Report to the

Wards: All

Council 23rd February 2017

Housing Revenue Account Budget Setting 2017/2018 and Beyond

Report of the Director of Finance & Transformation and the City Neighbourhoods and Housing Manager

This item is not exempt
Therefore exempt reasons are not applicable

This is a Key Decision
This is a key decision. The matter is in the Forward Plan

Executive summary

As Council will be aware, Council Housing services across the Country face a series of challenges over the coming years driven by changes in Government Policy. Hull is no exception to this.

Firstly mandatory 1% rent reductions for four years (covering 16/17 to 19/20), followed by a number of significant welfare changes which will impact upon tenants on benefits ability to pay. The Government's proposed "Pay to Stay" policy has been abandoned but the Sale of Higher Value Properties Levy has not. The Government's Housing White Paper, Fixing our Broken Housing Market, was published on 7th February.

The overall policy context is summarised in section 1. This represents a fundamental national policy shift from previous years in relation to the nature and role of social rented housing. Governmental policy is directed towards social housing being a solution for people for when they need it and only for as long as they need it, with the emphasis mainly being on encouraging home ownership. At the same time the Government are looking to reduce the national £27bn housing benefit budget which will indirectly impact on housing authorities.

The conclusion of these changes is that the Council will inevitably have fewer HRA properties, very probably a more transient and poorer tenant base, certainly less available HRA money and much more risk in the housing business.

Housing is a long term business – it would not be prudent to look at the budgets over the short term – and we must take account of the trends as they appear at present. The plan is to manage our resources and to put the HRA into the best possible position to respond to the direction of travel whilst undertaking a thorough review of the housing service both to modernise as best as we can the existing offer and to respond to the changes and challenges that are emerging.

There are still areas of fundamental uncertainty - the full impact of welfare changes is yet to be understood but the immediate impacts of Universal Credit have not been at all positive.

In response to these changes we have commenced a fundamental review of strategies, policies and operations to ensure that, moving forward, the service is financially stable and delivers services commensurate with those that are perceived as being 'best in class'. This will in all probability result in significant strategic and operational change, enabling a sustainable response to the financial position of the HRA whilst impacting least on vulnerable residents.

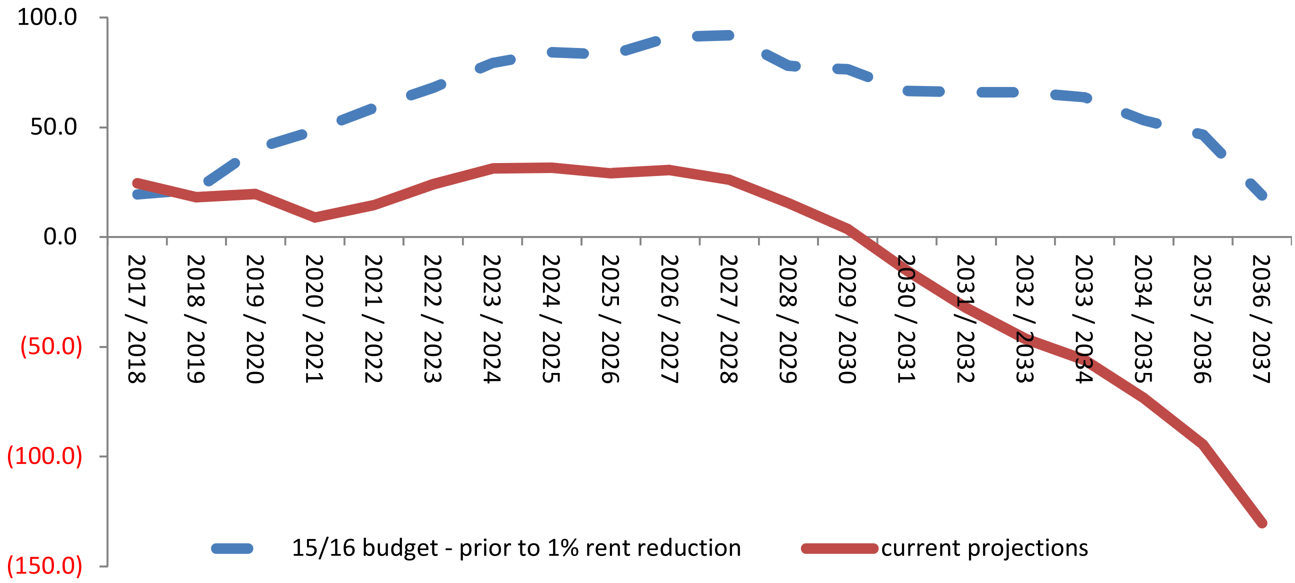
Responding to all these changes is going to take a number of years to fully understand and work through with undoubtedly some changes along the way as Government Policy is refined or tenants' choices alter.

1 Purpose of the Report and Summary

1.1 This report sets out the proposals for the HRA budget for 2017/18 and provides some information on the scale of the financial challenges in future years. In essence the approach is – whilst making savings as we can – to plan for the future fundamental changes in 2017/18 and to position the HRA and the landlord service to best respond to those challenges to come. These are set out in detail in the report and in summary in this section.

1.2 The financial position of the HRA is highly dependent upon the direction of Government policy and recent years have seen significant movements over time. The Council has taken material decisions over the last several years – changes in repairs contractors, significant reductions in prices from one of the original three, demolition of multi-story flats in Orchard Park, the transfer of stock at North Bransholme. At the same time the Government has made major changes – the introduction of self-financing being a material improvement in the position, along with the opening up of a new build programme more recently counterbalanced by changes to rent (the 4 years of 1% annual reductions), welfare benefits and direct targeting through Pay to Stay (now abolished) and the Sale of Higher Value Properties (yet to be fully communicated).

1.3 The chart below shows this impact on the HRA budget going forward to the late 2030s. Previously stability was predicted but this moved directly as a result of the -1% decrease in annual rents. We have recovered some of the position but there is work still to be done.



1.4 Savings were brought forward in 16/17, not least of which was the cancellation of 133 new build properties, saving £14 million in capital expenditure, £9 million net of expected grants. Additional savings of £1 million per annum were also included at that point. Taken together with proposals in this report the position is not back on track – and the challenges wrought though benefits changes have yet to be fully understood – but the direction of travel is more encouraging. Further savings are needed, though.

1.5 The fiscal landscape is changing on an ongoing basis, and no doubt will continue to shift, but it could be argued that the most recent changes are by far the most significant. Changes put in place last year and the commencement and delivery of the Housing Review may allow us to ride out this particular wave over the coming years but within this context it should be noted that we have lost 15% of the housing stock over the last 10 years.

1.6 However, the tectonic plates are moving in relation to how the Government appears to regard social housing. Government consensus over recent years, and varying political parties in power, has been fairly steady since the 1980s but the current Government appears to see social housing mainly as a model for those who cannot afford to be owner occupiers, and only for the period that this state persists. Redesigning a housing service to match this change in direction, and the consequences of this, is a significant undertaking.

Government Policy and other changes

1.7 Recent years have seen the most significant changes in national housing policies in many decades. This is seeing axiomatic changes to housing benefits, in terms of administration and relative amounts that the Government is prepared to pay and to the relationship between the Council as a social landlord and our tenants. These changes are substantial and will inevitably fundamentally change the HRA.

1.8 These changes include:

1.9 The **Welfare Reform & Work Act 2016**[1] and earlier Budget changes introduced

- Rents being reduced by 1% a year each year for the 4 years starting 2016/17 (compared with the assumption of CPI+1% increases this represents a 14.75% reduction in income);

- The benefit cap – the total amount of benefits a household can receive, including their housing benefit – reduce to £13,400 per annum (£257.69 per week) for single people and £20,000 per

[1] http://www.legislation.gov.uk/ukpga/2016/7/enacted

annum (£384.62 per week) for all other households from December 2016;

- There will also be changes to Universal Credit which will reduce the amount of income some households can expect to receive; and

- From Sept 2018 housing benefit will be restricted for 18-21 year olds. They will receive it only by exception – for example if they have children.

1.10 The **Housing & Planning Act 2016**[2] has introduced Fixed Term Tenancies and the Sale of Higher Value Properties

- Councils will no longer be able to offer lifetime tenancies for many new tenancies. Instead they will be expected to give fixed term tenancies of no more than 10 years (with 5 being more typical) and review the circumstances of individual tenants before the tenancy comes to an end to decide if a further tenancy should be offered. There may be some exceptions once the legislation is finalised, but no firm details are currently available. It is expected this will come into force by Autumn[3] 2017.

- In addition the Act sets out that Council will be forced to sell 'higher value' homes and give the proceeds to the government who will use the income to compensate housing associations who will be selling properties under a new right to buy. However the definition of higher value has not yet been agreed and there is no implementation date. Initial regulations are presently expected to be published later this year.

1.11 The **2016 Autumn Statement** also impacted directly on the HRA

- From April 2019 housing benefit levels for social rented tenants will be limited to the **Local Housing Allowance** rates – for example a single person under 35 will be limited to the rate for a single room in a shared house. In the vast majority of cases this will be insufficient to cover the full rent for the Council's properties.

  For those tenants remaining on Housing Benefit, this will apply to new tenancies granted from April 2016 and will <u>include</u> pensioner households.

  For those tenants on Universal Credit it will apply from 2019 irrespective of when the tenancy commenced. It should be noted

[2] http://www.legislation.gov.uk/ukpga/2016/22/contents/enacted

[3] Letter from Lord Bourne of Aberystwyth (Parliamentary Under -secretary of State, CLG to members of the House of Lords, 9th January 2017.

that the intention is that Hull will go live with full digital service in September 2018 (right at the end of the programme). Following this, migration will commence from those still claiming legacy benefits onto UC.

For those tenants in Supported Housing it will also apply from 2019 irrespective of when the tenancy commenced. This will include pensioner households. As the costs of Supported Housing are typically substantially higher than LHA levels, the Government is presently consulting[4] on a new model for funding the sector. Consultation closes on 13th February 2017.

- At the same time the Government abandoned plans to introduce a Compulsory **Pay to Stay** scheme for tenant households earning over £31,000. Instead the Government is encouraging Councils to adopt the discretionary scheme that exists but applies to household incomes over £60,000 per annum. In such circumstances we would keep any additional income and bear any additional costs. We are unaware of any Authority where this option has been taken up. We fully expect to be required to consider a household's financial circumstances when granting tenancies, however.

  and

- The Government also confirmed that the levy in respect of the **Sale of Higher Value Properties** would not be sought during 2017/18, a delay of at least one year compared to earlier assumptions.

1.12 **Change in regulator** – at present the HRA is regulated by the Homes and Communities Agency. The government published a review on 30th November which concluded the HCA should continue to support housebuilding and increase the supply of land for housing, and that the regulator should function separately. Consultation on the proposal runs until 27th January[5] 2017.

Housing White Paper

1.13 The Government had also indicated that it plans to publish a **Housing White Paper** which was expected to be wide-ranging and housing minister Gavin Barwell had said it will tackle planning, housing supply, tenure mix and investment.

[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/571013/161121_-_Supported_housing_consultation.pdf

[5] https://www.gov.uk/government/publications/tailored-review-of-the-homes-and-communities-agency

1.14 The White Paper "Fixing our broken housing market[6]" was published on 7th February 2017 and further updates will be provided to Members as they become clearer.

1.15 The paper has 4 themes

- Planning for the right homes in the right places
- Building homes faster
- Diversifying the market
- Helping people now

1.16 Key White Paper announcements so far

- Standardised mechanism for setting housing delivery targets for councils' local plans
- New guidelines to encourage compulsory purchase of undeveloped land
- A new rent standard for the social housing sector post-2020
- Dropping of the 20% threshold for Starter Homes and the 200,000 Starter Homes by 2020 target
- Councils to include Right to Buy in homes built through new council companies

Significant Risks

1.17 There are a number of significant risks identified as part of the process to date. In many regards these are no different to the risks identified last year with the exception of the Pay to Stay related risks (now deleted), delay in the Sale of Higher Value Properties related risks and the introduction of new risks associated with the potential for economic fall-out around Brexit.

1.18 There remain a number of risks which could have catastrophic impacts on the HRA (& the wider Council) which are detailed in Annex 25 and in section 23 of this report.

1.19 The most significant risks relate to the Sale of Higher Value Properties levy, the impacts related to Welfare Reforms and the way in which tenants react to the changes. In addition there remains a significant risk should the Government decide to not allow Councils to revert to rent rises of CPI + 1% from 2020/21. Thirteen risks in total are deemed "red" at this juncture.

[6] https://www.gov.uk/government/publications/fixing-our-broken-housing-market

Savings

1.20 The target savings cannot be achieved through a series of incremental cost reductions alone because of the highly interactive nature of the HRA.

1.21 Recognising that the level of saving itself will change as welfare reform impacts and that the choices our current and prospective future tenants make as a consequence will evolve, a structural review of the HRA Business Plan.is taking place

1.22 Highlighted in this report, and in last year's budget report, there are a number of savings initiatives already underway. Changes will also emerge through the Housing Review we are carrying out, as explained below.

1.23 Key savings identified include:

- In addition to the 5.3 posts taken out in 2016/17, it is recommended that a further 8.8 posts are deleted from the structures in 2017/18;
- There is an ongoing review of health and safety / compliance functions within HIS which is expected make efficiencies – details of this are being worked on at present;
- A number of small operational savings following changes in process have been agreed – generating both direct savings and, more materially, expected improvements in letting times as a consequence;
- Recharges from the remainder of the Council have reduced again, and whilst not yet quantified, additional savings are expected in future years in particular in relation to customer contact costs; and
- The lifecycle of painting and footpath maintenance programmes have been extended with consequent savings in repairs and maintenance costs.
- Overall these revenue savings amount to c £1.4 million.

1.24 So far, savings of c£5 million have been identified, but these represent perhaps the totality of those more easily reached for, with future savings proposals being more problematic to identify and/or implement.

1.25 Further savings will emerge as the asset management strategy is worked through focusing our resources on performing stock and perhaps ultimately divesting of under-performing stock.

Housing Review

1.26 A detailed Housing Review commenced in Autumn 2016, being a comprehensive review looking at everything the HRA undertakes and the interactions housing has with the rest of the Council and the wider environment. The aim of this review is to conclude with a modern, efficient, housing service whilst addressing the remainder of the funding gap.

1.27 The Review Programme Board is chaired by the Leader and members of the group include the Deputy Leader and Portfolio Holder for Council Infrastructure (including housing and waste management), the Chief Executive, the Deputy Chief Executive and the s151 Officer.

1.28 The Review encompasses a range of projects covering:

- Policies
- Asset Management
- A Functional Business Review

1.29 At this stage, there are no immediate conclusions. Changes and decision making will be reported and sought through normal Council processes as required. However, there is a recognition that the way in which we operate, the policies that constrain us, and some of the properties we maintain can be improved so as to assist realisation of the target savings.

Housing Strategy 2017-2021

1.30 The Council's current Housing Strategy covers the period 2011 to 2016 and is therefore in the process of renewal with a view to ultimately being presented to Council in the Spring of 2017.

1.31 Whilst still under development, and subject to ongoing consultation with a range of partners until approval at Cabinet and Council, the Housing Strategy will be split into three distinct themes – Housing, People and Neighbourhoods:

- The Housing theme is focused on improving the quality and usage of existing housing stock;

- The People theme responds to welfare reform and its impact on people's capacity to pay their housing costs as well as acknowledging, and dealing with, housing as a wider determinant of health and wellbeing, and;

- The Neighbourhoods theme deals with new build and whole-scale neighbourhood improvement.

1.32 It will seek to provide a balance between mitigating against the risks brought about by the Welfare Reform and Work and Housing and Planning Acts and setting out the role housing has to play in delivering the cities revitalised aspirations for the future. It will focus more than ever on housing as a wider determinant of health and wellbeing; further developing partnerships with the appropriate organisations (primarily health and social care) in order to maximise wellbeing outcomes and social inclusion derived from housing and housing services.

1.33 Developing the Strategy has been somewhat challenging due to the ongoing shift in national policy and lack of clarity as a result of many regulations still not being set out. Due to this, and knowing that government housing and welfare policy can and does change rapidly, the Strategy will not provide a detailed list of things that need to be done over its lifetime. It will however provide a framework for us and our partners to use when developing projects and new initiatives – guiding investment as opportunities become available and supporting our response to any future housing risks as we move forwards to 2020.

Wider impact of housing

1.34 Various studies have demonstrated the significant impact that housing conditions can have on mental and physical health. According to an overview report[7] published by the Parliamentary Office of Science and Technology, poor housing particularly effects cardiovascular diseases; respiratory diseases; rheumatoid arthritis; depression and anxiety; nausea and diarrhoea; infections; allergic symptoms; hypothermia; physical injury from accidents; food poisoning. Research conducted by the Building Research Establishment in 2010 concluded that the health costs associated to illnesses arising from poor housing conditions cost the NHS in the region of £600 million a year[8]. However following the decent homes programme for social housing it has been acknowledged that the impact of poor housing is largely attributable to accommodation in the private sector. Locally, we are considering this issue and seeking to ensure that both the Health and Wellbeing Strategy and the Housing Strategy address this important inter-relationship.

