs.

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 2018/19. It also anticipates that the HRA budget will continue to hold a balanced position over the period to 2021 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 2018/19 following the budget announcement that the pilot for the associated Right to Buy for Housing Association properties will begin in July 2018. However, the model assumes that 60 units per year will qualify from 2019/20 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. There are plans to utilise the majority of this funding via purchase and build schemes being undertaken by Croydon partners Brick by Brick and Croydon Affordable Homes

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 2018/19 HRA budget does include some management efficiencies that will result in a reduction in the number of staff posts. Some of these posts are vacant and there are opportunities for staff in newly created posts. We will aim to avoid redundancy wherever possible and all efforts will be made to find suitable alternative posts for affected staff within the organisation.

10. CUSTOMER IMPACT

10.1. The proposed HRA budget for 2018/19 includes a rent decrease of 1%. Charges for rent and service charges are eligible for Housing Benefit.

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