

30 November 2015		ITEM: 7
Housing Overview and Scrutiny Committee		
Implications Welfare Reform Bill 2015 on HRA Business Plan		
Wards and communities affected: All	Key Decision: Key	
Report of: Kathryn Adedeji, Head of Housing Investment and Development and Corporate Commercial Services		
Accountable Head of Service: Kathryn Adedeji, Head of Housing Investment and Development and Corporate Commercial Services		
Accountable Director: David Bull, Director of Planning and Transportation		
This report is Public		

Executive Summary

On 8 July 2015, the Chancellor of the Exchequer made budget announcements to introduce key policy changes that will have financial implications on the Council's Housing Revenue Account (HRA) Business Plan. These have now been formalised in two bills the Housing and Planning Bill and Welfare Reform Bill 2015. The estimated impact of these proposals will require a fundamental review and appraisal of the Council's approved and continuing housing investment programmes to ensure that the Council is able to deliver and maintain a balanced HRA.

The current estimated cumulative impact of the Government's proposals has the potential to make the Council's current HRA business plan unviable. However at this stage, we have focussed on making recommendations that would mitigate the financial impact of the most mature of these proposals, the 1% reduction in rents for four years from 1st April 2016. This alone has an estimated impact of taking £14.6m out of the business plan from 2016/17 to 2019/20, and £218m over the 30-year life of the business plan.

At Cabinet on 11 November 2015 a number a range of principles for addressing the estimated gap likely to be created should these proposals in the above bills be agreed.

1. Approve that an application to the Secretary of State to issue an exemption to allow much needed current affordable Housing to be delivered.
2. Recommend rent settings for new HRA dwellings at "affordable rents" i.e. up to 80% of market rents.

3. Recommend the revision to the Transforming Homes programme and where the asset supports it and extending the delivery of the programme beyond 17/18.
4. Note that the housing department will seek to achieve revenue cost savings and efficiencies equating to £500k per annum or £2m over the four-year period. This will be achieved through a combination of cost savings and increased funding and grant opportunities for existing development.

This paper presents to Housing Overview and Scrutiny, the impact that these recommendations will have on our existing housing investment and delivery programmes and what the changes will mean for local residents. Importantly, it also ensures that we continue to work on meeting our current and future housing needs within the borough.

In order to ensure that the HRA remains financially viable following the proposed legislative changes set out in the Governments budget statement, detailed work has been undertaken on the options available to bridge the financial gap resulting from the 1% reduction in rents. In summary, an extension to the completion of the transforming homes programme and reductions in operational expenditure result in additional resources of £7.6m in the next five financial years. In addition, a move to setting rents on new build properties at 70% of market value will generate a further c£1.4m over the same period. These proposals coupled with a reduction in the affordable housing programme of c 20 homes by the removal of Argent Street from the programme mitigates the impacts of the rental proposals by c12.5M. Should the application for an exemption for the need to apply the full 1% in Thurrock not be granted by the Secretary of State further reductions in our current affordable home building programme may need to take place.

1. Recommendation(s)

That the Housing Overview & Scrutiny Committee:

- 1.1 Note the application to the Secretary of State for an exemption to the 1% reduction, or part thereof, to allow the continuation of our current, mature and much needed affordable Housing programme.**
- 1.2 Agree the setting affordable rents for Seabrooke Rise and Derry Avenue as at 70% of market rent, to support the continuation of the current HRA affordable homes programme.**
- 1.3 Agree the proposed revisions to the current published timetable for the Transforming Homes programme, extending internal improvements by up to 1year (1,000 homes) and external improvements by up to 3 years(5,000 homes), where the asset supports delayed completion.**
- 1.4 Note that a HRA revenue cost savings and efficiencies plan equating to £500k per annum or £2m over the four-year period from 1st April 2016 will be delivered to support the continuation of the HRA affordable homes programme**

2. Introduction and Background

- 2.1 The Government's key policy changes announced on the 8 July 2015, these are now formalised in Housing and Planning and Welfare Reform Bills 2015, the key issues that will impact on our HRA business plan as follows:
- a) 1% reduction in social rents for four years from the 1st April 2016;
 - b) "Pay to stay" proposals from 2017/18; and
 - c) A requirement for local authorities to finance the cost of the expansion of the Right to Buy and associated discount to tenants in Housing Association Homes.
- 2.2 The 1% reduction in rents is the most developed of all the above announcements. This alone has an estimated impact of taking £14.6m out of the business plan from 2016/17 to 2019/20, and £218m over the 30-year life of the business plan. Further information is required to model the financial implications on the HRA of the other two announcements. These will, however, make our HRA business plan unviable.
- 2.3 The Council has an ambitious programme to improve the quality of Council owned homes within the borough to a high standard that supports the long-term viability of the asset and to build new affordable homes for current and future generations. With our investment programmes well underway, the Council does not have significant surpluses in which to absorb the impact of more major changes in central Government policy, unlike many registered providers within our sector. These changes, therefore, requires changes to our existing housing investment and development programmes in order to deliver a balanced HRA.

