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Report of Head of Finance, Environment & Neighbourhoods

Report to Housing Advisory Board

Date: 26th April 2016

Subject: Housing Leeds (HRA) Financial Position as at Period 11 (2015/16) & Financial Strategy – Rents & Service Charges from 2016/17

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☐ Yes	☒ No
Is the decision eligible for Call-In?	☐ Yes	☒ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ No

Summary of main issues

The purpose of this report is to update Housing Advisory Board on the revenue financial position for the Housing Leeds (HRA) service as at the end of February 2016. It also sets out the financial strategy in respect of rents and service charges from 2016/17.

Recommendations

Housing Advisory Board is requested to note the contents of this report.

1. Summary Position

1.1 At the end of February 2016 (Period 11) the HRA is projecting a surplus of £(1,017k) against the 2015/16 Budget.

2. Key Variances – Income

2.1 Income is projected to be £(694)k more than budget. Key variations include additional rental income of £(443)k primarily as a result of voids being less than budgeted, unbudgeted contributions to capital works from leaseholders £(184)k and additional income from service charges and other minor variations (£67k).

3. Key Variances - Expenditure

3.1 The charge to the disrepair provision is projected to be £243k above the original estimate.

There has been a continuing reduction in disrepair caseload from a peak of 910 cases at the start of the financial year, with the service currently on target to reduce this to 392 cases by the end of March 2016 – a reduction of 57%.

This reduction is due to clearing the backlog of cases and changes in strategy and processes which have streamlined the case management process and reduced the number of new claims being submitted.

The projected overspend against budget in 2015/16 is primarily due to clearing the backlog of outstanding cases. This, together with changes in processes and preventative work being undertaken should lead to both a reduction in cases and resources required in future years.

3.2 The repairs budget is currently projected to overspend by £696k which is due to a combination of the requirement to address outstanding repairs resulting from resolving disrepair cases and through taking a more pro-active approach to avoid expensive disrepair claims in the future.

3.3 Net savings of £(874)k are projected in relation to employees. Of this £(734)k is due to vacant posts during the year as new structures were recruited to, a savings on training £(236)k and occupational health £(45)k. These savings are offset by additional severance costs of £141k.

3.4 Savings of £(369)k are projected in relation to premises costs of which £(328)k relates to utility costs. The balance is due to minor variations in rents, cleaning and NNDR.

3.5 Other key variations include a reduction in leasing charges in relation to Heat Lease schemes £(775)k, the need to make additional contribution for large insurance claims (£364k) and savings in relation to the tenant mobility scheme £(170)k.

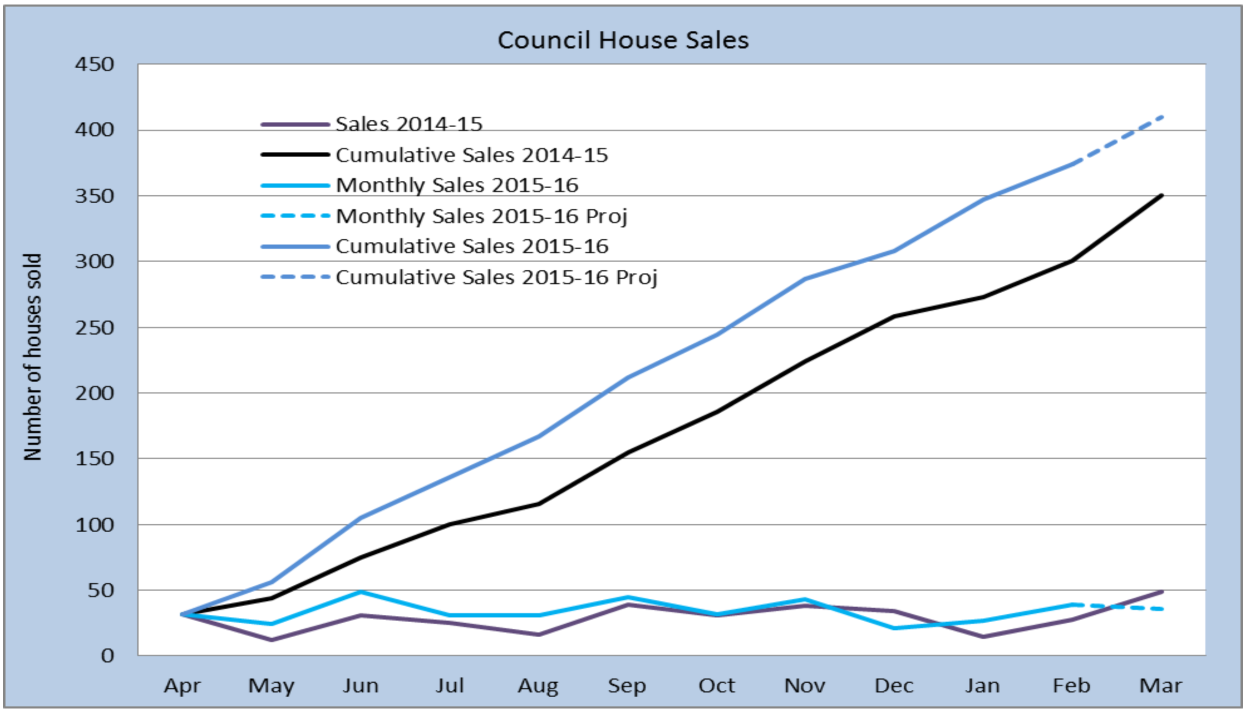
3.6 Additional PPPU charges of (£281k) for category management and energy portfolio work, a more appropriate charge for the support provided by HR (£116k) and increased charges of £108k for support provided by Regeneration staff in the delivery of the New Council House Growth programme are offset by reductions in charges for CDC £(197k), housing services and LASBT £(178)k, parks and countryside £(148)k and legal fees £(119)k. There are additional internal charges for Supporting Troubled Families (£300k) and Welfare Advice and Support (£300k).

