9 December 2015	ITEM: 15 01104433

Cabinet
Implications of the Housing & Planning Bill and Welfare Reform Bill 2015 on HRA Services and Affordable Housing Programme

Wards and communities affected:	**Key Decision:**
All	Key

Report of: Councillor Lynn Worrall, Cabinet Member for Housing
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 8th 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.

This paper presents to Cabinet the impact of these recommendations and what these mean for our various housing investment programmes and what the changes will mean for local residents. 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.

The assessment in the report outlines the impact the proposed recommendations will have on residents and the extent to which they will individually and collectively address the gap created by these proposals. By delaying the completion of the transforming homes programme, a total of £5.6m removed from current projected expenditure over the next four years. This will however result in 1,000 residents needing to wait an additional twelve months for internal improvements, and 5,000 residents up to an additional three years for the completion of external improvements. Setting rents on all new build Council homes by 70% of market value would generate a further £c700k over the same period. The removal of Argent Street from the affordable housing programme will reduce projected expenditure by £c4m and our affordable housing by c 20 homes. These recommendations and a savings plan of £2m over four years through efficiencies from third party expenditure, service realignments would provide a combined total of £11.895m to address, in part the required £14.6m gap. A further £2.705m of savings in the HRA Business Plan are required to bridge the total gap imposed by the 1% reduction in rents.

This report to Cabinet follows the report to Cabinet on 11th November 2015 where the principles for determining the approach to addressing these proposals were agreed. Followed by a report to Housing Overview and Scrutiny on 30th November 2015, where the impact assessment on tenants, in determining the actual rent levels, and changes to the Transforming Homes programmes was scrutinised and recommendations within this report agreed.

1 Recommendations

That Cabinet:

1.1 Approve the setting affordable rents for Seabrooke Rise and Derry Avenue and the rest of the HRA affordable housing programme at 70% of market rent in line with the recommendations from Housing Overview and Scrutiny on 30th November 2015.

1.2 Approve extension the of Transforming Homes programme by up to 1year for internal improvements (1,000 homes) and up to 3 years for external improvements (5,000 homes), where the asset supports delayed completion in accordance with the recommendations from Housing Overview and Scrutiny on 30th November 2015

1.3 Note that the application to the Secretary of state for an exemption is progressing and subject to be reviewed by Council in January 2016.

2. Introduction and Background

2.1 The Government's key policy changes announced on the 8th July 2015 that impact on our HRA business plan were 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) Disposal of “high value” properties as they become vacant to finance the expansion of the “Right to Buy” to tenants of registered social landlords (i.e. housing associations).

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. The financial implications on the HRA of the other two announcements are in the process of being modelled and further reports to cabinet are planned once this is completed. Initial indications based on current available details shows that the cumulative impact of all three proposals will make the current 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 and supports the recommendations that were proposed to Cabinet for approval on 11th November 2015.

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. The expected impact to individual households in Thurrock is set out in table 1a and is estimated to be a net benefit of £90 in the first year rising to £363 by year four. This will come at a cost of delayed improvements to homes and reduced ability to build required affordable homes in the borough to meet local need.

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, whilst others will have a net disadvantage. In Thurrock there is no scope for the HRA to undertake additional borrowing to mitigate this. Under the capital finance regulations these have already been maximised to facilitate our existing affordable housing development programme. In addition, previous projected balances were fully 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 Councils current programmes and the Council's rent setting for new dwellings to ensure a balanced approach to continuing to address local affordable housing need and adequately addressing the implications of these proposals.

3.4 As a result of the fact that all the proposed mitigations on just one of the proposals leaves a shortfall that can only at this stage be addressed by further reductions to the continued provision of affordable homes within the borough is a primary reason the Council is set to apply to the Secretary of State for an exemption from the total proposed discount to ensure a balance local approach, where resident experience some of the benefits of the proposals, without this having a disproportionate negative impact on our much need affordable homes programme.

Secretary of State Exemption

3.5 Following approval by Cabinet in November we are in the process of collating the detailed evidence base to support the application to the Secretary of State to issue a direction to exempt Thurrock from the requirement to reduce rents by 1%

3.6 The Council would need to submit a persuasive case to the Secretary of State to secure any chance of an exemption. The Council would also need to accept and be comfortable with the added publicity and scrutiny that this may attract.

3.7 Additional details will be provided in due course including the requirements of a submission and follow-up liaison with HCA/DCLG and Treasury. At this stage, we are establishing the level of exemption that will form the basis of our application.

Letting all new HRA dwellings at "affordable rents"

3.8 One of the key ways to mitigate the impact of the rent reductions on our affordable housing programme will be to change the planned rent levels on all new build homes from social to affordable rent. This will result in the generation of additional income as set out in tables below.

3.9 An estimated 400 new homes are currently scheduled to be delivered over the next five years through the HRA. The anticipated delivery of these new homes and the opportunity to increase rental incomes to the HRA is illustrated in the table below.

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

3.10 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.

3.11 Tables 3, 3.1 and 3.2 below illustrate the additional income that could be generated if the rents for all new HRA homes were set at an "affordable level" at 60%, 70% or 80% of market rents. Clarification is being sought from DCLG on whether rents at intermediate levels (i.e. 60% and 70% of market) are able to be charged under the proposals contained within the Bill.