3. Issues, Options and Analysis of Options

- 3.1 Social housing rents are currently set according to the Government's rent policy guidance. The current rent guidance was published in May 2014 (with effect from April 2015) and expected annual rent increases to CPI +1% for the next 10 years. This was the assumption applied within the HRA 30-year business plan. The 8th July 2015 budget announcement effectively suspends the current social rent policy guidance and instead of on-going rent increases of CPI +1%, the Council is now required to reduce rents by 1% from current levels (with a base date of 8th July 2015) i.e. the rent for a dwelling in 2016/17 should be 1% less than the rent as at 8th July 2015 and the rent in subsequent years should be 1% less than the previous year. The treatment of service charges is unaffected by the announcements.
- 3.2 The 1% rent reduction results in a £14.6m shortfall over the 4 years from 2016/17 to 2019/20 and a £218m shortfall over the 30 year period. This is illustrated in the table below.

Table 1 - Cumulative Shortfall by Year £m

	Pre Budget £m	Post Budget £m	Loss of income £m	Cumulative Loss of Income £m
2015/16	47.539	47.539	0	0
2016/17	47.793	46.891	0.902	0.902
2017/18	48.999	46.297	2.701	3.603
2018/19	50.234	45.714	4.52	8.123
2019/20	52.489	46.009	6.48	14.603

Table 1a - Cumulative Benefit to Tenants by Year

	Average Weekly Rent (Previous Projection)	Average Weekly Rent (based on - 1% proposals)	Average weekly impact to tenants not in receipt of benefits	Average yearly impact to tenants not in receipt of benefits
2015/16	87.34	N/A		
2016/17	88.21	86.47	1.74	90
2017/18	89.1	85.61	3.49	181
2018/19	89.99	84.75	5.24	272
2019/20	90.89	83.9	6.99	363

- 3.3 It is undoubtedly the case that some residents will have a direct benefit from these proposals – this is shown in Table 1a above. However on balance the gains by some residents have impacts on others – through delays that will now be required in published investment programme, reduction in number of affordable homes and increases in previously projected rent levels for delivered through a HRA supported affordable house building programme. This is primarily because in Thurrock there is no scope for the HRA to undertake additional borrowing to mitigate this. Under the capital finance regulation these have already been maximised to facilitate our existing housing development and investment programmes. In addition, previous projected balances were full accounted for to support the delivering of much needed additional affordable homes and to increase the quality of existing homes. Hence, the difference in balances will require a real change to the Council current programmes and the Council's rent policy for new dwellings that were previously agreed to address local need. In addition, the need to apply to the Secretary of State for an exemption.

Secretary of State Exemption

- 3.4 Cabinet on 11 November approved the development of an application for an exemption. The estimated cumulative impact of all the current proposals will not only substantially reduce the council's ability to contribute to the provision of much needed affordable homes locally, but over the medium term the initial assessments of the cumulative impact of all of these proposals has the potential to make the HRA business plan unviable. A full detailed impact assessment is therefore underway to support the basis of an application for an exemption.

Letting all new HRA dwellings at "affordable rents"

- 3.5 There is an opportunity for the HRA to generate additional income through the charging of "affordable rents" for all new HRA dwellings being delivered through the Council's affordable housing programme.
- 3.6 An estimated 400 new homes are currently scheduled to be delivered over the next five years. The anticipated delivery of new HRA homes is illustrated in the table below. The current HRA business plan assumes that all new HRA homes that are delivered within the programme are let at social rent levels. If the Council were to adopt a policy to let all new HRA homes at "affordable rent" levels then the HRA could generate more income on an annual basis on some schemes. Affordable rents are defined as rents up to 80% of market rent levels. Table 2 below shows the estimated overall projected annual impact of different setting rents at the different levels for all new homes.