3.7 A change in forecast HRA balances has resulted in a reduction of interest payable to HRA of £338k.

4. Right to Buy (RTB) Sales

4.1 To the end of February there were 374 completed sales with total sales of 410 projected to year end. The Government formula in respect of 2015/16, indicates that the Council will be able to retain total receipts of £12.3m. Of this £4.3m could be used by the Council for acquisition/build of properties representing 30% of the costs, or to passport to Registered Social Landlords (RSLs) as a grant to fund 30% of the cost of building new housing stock. The balance of £8.0m could be used to repay debt, or to fund other capital expenditure.

Council House Sales to end of February 2016 & Projected Sales to Year End



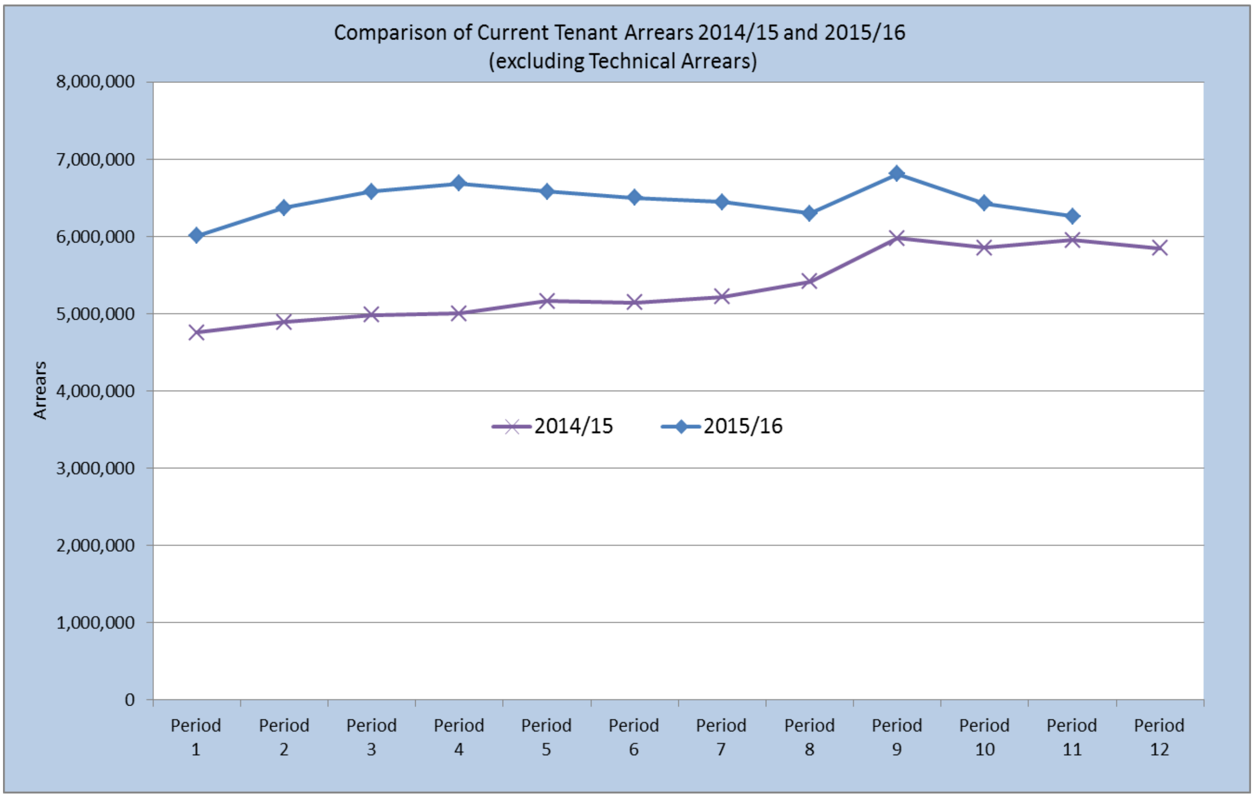
5. Collection Rates

5.1 Collection rates to the end of February were 97.17% for dwelling rents, compared to the target of 98.06%.

6. Arrears

6.1 Excluding technical arrears, arrears for current tenants are currently £6.24m compared to £5.8m at the end of 2014/15, an increase of £0.44m. There are currently 5,129 tenants classified as under-occupied. At the end of January 2016 approximately 52% of under-occupiers were in arrears which is 1% less than as at the end of 2014/15. The value of dwelling rent arrears for under-occupiers is £814k which is a reduction of £41k from the end of 2014/15.

Comparison of Current Tenant Arrears 2014/15 and 2015/16



7. Financial Strategy - Rents & service charges

In July 2015 the Chancellor announced that for the 4 years 2016/17 to 2019/20 housing rents would need to reduce by 1% each year.

The Council's current HRA Financial Plan is based on the assumption that dwelling rents would increase in line with CPI +1% each year for 10 years which is in line with previous Government policy introduced in April 2015. Based on the Government's CPI target of 2% the Council anticipated rent increases of 3% each year for the next 10 years.

The change in Government Policy announced in July 2015 is effectively a 4% pa reduction from that assumed within the Council's HRA Financial Plan for each of the next 4 years. In cash terms this is a reduction of £20.5m in rental income over the four year period, of which £5.9m falls within the next two years (£1.9m in 2016/17, £4m in 2017/18). When compared to the level of resources assumed in the Financial Plan (and assuming that from 2020/21 rent increases will revert back to the previous policy of CPI+1%) this equates to a loss of £283m of rental income over the 10 year period (2016/17 to 2024/25).

The reduction in rental income will need to be managed in addition to other pay, price and service pressures. A combination of staffing efficiencies, improved targeting of resources which are used to improve environmental aspects of estates along with the use of reserves will all contribute towards offsetting these pressures.

In addition, consideration will be given each year to increasing service charges to reflect more closely the costs associated with providing services. This will generate additional income which will contribute towards offsetting the reduction in rental income receivable as a result of the change in Government's rent policy.

