

Report to the Finance and Performance Management Cabinet Committee



**Epping Forest
District Council**

Report reference: FPM-008-2015/16
Date of meeting: 17 September 2015

Portfolio: Housing

Subject: HRA Financial Plan – Future options resulting from required rent reductions

Responsible Officer: Alan Hall, Director of Communities (01992 564004)

Democratic Services: Rebecca Perrin (1902 564532)

Recommendations/Decisions Required:

- (1) That, as a result of the Government's requirement that all social landlords reduce their rents by 1% per annum for the next four years, the estimated loss in rental income to the Council's Housing Revenue Account (HRA) of around £14million over the next four years and around £228million over the next 30 years (compared to the Council's current HRA Financial Plan expectations) be noted;**
- (2) That the resultant report from the Council's HRA Business Planning Consultants, CIH Consultancy, on the options available to the Council to ensure that its HRA does not fall into deficit (attached as an Appendix) be considered;**
- (3) That, since no immediate corrective action is required at present, subject to Recommendation (4) below, no decisions be made to re-cast the HRA Financial Plan until further information becomes available on the effect of the Government's separate proposal to require local authorities to sell "high value" void properties;**
- (4) That the £702,000 uncommitted funding within the HRA's Housing Improvements and Service Enhancements Fund for 2016/17 not be spent at present, with the exception of:**
 - (a) £20,000 per annum being made available for a further 2 years (2016/17 and 2017/18) to fund Voluntary Action Epping Forest (VAEF) to continue to provide the successful Mow and Grow Scheme for older and disabled Council tenants; and**
 - (b) £50,000 per annum continuing to be made available for the Housing Improvements and Service Enhancements In-Year Fund, to fund small improvements and enhancements identified during 2016/17, with the current approval arrangements applying;**
- (5) That the £384,000 already accumulated and held within the Housing Improvements and Service Enhancement Fund's Major Capital Projects Reserve be retained and made available for future HRA capital projects;**
- (6) That the Cabinet Committee reviews the HRA Financial Plan again in 2016, and makes decisions for the future at that time, once the financial implications for the Council of the Government's requirement for local authorities to sell "high value" void properties are known; and**

(7) That, in order to inform the review in 2016, a further Options Report be provided by the Council's HRA Business Planning Consultants at that time, and that the Housing Select Committee and the Tenants and Leaseholders Federation be consulted for their views on the options, prior to consideration by the Cabinet Committee.

Executive Summary:

In July 2015, the Government announced that all social landlords must reduce their rents by 1% per annum for four years, instead of increasing their rents by CPI + 1% in accordance with previous Government guidance.

The Council's HRA Business Planning Consultants, CIH Consultancy, have assessed the estimated loss in rental income to the Council's Housing Revenue Account (HRA), compared to the Council's current HRA Financial Plan expectations, and provided the Council with a report on the options available to the Council to ensure that its HRA does not fall into deficit, which is attached as an Appendix. Simon Smith from CIH Consultancy will be attending the Cabinet Committee to present the Options Report in detail, and to answer members' questions.

Since the Options Report identifies that no immediate corrective action is required at present, it is suggested that no decisions are made at the current time to re-cast the HRA Financial Plan, but that a review of the HRA Financial Plan be undertaken again in 2016, and decisions for the future made at that time, once the financial implications for the Council of the Government's requirement for local authorities to sell "high value" void properties are known.

It is also suggested that, with a few exceptions set-out in the report, the uncommitted funding within the HRA's Housing Improvements and Service Enhancements Fund for 2016/17 is not spent at present.

Reasons for Proposed Decision:

The estimated rental loss to the HRA is significant, and the future strategy for the Council's HRA Financial Plan needs to be reviewed, but this can wait for a further year, until more information is available on other external financial risks

Other Options for Action:

The main alternative options appear to be:

- To select one the options set out in the CIH Consultancy Report (or another option), re-cast the HRA Financial Plan now and action the resultant decisions required
- To not place a moratorium on the use of the Housing Improvements and Service Enhancements Fund in 2016/17 and continue to invite the Housing Select Committee to propose how the resources currently allocated to the Fund within the HRA Financial Plan could be best utilised for 2016/17
- To not utilise the Fund to make funding available for the Mow and Grow Scheme for the next two years and/or the In-Year Fund
- To not retain the resources accumulated within the Fund for the Major Capital Projects Reserve
- To not consult the Housing Select Committee and/or the Tenants and Leaseholders Federation on the available options for the HRA Financial Plan, prior to reviewing them in 2016

Background:

1. As part of the Chancellor's Summer Budget in July 2015, it was announced that all social landlords (councils and housing associations) must reduce their rents by 1% per annum for four years, instead of increasing their rents by CPI + 1% in accordance with previous Government guidance.