1.35 Similarly there has been much research conducted on the relationship between housing, the economy and economic growth. The relationships between these factors are complex and housing can have both a positive and negative impact on economic growth (for example house price deflation can have a major adverse impact on national and personal economic conditions). However the availability of suitable accommodation across tenures can have an impact on an areas ability

[7] http://www.parliament.uk/documents/post/postpn_371-housing_health_h.pdf

[8] Roys M, Davidson M, Nicol S, Ormandy D, Ambrose P (2010). The Real Cost of Poor Housing. BRE Trust, Watford.

to attract and / or retain various worker cohorts. This is particularly stark in the interplay of the housing markets in both Hull and the East Riding, with those Hull residents on higher earnings being drawn to larger and/ or more expensive homes in the East Riding. Some of the clearest evidence on the economic role of housing is in relation to the impact it can have on human capital formation and life chances. Put simply, families living in poorer quality, less desirable housing stock face lower life chances.

2 Recommendations

2.1 It is recommended that Council approve:

2.1.1 The Revenue Budget as set out at 6.1.

2.1.2 The Capital Budget as set out at 12.2.

2.1.3 The overall rent and service charge changes as set out in section 9.4 of this report and in appendices 18(a) & 19 in detail

2.2 That the Rent Policy set out at the Appendix[9] to this report be adopted in relation to 2017/18.

2.3 In line with the detail set out at 9.10 of the report, that the Council does not implement a voluntary Pay to Stay scheme for tenants where household income exceeds £60,000 per annum.

3 Reasons for Recommendations

3.1 The Local Government and Housing Act 1989 requires us to maintain a Housing Revenue Account in accordance with proper practices. The Council must approve a budget for the HRA that does not go into deficit[10]. There is, therefore, no legal option to not set a budget.

3.2 The HRA budget must be set during the months of January or February[11].

3.3 Notice of changes to rent must be given to tenants giving at least 28 days notice[12] of the changes coming into force which means that the notice must be in their physical possession no later than 5th March 2017.

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9 See page 66/67

10 s76(3) Local Government and Housing Act 1989

11 s76(2) Local Government and Housing Act 1989

12 s83 Housing Act 1985

3.4 This report enables the Council to fulfil those statutory obligations.

4 Impact on other Executive Committees (including Area Committees)

4.1 The HRA has properties in all seven areas of the city. These are all affected by the overall budget.

4.2 Changes outlined in the Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016 will have far reaching effects not only on housing (all tenures) but on other General Fund services, some details of which are included within this report. Moreover, the changes may well see re-alignments in neighbourhoods over the medium term with increasing polarisation of stock in more defined and more mono-tenured areas.

4.3 The current comparisons in the overall tenure breakdown is

	Hull	Nationally[13]
Council housing	21%	7.3%
Other social rented	7%	10.1%
Private rented	21%	19.0%
Owner occupied	51%	63.6%

which suggests that implications on the housing market in Hull could be profound if the national policy agenda persists.

5 Background

5.1 The Council presently owns approximately 24,500 homes making it the 10th largest local authority housing business in the country with an annual turnover from rents and other sources being £95 million per annum.

5.2 The overall financial strategy for the Housing Revenue Account ("HRA") is centred around:

- achieving and maintaining the Decent Homes Standard under the stock retention strategy approved by Council in March 2005[14];
- supporting the Housing and Neighbourhood Renewal Strategy[15];

[13] English Housing Survey, 2014-15; https://www.gov.uk/government/statistical-data-sets/tenure-trends-and-cross-tenure-analysis

[14] Housing Revenue Account Budget Setting 2005-2006 and Beyond, Council 17th Feb 2005

[15] Housing and Neighbourhood Renewal Strategy 2011-16, Council 15th March 2012. This is currently being updated.

- providing a customer focused and effective repairs and management service; and

- maintaining a sufficient level of balances both as a contingency against risks and to ensure that investment can be sustained over the 30 year business plan.

5.3 The cumulative impact and the pace of the proposed changes mean that we know we have to fundamentally restructure the budget over the coming years.

5.4 With this in mind, the proposals are designed to ensure that:

- Whilst savings are made where possible and practical no precipitate action is taken which undermines the longer term ability to react to changes;

- Provision is made to ensure there are sufficient resources available to implement changes that are required in the short term;

- Investment is made in those systems and processes to allow staff to work more effectively on the ground; and

- Budgets remain flexible enough to cope with any downturn in the numbers of properties we currently expect and any other announcements or policy changes that the Government may enact in the future;

- In essence that, whilst setting out the direction of travel to inform the redesign of services and the policy framework to meet the changing environment, allowing sufficient time to identify and commence the changes necessary.

<u>CIPFA / CIH code of practice</u>

5.5 In setting the budget we take account of CIPFA/CIH's code of practice for a self-financed housing revenue account, the Financial Viability Principle of which states that

- The housing authority has arrangements in place to monitor the viability of the housing business and takes appropriate actions to maintain viability.

Specifically:

- Provision 1:
  - The housing authority has put in place a business planning process underpinned by appropriate financial modelling that allows the cash flows of the business to be forecast. The

process incorporates an appropriate set of assumptions relating to forecast:

- rent levels
- general income and expenditure levels
- interest rates on investment and borrowing, and associated costs
- levels of void properties and bad debts.

➢ Provision 2:

- The housing authority tests the viability of proposed major capital expenditure projects against the resources generated in the business plan. This ensures that additional activity (for example the development of new housing) is fully integrated into the business planning process and does not introduce liabilities that are unable to be fully funded within an appropriate timescale.

➢ Provision 3:

- The housing authority ensures that sufficient resources are allocated for the long-term maintenance of the stock and other assets, adopting an appropriate mechanism to transfer resources from revenue to a reserve ensuring that the peaks and troughs of lifecycle investment needs are able to be met.

➢ Provision 4:

- Assumptions are kept under regular review and tested against actual financial performance. Alterations to underlying assumptions are made in direct relation to the impact on the overall plan.

➢ Provision 5:

- The housing authority maintains accurate data about the cost of its services, and regularly reviews these in relation to its procurement and commissioning strategies. The business plan allocates resources to ensure the continued viability of high quality management services.

6 Financial Position of the HRA

6.1 In summary the income and expenditure figures are:

	Current Budget 2016/17	**Proposed Budget 2017/18**	**change**	
	£'000	**£'000**	**£'000**	**%age**
INCOME				
Dwelling Rent Income	90,444	90,240	(205)	-0.2%
Charges for service and facilities	2,556	2,647	91	3.6%
Non dwelling rents	1,277	1,237	(39)	-3.1%
Leaseholders charges for services	259	259	0	0.0%
Other fees & charges	246	358	112	45.5%
Interest on balances	269	32	(238)	-88.3%
General Fund Transfer re Whole Community	738	673	(65)	-8.8%
TOTAL INCOME	95,789	95,445	(344)	-0.4%
EXPENDITURE				
Repairs & Maintenance	22,431	22,427	(4)	0.0%
Supervision and Management[16]	15,187	15,053	(134)	-0.9%
Special Services	4,562	4,484	(78)	-1.7%
Rent, rates, taxes & other charges	740	726	(14)	-1.9%
Provision For Doubtful Debt	1,947	1,639	(307)	-15.8%
Capital Financing Costs	54,721	53,319	(1,402)	-2.6%
Contribution to Corporate & Democratic Core	295	295	0	0.0%
TOTAL EXPENDITURE	99,882	97,943	(1,939)	-1.9%
Net surplus / (deficit)	(4,093)	(2,498)	1,595	

HRA projections

6.2 As at period 9, the HRA was predicting underspend on expenditure of £2m, which breaks down as follows:

	£'000	comments
Total projected underspend	2,049	

[16] A more detailed breakdown is shown in Annexes 1 & 11 – this covers all other spend including area and central staff, recharges, welfare reform hardship fund etc.

of which:

void repairs	300	reduced number of voids, reflected in R&M budgets
other reactive repairs	100	reflected in R&M budgets
savings on C/Tax on voids	70	reduced number of voids reflected in 17/18 budget calculation (see Annex 13)
Tenants Participation team vacancies	15	posts now deleted
pay to stay contingency	250	not needed now P2S abandoned. Reflected in 17/18 budgets
past service pension contributions	75	reflected in 17/18 budgets
savings on SLAs	112	individual SLAs reviewed and reduced where appropriate
savings on consultants costs	84	£65k in savings assumed in 17/18 budget
LD properties	10	reflected in 17/18 budgets
DAP	15	reflected in 17/18 budgets
savings on communal gas & electric	60	additional savings assumed in 17/18
lower bad debt provision	553	bad debt provision has been reduced accordingly
contingency not expected to be used	150	Contingency has been retained.
All others - net	255	

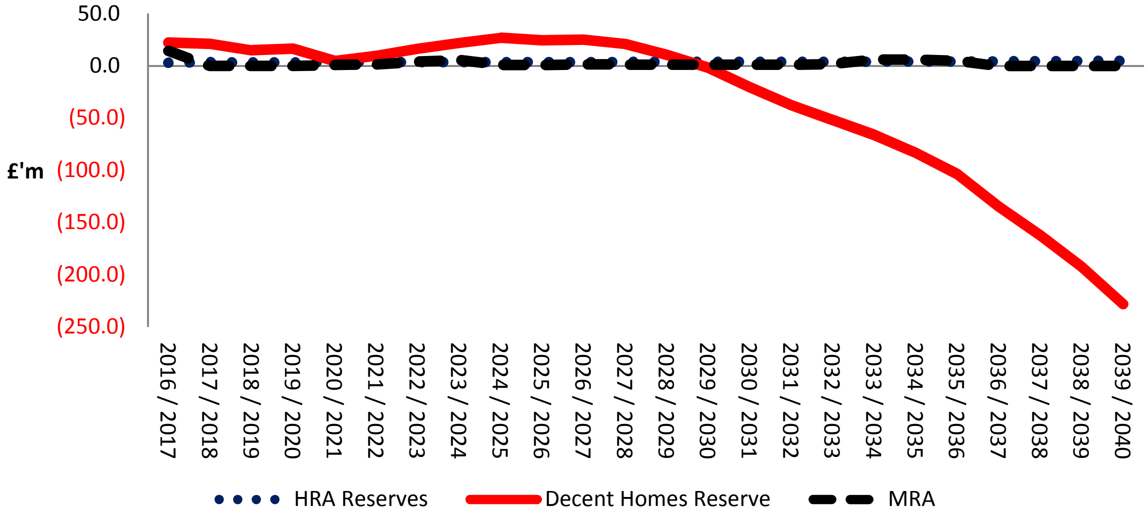
6.3 A line by line review of all budgets has been undertaken as part of the budget setting process and known underspending, where it is expected to be ongoing, has already been taken account of in setting the budget for 2017/18.

HRA reserves

6.4 HRA Reserves are shown in detail at Annex 5. **It is a statutory requirement[17] that the HRA balances do not fall into deficit.** Clearly the current projections do include a period where the HRA goes into a position of deficit. The above position reflects all agreed savings as well as known changes in income and expenditure going forward. There is an immediate risk in the next three to four years but careful planning on the timing of spend should alleviate that. Action must therefore be taken to avoid that occurring in practice with a focus on achieving and banking sufficient savings in the next two to three years to avoid the potential risk in ten years.

[17] Section 76(3) of the Local Government and Housing Act 1989 places a duty on the Authority to prevent a debit balance on the Housing Revenue Account.

Projected reserves - next 25 years



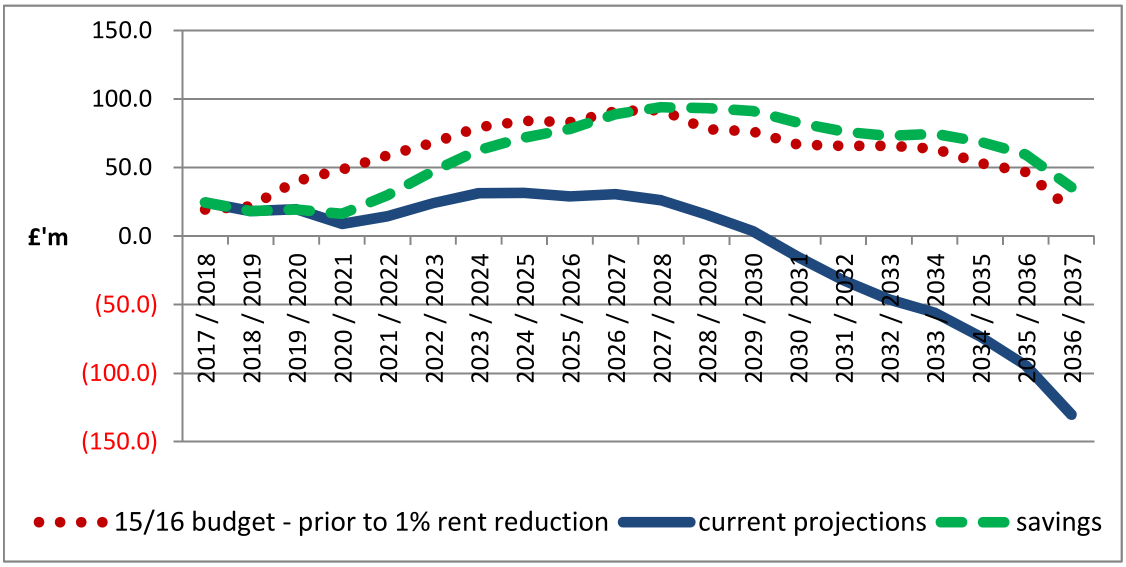
6.5 Reserves are held for the following primary reasons:

- To cover against the inherent risks in the business – and changes coming as outlined throughout this report leave fundamentally a higher level of inherent risk in the business than is currently the case – such as non-collection of rent and a sudden and increased need to spend (the 2007 floods being the most striking recent instance).

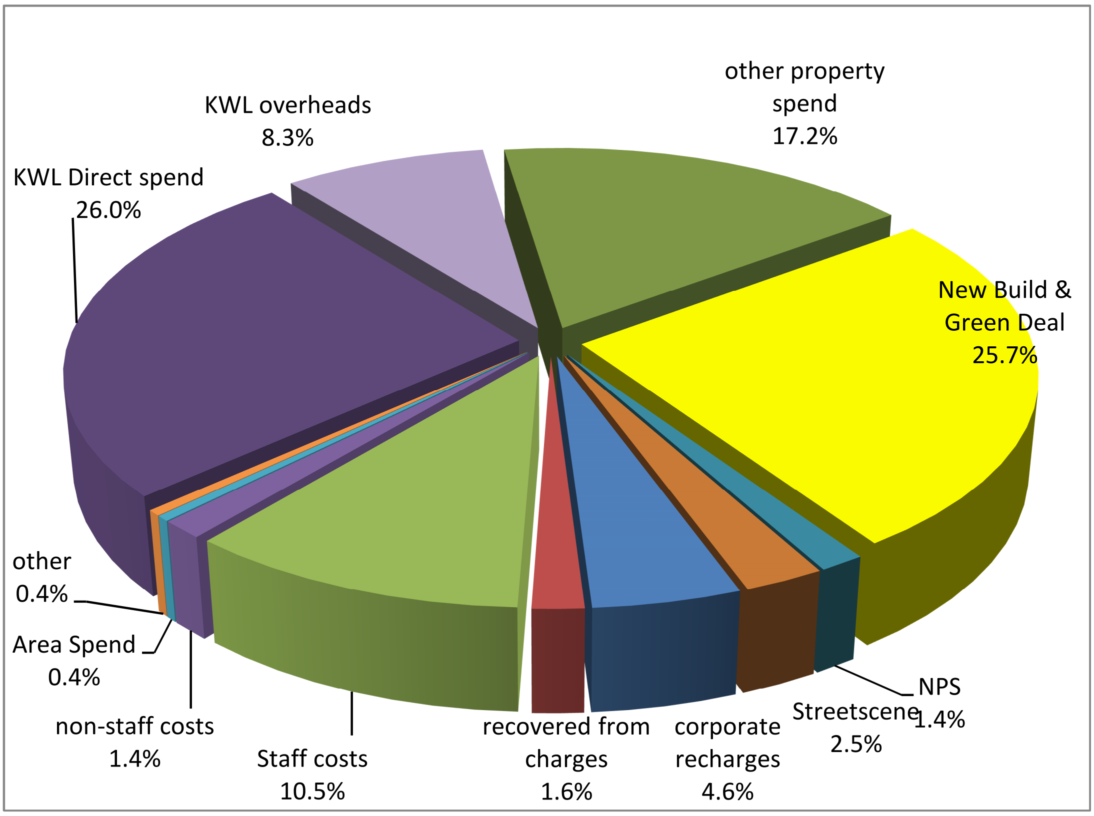
- To fund the future need to spend – in effect to ensure that we can continue to maintain and repair our properties over the coming years, especially needed given the cyclical nature of the spend.

<u>Sensitivities and the scale of the challenge ahead</u>

6.6 The graph below shows the impact on reserves of additional savings of £7.5 million per annum commencing in 2020/21.



6.7 In the long term, without any further changes in Government Policy, significant savings need to be made over the next three or four years at most. The initial analysis is that the scale of savings to be made will be exceptionally challenging. Savings of c £5 million are already identified and included within the underlying budget (detailed an Annex 3), and the chart below shows the remaining areas of variable spend against which savings have to be found.



6.8 New Build and Green Deal is only temporary in any event. The scale of the remaining spend is such that around 2/3rds will probably need to come from money we spend directly on properties.

7 Government Policy Changes

7.1 Since the publication of the last HRA Budget report, the Housing & Planning Act 2016 has come into force and, more recently, the 2016 Autumn Statement has led to a number of changes to the HRA fiscal landscape.

7.2 Firstly, and of benefit to the HRA, the Government has abandoned proposals to implement Pay to Stay, which was expected to cost the Council in terms of uncollected rents, additional administration and to increase the numbers of Right to Buys. Direct savings of £250k were identified as a consequence on this compared to 2016/17 and estimated net costs of c £400k per annum from 2017/18 onwards are no longer required.