Tenants in multi storey flats (MSFs) and in low/medium rise flats receive additional services such as cleaning of communal areas, staircase lighting and lifts and only pay a notional charge towards the cost of these services meaning other tenants are in effect subsidising the additional services received. To reduce this subsidisation and make charging arrangements more transparent, the intention is that service charges increase by £1 per week in 2016/17.

Currently tenants in sheltered housing schemes receiving housing related support provided by Sheltered Support Officers and are charged £12 per week for this service. This charge is eligible for Housing Benefit. From 2016/17 this charge will be increased to £13 per week to reflect the costs associated with the service. For those tenants who benefit from the service but do not currently pay for it a nominal charge of £2 per week will be introduced from 2016/17.

An analysis of the impact on individual tenants of reducing rents by 1% and implementing the charges as above has been undertaken. This analysis shows that 71.1% of tenants will pay 79p per week less in overall terms in 2016/17 than in 2015/16. Of those paying more, 22% will pay up to 34p more per week, 5% will pay £1.30 more with 2% paying an additional £2.30 per week. These increases will be funded through Housing Benefit for eligible tenants.

It should be noted that had rents been increased by 3% in line with previous Government Policy and in line with assumptions in the Council's HRA Financial Plan - based on the average rent for 2015/16 tenants would have received an average rent increase of £2.23 per week in 2016/17.

The rollout of Universal Credit in Leeds commences in 2016 and once fully implemented it will require the Council to collect rent directly from around 24,000 tenants who are in receipt of full or partial Housing Benefit. This will have implications for the level of rental income receivable.

A reduction in the qualifying period after which tenants are able to submit an application to purchase a council house through the Government's Right to Buy legislation continues to sustain an increase in the number of sales and the subsequent reduction in the amount of rent receivable.

Since all housing priorities are funded through the HRA any variations in the rental income stream will impact upon the level of resources that are available for the delivery of housing priorities.

Resources will be directed towards key priority areas which include fulfilling the plan to improve the homes people live in, expanding and improving older person's housing and improving estates to ensure that they are safe and clean places to live.

The Council remains committed to delivering the investment strategy agreed by Executive Board in March 2015 and to replacing homes lost through Right to Buy by the planned £99.4m investment in new homes and the buying up of empty homes.