2. The Council's HRA Business Planning Consultants, CIH Consultancy, have assessed that the estimated loss in rental income to the Council's Housing Revenue Account (HRA) will be around £14million over the next four years and around £228million over the next 30 years (compared to the Council's current HRA Financial Plan expectations).

3. In view of this significant reduction in rental income, the Director of Communities commissioned Simon Smith from CIH Consultancy to provide a report on the options available to the Council to ensure that its HRA does not fall into deficit.

CIH Consultancy's Options Report on the Council's HRA Financial Plan

4. CIH Consultancy's report is attached as an Appendix. **Simon Smith will be attending the Cabinet Committee to present the Options Report in detail, and to answer members' questions.**

5. As can be seen, the report identifies a number of options available to the Council to recast its HRA Financial Plan for the future, including:

- Ceasing all or some of the funding currently available within the Financial Plan for future housing improvements and service enhancements for HRA services;
- Reducing investment in improvements to the Council's housing stock (and reducing the Council's Modern Home Standard accordingly);
- Reducing/ceasing the Council's own Housebuilding Programme;
- Further borrowing for the HRA, repaid by the end of the Financial Plan period;
- Combinations of the above.

6. The report also identifies some future financial challenges for local authority HRAs, which cannot currently be quantified. The most significant potential financial effect on the Council's HRA is the Government's proposal to require local authorities (but not housing associations) to sell "high value" void properties, primarily in order to fund the Government's intention to extend the Right to Buy to housing association tenants. However, very little information is currently available on what constitutes a "high value" property, or the proposed arrangements; therefore it is not yet possible to assess the financial impact on the Council's HRA. It is expected that further information will be available in the Autumn, when the Government publishes its Housing Bill. It is also expected that the Government will undertake a consultation exercise on the proposal around the same time.

7. The CIH Consultancy's Options Report identifies that, although decisions will need to be made within the near future, no immediate corrective action is required at present. Therefore, in view of the uncertainties set out in the Options Report, particularly the proposal to require local authorities to sell "high value" void properties, it is suggested that, generally, no decisions be made to re-cast the HRA Financial Plan until further information becomes available on these uncertainties.

Housing Improvements and Service Enhancements Fund

8. However, in view of the need to reduce expenditure currently planned for the HRA in the

long term, and since this is likely to involve a reduction in the resources available to the HRA's Housing Improvements and Service Enhancements Fund over the next 30 years, it is suggested that most of the £702,000 uncommitted funding within the HRA's Housing Improvements and Service Enhancements Fund for 2016/17 not be allocated/spent at present. There are two suggested exceptions to this moratorium.

9. Firstly, the HRA has funded a very successful Garden Maintenance Scheme for Older and Vulnerable Tenants (the "Mow and Grow" Scheme) operated by Voluntary Action Epping Forest (VAEF) since 2003. The service includes clearing and maintaining overgrown gardens - including lighter tasks, such as lawn cutting, hedge trimming and light weeding - with priority given to dealing with gardens that are unsafe and/or unusable and therefore hinder the tenant to enjoy the facility. Tenants are only included on the scheme if there is no-one physically able to carry out the work under the age of 70 years living at the property, or if they are disabled. All those applying are assessed by VAEF and are only included on the scheme if they genuinely cannot cope with their gardens and have no other means of maintaining them. The Cabinet previously agreed that £20,000 per annum should be made available from the Fund for two further years, ending in March 2016, to supplement the HRA's existing ongoing funding of £20,000 per annum for the Scheme. In view of the success of the Scheme, and the benefits it brings for older and disabled tenants (as well as the difficulties that would be caused to the continuity of the service), it is suggested that the Fund continues to provide the additional £20,000 per annum towards the cost of the Scheme for a further two years (2016/17 and 2017/18).

10. Secondly, since its inception in 2013, the Housing Improvements and Service Enhancements Fund has included an "In-Year Fund" of £50,000 per annum, for small improvements projects that may be identified during the course of the year by members and officers, instead of the improvements having to be delayed until the following year. Individual one-off projects costing in excess of £10,000 have to be formally authorised by Housing Portfolio Holder. This has proved very beneficial to tenants, so it is therefore suggested that £50,000 per annum continues to be made available through the In-Year Fund, with the current approval arrangements applying.

11. Over the last few years, the Housing Improvements and Service Enhancements Fund has accumulated £384,000 within its Major Capital Projects Reserve. The Cabinet previously decided to introduce the Reserve to enable resources to be accumulated and available when required for major capital housing projects, subject to the schemes having the approval of the Cabinet or Housing Portfolio Holder as appropriate. This was because no provision is made for major capital housing schemes within the HRA Financial Plan. The need for major capital schemes has occurred from time-to-time, and has included the major improvement scheme at Springfields, Waltham Abbey, small scale stock transfers of sheltered housing schemes to housing associations to enable conversion and improvement works to be undertaken and the conversion scheme at Marden Close and Faversham Hall, Chigwell Row (currently on-site).