7.3 Secondly, the implementation of Universal Credit remains significantly behind the original schedules, providing an element of short term respite, but experiences with those tenants who have transferred is not as yet encouraging. More details on this are shown at 8.18.

7.4 Thirdly, the restriction on benefits to LHA rates applies from 2019 (not 2018) but with all tenants on Universal Credit and in Supported Housing moving over immediately. In relation to those in Supported Housing the Council will receive some additional funding to "top up" the rents but the methodology is currently being consulted upon[18], alongside the remainder of the policy, and therefore it is not possible to ascertain at this juncture whether this will be financially positive, neutral or negative. Whilst the bulk of this will fall on the General Fund – good or bad – it could have specific implications for Sheltered Housing Stock. More details on this are shown at 9.10 to 9.16. It does also create a potentially significant risk in relation to the General Fund in 2019/20 and onwards.

7.5 Additionally the commencement of the Sale of Higher Value Properties levy has been delayed for a year, with existing funding being used to create a further trial expansion of the Right to Buy for Housing Association Tenants, the costs of which this levy was partially to fund. This may mean that the levy is no longer required although there remains a significant risk that the Government will see the significant value it will perceive as locked up in Council Housing stock as tempting as it looks to balance the national budget in years to come. Our asset base is valued at £1.3 billion on the Open Market.

[18] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/571013/161121_-_Supported_housing_consultation.pdf

7.6 Moving ahead without fundamental change is the introduction of Fixed Term Tenancies ("FTT"), with the expectation that at the end of the term the first duty placed upon us is to see what we can do to assist the tenant into home ownership. Even if the vast majority of tenants would be regarded as still eligible at the end of their FTT this places considerable additional administrative burdens on the council in undertaking the reviews, is likely to encourage a take up of Right to Buys for those with the means to buy who feel their tenancy is at threat and conversely an additional likelihood of non-payment of rent for those people who feel they are unlikely to be granted a further tenancy who aren't exercising the Right to Buy options. At the very least it will create additional voids and additional churn costs. New FTTs are expected to take account of a household's financial circumstances with tenancies targeted at those on lower incomes.

7.7 Whilst unlikely to have material impact, on 30th November 2016 the Government launched the "Tailored Review of the Homes and Communities Agency" which proposes changes to the way Social Housing is regulated[19].

8 Welfare Reform

Benefits Cap

8.1 The Welfare Reform Act was passed by Parliament on 8 March 2012, which introduced the concept of the Benefits Cap, amongst other changes. The amount at which benefits would be capped was reduced as part of the Summer Budget in July 2015, with groups of claimant affected as shown in the table below.

	per week		**per annum**	
	Before	**Dec 16**	**Before**	**Dec 16**
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

8.2 Housing benefit is the first payment cut if a household is affected by the benefit cap. Preliminary indications are that couples with three children affected by the £20,000 cap will be entitled to housing benefit of just £50 a week. A couple with four children will not be entitled to any housing benefit at all. Each claimant's circumstances will be different so these are indicative figures.

[19] https://www.gov.uk/government/publications/tailored-review-of-the-homes-and-communities-agency

8.3 Whilst this does not directly impact upon HRA budgets it will mean that a number of tenants will have no immediate means to pay their rent, thus causing significant strain on bad debts over the medium to long term as well as likely increases in voids as prospective tenants will seek smaller more affordable properties.

8.4 When the cap is introduced the maximum weekly entitlement for housing support is:

- 1 parent 3 child households = maximum of £92 support towards their housing costs;
- 2 parent 3 child households = maximum of £50 support towards their housing costs; and
- 1 parent 4 child households = maximum of £25 support towards their housing costs

8.5 Households larger than this will receive nothing towards their housing costs and those on Universal Credit will also lose other benefit income. The housing costs for smaller households should continue to be met in full by benefits. This raises serious questions about the viability of large numbers of 3 and 4 bedroomed social rented stock, for example Hull has more than 10,000 3+ bed properties in its 25,000 stock.

8.6 Larger households (those with five or more members) will be most affected by the benefit cap and those living in higher cost housing areas or paying private or affordable rent will have the greatest shortfall to make up. For those tenants on Universal Credit it is unclear how (or indeed if) DWP will inform us of affected tenants.

8.7 Likely implications of the benefit cap on the HRA are:

- Affected households living in privately rented accommodation or high cost housing areas may apply to the Council for re-housing to more affordable accommodation. This will lead to increased demand for affordable housing in some areas and reduced demand in others from households in receipt of welfare benefits. Movements may be across Local Authority boundaries.

- Affected households living in Council accommodation may need money advice to enable them to budget for the shortfall in their rent.

- Rent arrears could increase from larger households in receipt of welfare benefits. Measures will need to be put in place to mitigate against this (e.g. money and employment advice services).

  It should be noted that there may actually be very little we can actually do or advise tenants do to alleviate these effects.

8.8 Likely implications of the benefit cap on the General Fund are:

- Increased demand for temporary accommodation and associated costs (e.g. Bed & Breakfast);

- Increased demand for homeless prevention services;

- Increased evictions, including illegal evictions and/or harassment as private landlords seek to change the client group to whom they let their properties;

- Increased demand for Youth and Family Support Services and Children's Social Care;

- As tenancies become potentially shorter the increased churn could lead to instability in where families live with consequently greater churn in the school population and reduced educational outcomes and

- Increased demand for Housing Related Support services, against which needs to be set the likely impact of restricting rents to LHA may, at the same time, remove the provision.

8.9 At December 2016 we understand that DWP have identified 200 affected tenants with a further 200 in other housing tenures who are affected by the reduced cap.

<u>Spare Room Subsidy</u>

8.10 The spare room subsidy (or "bedroom tax") commenced on 1st April 2013 and means that where tenants are deemed to be under occupying by one bedroom then benefits equivalent to 14% of the total rent are withdrawn, or 25% if the deemed under occupation is two or more bedrooms.

8.11 The latest position (February 2017) is shown below:

		£ Due	£ Paid	% Paid
Tenants charged bedroom tax	2,973	6,440,396	6,197,195	96.2%
% tenants paying in full	59.4%	3,983,183	3,983,169	100.0%
% tenants paying partial	39.3%	2,428,073	2,214,025	91.2%
% tenants paying none	1.3%	29,140	-	0.0%

8.12 However, it should be appreciated that a large number of cases are supported at present by Discretionary Housing Payments ("DHPs") which are likely to be re-directed to support people affected by the Benefits Cap or restricted to Local Housing Allowances in future years.

Universal Credit

8.13 The way in which future benefits will be paid to claimants also poses a potential risk. With the introduction of Universal Credit for working age claimants, albeit aimed initially at single people, the default position will be monthly payments made directly to the claimant. The DWP has indicated that there will be an exception for 'financially vulnerable' households but that this will be time limited and regularly reviewed. It is the DWP's intention to maximise on-line transactions - 'digital by default' – with the smooth implementation of Universal Credit dependent upon the introduction of a major new IT system.

8.14 It should also be noted that the DWP have clear expectations that generally the Council and more specifically the HRA as Landlord will provide a level of tailored support to universal credit claimants through a Delivery Partnership Agreement. This is a requirement that does not appear to come with any funding.

8.15 In setting budget projections beyond the short term these changes to benefits make any degree of accurate estimation difficult. There is a considerable lack of information to properly assess the impact because this has not been done in any scale elsewhere and thus there are no historical precedents to evaluate. It is key, therefore, to regularly monitor in great detail the impact of Welfare Reform over the coming years on:

- Rent payment levels
- Cost of rent collection
- Property churn

8.16 Recent announcements by the Government have indicated that should tenants on Universal Credit not pay their rent then up to 20% of the Universal Credit standard allowance can be deducted at source and paid to the landlord, ensuring claimants are back on track with payments quicker. The minimum amount that will be deducted is 10%. This allows some level of certainty that rent will be paid to us eventually and has therefore allowed us to take a less pessimistic view of the likely level of bad debts emanating from these proposals than might otherwise have bene the case.

8.17 During summer 2015 we estimated that there are c 1100 single tenants receiving JSA, of which we would normally expect around 20% churn per annum. Therefore we expect there to be c 220 new Universal credit claims during the financial year and, to date, this appears to be being borne out. The number will be highly dependent upon the circumstances of these people and we may also see significant numbers of passported claims – people who are on Universal Credit in other areas moving into Hull. Additionally the volume could increase substantially at any point in time – for example if a major employer in the City announced redundancies.

8.18 Claimants with straightforward claims are currently being processed onto Universal Credit with a view that all new claimants are on UC from Autumn 2018 and migration of existing working age claimants taking place by 20/21. Current arrears rates for the straightforward claimants are significantly worse than non UC cases[20].

	Universal Credit Cases	**All Tenants**	**Working age tenants**
Total	259	23,921	16,563
No. in Arrears	201	5,605	5,221
% in Arrears	**77.6%**	**23.4%**	**31.5%**
Average £	£624.36	£337.56	£351.83
APAs[21] in place	34		
% of cases on APA	**13.1%**		

Backdating of housing benefit

8.19 From April 2016, the period over which a Housing Benefit claim can be backdated, reduced from six months to four weeks. This will have a deleterious impact on rent payments where tenants were eligible for HB but did not submit an earlier claim leaving them responsible for rent arrears which might otherwise have been cleared.

Restriction of 18-21 year olds to receive Housing Benefit

8.20 18-21 year olds submitting a new claim for UC will not be automatically entitled to receive the housing costs element (the equivalent of HB). The Council's latest understanding is that this will only affect new claimants in a full (digital) service area which for Hull is September 2018.

8.21 There are expected to be exceptions for:
- those who are parents and whose children live with them
- vulnerable groups (not yet defined)

[20] The National Federation of Arm's-Length Management Organisations (NFA) and the Association for Retained Council Housing (ARCH) carried out annual research into Universal Credit claimants and found the percentage of council home tenants in receipt of Universal Credit who are in rent arrears has increased by seven percentage points – from 79% in March last year to 86% in December 2016. This compares with 39% of tenants in arrears who do not receive Universal Credit. The average arrears total has also increased, from £321 to £616. The research also revealed 59% of Universal Credit claimants living in council homes have arrears that equate to more than one month's rent.

[21] Alternative Payment Arrangements

- those who had previously been living independently and working continuously for 6 months

8.22 Housing support will be replaced by a ‘Youth Obligation’, requiring young people to participate in “an intensive regime of support from day one of their benefit claim”, but the Youth Obligation will only be introduced from April 2017 in those areas where the full universal credit digital service has been rolled out (September 2018 for Hull). However, it appears that the DWP still plan to remove housing benefit entitlement for most 18- to 21-year-olds from April 2017, although, as with the Youth Obligation, the detailed regulations have yet to be published. Likewise, as yet, no information on exemptions been released.

8.23 At the end of December 2016 we had 288 tenancies that fell in this category. We received c£20k per week in Housing Benefit from this group in total. There are 342 tenants in the private sector (£34k per week) similarly affected.

8.24 It is not unreasonable at this stage to assume that there is c£500k to c£750k per annum in HB being received in respect of tenants who would be ineligible from September 2018. Further work to refine the data in ongoing and of course affected individuals may well re-locate.

Discretionary Housing payments

8.25 The Revenues and Benefits service has received DWP funding on an annual basis for several years to operate a cross tenure Discretionary Hardship Payment Scheme. Local Authorities have wide discretion in designing their local schemes and may choose to increase the amount of funding to the scheme by up to 2.5 times their Government DHP allocation. In 2015, a partnership agreement was signed with Civica to take over the management of the Hull City Council Revenue and Benefits service.

8.26 DHP funding can be used in a wide range of scenarios to support tenants who are claiming housing benefit and are experiencing financial hardship. Commonly, DHP awards are made to support tenants with a shortfall in their rent (for instance, the Local Housing Allowance does not cover the rent charged or they have a shortfall due to the social sector size criteria reduction). However, the funding can be used in more creative ways, for instance to pay for a rent deposit to secure a property or to clear existing rent arrears where appropriate. The aim is to sustain tenancies and prevent homelessness wherever possible.

8.27 The uses of DHP potentially can thus be summarised as:

- LHA is lower than rent
- HB is reduced because of non-dependent deductions/housing costs contributions

- HB is reduced due to having a spare bedroom in social rented property
- HB is reduced due to the Benefit Cap
- Help with a rent deposit or rent in advance for a property and removal costs.

8.28 The table below sets out the annual amounts we have received from central Government.

Year	Value	Notes (from DWP Housing Benefit circular)
2012/13	£232,316	
2013/14	£1,187,645	
2014/15	£801,321	DHP funding was increased from 2011/12 to 2013/14 to assist with the transition of claimants into the new welfare entitlement that resulted from the Housing Benefit (HB) related welfare reforms. In 2014/15 and 2015/16 funding levels reduced in line with the transitionary nature of the additional funding and as claimants adjusted to the reforms.
2015/16	£681,189	
2016/17	£791,440	To help LAs manage the impact of the HB reforms announced in the Summer Budget 2015, the overall DHP funding will be £150 million for 2016/17, an increase of £25 million (20%) compared to 2015/16 funding. This comprises of funding for four separate areas of support; Core funding, Local Housing Allowance (LHA), Removal of the Spare Room Subsidy (RSRS) and Benefit Cap.

8.29 This covers both private and public sector landlords and awards are made based solely on the circumstances of the claimant and the merit of the case.

8.30 A £250,000 hardship fund has been retained as part of the HRA budget. To augment the DHP budget we require secretary of state approval. CLG has written to Chief Finance Officers of stock holding Local Authorities on an annual basis to advise them that "Where a local housing authority wishes to make discretionary payments available to its own tenants through the HRA, the Department is prepared, upon receipt of a written application, to issue a Direction under Item 9 Credit and Item 10 Debit". As this is – in effect – a benefit payment the HRA is legally prohibited from making a contribution without this explicit approval. The process is not unduly onerous.

8.31 The Neighbourhoods and Housing Service also needs to be able to respond flexibly to support households to sustain their tenancies wherever we can. In 2017/18, we intend to refocus HRA hardship funding that is in place to assist in "hard cases" on a spend to save basis. This could be to help pay for essential removal costs, furniture or other essential items where the tenancy will not be sustainable otherwise. By taking a more strategic and flexible approach to supporting our tenants, it is envisaged that we will be better able to slow down turnover of properties as more tenancies are put on a sustainable footing. This will not only assist tenants but would also increase income to the HRA and would not involve increasing the overall budgets but would give scope to better target and direct the funding that currently exists. The total budget for these interventions remains at circa £97k.

9 Dwelling Rents and Service Charges

Rents

9.1 The passing of the Welfare Reform and Work Act means we are be legally compelled to reduce rents by at least 1% for 2017/18 (and the two following years) and there is therefore no discretion for Members to increase rents. This reduction is described by the Government as social landlords' contribution to reducing the housing benefit bill.

9.2 The Local Government Association and Chartered Institute of Housing have both calculated that the rent reductions will cost local authorities a total of **£2.6 billion** in lost revenue over the four years[22] that this policy is in place. They calculate that the measure would initially cost councils £234 million in year one through lower rents on council homes. The amount lost would rise to £508 million in the second year (17/18), then to £795 million in year three, and more than £1 billion by 2019/20. The total of £2.6 billion lost will represent 60% of local government's total housing maintenance budget, and is the equivalent of funding to build almost 19,000 new homes[23].

9.3 Analysis shows that the potential loss of rental income to Hull City Council is £46.9 million over 5 years and £500 million over the thirty year business plan assuming a return to CPI+1% rent increases from 2020/21 onwards. This is the only one of the proposals that we are able to accurately forecast at this time.

9.4 As a consequence of this average rents will be:

	2016/17	2017/18	change	change
Average rent per week	£73.16	£72.43	(£0.73)	-1.00%
50 week equivalent	*£76.09*	*£75.33*	*(£0.76)*	*-1.00%*

9.5 In relation to Affordable Rents the position remains that existing tenants will see an immediate reduction of 1% but new tenants will see

[22] http://www.local.gov.uk/media-releases/-/journal_content/56/10180/7397692/NEWS

[23] http://www.publicfinance.co.uk/news/2015/07/social-rent-cut-set-take-%C2%A326bn-councils

their rents fixed in relation to Market Rent. This may mean anomalies between the rents in similar/ adjacent properties.

9.6 Changes to rent budgets are thus:

Change in budgeted rents		**£'000**	
budgeted rent 16/17		90,411	
change in rent levels	(900)		-1.0%
change in property numbers	(209)		-0.2%
change in void levels	922		1.0%
		(187)	-0.2%
budgeted rent 17/18		90,224	

9.7 In determining future projections we do not believe that it is prudent to model a return to CPI+1% for future rents and have therefore used CPI only as future increases. Whilst it is the – currently – stated aim of the Government to move back to CPI+1% there is a substantial risk that this will not take place and intelligence from the housing industry suggests that many others are also planning on CPI only in future.

9.8 "Fixing our broken housing market[24]" was published on 7th February 2017. This included the statement that "*the government will set out, in due course, a rent policy for social housing landlords (housing associations and local authority landlords) for the period beyond 2020 to help them to borrow against future income, and will undertake further discussions with the sector before doing so"*

Pay to stay

9.9 The Housing & Planning Act 2016 contained provisions for the implementation of Pay to Stay, whereby tenant households earning over £31,000 would have been required to pay additional rent. However, the Housing Minister announced on 21st November 2016 that this policy had been abandoned. The budget previously contained a provision for administration costs which has now been released.

