BLACKPOOL COUNCIL

REPORT

of the

DIRECTOR OF PLACE

and

DIRECTOR OF RESOURCES

to the

EXECUTIVE

on

8TH FEBRUARY 2016

PROPOSED RENT REVIEW - 2016/2017

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1 Introduction

1.1 As part of the preparation of the draft 2016/2017 Housing Revenue Account (HRA) Budget, Members must consider the level of rents and service charges to be set in connection with Council Housing dwellings during the next financial year.

1.2 Attached at Appendix A is the draft budget for the Housing Revenue Account for the year 2016/2017. This is after the proposed changes to rents and charges.

2. Projected Outturn 2015/2016

2.1 The projected outturn position for the Housing Revenue Account is also detailed at Appendix A. There is a projected in year contribution to balances of £1,285,000, compared to a budgeted contribution of £584,000; this is a positive variation of £701,000. Projected Housing Revenue Account balances at 31 March 2016 are therefore £6,902,000.

2.2 The reasons for any variations against budgets have been reported at quarterly intervals to the board of Blackpool Coastal Housing (BCH), which includes four of the Council's elected members. The Shareholder's Panel for Blackpool Coastal Housing also receives budget information on the Housing Revenue Account and explanations for any significant variances in performance. The main reason for the positive variation in year is the slower than expected rollout of Universal Credit. It is anticipated that the direct payment of housing-related benefit to tenants will increase the difficulty of collecting rents significantly going forward and a new software solution to increase the effectiveness of collection (Rent Sense) is due to be implemented.

3. Housing Revenue Account Budget 2016/17

Blackpool Coastal Housing Management Fee

3.1 The management fee for Blackpool Coastal Housing will be £9,565,000. This reflects a general freeze, with no uplift for inflation. The only amendment relates to an increase in emergency housing staff approved in year, with a full year effect in 2016/17 of £80,000. This is as a result of increased occupancy levels.

Treasury Management

3.2 Treasury Management costs have been calculated with regard to the present and projected level of interest rates, anticipated borrowing requirements, depreciation and a revenue contribution to capital of £4,500,000 to help fund the Queens Park redevelopment scheme.

Income

3.3 Rental income is based upon targeted occupancy levels and collection rates. Current void levels are running at around 2% on general properties and 25% for emergency housing. Significant work has been undertaken to reduce void turnaround times, and the number of voids has substantially reduced year on year.

Value for Money (VFM)

3.4 The Housing Revenue Account operates with a view to generating ongoing operational efficiencies. This has been reflected in procurement activities that have driven down costs and increased the levels of social value generated. Benchmarking with peer organisations also confirms that Blackpool Coastal Housing back office costs continue to be comparatively very low.

3.5 In 2012/13 a break clause in Blackpool Coastal Housing's fifteen-year management charge fell due and, ahead of this, the Council commissioned an external review of the Value for Money of the management of both Blackpool Coastal Housing and the Housing Revenue Account. This concluded that Blackpool Coastal Housing does provide good value for money, and was confirmed by a follow up review by internal audit in 2014/15. In addition, in November 2015 an external Peer Review was commissioned by Blackpool Coastal Housing which concluded that overall the direction of travel of the organisation is the right one, and that the Council is happy with the overall performance of the organisation.

3.6 Blackpool Coastal Housing remains committed to delivering Value for Money in the operation of the housing and repairs services, and challenging Value for Money actions are included in the annual Delivery Plan and the supporting directorate Service Plans.

3.7 Queens Park has been redeveloped on fixed price contracts, wherein any financial risks resulting from delays or other overspends are borne by the contractor.

Capital Programme

3.8 The revenue contribution to the capital programme is expected to be in the region of £4,500,000 in 2016/17 (from £1,600,000 in 2015/16) to fund the agreed redevelopment of Queens Park whilst retaining Housing Revenue Account balances above the agreed minimum level of £1,000,000. Revenue contributions to the capital programme are the preferred option to minimise external borrowing costs.

