

17 July 2015

To: Councillor Lovelock (Chair)  
Councillors Davies, Duveen, Eden, Gavin,  
Gittings, Hopper, Hoskin, Jones, Page,  
Skeats, Stanford-Beale, Terry and White

Your contact is: Simon Hill - Committee Services

**NOTICE OF MEETING - POLICY COMMITTEE - 20 JULY 2015**

Pursuant to Paragraph 3(b) of Section 100B of the Local Government Act 1972 (as amended) item 17 of this agenda (Impact of the Emergency Budget on the Council's Housing Revenue Account) is supplementary to the agenda circulated on 10 July 2015 for the meeting of the Policy Committee on Monday 20 July 2015 at 6.30pm, in the Council Chamber, Civic Offices, Reading.

*Please Note - the Committee will first consider items in closed session. Members of the press and public will be asked to leave the Chamber for a few minutes.*

**ITEMS FOR CONSIDERATION IN CLOSED SESSION**

The following motion will be moved by the Chair:

"That, pursuant to Section 100A of the Local Government Act 1972 (as amended) members of the press and public be excluded during consideration of the following items on the agenda, as it is likely that there would be disclosure of exempt information as defined in the relevant Paragraphs of Part 1 of Schedule 12A (as amended) of that Act"

<u>ACTION</u>	<u>WARDS AFFECTED</u>	<u>PAGE NO</u>
1. DECLARATIONS OF INTEREST FOR CLOSED SESSION ITEMS	-	-
2. PROACTIVE REPAIRS TO CORPORATE BUILDINGS 2015/16 Councillor Lovelock / Director of Environment and Neighbourhood Services	BOROUGHWIDE	A1
3. PROCUREMENT OF ADDITIONAL 16+ SUPPORTED LIVING CAPACITY Councillor Gavin / Directors of Children, Education & Early Help Services and Adult Care And Health Services	BOROUGHWIDE	A6

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## ITEMS FOR CONSIDERATION IN PUBLIC SESSION

### 4. CHAIR'S ANNOUNCEMENTS

### 5. DECLARATIONS OF INTEREST

Councillors to declare any interests they may have in relation to the items for consideration in public session.

### 6. MINUTES

To confirm the Minutes of the Policy Committee meeting on 8 June 2015. B1

To receive the Minutes of the Mapledurham Playing Fields Management Committee meeting on 10 February 2015. B6

### 7. QUESTIONS AND PETITIONS

To receive any questions from Councillors and the public, and any petitions from the public.

### 8. DECISION BOOK REFERENCES

### 9. PROPOSED SERVICE OFFERS AND BUDGET PROPOSALS 2016-19 TO NARROW THE BUDGET GAP

BOROUGHWIDE

C1

Councillor Lovelock / Corporate Management Team

This report sets out: the updated financial context in which the Council will deliver services over the next few years; a current view of the financial outlook and the savings needed from the Council's budget; an initial range of proposals for change that would alter the Council's services to residents, businesses and visitors; and the consultation arrangements for these proposed changes.

### 10. DOMESTIC ABUSE STRATEGY FOR READING 2015-18

BOROUGHWIDE

D1

Councillor Lovelock / Director of Environment and Neighbourhood Services

This report seeks endorsement of the post-consultation draft of the Domestic Abuse Strategy for Reading 2015-18 and the associated action plan.