9.10 In the meantime the Council, along with all others, is encouraged to consider applying a voluntary scheme for those households earning in excess of £60,000 per annum. Whilst there will undoubtedly be some, it is not expected that the numbers that might exist – and the revenue they might thus be expected to generate – would be proportionate to

[24] https://www.gov.uk/government/publications/fixing-our-broken-housing-market

the costs of collecting and processing the income data and therefore the report recommends that we do not take up this option.

Local Housing Allowances

9.11 As part of the 2016 Autumn Statement, the chancellor re-affirmed the announcement that for new tenancies Housing Benefit in the social rented sector will only be paid up to the Local Housing Allowance – the rate that applies in the private sector. In particular this means that housing benefit for single people in social housing under 35 without children will be restricted to shared accommodation rates. Such rates are typically below the Council rents for one bedroom properties.

9.12 The new policy will apply to tenants on Housing Benefit and only to tenancies signed after 1 April 2016, with the entitlement changing from 1 April 2019. Government state that the policy "will help prevent social landlords from charging inflated rent".

9.13 In such cases either we need to reduce the rent to LHA rates or to require people to make up the shortfall from other resources (with concomitant increases in bad debts). This is expected to cost around £300k per annum at current prices phased in over a number of years.

9.14 LHA rates only change once a year in April, rather than each month and the following rates apply between April 2015 and April 2019. These rates are frozen for four years.

	Rates (per week)	*50 week equivalent*
Shared accommodation rate	£60.80	*£63.23*
1 bedroom rate	£69.73	*£72.52*
2 bedroom rate	£86.30	*£89.75*
3 bedroom rate	£103.56	*£107.70*
4 bedroom rate	£132.33	*£137.62*

9.15 For tenants on Universal Credit this would be implemented from 1st April 2019 irrespective of when the tenancy commenced and it should be noted that the intention is that all working age benefits will be migrated to Universal Credit commencing late 2018 with an intention of full migration by 2021/22. In time, therefore, all working age tenants will be affected irrespective of when their tenancy commenced.

9.16 For tenants in Supported Housing the implementation date will also be 1st April 2019, but the Government are currently consulting on how this sector will ultimately be funded as costs are generally appreciably higher than LHA rates reflecting the level of support for tenants. This particularly affects Sheltered Housing for the HRA but also directly impacts upon the Extra Care schemes being developed in the City alongside a plethora of existing supported provision. Consultation ends in February 2017[25] so we are unable to predict the impact on the HRA as part of this exercise.

9.17 It should be noted that the proposals as they stand are that the Council would receive a sum of money to top up Supported Housing providers for costs incurred over and above rent levels. There is therefore a significant risk to the Council (in this instance the General Fund) that the resources passed to the Council are either immediately insufficient or that, over time, the amounts are eroded by inflationary increases in costs or by increases in the underlying demand.

Lettings Policy

9.18 In the light of the changes to benefits eligibility then the Council's Lettings Policy will need to be reviewed in detail. These changes – as they stand – could lead to us letting properties to people who are demonstrably unable to afford them leading to increasing arrears and ultimately evictions. To counter this, thought is being given to whether it might be appropriate to include an "affordability test" within the lettings process, although this may be overtaken by the Regulations emanating from Lifetime Tenancies covered below.

Lifetime tenancies

9.19 As part of the Summer Budget Government announced that they would review the use of 'lifetime tenancies' for social housing with the aim of limiting their use and ensuring that best use is made of stock. Whilst this does not directly impact upon income it will increase costs and potentially churn in the HRA

9.20 The draft Housing and Planning Bill did not contain details of this policy change. An amendment was introduced which, in effect, forces councils to offer all new tenants contracts of between two and five years. For the purposes of the bill a new tenant covers not only tenants who are new to council housing but also any situation where an existing council secure tenant applies for and is allocated a new property. At the end of the fixed term, we will have to carry out a review of the tenant's circumstance, and decide whether to grant a new tenancy, move the tenant into another more appropriate social rented property, or terminate the tenancy.

9.21 This would also apply to succession rights, other than in the case of a partner or a spouse inheriting the tenancy.

9.22 Where we conclude it is appropriate to terminate the tenancy, we will also be required to provide advice to support the tenant into home

[25] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/571013/161121_-_Supported_housing_consultation.pdf

ownership or to help them access other housing options, whichever is appropriate. This is likely to be a significant additional burden.

9.23 Whilst we expect there to be exceptions for tenants where the move is as a result of (for example) regeneration, the normality of tenancy changes are likely to be affected, although this appears to exclude MUTEX where both tenants have lifetime tenancies. **Again there is nothing currently extant which excludes the elderly from this change.**

9.24 We expect these Regulations to come in during the Autumn of 2017[26]. Consultation will be based on work undertaken with a representative Local Authority group, on which we are represented, in the new year. One Statutory Instrument which will be published which will be affirmative and will set out the circumstances in which a Local Authority is able to offer a further lifetime tenancy to existing lifetime tenants who apply to move home.

9.25 This is likely to result in a need to amend the Tenancy Policy, which will be presented to Council for approval in due course, but most likely over the Summer of 2017 in order to be in place prior to the changes. However, given the extant direction of travel there is likely to be little scope for Council to depart from explicit legislation and the timescales are likely to be very tight.

Service Charges

9.26 Increases in service charges are typically tied to increases in rent each year, although it is the intention that income raised through service charges reflects the cost of providing those services. Proposed changes to service charges have been set to maintain the link between the costs of providing services and the income derived from them.

Garage Rents

9.27 Despite the freezing of garage rents for three years, and selective demolitions, the number of empty garages is continuing to increase

[26] Letter from Lord Bourne of Aberystwyth (Parliamentary Under-secretary of State, CLG) to members of the House of Lords, 9th January 2017.

More recently housing minister Gavin Barwell has been quoted as saying fixed-term tenancies will "better enable councils to give priority to people with the greatest housing need.

"The government's guidance to councils will make clear that they should take into account a household's financial circumstances when looking at this, and that, except in exceptional circumstances, tenancies should be targeted at those on lower incomes."

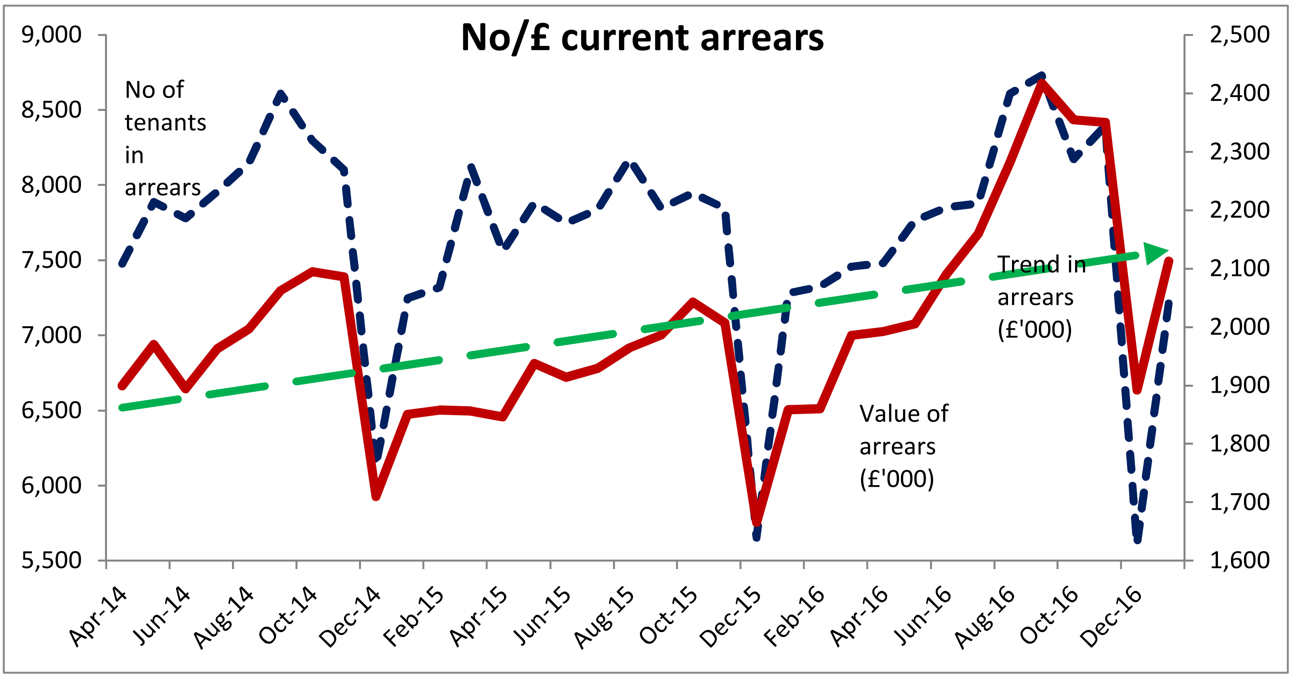
Inside Housing. 12/1/17

with just under 43% of garages vacant at present. The programme assumes the ongoing demolition of unviable garage blocks and improvement of the remaining garages, with a capital budget set aside to address these issues.

9.28 On this basis it is proposed to freeze rents again. Low demand for garages, however, seems to be caused by a more fundamental issue than rent levels, Our garages are typically too small for modern cars, are poorly lit and many are separate from residential blocks.

Arrears and bad debts

9.29 Overall changes in arrears – value and cases – over time are shown in the graph below. The bedroom tax does not explain the totality of the movement. As can be seen from the chart the value of arrears and caseload is on an upward trend, one which we expect to accelerate into 2017/18 especially.



9.30 December contains two rent free weeks and therefore arrears naturally fall at this time of the year as tenants in arrears are required to continue paying. The trend line represents a strict linear regression analysis of historical figures.

10 Management costs and savings

10.1 Within the HRA budget there are a number of savings proposals already identified, which are detailed in Annex 2 to this report.

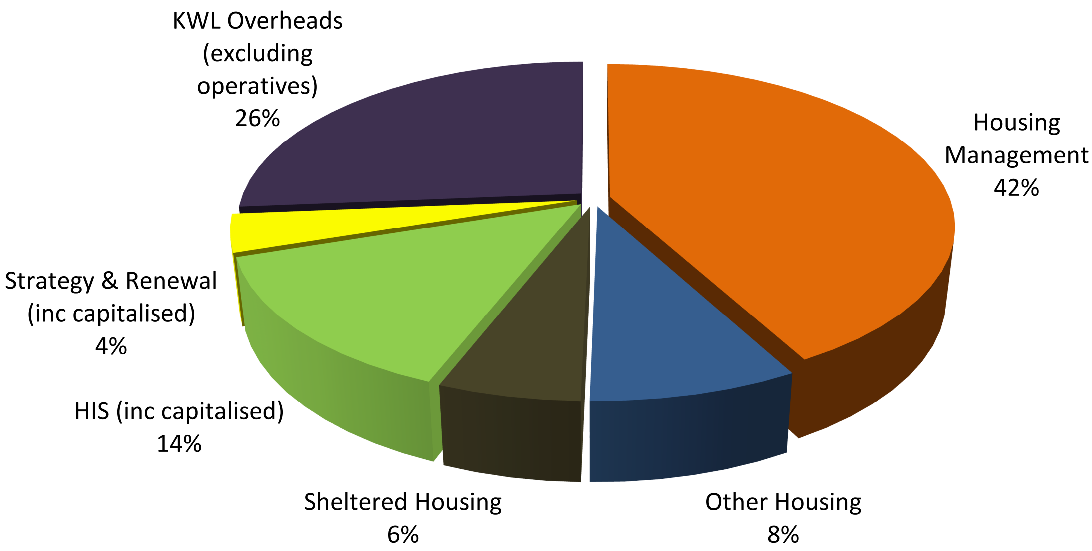
10.2 In terms of significant savings, the table blow highlights the most significant ones identified during this year

	£ k
Staff - 5.3 FTEs last year – a further 8.8 FTEs this year	229
Recharges savings	262
Utilities supply costs	111
Property costs	25
R&M / footpaths / streetlighting savings	619
Various other small savings	145

10.3 Further savings will flow from the Housing Review, along with others that emerge through the more traditional routes during the year.

Overall staff numbers and changes

10.4 The table and diagram below shows the disposition of staff charged directly to the HRA compared to 2016/17.



Longer term changes in staff numbers

10.5 Annex 15 shows a detailed breakdown of staff changes but since 2009/10 directly employed HRA staff have reduced by 90.4 FTEs (or 20.9% which compares with stock loss of 11.8% over this time).

Cost pressures

10.6 There are a number of cost pressures identified which have been taken account of in the budget proposals. Not least of these is that we are experiencing a significant increase in the number and value of disrepair claims compared with two years ago. Additional costs of £125k have been included in the budget as a consequence.

10.7 We are aware of the return to the market of “claims farming” companies with periodic advertising campaigns directed at Hull tenants. Whilst there have been significant increases to date we have not yet been unable to cope in time. Whilst we will robustly defend claims where possible this is not always possible or cost effective. The bill of costs where we settle can be substantial – in some cases approaching £10,000.

10.8 In addition, proposals to charge Council Tax on all empty properties (not just those over 28 days empty) have added costs of £176k and ongoing maintenance of properties in former Gateway areas prior to demolition is an identified pressure of £194k.

10.9 No net additional cost has been included for the Apprenticeship Levy – whilst the rules around how this may be used are yet to be clearly understood it is anticipated that existing training budgets could be re-focused to absorb most of the spend. Any net cost would fall on the overall contingency which is designed to accommodate issues of this nature.

10.10 The report identifies a number of issues around welfare reform, each of which bring with them short to medium term cost pressures:

- Universal credit requires us to process cash receipts & comes with significant paperwork to process from DWP.

- Additionally – as the number of tenants in arrears increases whether through UC or other benefit changes (or just general economic conditions) – we have an additional need to engage with those tenants in regard to arrears

- Reviews of fixed term tenancies – and the requirement to only offer FTT, expected from Autumn, places additional burdens on the frontline staff.

- Depending on the nature of the Regulations we may have properties where offering FTT is difficult should this be explicitly tied into incomes.

10.11 In dealing with some of the changes – and the ongoing Housing Review – there is an expectation of the need for temporary support staff alongside additional investment in the ICT infrastructure. Additionally some changes to Policies may require formal consultation with tenants.

Housemark Benchmarking

10.12 The Council is part of the Housemark benchmarking club, which allows the Authority to compare our costs and performance against other housing providers.

10.13 HouseMark is the pre-eminent independent benchmarking tool in the Housing sector and is jointly owned by the Chartered Institute of Housing and the National Housing Federation.

10.14 Data from the most recent survey undertaken is shown:

			compared to all England		compared to organisations with >15,000 properties	
Cost Measures	**2014/15**	**2015/16**	**2014/15**	**2015/16**	**2014/15**	**2015/16**
Total cost per property of housing management	£327.40	£334.11	1	1	1	1
Total cost per property of lettings	£77.47	£79.57	3	3	3	3
Total cost per property of arrears/rent collection	£100.76	£104.86	1	1	1	2
Total cost per property of tenancy management	£87.01	£89.96	2	2	2	2
Total cost per property of resident involvement	£20.83	£20.05	1	1	1	1
Total cost per property of anti-social behaviour	£41.33	£39.67	1	1	1	1
Total cost per property of estate services	£127.26	£122.16	2	2	2	2
Total cost/prop. of major works & cyclical maint.	£1,422	£1,394	2	2	2	2
Total cost per property of repairs and void works	£647.07	£673.60	1	1	1	1

Key	
1	upper quartile (top 25%) [i.e. cheapest]
2	upper middle quartile (top 50%)
3	lower middle quartile bottom 50%)
4	lower Quartile (bottom 25%) [i.e. most expensive]

10.15 Further details including KPIs are shown in Annex 24.

10.16 As can be seen from the above, based on all the 190 respondents, we can see that the management costs of the service are first or second quartile, with the exception of the lettings process, which will be explicitly considered over the coming year.

Further savings

10.17 As highlighted in the report, the financial pressures are such that additional savings will be required. All aspects of housing cost will need to be reviewed in the light of the changing nature of social housing to realise these. However, other than the letting process highlighted above we are already demonstratively cheap, and therefore the scope for significant savings is likely to be constrained.

11 Repairs and Maintenance costs and savings

11.1 The proposed budget compared to the current year is shown below: This includes a commitment of £1 million savings to contribute to the challenges ahead.