4. Housing Revenue Account self-financing for Council Housing

4.1 Since 1 April 2012 self-financing has been in place for local authority housing provision. This has replaced the previous subsidy system with a requirement to maintain viable 30 year business plans on a rolling basis. At the onset of self-financing the Council received a one-off capital sum of £41,523,000 offset against the housing related debt held at that time. A maximum debt cap of £35,739,000 was also imposed on Blackpool's Housing Revenue Account.

4.2 The gap between existing borrowing and the maximum permissible borrowing (the debt cap) is known as 'headroom'. The rent cuts now required, as detailed later in this report, will impact on headroom, as the Housing Revenue Account business plan had previously assumed rent increases in line with inflation. There will therefore need to be significant efficiencies identified in the future; in particular it will impact upon the capital maintenance programme.

4.3 To protect the national fiscal position, the Government has continued to retain some controls over the rents that Councils charge as well as the debt cap. However, following the recent changes in Government a number of policy changes have been announced which will have significant implications upon local authority Housing Revenue Accounts and other social housing providers. The budget of 2015 was followed by the Government's Autumn Spending Review in November of the same year. The key changes are;

- Social housing rents are to fall by 1% per year from April 2016 for four years (see section 5). This supersedes the current maximum increase of Consumer Price Index (CPI) plus 1%.

- The sale of high value void properties, linked to extension of the 'Right to Buy' scheme for tenants of registered providers.

- Introduction of 'Pay to Stay'. High income social tenants will be charged higher rents. The threshold is £40,000 per household in London and £30,000 elsewhere.

- Social sector Housing Benefit will be capped at Local Housing Allowance rate.

- Changes to benefits and reduction of the benefit cap to £20,000 (£23,000 in London).

The full impact of all these changes cannot yet be ascertained as full details on how they will operate in practice has not yet been published.

5. National Social Housing Rent Policy

5.1 The ‘rent restructuring’ regime was introduced in 2002/2003, where rents were set in line with a national formula used to calculate a target/formula rent for each property, annual rent increases were limited to Retail Price Index (RPI) plus 0.5% ± £2.00.

5.2 In October 2013 a ten-year rent agreement was published by the previous coalition government, allowing maximum increases of Consumer Price Index (CPI) plus 1%. This was implemented with effect from 2015/16.

5.3 The Chancellor’s budget statement in July 2015 announced that social housing rents will reduce by one per cent each year for the next four years (2016/17 to 2019/20). This change is being introduced through the Welfare Reform and Work Bill. It requires both registered providers and local authorities to reduce rents over a four year period, commencing in 2016/17 from a frozen 2015/16 baseline. The frozen baseline is based on rents charged at 8 July 2015.

5.4 It appears that the calculation of future rents will now be done on a statutory basis and local authorities will no longer have the ability to set rent in a manner determined locally, provided the limit rent is not exceed. The rules around rent increases at the end of the four year term are unclear at this time.

5.5 At the time of reporting, the Bill is still progressing through the House of Lords. Appendix B outlines the published interpretation of the rent reduction legislation as at November 2015.

5.6 It is assumed that the reduction will only apply to the core rent and not service charges, therefore reasonable increases to service charges can be applied. It is also assumed that vacant properties can continue to be let at the formula/target rent (less 1% each year). This is a policy that Blackpool has adopted for several years now.

6. Rent Change for 2016/17

6.1 As detailed in section 5 there is a requirement that a 1% rent reduction is applied to all social housing tenancies in 2016/17, and the following three financial years to 2019/20.

6.2 As such, although there is no option to increase rents this is a minimum statutory decrease, and there although is discretion to set a larger rent reduction this course of action is not recommended to the Executive. A 1% reduction for four years causes significant issues in terms of the 30-year business plan, particularly given capital commitments in terms of the Queens Park redevelopment. There are also other adverse impacts on the business plan from welfare reforms including high value property sales and Universal Credit, as mentioned in section 4.3. It would therefore not be prudent to voluntarily further reduce income into the Housing Revenue Account.