Table 2 - Programme of New HRA Homes

Rent Level	Annual Rental Income £pa	Difference £pa
Social rent	£1,773,498	
Affordable – 60% of market	£2,127,564	£354,066
Affordable – 70% of market	£2,482,158	£708,660
Affordable – 80% of market	£2,836,752	£1,063,254

- 3.7 Tables 3, 3.1 and 3.2 below illustrate the difference of the impact at a more local level, using the locations from the current affordable house building programme supported by the HRA. The tables show the impact by location of setting "affordable level" at 80%, 70% or 60% of market rents and compares this with the estimated average increase in monthly rent payments for each of the different rent levels.

Table 3 - Affordable rent 80% vs Social rent

Rent Level	Potential Social Rent	Affordable Rent (80%)	Difference in Monthly Rent	Number of Properties	Difference in Rental Income
	£ per week	£ per week			
Grays	£107.77	£173.72	£263.80	83	£286,006
Corringham & Stanford Le Hope	£130.39	£237.60	£428.83	12	£67,219
South Ockendon	£125.22	£168.37	£172.61	42	£94,696
Tilbury	£122.92	£157.48	£138.25	37	£66,819
Chadwell St Mary	£123.66	£147.14	£93.91	54	£66,241
Purfleet	£92.64	£172.80	£320.64	75	£314,128

Figure 3.1 – Affordable Rent 70% Vs Social Rent

Rent Level	Potential Social Rent	Affordable Rent (70%)	Difference in Monthly Rent	Number of Properties	Difference in Rental Income
	£ per week	£ per week			
Grays	£107.77	£152.01	£176.96	83	£191,855
Corringham & Stanford Le Hope	£130.39	£207.90	£310.03	12	£48,597
South Ockendon	£125.22	£147.32	£88.41	42	£48,502
Tilbury	£122.92	£137.80	£59.53	37	£28,773
Chadwell St Mary	£123.66	£128.75	£20.35	54	£14,353
Purfleet	£92.64	£151.20	£234.24	75	£229,483

Figure 3.2 – Affordable Rent 60% Vs Social Rent

Rent Level	Potential Social Rent	Affordable Rent (60%)	Difference in Monthly Rent	Number of Properties	Difference in Rental Income
	£ per week	£ per week			
Grays	£107.77	£130.29	£90.08	83	£97,661
Corringham & Stanford Le Hope	£130.39	£178.20	£191.23	12	£29,975
South Ockendon	£125.22	£126.28	£4.25	42	£2,330
Tilbury	£122.92	£118.11	N/A	37	N/A
Chadwell St Mary	£123.66	£110.36	N/A	54	N/A
Purfleet	£92.64	£129.60	£147.84	75	£144,838

3.8 Implementation of different affordable rent levels to those previously planned will now mean that local residents, will pay significantly different weekly rents for new HRA properties compared to existing HRA homes let at social rent levels, in order to protect our ability to build as many affordable homes as possible, with the reduced funding likely to be created by the rental reduction proposals. The properties would be new, high quality homes and so some level of enhancement could be anticipated.

Seabrooke Rise – The Echoes

3.9 It is important to note that actual social rents payable in new build homes as set out below are higher than those payable on existing homes. Therefore table 4 below compares the different that would be payable at various affordable rent levels. Whilst Table 4a provides an estimated figure for the rest of the current approved new build programme that is either at planning or construction phase.

Table 4 - The Echoes weekly Rents: Social Vs Affordable

Seabrooke Rise, & Grays High Rises	Current Social	Potential New Social for Echoes	Affordable Rent Average		
	Rent Average	Rent Average	80%	70%	60%
Bedsit	£63.03	N/A	N/A	N/A	N/A
1 bedroom high rise	£66.72	£85.04	£123.88	£108.39	N/A
2 bedroom	None	£95.79	£164.03	£143.53	£123.02
2 bedroom high rise	£75.20	£95.79	£164.03	£143.53	£123.02
3 bedroom	£87.58	£106.49	£190.98	£167.11	£143.24
Average	£87.26	£94.57	£159.63	£139.68	£119.72

- 3.10 Table 4a below shows the comparison of previous estimated social rent levels against the possible range of possible affordable rent levels for the schemes either on site of with impending planning permission. This report proposed that rent levels for new homes by the HRA are set at 70% of market. This provides a balance between mitigating the impact of funding reduction likely to be necessary and the different in rent levels across the HRA.