	Current Budget 2016/17 £'000	**Proposed Budget 2017/18** £'000	**comments**
Day to Day Repairs	5,885	5,720	Monitoring shows spend within budget which is consistent with previous years.
Relet repairs	5,085	4,675	Assumes continuing trend for a reduced number of voids in 2017-18 at 1,900 (2016-17 budget 2,100) at an average cost of £2,300 plus allowance for small void and home standard works.
Gas Servicing and Heating Repairs	2,425	2,295	Allows for 21,500 gas services and on demand repair plus additional 3,000 services through 10 month cycle. Significant reduction in appliances and falling stock numbers should support savings in 2017-18.
Planned / cyclical repairs	2,962	2,636	Savings on painting programmes through extension of cyclical programme and savings on street lighting repairs
Other Mechanical, Electrical and Specialist Repairs	897	805	Mainly reflects savings on controlled entry and communal areas.
KWL Overheads	4,592	4,467	Assumed reduction taking into account reduced overall work
Sundry other costs	85	329	Redecoration, compensation & legal disrepair plus costs of securing properties for demolition in former gateway

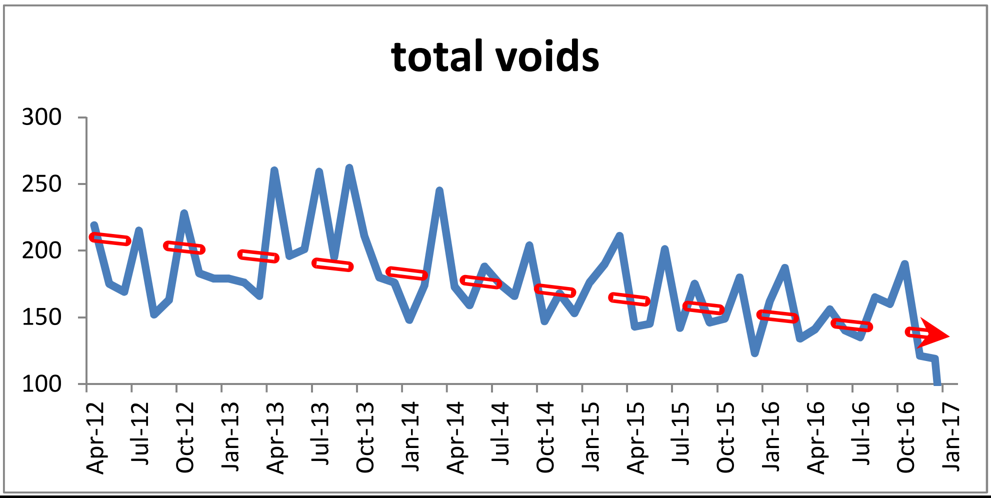
	Current Budget 2016/17	Proposed Budget 2017/18	comments
	£'000	£'000	
			areas.
Contingency	500	500	Provision for unforeseen pressures, unexpected defects in properties, bad weather etc. of c £20 per property
Provision for redundancy costs	0	1,000	Provision - indications are that the main contractor KWL may need to make some redundancies, the costs of which contractually could fall on the HRA, awaiting detail from KWL.
	22,431	22,427	

11.2 Given the overall changes in the housing environment greater care will need to be made in determining whether we repair individual properties and if so to what standards. There are already pockets of properties with lower demand and the changes will see – we expect – demand for larger properties to reduce.

11.3 Within this context individual properties that fall void will need to be assessed prior to sending to the contractor to complete the work automatically.

Voids

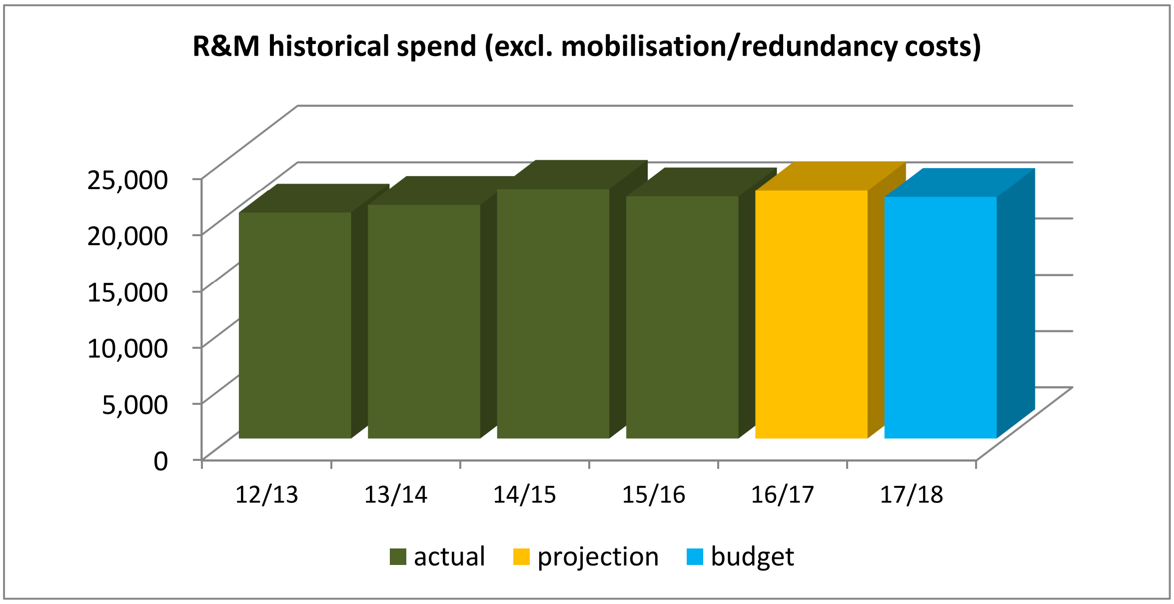
11.4 Overall the recent trend in monthly voids has been as shown below:



11.5 However, we expect the numbers of voids to increase in the longer term as we expect the cumulative impact of the benefits cap, alongside the sale of high value properties, to increase the overall churn of properties.

Historic Spend

11.6 The graph below shows the historic spend compared to this year's projections and the 17/18 budget figures. As can be seen, overall there have not been dramatic changes in the level of spend.



12 Capital Spend and Depreciation

Capital programme

12.1 We are continuing to engage with the HCA, our major funder, to explore any new build opportunities that they may support by way of grant, or any schemes to bring empty properties back into use. These will be reliant upon sufficient grant being available to make them financially sustainable so as not to produce a further drain on HRA resources. These include an expansion of the new build scheme, the refurbishment of Cherry Hinton Court and a programme of acquiring and refurbishing long term empty properties. These are included as indicative figures within the budget and actual schemes commencing are subject to them passing tests on affordability as they progress.

12.2 The capital programme for the next year is shown at annex 4, together with details of how this is to be financed. In summary the programme for next year is:

	Current Budget 2016/17	Proposed Budget 2017/18	change	
	£'000	£'000	£'000	%age
Capital Spend				
Decent Homes[27]	11,709	8,152	(3,557)	-30.4%
Mechanical & electrical (inc. asbestos)	3,340	3,381	41	1.2%
KWL overheads	2,250	2,000	(250)	-11.1%
Others (inc. client costs)	1,400	1,400	0	0.0%
Estate environmental	0	0	0	
Council House Adaptations[28]	2,750	2,750	0	0.0%
Empty Properties[29]	2,900	250	(2,650)	-91.4%
Regeneration (inc. demolitions)[30]	3,608	1,636	(1,972)	-54.6%
Base Programme	27,957	19,569	(8,388)	-30.0%
Cladding[31]	9,411	9,489	78	0.8%
New build[32]	10,719	14,602	3,883	36.2%
New Build/Empty properties – subject to affordability[33]	0	8,284	8,284	
Sale of High Value Properties - levy[34]	0	0	0	
TOTAL EXPENDITURE	48,087	51,944	3,857	8.0%

[27] These costs are based on decency to be maintained going forward but the programme is essentially a reactive programme taking action where items are failing. Programme delivery at this level would keep properties in a reasonable state of repair but would not meet any aspirational standards and would not prevent further decline in areas that are already showing signs of stress or failure. Failure to replace some elements on a planned basis will also result in pressure on responsive repair budgets. Some essential planned work will also be carried out only to prevent elemental failure, such as boiler replacements.

[28] To be reviewed as part of the overall Housing Review process. See 1.26 to 1.29

[29] The Empty Properties programme, funded by the HCA in the main, has now come to a conclusion.

[30] Final phases of the Preston Road demolition programme, alongside sundry demolitions

[31] See 14.19 to 14.21

[32] See 14.1 to 14.8 & 14.13

[33] As expressed at 12.2. these are subject to external funding. See also 14.9 to 14.12

[34] Implementation of this has been delayed by one year as a minimum at this stage, with the possibility that it might never be implemented. The current projections assume that it will come into force in 18/19 at a base level of £1m per annum. The amount is – and until we have seen detailed Regulations will remain – indicative.

12.3 The White Paper "Fixing our broken housing market[35]" was published on 7th February 2017 and further updates will be provided to Members as they become clearer.

12.4 The paper has 4 themes

- Planning for the right homes in the right places
- Building homes faster
- Diversifying the market
- Helping people now

12.5 We are particularly mindful of the intentions in the white paper relating to older people and are keen to explore any opportunities for this segment of society, alongside any opportunities that may emerge in line with Government funding streams in future and as our own resources allow.

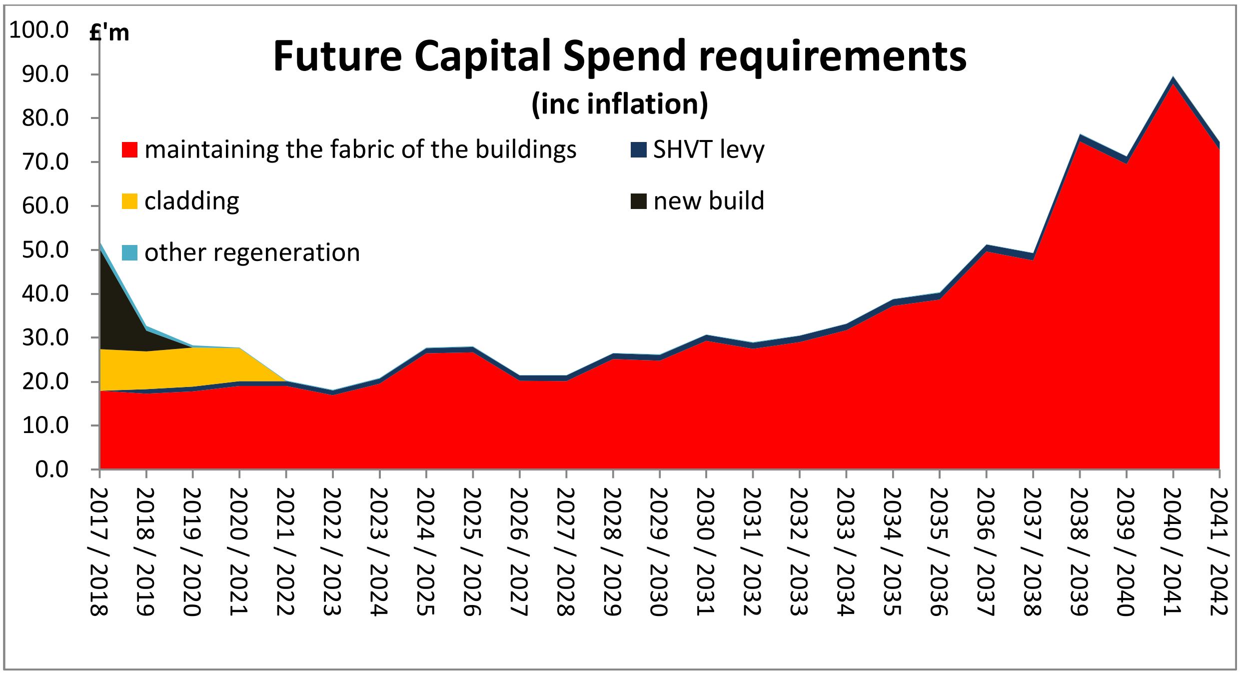
12.6 The Self Financing proposals and associated technical changes mean that we have to directly charge depreciation and impairment to the HRA whereas in the past these charges were in effect reversed out below the line and replaced with the Major Repairs Allowance ("MRA") figure.

12.7 We are legally required to have a Major Repairs Reserve to provide the resources to maintain the value of the housing stock over time. This fund is available to the Authority to pay for capital expenditure on HRA assets, or to repay borrowings.

12.8 Depreciation charges are, however, assumed and likely to be in accordance with the overall projections over the medium term as it is the intention to align them to the need to spend. The revised MRA (up-rated for inflation) has been used as a proxy for depreciation in this modelling. This is a five year transition period to allow authorities to become used to the changes (2013/14 being the first year).

12.9 Spend on capital in future years is particularly ''lumpy'' with the graph below showing, after allowing for inflation, the likely overall indicative capital spend of the HRA.

[35] https://www.gov.uk/government/publications/fixing-our-broken-housing-market



12.10 The underlying growth in anticipated spend, especially in the 2030s onwards, is a reflection of the need to replace elements renewed as part of the decent homes programme.

12.11 However, this assumes that we will continue to maintain properties to the extant decent homes standard, and whilst there have been no announcements, it is clear that in the light of overall resource reductions standards into the future must be addressed both at a national and at a local level.

<u>Standards/ Asset Management Strategy</u>

12.12 In light of the forthcoming changes to funding, alongside the likely changes in tenant mix (and expectations) a thorough review of standards we can afford to provide will need to be undertaken.

12.13 Moreover, especially given the tightening of finances generally and the need to raise receipts to finance the sale of high value properties levy (the amount of which is as yet unknown but is likely to be substantial) considerably more though needs to be given to which properties are retained and which are sold to generate receipts.

12.14 The current version of this budget assumes £1 million per annum is required to be raised with a concomitant 25 properties sold per annum in addition to Right to Buys to fund this but we have currently no information as to how central Government will apply the levy and how the calculations will be undertaken. Data on our £1.3 billion of stock was submitted to CLG just prior to Christmas 2015 with an update submitted on changes in December 2016.

13 Decent Homes and ongoing schemes

Decent Homes

13.1 The numbers of properties that do not meet the Decent Homes Standard has been falling over recent years such that now approx. 1.1% of properties fail the standard (2.3% two years ago). It will always be the case that there are some properties that fail given the size of our stock.

13.2 The level of refusals remains significant in some areas of work – where there are health and safety aspects to the work it is likely that a court would grant us access to undertake decent homes works if the tenant continues to refuse access, a new access process is in place to achieve this. In other circumstances we may very well gain access but the costs of enforcement action are high and therefore we balance the need, the likelihood of the property becoming vacant and dealt with through voids and the costs of gaining access. In these cases works are undertaken when either the tenant changes their mind and consents (in some cases refusals are around specific circumstances, for example illnesses) or when the property becomes void.

13.3 Members will observe that the overall value of this work will reduce over the coming year – in the main this is a consequence of the nature of the work undertaken with Decent Homes work being cyclical – for example we have undertaken most kitchen replacement works over the last 5 or so years, meaning that it will be another 20 years before the programme picks the replacements up.

13.4 As this represents, along with changes to repairs and maintenance costs, a reduced, although broadly expected, change in the value of work allocated to KWL from last year, the company is looking to recharge their redundancy costs to the HRA. The extent to which this is allowed by the contract is unclear and we will resist such claims if this is possible. Whilst these numbers have not been finalised a provision of £1 million has been included in the HRA budget at this time, subject to a contractual agreement with KWL. It is hoped that these costs can be avoided. Inclusion is on a without prejudice basis on the grounds of prudency.

13.5 The budgets are constructed solely based on the work that needs doing for each property based on the extant information we have on that property – in some cases as we inspect properties it will become apparent that work is not needed and the programme will be rescheduled accordingly, and in some cases work will be picked up earlier if a property becomes void or tenants make a repair request and the work is deemed appropriate at that time.

13.6 The modelling undertaken for future years is indicative based on broad assumptions around future resources and whilst Hull will continue to seek alternative sources of funding to support stock investment, the current financial climate severely limits our ability to tackle all identified needs and it has become essential to review and clarify our short term spending priorities.

13.7 The modelled programme continues to support the key priorities of;

- Health and safety
- Funding approved demolitions
- Maintaining Decent Homes
- Eliminating long term voids
- Funding disabled adaptations

The Delivery Standard[36]

13.8 The proposed capital budget supports the fiscal landscape (and thus realises some savings) by maintaining decency with appropriate adjustments made to lifecycle replacements and the continued allowance of annual programmes of work to sustainable levels. Minor changes to the delivery standard are summarised below.

13.9 **Kitchens and bathrooms:** In previous years the flexibility in the programme has been around the affordability of planned elemental renewals above the Decent Homes Standard. The Governments Decent Homes Standard only allows for bathroom replacement when a kitchen or bathroom in a property fails the standard, but in previous years additional funding has allowed the replacement kitchen standard of replacement at 30 years regardless of the condition or age of the bathroom. Moving forward it is proposed that the Government's standard is adopted and kitchens will be replaced when they fail decency, subject to survey. As with previous programmes there are no planned programmes for bathroom replacement, but individual bathrooms are replaced when they fail an agreed standard of repair.

13.10 **Heating:** Over the last few years resources have allowed us to change boilers according to lifecycle. Life cycles have been reviewed and some of the more reliable boiler lifecycles have been extended by 2 or 3 years. The level of provision for responsive failures will remain the same and previous refusals will continue to be picked up when properties become void. Although some lifecycles have been extended the annual sharing of workload across the years is applied to avoid peaks and troughs.

13.11 **Roofing:** Planned roof replacements are undertaken based on age and condition determined by surveys. The proposed programme

[36] A detailed list of inclusions and exclusions is included within the Glossary attached to this report.

extends the delivery of properties currently identified for a roof replacement from 1 to 2 years. The worst properties will be programmed first minimising any health and safety issues. Future planned programmes will continue to be determined on condition following surveys.

13.12 The provisional programme is likely to change when the full impact on the HRA of the Welfare Reform agenda becomes clearer and available budgets are finalised. The agreed priorities will inform programme adjustments and the programme will be finalised through the annual HRA budget setting process.

13.13 To the end of 2016/17, around £342 million of Decent Homes work has already been undertaken with an additional £203 million spent on revenue repairs and maintenance.

Adaptations

13.14 The adaptations budget has remained fairly static over recent years and we have now reached a position where roughly 1 in 4 of our properties has been adapted in some shape or form.