6.3 If the guidance for rent increases had been unchanged the total rental income in 2016/17 for general needs properties, assuming the maximum previous permitted increase of Consumer Price Index plus 1%, would be £17,144,000, after adjusting for voids. The applicable Consumer Price Index (as at September 2015) was -0.1%, plus 1% equates to a maximum increase of 0.9%. Applying the 1% rent reduction deduces the projection for total rental income to £16,832,000, a net reduction in income of £312,000;

Rent Increase/ decrease	2016/17 Estimated Rental Income	Change
-1%	£16,832,000	-£159,000
0%	£16,991,000	Nil
0.9%	£17,144,000	£153,000

6.4 For general rent properties, Blackpool's current average rent is £69.00 per week. After applying a 1% rent reduction, the average weekly rent in 2016/17 will be £68.33. The current average rent for affordable rent properties is £89.50 per week, reducing to £88.85 per week under the guidance.

7. Other Charges

Service Charges

7.1 It is assumed that the 1% reduction referred to above applies to the rent element of a property only. Councils can also charge separately for services such as cleaning communal areas and gardening, but should not make a profit on these charges. Government policy states that Councils should provide tenants with a breakdown of the additional services they receive and the charges for them, so they can see how much they pay for rent and services.

7.2 Listed below are the services currently provided;

- Communal lighting
- Alarm Systems
- Wired Vision (IRS television system)
- Communal Cleaning
- Door Entry Systems
- Sheltered Community Centres
- Grounds Maintenance
- Intensive Housing Management

7.3 The process of moving to a system of charging for all services provided is known as de-pooling. De-pooling involves reducing the rent for a property by the value of the Service Charge element and then the reduced rent moves toward the formula rent.

Since 2011/12, all services listed above, with the exception of grounds maintenance, have been de-pooled.

7.4 Within Sheltered Housing all of these Service Charges are eligible for housing benefit. Currently, approximately 76% of tenants are in receipt of full or partial housing benefit which would help offset the charges.

7.5 The self-financing settlement assumes that services are fully charged for and de-pooled. Under the modelling undertaken previously, it was only possible for self-financing to be sustainable if all services, excluding grounds maintenance, were properly charged for.

7.6 Attached at Appendices C and D are the proposed service charges for 2016/17, relating to Housing Revenue Account services. De-pooled services are shown at Appendix C, with other charges (including Sheltered Housing) shown in Appendix D. Existing service charges are shown for each service in line with a proposed increase.

Leaseholder Charges

7.7 The Leaseholder Management Charge has been calculated to reflect the actual cost of managing the service. The legal challenge to the basis of calculation mentioned in last year’s rent report was ultimately unsuccessful and charges will continue to be applied based on actual costs of services. Whilst charges to leaseholders are a sensitive area the need to ensure that this customer group is not treated unfairly needs to be balanced against the risk of genuine costs relating to the upkeep of their properties being subsidised by the wider tenant group.

Non-Housing Revenue Account Properties

7.8 It is recommended that an inflationary uplift of 0.9% be applied to rents of other properties managed by Blackpool Coastal Housing including non-Housing Revenue Account garages. The exception to this is the garages on Bond Street which are used primarily for commercial purposes, as detailed in Appendix E. It is important that garages remain as cost effective as possible; some which are already uneconomic to provide have been decommissioned during 2015/16 to allow available resources to be focused on more viable ones.

8. Recommendations For Executive To Recommend To Full Council

1. That a rent reduction of 1% is implemented for all Housing Revenue Account properties in 2016/2017.

2. That as previously agreed, the level of Housing Revenue Account balances remain protected at £1 million.

3. That de-pooled services (as detailed in Appendix C) and that other service charges (as detailed in Appendix D and E) are charged as outlined.

4. That the Leaseholder Management Charge is amended in line with the cost of managing the service.

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