Table 4a – Projected Weekly rental for affordable house programme

Scheme	Potential Social Rent	Affordable Rent			% Diff 80	% Diff 70	% Diff 60
		80%	70%	60%			
Bracelet Close, Corringham	£130.39	£237.60	£207.90	£178.20	82%	59%	37%
Derry Ave, S. Ockendon	£125.22	£168.37	£147.32	£126.28	34%	18%	1%
Calcutta Road, Tilbury	£122.92	£157.48	£137.80	£118.11	28%	12%	N/A
Claudian Way, Chadwell	£123.66	£147.32	£126.28	£110.36	19%	2%	N/A
Tops Club, Grays	£107.77	£173.72	£152.01	£130.29	61%	41%	21%

Amendments to the Transforming Homes Programme

- 3.11 In 2013, Cabinet agreed to increase the annual major repairs allowance for housing to £13.6m per annum over five years to improve all Council owned homes to the new standard. This set aside £68m of much needed investment to deliver improvements in our existing HRA council housing stock to quality standards beyond the Government's own Decent Homes Standard. This was our Transforming Homes programme that commenced in FY2013/14 and was due to be completed on FY2018/19. The Transforming Homes programme is in its third year and 50% of all new Council homes have been completed.
- 3.12 As a direct result of the estimated reduction in income that will result from proposed changes in both bills, there is a need to revise the programme. Our recommendation is to extend the Transforming Homes programme to five and a half years for internal improvements and eight years for external improvements. This will reduce annual expenditure in the immediate period when the impact of the rent reductions most impact the HRA and when expenditure on other mature programmes of housing investment are at their peak. The changes are illustrated in Table 5 below.

Table 5 - Transforming Homes Programme of Expenditure

Year	Current TH Programme	Revised TH Programme	Difference
2015/16	£13.6m	£13.6m	-
2016/17	£13.6m	£12.9m	-£0.7m
2017/18	£13.6m	£10.4m	-£3.2m
2018/19	£11.6m	£7.9m	-£3.5m
2019/20	N/A	£8m	£8m
2020/21	N/A	£5.6m	£5.6m

- 3.13 These changes result in a net decrease of £3.9m between now and the financial year 2017/18 as per the originally outlined programme, but overall lead to a net increase of £4.0m in expenditure due to lost efficiencies as a result of programming the internal and external works to the properties in different years. This also means that the resident will experience two visits to complete all the necessary works required to achieve the Transforming Homes Standard, rather than a single visit that has been achieved thus far.
- 3.14 The proposed revisions of the Transforming homes programme will result in a delay of up to one year for the delivery of internal improvements for up to one Thousand tenants and a delay of up to three years for the delivery of

external improvements for up to 5,000 tenants and leaseholders, against the original published programme.

Cost Savings within the HRA

- 3.15 The housing department previously achieved cost savings and service efficiencies that delivered £12.883m of savings from 2010/11 to 2015/16. The savings were delivered through a combination of management and operational savings including improved procurement and outsourcing of more efficient and effective third party contracts and revisions in key housing policies such as the Repairs Policy that reduced the scope of delivery to that more in line with neighbouring authorities.
- 3.16 We have now identified the opportunity to deliver further revenue cost savings and efficiencies of £500k per annum over the four-year period from 1 April 2016 to 31 March 2021 or £2m in total. This also includes opportunity for additional sources of funding and increased grant to support programmed development activity.
- 3.17 The target of £2m reduction in revenue expenditure from the HRA will be delivered via a four year savings plan that will build on existing actions that have been taken to realise efficiencies over the last three years. These will include further opportunities for increases income, reductions in consultancy spend as a result of contraction of investment programmes, reductions in service delivery costs through reshaping and restructuring and a reduction in third party spend.

Affordable Housing Programme

- 3.18 The planned programme of housing development being delivered by the HRA under the Affordable Housing Programme is the other area where revisions in the programme are able to achieve cost savings to help in mitigating the impact of reduced revenue as a result of the 1% reduction in rents. Radical changes in our programme would impact on our credibility with HCA and DCLG and also mean that we would lose already secured grant funding and/or additional borrowing capacity. Where, for whatever reason, we have not commenced the development, there is an opportunity to delay commencement or to remove the scheme from our plans.
- 3.19 We are proposing the removal of the Argent Street development site from the Affordable Housing Programme. The site is adjacent and of significant interest to the Rippleside Metal Works site and the proposed Riverside Homes development. Although the proposed Riverside Homes development is subject to further development and an approved planning application, a residential development for the entirety of this site (Council site plus Rippleside Metal Works site) would be the Council's preference given the benefit to the wider regeneration of South Grays and Grays beach. Given the Council site was only anticipating the delivery of c.20 units, removal of this site would have minimal impact on our Affordable Housing Programme and provide the opportunity to sell the site to Riverside Homes to see a high

quality residential development on the larger, prominent development site within South Grays.