13.15 Recognising that there is a potential for savings inherent in this budget one of the work streams in the Housing Review is looking at the policies and procedures around adaptions, also where we are giving medical priority to move from existing adapted to non-adapted properties. At the current point, legal advice given as part of the last Lettings Policy review is being revisited in relation to the adaptation of existing tenants' properties and the allocation of adapted properties and also un-adapted properties for subsequent adaptation with a view that Counsels opinion will be sought.

13.16 Whilst that work is undertaken no assumed changes in the overall adaptations budgets have been assumed.

14 Regeneration schemes

New Build

14.1 Members will recall that the overall number of new properties to be built by the Council was scaled back significantly as part of last year's budget in line with the changes to funding regimes over the preceding 18 months or so. This led to a decrease from the 414 dwellings originally planned to a revised total of 281 across all years. In addition a scheme to develop 8 bungalows was also being considered.

14.2 The current Council programme includes delivery at four sites in the Preston Road area and one on Orchard Park. Delivery through partnerships is ongoing in Newington and St Andrews and Ings.

Preston Road

14.3 Ganstead: The final 67-unit phase of four phases is now complete with only Highways works remaining. This is the first scheme under the Citywide lead developer partnership and has been delivered by Keepmoat Regeneration.

14.4 Southcoates Lane: Start on site for this 162 unit mixed tenure development was achieved in early January. Keepmoat Homes will deliver 127 homes for sale and 35 homes for affordable rent for the Council on the former factory site.

14.5 Portobello: A total of 142 affordable homes will be built on the site, including 49 for Home Group and 93 for the Council. Works commenced in July 2016 and is scheduled to complete in March 2018.

14.6 Maybury Road: Strata Homes, as part of the citywide lead developer partnership, will deliver 55 homes for sale on this site. Works commenced in July 2016 and will complete at the end of 2018.

Orchard Park

14.7 Milldane: Phase 1 of Milldane started on site in June 2016 and will complete by March 2018. A total of 86 Council homes will be developed including a mix of 1 bedroom flats and houses and 2 bedroom houses.

Ings (Together Housing, formerly Chevin)

14.8 Phase 3b of the Ings Lead Developer Partner programme commenced in July 2016. 83 affordable housing units will be built by Compendium/Lovell for Together Housing.

Future new build

14.9 Members will be aware, as part of the Strategic Pause in 2015/16 the second phase of Orchard Park was discontinued as it was unaffordable at that point. In the meantime we are continuing to explore with the HCA whether more significant levels of grant may be available for a future new build programme. These discussions are presently at an early stage and the level of grant we have requested at present is considerably higher than that which we have previously received. Schemes will continue to be evaluated against affordability criteria as they are conceived and we will continue to explore the maximum grants we could obtain from the HCA or any other sources.

Empty Properties

14.10 Following a review of the empty homes programme in 2016, the programme has been scaled back due to increasing costs and the rent reduction making the programme financially unviable. Should this change – either because additional grant is available or the costs of works reduces – then this programme may be re-invigorated. However, this will only take place where the financial appraisals can justify the schemes.

14.11 The council continues to explore a mix of HCA funding and Local Growth Fund monies to bring back into use long term empty properties. Considerable attention will need to be paid both to the costs of undertaking works and to the grant levels that might be available to ensure that any properties included in this programme are financially viable.

Cherry Hinton

14.12 The Council is currently exploring a bid to the HCA for refurbishment of this property. This would involve a significant increase on the grant provided for similar schemes in the past.

Bungalows

14.13 The Capital programme contains provision for the construction of 8 bungalows at the site of the former Viking public house just off Shannon Road[37].

Newington and St Andrews (Places for People and Pickering and Ferens)

14.14 Keepmoat Homes, the appointed developer partner for Newington and St Andrews, continue to deliver affordable and market housing in the Hawthorn Avenue area and at the former Riley College site. At Hawthorn Avenue East works are progressing to deliver 40 new bungalows for Pickering and Ferens Homes and 46 new 2 and 3 bed homes for Places for People.

Lead Development Partners

14.15 There are presently two lead development partners operating in the City. Firstly Cabinet on 24th November 2014[38] agreed the appointment of the Keepmoat, Strata, Home Group, Priority Space ("KSHP") consortia as Citywide Lead Developer Partner.

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[37] Cabinet on 26th September 2016 (minute 41) approved the procurement route for the developer

[38] Citywide Lead Developer Partner, Cabinet 24th November 2014

14.16 The future lead developer partner programme is expected to generate a long term capital land receipt for the Council in addition to New Homes Bonus income. The (non HRA elements of the) current renewal programme for the Preston Road focus area is in part, forward funded on the basis of new homes bonus receipts generated as a result of development in the area.

14.17 Additionally, the Council has recently been awarded £10 million Local Growth Funding from the Humber LEP for use on regeneration projects, £4.5 million of this will be used to gap fund sites that may present a negative residual land value as a result of various factors including abnormal costs such as flood risk mitigation, abnormal ground conditions or lower than average sale prices for housing. Local Growth Funding is geared towards continuing the momentum of the Council's current regeneration investment plans in the city and is predicated on employment and economic growth outputs which this opportunity would provide. Whilst this funding is not directly HRA it will facilitate the development of sites which include HRA properties as part of the overall mix.

14.18 Secondly, Compendium has been appointed as the Lead Development Partner for the Council for the Ings area for the development of up to 770 new homes in a mix of tenures.

Environmental Works (Solid Wall Insulation)

14.19 The Council has appointed Fortem (formally known as Willmott Dixon Energy Services) following a procurement exercise for Green Deal and associated environmental works. Since that procurement exercise commenced the Government has ended the national Green Deal scheme but we still have access to Energy Company Obligation (ECO) funding and a small amount of energy company redress monies to undertake external solid wall insulation works. Again, planning for these works has been affected by the underpinning changes to the overall fiscal environment with a review of the works and timing having been undertaken.

14.20 The currently revised plan is set out below. The viability of works to the Bransholme Caspons, Spooners, Wimpey No Fines outside of Orchard Park, and Calders will be reviewed as part of the Asset Management Strategy review. Those elements amount to around half the total scheme costs.

	properties	overall cost (all years)	each	Remaining Cost
Contractually committed				
Preston Road Wingets	288	£5,753,117	£19,976	£600,000
Orchard Park Thorpes HCC	401	£4,074,470	£10,161	£0

	properties	overall cost (all years)	each	Remaining Cost
	689	£9,827,587		£600,000
Committed				
Balance Orchard Park and Greenwood Wimpey No Fines Danes/Courts HCC	758	£7,801,336	£10,292	£7,801,336
5M's	53	£1,027,919	£19,395	£1,027,919
	811	£8,829,255		£8,829,255
To be reviewed				
Bransholme District and Roebank Caspons	504	£8,542,800	£16,950	£8,542,800
Spooners	286	£3,943,527	£13,789	£3,943,527
Wimpey No Fines	442	£4,881,208	£11,043	£4,881,208
Calders	58	£1,211,089	£20,881	£1,211,089
RatTrads[39]	1,248	£6,240,000	£5,000	£6,240,000
	2,538	£24,818,624		£24,818,624
	4,038	£43,475,466	£10,767	£34,247,879

14.21 This is based on the current programme and will be refined.

15 Sale of properties, Right to Buys and Capital Receipts

Sale of high value council housing

15.1 Housing association tenants have had the statutory ‘Right to Acquire’ their home at discounts of up to £16,000 since 1997. The new proposals suggest that discounts of up to £77,900 (outside London) may be possible for housing association tenants, if the government fully aligns the discounts with those offered to council tenants. To pay for the scheme, the government plans to raise up to £4.5 billion from the sale of high value council owned homes once they become available.

15.2 As the Housing and Planning Bill (now the Housing & Planning Act 2016) progressed it become apparent that the Government will impose a levy on Local Authorities based on what we are expected to raise, although the bill also includes the clause that

[39] Not part of Fortem contract scope – would need to be tendered separately.

'The regulations may provide for assumptions to be made in making a calculation, whether or not those assumptions are, or are likely to be, borne out by events.'

15.3 We also have a duty imposed upon us to consider the sale of all high value properties that become vacant.

15.4 However, the national roll-out of Right to Buy for housing association tenants will not take place until after April 2018 at the earliest, with the sell-off of high-value council homes also delayed. In the meantime, in the Autumn Statement, the Chancellor announced that there will be a regional pilot (funded from HCA funding) during 2017/18.

15.5 At this stage the definition of what is High Value and how much of that we might be expected to sell annually has not been published. Indeed given the hiatus it may be that this is never enacted. When the original policy was proposed the factors being taken into account were regional house prices which had minimal effect upon Hull. However, it is clear that this position no longer appertains and that the definition is likely to be at a more local level. To that end we can conclude that there may need to be some payment to CLG and that that payment may be significant.

15.6 As at 31/3/15 the open market value of all our properties – that is the value of a sale with no sitting tenant – was assessed as £1.277 billion, although that value assumes a steady property market and should the levy be significant that could, in of itself, destabilise the housing market and affect values.

15.7 For the purposes of future business planning an estimate of £1m per annum has been used to calculate the possible impacts but at this juncture it must be stressed we have no indication. £1 million is based on all properties valued at £93,500 and above assuming an average of a void every ten years.

15.8 **This is a material risk, and is included in the risk register at annex 25.**

General Receipts

15.9 Given the requirement to generate sales – i.e. receipts – from the sales of high value council properties allied to the likely implications on the longer term sustainability of some stock in the future, it seems likely that we will be required to sell a number of properties as they become vacant. How many will be required is not a determinable number at this point.

15.10 Future projections are based on selling sufficient properties to generate the assumed levy but should the levy be higher, then the number of properties sold would need to increase. At present the volumes assumed would be unlikely to materially impact upon the wider housing market but the potential exists that sales volumes could be market distorting.

Right to Buy sales

15.11 Changes to the Right to Buy process were implemented by national Government from 1st April 2012 with the maximum available discount increasing from £24,000 to £75,000, increasing by inflation each subsequent year (now £79,000). This has seen an increase in the number of properties sold under RTB. Use of the proceeds of sales above the Government assumed level for Hull of 73 for 2017/18 is prescribed with debt on the sales to be paid off first.

15.12 It should be noted however, that the Government announced changes to the RTB scheme, which may have an impact on the number of properties sold in the future. The key changes are as follows:

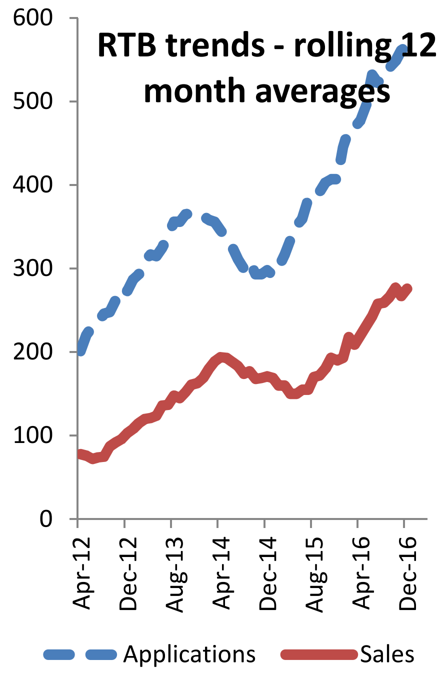
- The maximum discount for houses rose from 60% to 70% with effect from 21st July 2014;
- The maximum discount for flats remains at 70%;
- The maximum discount value of £75k will be subject to increase by CPI in future years – it is now £78k; and
- The qualifying period before a tenant is able to apply under RTB is to be reduced from 5 years to 3 years, introduced on 26th May 2015. Starting discounts at this point are 35%.

15.13 It should be noted that periodically – typically around twice a year – Government is organising mail drops in areas with high levels of council housing to encourage tenants to exercise the Right to Buy. Detailed information sent as part of their data capture for the Sales of Higher Value Properties allows them – assuming the data has been shared – to target this approach with considerable accuracy as they are in possession of the post codes of all national Council owned stock.

15.14 Net proceeds after this have to be used to support new build and we have elected to use the proceeds to partially support our new build programme in Orchard Park, and in Preston Road as well as supporting bringing Empty Properties back into use where they were previously not used for social housing. These RTB receipts cannot be used on properties where we receive HCA grant aid (either in whole or in part) which limits the extent to which they can be used.

15.15 On current projections we are likely to have potentially surpluses as there is no forward new build or empty homes programme in place, assuming no change to the regulations. The calculation is highly volatile, though, dependent upon actual property sales with individual property archetype calculations taking place.

15.16 A combination of Government publicity, the introduction of fixed term tenancies alongside what are likely to be falling standards in repair is expected to see a significant increase in RTB sales over the short to medium term, especially whilst interest rates remain historically low meaning mortgage costs are likely to be highly competitive (after discounts) compared to rent for those who are able to access mortgage finance.



15.17 The graph shows the recent trends in terms of applications and sales through RTB. Those applications that become sales typically take around 6 months and at present around half of applications result in sales but that proportion is steadily rising.

15.18 **This is a material risk, and is included in the risk register at annex 25.**

<u>Receipts only available for new build</u>

15.19 Following changes to Right to Buy discounts in 2012/13 the Council has an agreement in place with CLG that receipts for properties sold through RTB over and above Government expectations of sales under the previous discount regime are to be only used for new build (and that element can only fund 30% of the cost of new build, cannot be used to part fund properties where grant is received from the Homes and Communities Agency ("HCA") and must be spent within 3 years). The alternative was to forfeit such "excess" receipts to CLG for their distribution.

15.20 Given the underlying changes to the overall fiscal landscape and the fact that a number of our new build properties attract HCA grant, it is highly unlikely that we will be able to utilise all such receipts and amounts will need to be returned to CLG. In order to minimise the amount of receipt returned to the CLG and the reduction in affordable housing stock the Council will seek to provide any unutilised receipt to groups[40] providing affordable housing in-line with our strategic priorities and meeting a demonstrable need.

[40] This must be provided with the Hull CC boundary and be to organisations in which we do not hold a controlling interest. They can only be used for the provision of social housing & only count to the extent that the third party has actually spent them. Restrictions on not being able to use the money to part fund properties funded by HCA grant also continues to apply for these third party contributions.

15.21 A report[41] was presented to Cabinet outlining proposals such that where the Council is not able to make direct use of right to buy receipts, surplus receipts are in principle provided to community housing groups and housing associations in the form of a grant in line with the terms of the Department of Communities and Local Government (DCLG) grant conditions. This was approved.

15.22 In developing this scheme the Council will take into account a number of factors in allocating its surplus right to buy receipt to other housing organisations. Factors which the Council will take into account include the ability of the organisation to deliver the housing and that the terms set out by the DCLG for the usage of right to buy receipt are met. The detailed include but are not limited to –

- Strategic importance, alignment with Council priorities and housing need;
- Value for Money;
- Timeframes, deliverability and past performance;
- Planning status;
- Quality and Environmental standards; and
- Employment and training opportunities.

15.23 The funding would be allocated in a competitive and transparent way through the establishment of a framework of providers. Once on the framework organisations would put forward proposals for the provision of housing and how they would use the grant to achieve those aims. Crucially providers would sign an agreement with the Council to achieve the stated outputs and would be monitored by the Housing Service for compliance. Any grant provided would require a clawback mechanism that should the property cease to be used for its intended purpose that the grant would be returned. Clawback is essential should a provider fail to deliver, or should the property cease to be used for affordable housing.

15.24 Any receipts not used by the Council or the housing providers would need to be returned to the DCLG after three years. However, through the Council's new build programme and the scheme outlined above the amount of handback can be minimised.

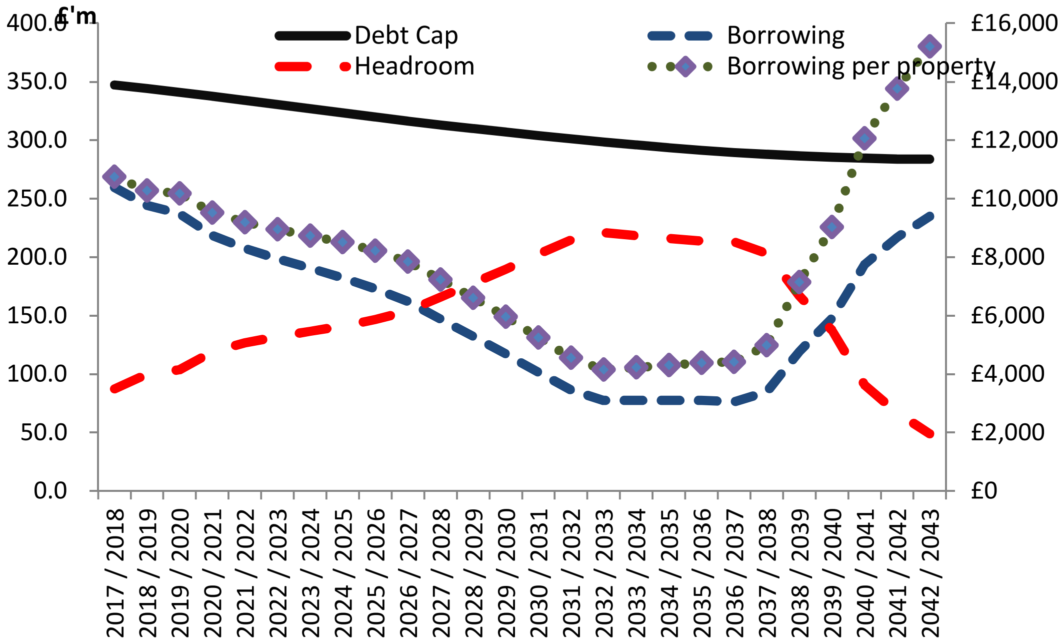
16 Borrowing and Debt Cap

16.1 Borrowing within the HRA is restricted in total through the use of a borrowing cap which was introduced as part of Self Financing. This sets out the maximum amount of borrowing the Council is able to take, and reduces as properties are sold through Right to Buy.