12. It is therefore suggested that the £384,000 already accumulated and held within the Housing Improvements and Service Enhancement Fund's Major Capital Projects Reserve be retained (but not increased) and made available for future HRA capital projects that are identified.

Deferral of review and decisions on HRA Financial Plan until 2016

13. Since CIH Consultancy's Options Report identifies that no immediate corrective action is required at present, and in view of the uncertainties set out in the Options Report, it is suggested that no decisions be made to re-cast the HRA Financial Plan for the time being, and until further information becomes available on these uncertainties.

14. It is therefore suggested that the Cabinet Committee reviews the HRA Financial Plan again in 2016, and makes decisions for the future, once (particularly) the financial implications for the

Council of the Government's requirement for local authorities to sell "high value" void properties are known.

15. In order to inform the review in 2016, it is proposed that a further Options Report be provided by the Council's HRA Business Planning Consultants at that time, and that the Housing Select Committee and the Tenants and Leaseholders Federation be consulted for their views on the options, prior to consideration by the Cabinet Committee.

Resource Implications:

As set out in the Options Report from CIH Consultancy, attached as the Appendix.

Legal and Governance Implications:

It is a legal requirement for the Council to ensure that it does not budget for, or allow, its HRA to fall into deficit.

The requirement to reduce rents by 1% per annum for the next 4 years forms part of the Welfare Reform and Work Bill, currently under consideration by Parliament.

Safer, Cleaner and Greener Implications:

Some of the issues and options under consideration have an effect on the amount of capital resources the Council is able to spend on its properties and housing estates and on new Council Housebuilding. Much of the Council's housing capital expenditure is used to make the Council's homes and estates safer, cleaner and greener.

Consultation Undertaken:

None – One of the recommendations, though, is to consult the Housing Select Committee and Tenants and Leaseholders Federation for their views on the options for the HRA Financial Plan, prior to consideration of the Cabinet Committee's proposed further review in 2016.

The Tenants and Leaseholders Federation has also agreed to consider the implications of the options within the CIH Consultancy Options for tenants at its next meeting in October 2015.

Background Papers:

None.

Risk Management:

The main risks are as follows:

- a) If the Council does not re-cast its HRA Financial Plan within the next year or so, and continues to follow the proposed spending proposals within the current HRA Financial Plan, the HRA will fall into deficit within the new few years. Not only would this be ultra vires, it would also require emergency remedial action to bring the HRA back into surplus.
 - This is mitigated by the fact that the Options Report identifies that no immediate corrective action is required at present, and the key recommendation to the Cabinet Committee is to undertake a further review of the HRA Financial Plan in 2016, and make decisions at that time on the future strategy for the HRA Financial Plan.
- b) The financial implications for the Council of the Government's requirement for local authorities to sell "high value" void properties are not yet known.

- Again, this is mitigated by the recommendation to wait until the implications are known, before setting the future strategy for the HRA and taking decisions for the future
- c) The assumptions used for the HRA and within the Options Report could prove to be incorrect
- This is mitigated by using an experienced and knowledgeable HRA Business Planning Consultant, Simon Smith, who has now advised the Council on its HRA Financial Plan from the outset
 - A formal review of the HRA Financial Plan is also undertaken quarterly by officers and half-yearly by the Housing Select Committee, though detailed review reports produced by CIH Consultancy.
- d) The Council could take on more borrowing, or reduce housing services, by more than necessary
- This is the purpose for commissioning the Options Report early, and for deferring decisions until 2016 (when more information should become available on external factors)
- e) The Government could change its approach to national rents policy again
- Regrettably, the Government has already reneged on past commitments with regard to national rent policy, to the detriment of the Council's Financial Plan, on two occasions in the past. However, this is outside the Council's control – although the Council is a member of the Association of Retained Council Housing (ARCH) that continues to support the interests of stock retained councils and lobby Government on national housing issues

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

The HRA funds a number of services that specifically benefit tenants within the protected characteristics of the Equality Act, particularly older people and people with disabilities.

The most recent Tenants Census established that around 56% of the Council's tenants are aged 60 years or older, and around 19% are aged 80 years or older, and that around 30% of all tenants consider themselves to have some form of disability that limits their activities in some way. Depending on the eventual option(s) pursued, reductions in the expenditure on housing services could result in reduced expenditure on adaptations for older and disabled people, off street parking (beneficial to older and disabled tenants), the garden maintenance scheme, the Handyperson Scheme.

However, the recommendations propose that no key decisions be made yet.