- 3.20 It will be important, however, for the Council to see the requisite proportion of affordable homes delivered as part of any development proposed for this site.
- 3.21 Implementation of the “Pay to Stay” and potential disposal of our “high value voids” will have further implications on the HRA that would need to be addressed separately.

4. Reasons for Recommendations

- 4.1 Quality housing provision and choice in areas that people live are central to us achieving our vision for Thurrock. It is important that we maintain, wherever possible, the existing Housing Investment and Development programmes that are specifically driving the quality of the HRA housing asset base and delivering new, high quality affordable homes across the borough.
- 4.2 The Transforming Homes and Housing Development programmes are mature, well into their delivery and delivered significant improvements in quality, the number of new affordable homes and improved resident satisfaction.
- 4.3 The Local Government Act 1989 places a duty on the Council to prevent a debit balance on its HRA and, therefore, a revised HRA business plan that delivers a balanced account is of critical importance and the core strategic objective of the Council. Therefore some revisions to existing programmes of investment and expenditure are unavoidable as the Council and the HRA does not generate the level of surpluses required to absorb the impact of the Government’s proposed changes.
- 4.4 The impact assessment undertaken by government has not been done with sufficient nuance for the differing implications of the changes to be fully understood. The assessment is limited to housing associations with large surpluses. However our business plan has maximised and extended currently borrowing capacity and has a mature affordable house building programme designed to address local need. In Thurrock there is a significant affordable housing need that will not be met by the private sector despite 5,000 approvals for new homes. The assessed existing local need in the borough is noted stands at over 500 a year. It is recommended that Cabinet approve an application to the Secretary of State for an exemption, based on the impact as currently assessed, to the Council affordable housing programme, supported by clear need for such housing which at this stage is not projected to be met by the private development alone.

5. Consultation (including Overview and Scrutiny, if applicable)

5.1 Specific impact assessment and implications on different tenants is scheduled to be including in a report to Housing Overview and Scrutiny in November 15. This will allow scrutiny of the implications of the principles being agreed prior to a further paper to cabinet in December.

6. Impact on corporate policies, priorities, performance and community impact

6.1 The Government's proposals and our ability to deliver the current housing investment and development plans will impact on our ability to deliver improvements to our HRA homes and deliver new homes within the original timescales outlined. This will undoubtedly impact on residents' perceptions and satisfaction with our delivery. It may also slow the delivery of related and broader regeneration activities planned by the Council.

7. Implications

7.1 Financial

Implications verified by: Mike Jones
Management Accountant

The medium to long term financial implications of the announcements have been considered insofar as possible at the current time with further details and clarification of the implementation of the proposals still required. The affordability and deliverability of the current programmes have been considered and reviewed to ensure that the recommendations deliver a balanced HRA.

In summary, an extension to the completion of the transforming homes programme and reductions in operational expenditure result in additional resources of £7m in the next five financial years. In addition, a move to setting rents on new build properties at 70% of market value will generate a further £1.428m over the same period. In total, this equates to £8.428m in order address, in part, the £14.6m reduction in rental income over the next 4 years. We are also reviewing the opportunity to delay or remove some of the existing affordable housing developments that are currently planned e.g. Argent Street, to deliver the additional savings required to address the financial gap and deliver our statutory obligation of delivering a balanced HRA.

Work is ongoing to ensure HRA business plan is affordable and deliverable with the additional financial constraints imposed by the most recent Government announcements and further recommendations with be forthcoming at the appropriate time to ensure a balanced HRA is deliverable as a result of the "Pay to Stay" and "Disposal of High Value Voids".

We are content at this current time that progress has been made in addressing the financial gap posed by the 1% rent reduction and that this work is ongoing and subject to further recommendations to ensure a balanced HRA is delivered.

7.2 **Legal**

Implications verified by: Martin Hall
Housing Solicitor/Team Leader

There are no specific legal implications of the recommendations contained within this update report.

7.3 **Diversity and Equality**

Implications verified by: Rebecca Price
Community Development Officer

The Council's reduced ability to deliver previously agreed and widely publicised Transforming Homes programme, planned housing development and other housing investment spend will have a negative impact on the availability of high quality affordable housing in Thurrock, including for vulnerable groups. With reduced spend, contractors' commitments to social value and holistic objectives around health and wellbeing, improving education and job creation and improving economic prosperity may also deteriorate.

7.4 **Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

None

8. **Background papers used in preparing the report**

None

9. **Appendices to the report**

None

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