[41] Use of Right to Buy Receipts, Cabinet 26/09/18

16.2 Previously, the financial strategy was to repay borrowing unless and until funds were required to invest in new capital works (in essence the majority of this would occur when replacements were required for work undertaken under the Decent Homes Programme.

16.3 The assumed level of borrowing and the debt cap are shown in the graph below.



17 Demand for properties

17.1 As discussed throughout this report there are a number of issues which are likely to see changing demand for properties. The impacts of the Benefits Cap in particular, and the ongoing implications of the bedroom tax mean that 4 bedroomed properties will be virtually unaffordable to tenants on benefits. These are properties more typically let to larger families. Properties with three bedrooms will also be hit, although in most cases family sizes would mean tenants would get some – but crucially not all – their rent funded through Housing Benefit. Where tenants were not affected by the Benefits Cap then they would be affected by the Bedroom Tax.

17.2 Additionally the capping of Housing Benefit at the Local Housing Allowance commencing in April 2019 is likely to cause significant affordability issues for tenancies in multi storey flats in particular.

17.3 Personal finances for those affected will most likely see a relatively significant increase in demand for cheaper, smaller properties.

17.4 It is impossible to quantify what these implications might be at this juncture – until we have experience of how tenants react to this multiplicity of complex and inter-related changes there is no basis on which we can reliably extrapolate. However, it does seem likely to be the case that demand for smaller properties will increase and demand for larger properties will fall.

17.5 The make-up of our stock at 31st March 2016 was:

	Flats	Houses & bungalows	Specialist housing	Total
bedsits	102			102
1 bedroom	3,262	2,487		5,749
2 bedrooms	2,089	6,812		8,901
3 bedrooms	222	8,595	4	8,821
4 bedrooms		1,059	4	1,063
5 bedrooms		101		101
6 bedrooms		7		7
7 bedrooms		1		1
	5,675	19,062	8	24,745

18 Property changes

18.1 Overall property numbers are consistently declining by around 1.5% per annum through a mixture of demolitions, right to buy sales and other changes. The table below shows changes since 2010[42]

	Stock @ 1 Apr	Demolished	Combined into Another Dwelling	Leased	Sold	Transferred	Converted to non-residential	New Build / Acquired / Brought back into use	Stock @ 31 Mar
2009/2010	27,732	-264	-2	-11	-81			4	27,378
2010/2011	27,378	-21	-3	-11	-54	-1,243		3	26,049
2011/2012	26,049	-56	-13	-11	-67	-16	-1	54	25,939
2012/2013	25,939	-110		-19	-100		-1	28	25,737
2013/2014	25,737	-254		-15	-177			56	25,347
2014/2015	25,347	-245	-9	-17	-143			41	24,974
2015/2016	24,974	-111	-13	-21	-188		-1	105	24,745
	27,732	-1061	-40	-105	-810	-1259	-3	291	24,745
		-3.8%	-0.1%	-0.4%	-2.9%	-4.5%	0.0%	1.0%	

42 In January 2016, Inside Housing reported that the number of council-owned homes has dropped by more than 10% in six years, with a 1.9% decrease since last year. The latest figures from the Department for Communities and Local Government reveal there were 1.61 million council-owned homes in England and Wales in 2015/16, compared with 1.64 million last year. This is a steep drop from 2009/10, when there were 1.8 million council-owned homes, and this number has been decreasing ever since. The government said this was largely due to Right to Buy sales. There were 12,220 homes sold through Right to Buy last year.

18.2 Average stock loss is thus 1.5% per annum.

18.3 In a normal year we would expect to see around 150 - 170 Right to Buy sales and 5 – 10 demolitions take place but the scale of change we face over the foreseeable future mean that this will clearly not be the case in future. As the changes are unprecedented it is impossible to predict with any certainty what changes will be but, in order to construct some future projections the following assumptions have been used;

Right to Buy sales

18.4 As set out in section 15.10 to 15.17 above our sales levels have been historically low over the last few years with changes to RTB rules showing through in noticeable increases in sales. Increases in the maximum discount from £24k to £75k in 12/13 have seen more than a doubling of sales in that period alone.

18.5 Whilst we do not feel that sales will reach peak levels of recent times – sales reached 1,200 per annum in 2003/04 – it is more than possible that sales will revert back towards their historical average of 500 per annum.

Voluntary disposals

18.6 In order to raise sufficient funds to meet the receipts target for the sale of higher value properties from 2018/19 it has been assumed that we will need to sell approximately 25 properties per annum and this has been modelled into the future projections. Should the amount required to be paid to CLG be higher, then there will need to be a commensurate increase in sales volumes.

18.7 Sales of properties generate receipts and thus assist with financial pressures in the short term but the loss of income typically outweighs the savings in costs in the longer term thus making the fiscal situation worse where there is sustainable demand for the properties. Given the need to generate receipts to pay CLG monies based on their assumptions for the sale of high value properties we will have little or no choice in reality.

18.8 As covered earlier in the report, implementation of the policy has been delayed and it is possible that this may never be implemented. However, Members should be cogniscent of the fact that the value of properties nationally is significant (£1.3bn in Hull alone) and access to realising some of this will be tempting for national Government.

Demolitions

18.9 In the ongoing climate it may be that there are properties with ongoing demands that render them unsustainable.

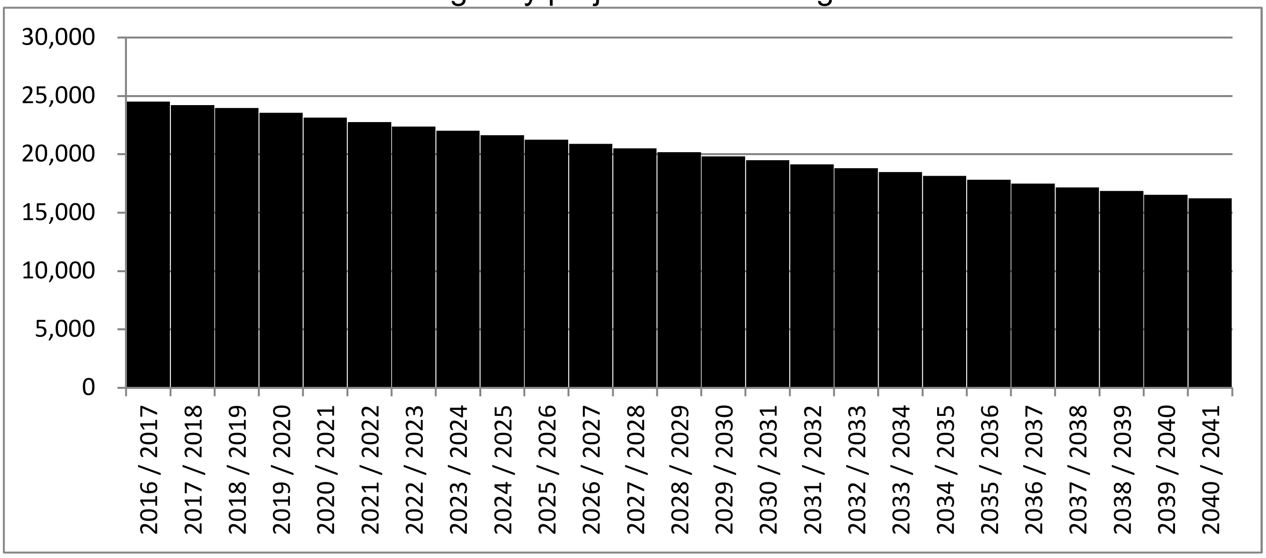
18.10 The modelling for future years, however, assumes that this is not the case and that the underlying level of demolitions remains at 10 per annum. It does – however – assume that the level of voids will be higher (as covered in section 11).

18.11 In reality it would not be sensible or prudent to allow a bank of void properties to build up and therefore where this appears to be the case detailed options appraisals will need to take place on each such property to determine whether it has a future or whether it is more appropriate to demolish, sell or convert.

Conclusions

18.12 Given these numbers it is not unreasonable to conclude that – should these changes persist for any period of time - then the stock could be 5,000 to 10,000 lower than at present within 5 to 10 years.

18.13 The current budgetary projections of changes over time are:



18.14 These projections are, however, inexorably bound up with the numbers of Right to Buys exercised and the number of properties that need to be sold to fund the Government Levy.

19 Link to General Fund proposals

19.1 Annex 23 sets out in detail the recharges that come from the General Fund to the HRA.

19.2 There is likely to be a substantial impact on the General Fund in relation to Welfare Reform changes, the most material of which are set out earlier in this report at section 8.

20 Policy Implications

20.1 A raft of policy changes are being considered as part of the wide ranging Housing Review. Some of the most significant aspects, with budgetary implications, are covered below.

Lifetime Tenancies

20.2 As set out earlier in this report, the Government intends that it will no longer be legal to offer Lifetime Tenancies in general to new tenants and that succession rights (except to spouses or partners of deceased tenants) will also follow this path.

20.3 Our current policy is to offer Lifetime Tenancies to new tenants except in very limited circumstances where we hold a property on short term lease. Given that this will be illegal if the Housing and Planning Bill is passed Policy will need to be amended.

20.4 Under the terms of the bill any tenancy which is purported to be let as an “old style” secure tenancy will be deemed to be a five year fixed tenancy by default.

Lettings Policies

20.5 This Policy will require a thorough review to align our allocations proposals to prospective tenants’ ability to service the rent. Additionally Policies dealing with succession, assignment, left in occupation, mutual exchanges and direct lets will require amendment and potentially Council approval in due course.

Homesearch

20.6 Policies in relation to:

- Allocations;
- Eligibility Criteria;
- Local Connections Criteria;
- Numbers of permissible bids; and
- Refusals

are also under review, with an aim to have reached conclusions by Autumn 2017.

Arrears and Financial Policies

20.7 Policies in respect of arrears and possession orders will also require to be amended as will policies covering permission for improvements and tenants right to compensation and removal of adaptations. This is likely to have come to initial conclusions in the Summer of 2017.

20.8 Additionally policies appertaining to Tenancy Fraud will also require review.

Payment Policies

20.9 Initiatives to increase the take up of direct debits are being considered alongside whether there is scope to increase the flexibility of when payments are taken. This is likely to have come to initial conclusions in the Summer of 2017.

Adaptations

20.10 Allocations of adapted properties are also being reviewed.

Staff awareness and training

20.11 However, it is not just the changes to Polices that are required but this will need to encompass a significant amount of staff training and awareness raising as many of these changes will present a different way of working compared to present.

21 Options and Risk Assessment

21.1 Setting a budget is a legal requirement, and the budget must be set between 1st January and the last day of February[43].

22 HRA Risks

22.1 In the light of the changes introduced commencing with the Summer 2015 Budget and culminating in the Autumn Statement of 2016, the level of inherent risk in the HRA budget from Government Policy changes is now substantially higher than was previously assumed to be the case.

22.2 For that reason the assumed minimum level of required HRA reserves that must be held to reflect this is higher than was previously assumed.

22.3 Moreover, the scale of savings required in the HRA as a consequence are highly significant and implementation of such proposals as contained within this report and the associated savings that will need to be made in future years is thus a significant series of risks. Moreover, reductions in standards of maintenance (both capital and revenue) expose the HRA to substantial risk with regard to the incidence of disrepair claims from tenants.

22.4 Given the complex interaction of a number of different restrictions on benefits how individual current and future tenants will react to the

[43] s76(2) Local Government and Housing Act 1989

multiplicity of changes is impossible to predict at this time. These behavioural changes may – in of themselves – have profound implications for the HRA and it may be that they manifest themselves suddenly and in unexpected ways.

22.5 Risks are outlined in more detail in Annex 25 to this report and are summarised below:

	Risk name	Impact (I)[44]	Likelihood (L)[45]	Risk Score (1 25) (I x L)[46]
1	Government Rent Directions	Major	Likely	16
2	Continued rent reductions	Catastrophic	Possible	15
3	Additional rent reductions	Catastrophic	Unlikely	10
4	SHVP levy	Catastrophic	Likely	20
5	Debt Cap	Major	Possible	12
6	Reserves sequestration	Major	Unlikely	8
7	RtB sales	Major	Possible	12
8	Larger Properties	Major	Likely	16
9	Benefits Cap	Moderate	Almost Certain	15
10	Universal Credit	Moderate	Almost Certain	15
11	Local Housing Allowances	Moderate	Almost Certain	15
12	18-21 year olds	Moderate	Likely	12
13	Bad Debts	Major	Likely	16
14	Welfare Reform	Major	Likely	16
15	Lifetime tenancies	Moderate	Possible	9
16	SHVP - physical sale of properties	Moderate	Likely	12
17	Stock condition info	Moderate	Possible	9
18	IT Systems Capacity	Moderate	Possible	9
19	Empty Properties	Moderate	Possible	9
20	Property spend	Moderate	Possible	9
21	Management spend	Moderate	Possible	9
22	Recharges	Moderate	Possible	9
23	Interest rates	Moderate	Possible	9
24	Inflation	Moderate	Possible	9
25	Accounting Standards	Minor	Unlikely	4
26	Brexit	Catastrophic	Unlikely	10

[44] This is scored on a scale of 1 to 5, with impact scores based on the following financial impacts

	annual impact	business plan impact
1 = Insignificant	<£1m	<£10m
2 = Minor	£1m to £2m	£10m to £20m
3 = Moderate	£2m to £5m	£20m to £50m
4 = Major	£5m to £10m	£50m to £100m
5 = Catastrophic	>£10m	>£100m

[45] This is also scored on a 1 to 5 basis with 1 being rare through to 5 as almost certain

[46] This provides a final rating of risks with a score of 12 or more being a RED risk

23 <u>Legislative and Regulatory Background</u>

23.1 Local Authorities that act as landlords for council dwellings are required by statute[47] to maintain a Housing Revenue Account (HRA) which cannot go into cumulative deficit[48]. This is a separate account that itemises the income and expenditure relating to the holding of these properties.

23.2 The HRA is "ring-fenced" from the General Fund, so that the income and expenditure arising from owning council dwellings may be distinguished from the income and expenditure of other services of the Council, which are financed locally by the Council Tax. With only a very limited number of exceptions, the activities are accounted for entirely separately, to avoid cross-subsidisation between the two areas. HRA rent income may not be used to artificially suppress the Council Tax, nor vice versa. The HRA must survive on its resources, and the Council cannot legally budget for it to be in net deficit.

23.3 Services provided by the council funded from the general fund include a number of other housing services, as well as social services, highways, refuse collection etc. The other housing functions include:

- Housing advice
- Private sector housing renewal and adaptations
- Housing Environmental Health
- Homelessness
- Housing benefit administration and payments
- Housing strategy

23.4 This is because those services are not about the provision of council housing directly – i.e. being the landlord.

23.5 Authorities maintain HRA balances – these are surpluses brought forward from previous years. An authority can make a deficit in any one year, but it cannot make a cumulative deficit.

23.6 The HRA in its current form is largely shaped by the 1989 Local Government and Housing Act. This created the HRA ring-fence, and prescribed which income and expenditure must appear in that account. As part of the consultation on Self Financing there were proposals to strengthen the ring fence but these have not been incorporated in the final proposals. Nonetheless recharges and allocations of costs between the HRA and the General Fund must be undertaken in such a

[47] Section 74 of the Local Government and Housing Act 1989 requires a local housing authority to maintain a Housing Revenue Account in accordance with proper practices.

[48] Section 76(3) of the Local Government and Housing Act 1989 places a duty on the Authority to prevent a debit balance on the Housing Revenue Account.

way that the HRA only pays for costs associated with the provision and maintenance of HRA housing and costs must be fairly allocated.

23.7 As a Registered Social Housing Provider (Reg. No 00FA) we are required to meet the Homes and Communities Agency's Regulatory Standards as laid out in statute. In addition, successive Housing Acts have placed duties on local authorities, culminating in the Housing Act 1985. Provisions include:

- Management of the Housing Revenue Account.
- Administration of the Right to Buy.
- A duty to consult Secure Tenants on all significant changes in housing management.
- The right of Secure Tenants to transfer to an alternative landlord,
- The Right to Manage.
- The Right to Repair / Right to Improve.

23.8 The Regulatory Standards are:

- Economic standards - governance and financial viability, value for money, rents
- Consumer standards - tenant involvement and empowerment, home, tenancy, neighbourhood and community

23.9 Specifically, the Value for Money standard is shown below:

Required outcomes

In meeting all Regulatory standards, including their local offers, registered providers shall have a comprehensive approach to managing their resources to provide cost-effective, efficient, quality services and homes to meet tenants' and potential tenants' needs.

Registered providers shall set out in an annual report for tenants how they are meeting these obligations and how they intend to meet them in the future. The provider shall then meet the commitments it has made to its tenants.

Specific expectations

Registered providers shall demonstrate to their tenants:

- how expenditure has been prioritised in relation to each of the standards and in the delivery of local offers, and in meeting other needs such as investment in new social housing provision
- how they have ensured value for money has been secured and tested
- plans and priorities for delivery of further value for money improvements

Registered providers shall have arrangements for tenants to influence the services delivered and the cost of those services that result in service charges to tenants.