3.12 The need for a revaluation of rental levels on the new build programme is as a result of the proposal to reduce rental income on existing homes. If this recommendation is to be agreed further reductions in the affordable house building programme will need to take place.

Table 3: Annual HRA Income through "Affordable Rents"

Rent Level	Potential Social Rent £ per week	Affordable Rent (80%) £ per week	Difference in Monthly Rent	Number of Properties	Difference in Rental Income
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 £ per week	Affordable Rent (70%) £ per week	Difference in Monthly Rent	Number of Properties	Difference in Rental Income
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 £ per week	Affordable Rent (60%) £ per week	Difference in Monthly Rent	Number of Properties	Difference in Rental Income
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

Table 3.3 provides a comparison of affordable rents that are being charged by registered providers within the borough. The rents are comparable with the rents for The Echoes if the council sets these at 70% of market rents.

Figure 3.3 Recent new Registered Provider affordable rent schemes

Property type	Rent charged per week
1 bedroom flat	£92
2 bedroom flat	£138
2 bedroom house	£159.48
3 bedroom house	£169.48
4 bedroom house	£181.47

3.13 A comparison of a typical weekly social rent for the Echoes – Seabrooke Rise and Bruyns Court Derry Avenue are set out in Tables 4 and 4a respectively. All of the affordable rent levels shown are below local housing allowance levels. Setting rents for affordable levels for new build homes will bring council rents for new build in line with our registered providers within the borough. It will however mean that existing tenants should they wish to transfer into a new build home will be paying significantly different weekly rents. It is important to note that the estimated new social rents levels shown in these tables do not include a service charge which is estimated at approx. £8.50, with this included the difference in estimated levels between social and affordable narrow however there still remains a significant difference. Not setting rents at affordable levels will mean that other measures will need to be taken to support addressing the gap, including further reductions in the number of affordable homes the Council is able to build. In addition all the affordable rents levels shown in the tables are below local housing allowance levels. .

Table 4: The Echoes - Weekly Rents: Social Vs Affordable

Seabrooke Rise, & Grays High Rises	Current Social Rent Average	Potential New Social for Echoes Rent Average	Affordable Rent Average 80%	70%	60%
Bedsit	£63.03	N/A	N/A	N/A	N/A
1 bedroom	£66.72	£85.04	£123.88	£108.39	N/A
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**

Table 4a – Bruyns Court, Derry Avenue - Weekly Rents: Social vs Affordable

Bedrooms	Current Social Rent Average	Social Rents for Bruyns Court Rent Average	Affordable Rent Average 80%	70%	60%
1 bedroom	£73.72	£87.60	£124.62	£109.04	£93.46
1 bedroom	£73.72	£88.00	£124.62	£109.04	£93.46
2 bedroom	£78.62	£98.18	£147.69	£129.23	£110.77
2 bedroom	£78.62	£98.78	£147.69	£129.23	£110.77
2 bedroom	£78.62	£99.80	£147.69	£129.23	£110.77
2 bedroom	£78.62	£100.80	£156.92	£137.31	£117.69
Average		**£96.65**	**£143.45**	**£125.52**	**£107.58**

Amendments to the Transforming Homes Programme

3.14 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.

3.15 As a direct result of the estimated reduction in income that will result from proposed changes in both bills, there is a need to review the on-going affordability of the Transforming Homes 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

3.16 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.

3.17 The Transforming Homes programme is in its third year and 50% of all Council homes have been completed. Our recommendation to extend the Transforming Homes programme to up to six years for internal improvements and eight years for external improvements will delay completions and the programme overall. Please note that we are only recommending a delay to the programme where the asset can support such a delay to the commencement of the required Transforming Homes works.

3.18 The proposed revisions of the Transforming homes programme as set out above 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. Within the original published period only 2,446 properties will be completed externally, leaving 5,519 to be completed after April 2019.

Cost Savings within the HRA

3.19 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.

3.20 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.

3.21 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 increased 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

3.22 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.

3.23 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. 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.

4. Reasons for Recommendations

4.1 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 80% of market value will generate a further £895k over the same period. The removal of Argent Street from the affordable housing programme will result in a reduction of expenditure of £4m. The estimated total impact of these recommendations will result in a total of £11.895m in expenditure to address, in part the required £14.6m gap.

4.2 The recommendations already require a reduction in our affordable homes programme. However they do not fully address the gap, further when this proposal over the 30 years of the business plan equates to an overall reduction of c1, 000 affordable homes, against an independently assessed local affordable housing need of 500 new homes a year. This assessed local impact of these proposals is the reason for the final recommendation to apply for an exemption.

4.3 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.

4.4 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.

4.5 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.

4.6 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 current 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. 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 A paper setting out the impacts of each of the recommendations on extending the Transforming home programme and setting rent levels for new build were discussed at Housing Overview and Scrutiny in November 15. The recommendations contained within the report were agreed by the committee.

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

7.1.1 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.

7.1.2 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".

7.1.3 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

7.2.1 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

7.2.1 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)

8. Background papers used in preparing the report

None

9. Appendices to the report

None

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