24 Consultation

24.1 The Housing Service has commenced a fundamental review of all strategies, policies and operations to ensure that moving forward the service is financially stable and delivers services commensurate with those that are perceived as being ‘best in class’. This will in all probability result in significant strategic and operational change.

24.2 As part of this process a comprehensive programme of consultation has been introduced including Elected Members, tenants and other stakeholders. Any decisions on specific proposals resulting from the review will be undertaken in accordance with the Council’s governance processes

24.3 Briefing sessions for all stakeholders will take place on 25th January & 30th January 2017. Detailed briefing sessions with KWL, as the main contractor, on the future capital and revenue repairs programmes commenced on 9th December 2016.

25 Comments of the Town Clerk (Monitoring Officer)

25.1 Section 74 of the Local Government and Housing Act 1989 requires a local housing authority to maintain a Housing Revenue Account in accordance with proper practices. Section 76 of the Act places a duty on the Authority to prevent a debit balance on the Housing Revenue Account. The proposals in this report fulfil those requirements and the recommendations in the report are supported.

25.2 The legal implications of factors which will materially impact upon the Housing Service and in turn the Revenue Account Account are thoroughly highlighted and discussed within the report. However attention is to a number of issues below.

25.3 If as part of cost saving measures, the Council is considering making changes to the current housing management arrangements it must take account whether it has a statutory duty to consult tenants under Section 105 of the Housing Act 1985 and if this is required carry out consultation in accordance with those statutory requirements before implementing any changes. Any significant proposed change which affects the whole tenant body and requires adherence to the statutory consultation requirements is likely to incur significant management costs.

25.4 In considering any reduction in the level of repairs and maintenance of the stock the Council should take into account its statutory repairing obligations under Section 11 of the Landlord and Tenant Act 1985. The Council is both contractually and statutorily obliged to carry out repairs to tenanted properties which are reported to it within a reasonable period of that report being made or the Council being aware of the need for repair. A failure to do so or to carry out works which are of poor standard and thus ineffective gives a cause of action to the affected tenant to seek legal redress including damages for the inconvenience caused by the disrepair. Damages can run to many thousands of pounds and cases attract significant legal costs which often exceed the amount of damages paid to the tenant. As the Council is currently the subject of a number of claims, legal advice should be obtained before making any significant changes to arrangements for repairs and maintenance.

25.5 It is likely that as a result of the impacts of the Government changes discussed in this report that the level of tenancy breaches in respect of non-payment of rent and possibly other conditions which may incur expense to the tenant (e.g. garden maintenance) is likely to increase. This will inevitably lead to an increase in the number of possession proceedings and as a result, evictions in Council tenancies which will have a financial impact in terms of increased court fees and costs. Evictions will be likely to affect the number of homelessness applications received by the Council which will in turn impact upon the General Fund.

26 <u>Comments of the Section 151 Officer</u>

26.1 This budget report presents a thorough over view of the position of the HRA.

26.2 Housing is facing an agglomeration of unprecedented changes over the coming years with initiatives including the extension of Right to Buy to Housing Associations with Local Authorities (including Hull) subsidising these sales through likely forced sales of our “high value” properties (or worse, a levy based on what Government think we should have sold irrespective of whether we do or not). Additionally tenants on benefits face restrictions on the amount of money they will have available potentially through reduced benefit caps but also through the restriction of the housing element of Universal Credit to the Local Housing Allowance rate, potentially of significant impact for those under 35.

26.3 These aspects in particular introduce highly significant financial risk to the HRA budget with proposals to take a levy for the forced sale of higher value Council homes placing all of the risk that government has got this wrong on the local authority. There is a high risk that in future the Government in effect levies the HRA sums which are wholly unaffordable and unachievable.

26.4 In addition there remains significant uncertainty around what will happen to rents at the end of the 4 year forced reductions – the modelling assumes we revert to CPI increases but that is by no means assured and the Government may be tempted to continue with restrictions given the impact on the national housing benefit budgets. Compared to other risks these two – future rents and SHVP levy - are completely transcendent, with potential consequences that could be catastrophic to the HRA.

26.5 Previous sensible fiscal management means that there is a sufficient level of reserves and borrowing capacity to allow the HRA to see through the next few years but substantial changes in the underlying budget must be implemented within the next 3 to 4 years if the HRA is to remain fiscally solvent over the medium to long term. It is imperative that the fiscal focus covers this longer period and does not concentrate only on the shorter term.

27 Comments of HR City Manager and compliance with the Equality Duty

27.1 The City HR Manager notes the risks and challenges highlighted in this report and supports the recommendations.

27.2 The staffing issues are outlined in the report and suggest that there will be a reduction in staff numbers as a result of budget savings having to be made. This may have a knock on staffing impact to Council support services and to the supplier company, KWL, which receive funding for supporting the HRA.

27.3 The policy changes in terms of service specifications may have equality impacts and these will need to be assessed and monitored and appropriate action taken to address any issues that arise.

27.4 Any changes to the fabric of buildings or any new builds are covered by CDM regulations. Therefore any such projects need to be consulted upon with Corporate Health and Safety.

28 Comments of Overview and Scrutiny

28.1 This report is due to be submitted to Finance and Value for Money Overview and Scrutiny Commission on 17th February 2017.

29 Comments of the Portfolio Holders

Portfolio Holder for Council Infrastructure (inc housing)

29.1 Given the unprecedented changes facing all social landlords and the significant impacts on the HRA, I welcome the approach set out in the report to ensure that the upcoming financial challenges can be managed. The level of savings required if current Government Policy persists is exceptionally high and we will need to examine all aspects of spend to ensure we obtain the best Value for Money we can with the overall resources available. The coming months and years will see challenging decisions required to achieve the savings levels set out in the report.

Don McLure **Director of Finance and Transformation & s151 Officer**	**Dave Richmond** **City Neighbourhoods and Housing Manager**

Contact Officer Graeme Smith x3081

Officer Interests None

Background Documents: -

Rent and Service Charge Setting Policy Statement 2017/18

Hull City Council aim to set rents at a level that allows us to manage our properties well, to maintain them and to provide appropriate services and amenities for our tenants whilst keeping affordability in mind. We set rents and service charges in line with legislation, best practice and our service standards.

Customers are given at least 4 week's notice of changes to their rent and service charges. Changes to rent will normally occur once a year on the first Monday in April. Rent is payable for each week of the year but the rent payable over the whole rent year is apportioned over 50 or 51 weeks (depending on the number of weeks in that particular rent year). This means that there are two weeks per year when customers are not required to pay rent (unless they are in arrears). The 2 weeks when customers are not required to pay will be in December each year and customers are notified of this in writing.

1. Rents

   Our properties are let on either a Formula Rent or an Affordable Rent.

   a. Affordable rent

      Local authorities are able to agree with the Homes and Communities Agency to convert a proportion of their properties which are being re-let on an affordable rent to help fund the development of new homes. This means that the Council can charge a different rent (which could be higher) than their usual rent charge.

      The Council may wish to use affordable rent tenancies where:
      - major investment in particular housing stock has been or will be undertaken
      - funding for a project requires that the Council use affordable rents.

      Where the Council is considering using affordable rents tenancies it will:
      - carry out reasonable consultation with the local community on its proposals
      - undertake a financial viability test
      - set out in a report the reasons for using affordable rents and the benefits the Council expects
      - require any decision to adopt the proposed affordable rent scheme to be approved by the Head of Service with responsibility for the management of the Council's housing function in consultation with the Council's Portfolio Holder with responsibility for the Council's housing function.

The maximum rent for an Affordable Rent property, when it is first let to a new tenant, is 80% of the market rate, inclusive of service charges, or the ‘social rent rate’ (exclusive of service charges), whichever is higher. Each subsequent year, rents will change in line with changes in Formula Rents.

New homes built or those which have undergone major refurbishment schemes will be let at Affordable Rents or Formula Rent, whichever is the higher.

b. Formula Rent

Formula Rents are set based on Government Formulae for each individual property with annual increases in line with CPI + 1% each year, except for the 4 years commencing April 2016 when they will fall by 1%. Actual rent increases are determined by Council each year but rents will never be set at more than Formula Rent. All properties becoming empty will be re-let at Formula Rent. Where any significant structural alterations take place, such as the addition of extra bedrooms, the Formula Rent may be amended to take account of the change.

2. Service charges

Service Charges are set to recover the costs of the service provided wherever possible and will change based on changes in costs. Some service charges are currently set below cost and these will be increased over time to align with costs. Service charges will never be set at more than the cost of providing that service.

3. Housing Benefits and the Local Housing Allowance (LHA)

In determining the annual change in rents the Council will consider the implications of changes in the Local Housing Allowance (or any other Benefit implications) and the overall impact that rents set above this level may have on affordability and tenant’s ability to pay. LHA rates will not apply to the social sector until April 2019.

It is Government Policy that housing related benefit will be capped at LHA rates from April 2019 for;

- all tenants in Supported Housing
- all tenants in general needs accommodation who are on Universal credit and
- tenants who are receiving Housing Benefit whose tenancies started on or after 1st April 2016.

Glossary

The table below contains details of some of the terms used in this report and its appendices

Abbreviation	Description
AHP	The Affordable Homes Programme 2015-18 aims to increase the supply of new affordable homes in England by March 2018. This is a fund run by the HCA and provides grant assistance to housing providers for new build and bringing back long term empty homes into use. Additionally it supports converting vacant commercial properties into affordable homes. It is a condition of the grant that these properties must be let at Affordable Rents – these being set at 80% of open market rents.
ALMO	Arm's Length Management Organisation – a company set up to separate the day to day housing management role of the landlord from the wider strategic housing role of the local authority. They used to receive additional Government funding but this is no longer the case.
CERT	Carbon Emissions Reduction Target – a Government backed scheme which ran from 2008 to 2011 obliging energy suppliers to reduce CO2 emissions by promoting energy efficiency.
CESP	Community Energy Saving Programme - It requires gas and electricity suppliers and electricity generators to deliver energy saving measures to domestic consumers in specific low income areas of Great Britain. CESP has been designed to promote a 'whole house' approach and to treat as many properties as possible in defined areas. The CESP obligation period ran from 1 October 2009 to 31 December 2012.
CIH	Chartered Institute of Housing – the professional body for housing.
CIPFA	Chartered Institute of Public Finance and Accountancy, which describes itself as the professional body for people in public finance.
CLG	The Department for Communities and Local Government
CPI	Consumer Prices Index. This was used as the starting point for calculations on rent rises from 1st April 2015.
DHP	Discretionary Housing Payment – a short term payment to assist tenants pay shortfalls in rent. Tenants can claim for: • unavoidable extra expenses because of special circumstances, such as disabilities, health problems or urgent debts • where the tenant has difficulty paying rent, while trying to find a cheaper property • there are special reasons why the tenant needs to stay in a particular property, but the rent officer has restricted the amount of rent the Council uses when calculating benefit entitlement but it does not include

Abbreviation	Description
	• any part of the rent that is for services and not eligible for housing benefit (for example water rates, heating, meals) • increases to rent to collect outstanding arrears • loss of income if a claim for jobseekers allowance or income support has been suspended or the tenants has had a sanction on your claim • a shortfall caused by the recovery of overpaid housing benefit
DHS	Decent Homes Standard. The Government's standard for Council Housing. In order to be decent a home should be warm, weatherproof and have reasonably modern facilities. The latest guidance can be found at: http://www.communities.gov.uk/publications/housing/decenthome The Hull Standard includes: Health and Safety - Asbestos removal - Legionella - Removal of any identified H+S hazards Essential planned programmes including ; - DHS planned kitchens - Full gas heating where possible - Boiler replacements at lifecycle - Rewires as required following 5 year periodic safety inspection - Controlled entry renewal and other electrical renewal - Lifts - Roofing as decency lifecycles and following survey - Double glazing to all properties Major void repairs Disabled adaptations at current levels Cladding for non-traditional properties to improve thermal efficiency and protect dwelling structure Demolitions to support existing regeneration programmes But excludes - 40 year planned bathrooms - Renewable energy improvements - No environmental improvements or work to improve layout and security - Limited improvements to communal areas - No internal upgrades including improvements above DHS - Any new demolition and new build programmes beyond existing approvals to replace unsustainable non-traditional housing
DLA	Disability living allowance is a non-means-tested, non-contributory benefit in the United Kingdom introduced in 1992 and scheduled for phase-out between 2013 and 2016, in relation to adults only, for whom it is to be replaced by a new Personal Independence Payment, which is available to help with costs

Abbreviation	Description
	caused by a health condition or disability.
DWP	The Department for Work and Pensions - responsible for welfare policy
ECO	The Energy Company Obligation will take over from the existing obligations the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme (CESP). These existing obligations are due to end in December 2012 and the ECO will take over in addressing energy efficiency in the domestic sector. Details of what this obligation will look like are yet to be confirmed. It is likely that this form of support will be heavily linked to the Green Deal and will particularly support those householders (e.g. the poorest and most vulnerable) and those types of property (e.g. hard to treat) which cannot achieve financial savings without an additional or different measure of support.
HB	Housing Benefit
HCA	The Homes and Communities Agency - the national housing and regeneration delivery agency for England whose role is to create thriving communities and affordable homes.
HRA	Section 74 of the Local Government and Housing Act 1989 requires a local housing authority to maintain a Housing Revenue Account in accordance with proper practices. This is a ring-fenced part of the general fund that operates, in effect, as a landlord account.
JSA	Job Seekers Allowance – an unemployment benefit which can be claimed whilst looking for work
KPI	Key Performance Indicator - a measurable value that demonstrates how effectively an organisation is achieving key business objectives/ targets.
KSHP	The partnership appointed to deliver the City Wide Lead Developer agreement. KSHP = Keepmoat, Strata, Home Group, Priority Space
LEP	Local Enterprise Partnership - The Humber LEP is a business-led partnership that works closely with government to promote and develop the natural economic area surrounding the Humber estuary, and provide strategic leadership for economic growth. Website: http://www.humberlep.org/home
LGF	The Local Growth Fund is the Government's funding pot of at least £2bn a year from 2015/16 to 2020/21.Details of the Humber growth deal projects can be found at http://lep.ludo5.co.uk/strategies-and-deals/growth-deals/growth-deal-1/
LHA	Local Housing Allowance - LHA is based on the LHA rate for the number of bedrooms that a household needs (to a maximum of four), not the number of rooms in the property or the rent charged. The rates are reviewed by the valuation service annually every April. Current HCC rates can be found at: http://www.hullcc.gov.uk/portal/page?_pageid=221,95167&_dad=portal&_schema=PORTAL

Abbreviation	Description
LSVT	Large Scale Voluntary Transfer – a transfer of more than 500 properties from a Local Authority to a private registered provider, which must be independent of the Council. The latest regulations can be found at: https://www.gov.uk/government/publications/housing-transfer-manual-period-to-31-march-2016
MRA	Major Repairs Allowance – an annual transfer to reserves for maintaining the Decent Homes Standard and other essential repairs and maintenance to its stock over the longer term.
MRR	Major Repairs Reserve – the reserve to which MRA is transferred which is used to fund capital repairs and maintenance of the housing stock.
NHB	New Homes Bonus - The New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use. The New Homes Bonus is paid each year for 6 years. It's based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes. Local councils can decide how to spend the New Homes Bonus.
RCCO	Revenue contribution to capital outlay – funding capital costs directly from revenue
RP	A Registered Provider – formerly a RSL
RPI	Retail Prices Index. This is used as the current starting point for calculations on rent rises.
RSL	Registered Social Landlord - independent housing organisations registered with the Homes and Communities Agency under the Housing Act 1996. They may be Industrial and Provident Societies, registered charities or companies.
RTB	Right to Buy - The Right to Buy scheme was introduced in 1980 and gives qualifying social tenants the right to buy their home at a discount depending on their length of tenure. The scheme is open to secure tenants of local authorities and non-charitable housing associations, and to those assured tenants of housing associations who have transferred with their homes from a local authority as part of a housing stock transfer.
TMV	Tenant Market Value – the value of an LSVT reflecting forecast income and expenditure over 30 years.
UC	Universal Credit is a new benefit that has started to replace 6 existing benefits with a single monthly payment. Universal Credit will eventually replace: • Income-based Jobseeker's Allowance • Income-related Employment and Support Allowance

Abbreviation	Description
	• Income Support • Working Tax Credit • Child Tax Credit • Housing Benefit

Implications Matrix

This section must be completed and you must ensure that you have fully considered all potential implications

This matrix provides a simple check list for the things you need to have considered within your report

If there are no implications please state

I have informed and sought advice from HR, Legal, Finance, Overview and Scrutiny and the Climate Change Advisor and any other key stakeholders i.e. Portfolio Holder, relevant Ward Members etc. prior to submitting this report for official comments	Yes
I have considered whether this report requests a decision that is outside the Budget and Policy Framework approved by Council	Yes
Value for money considerations have been accounted for within the report	Yes
The report is approved by the relevant City Manager	Yes
I have included any procurement/commercial issues/implications within the report	Yes
I have considered the potential media interest in this report and liaised with the Media Team to ensure that they are briefed to respond to media interest.	Yes
I have included any equalities and diversity implications within the report and where necessary I have completed an Equalities Impact Assessment and the outcomes are included within the report	Yes
Any Health and Safety implications are included within the report	Yes
Any human rights implications are included within the report	Yes
I have included any community safety implications and paid regard to Section 17 of the Crime and Disorder Act within the report	Yes
I have liaised with the Climate Change Advisor and any environmental and climate change issues/sustainability implications are included within the report	Yes
I have included information about how this report contributes to the City Plan/ Area priorities within the report	Yes