- |                                                                                                                                                                                                                                                                                                  |                    |           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-----------|
| <b>11. UNIVERSAL CREDIT</b>                                                                                                                                                                                                                                                                      | <b>BOROUGHWIDE</b> | <b>E1</b> |
| <p>Councillor Lovelock / Managing Director</p>                                                                                                                                                                                                                                                   |                    |           |
| <p>This report sets out the partnership agreement between the Council and the Department for Work and Pensions to deliver Universal Credit services from September 2015.</p>                                                                                                                     |                    |           |
| <b>12. PROCUREMENT OF ADDITIONAL 16+ SUPPORTED LIVING CAPACITY</b>                                                                                                                                                                                                                               | <b>BOROUGHWIDE</b> | <b>F1</b> |
| <p>Councillor Gavin / Directors of Children, Education &amp; Early Help Services and Adult Care And Health Services</p>                                                                                                                                                                          |                    |           |
| <p>This report seeks approval to enter in to a contract to procure additional capacity for 16+ supported living provision in Reading.</p>                                                                                                                                                        |                    |           |
| <b>13. REVIEW OF DISCRETIONARY HOUSING PAYMENTS SCHEME- PROPOSED CONDITIONALITY</b>                                                                                                                                                                                                              | <b>BOROUGHWIDE</b> | <b>G1</b> |
| <p>Councillor Lovelock / Managing Director</p>                                                                                                                                                                                                                                                   |                    |           |
| <p>This report reviews the current operation of awards of Discretionary Housing Payments, and makes recommendations for consideration of conditionality within the scheme for the financial year 2015/16.</p>                                                                                    |                    |           |
| <b>14. LAND AT GREEN ROAD</b>                                                                                                                                                                                                                                                                    | <b>PARK</b>        | <b>H1</b> |
| <p>Councillors Lovelock &amp; Page / Director of Environment and Neighbourhood Services</p>                                                                                                                                                                                                      |                    |           |
| <p>This report advises the Committee of a request from the Planning Application Committee to allocate an area of Council-owned land at Green Road for use as recreational open space.</p>                                                                                                        |                    |           |
| <b>15. STATION HILL DEVELOPMENT</b>                                                                                                                                                                                                                                                              | <b>ABBAY</b>       | <b>J1</b> |
| <p>Councillor Page / Director of Environment and Neighbourhood Services</p>                                                                                                                                                                                                                      |                    |           |
| <p>This report asks the Committee to consider requests from Sackville regarding acquisition arrangements and the use by the Council of its planning powers under Section 237 of the Town and Country Planning Act 1990 (as amended) (Section 237), in relation to the Station Hill 3 scheme.</p> |                    |           |
| <b>16. BUDGET MONITORING 2015/16</b>                                                                                                                                                                                                                                                             | <b>BOROUGHWIDE</b> | <b>K1</b> |
| <p>Councillors Lovelock &amp; Page / Head of Finance</p>                                                                                                                                                                                                                                         |                    |           |
| <p>This report set out the budget monitoring position for the Council to the end of May 2015.</p>                                                                                                                                                                                                |                    |           |

**17. IMPACT OF THE EMERGENCY BUDGET ON THE COUNCIL'S  
HOUSING REVENUE ACCOUNT**

**BOROUGHWIDE**

**L1**

Councillor Davies / Director of Environment and Neighbourhood  
Services

This report outlines the measures in the Emergency Budget that  
will impact on the Council's Housing Service (specifically the  
Housing Revenue Account) and future plans.

READING BOROUGH COUNCIL

REPORT BY THE DIRECTOR OF ENVIRONMENT AND NEIGHBOURHOOD SERVICES

TO:	POLICY COMMITTEE		
DATE:	20 JULY 2015	AGENDA ITEM:	17
TITLE:	IMPACT OF THE EMERGENCY BUDGET ON THE COUNCIL'S HOUSING REVENUE ACCOUNT		
LEAD COUNCILLOR	CLLR RICHARD DAVIES	PORTFOLIO:	HOUSING
SERVICE:		WARDS:	BOROUGHWIDE
LEAD OFFICER:	SARAH GEE/ ALAN CROSS	TEL:	0118 937 2973 (x72973) 0118 937 2058 (x72058)
JOB TITLE:	HEAD OF HOUSING AND NEIGHBOURHOOD SERVICES	E-MAIL:	<a href="mailto:Sarah.gee@reading.gov.uk">Sarah.gee@reading.gov.uk</a>
	HEAD OF FINANCE		<a href="mailto:Alan.cross@reading.gov.uk">Alan.cross@reading.gov.uk</a>

1. PURPOSE AND SUMMARY OF REPORT

- 1.1 The Chair has agreed that this item should be considered as a matter of urgency in accordance with Section 100B 4(b) of the Local Government Act 1972 (as amended), on the grounds that the issue arose with insufficient time to prepare a report in time for the publication of the agenda on 10 July 2015 and that the matter needed to be considered at the earliest opportunity, which was before the next scheduled meeting of the Committee due to be held on 21 September 2015.
- 1.2 On Wednesday 8<sup>th</sup> July the chancellor delivered the first budget for the Conservative Government.
- 1.3 A number of measures announced in the budget will, subject to parliamentary approval will be enshrined in primary legislation in the Welfare Reform and Work Bill 2015.
- 1.4 This briefing outlines the measures that will impact on the Council's Housing Service (specifically the Housing Revenue Account) and future plans, and provides some initial analysis. This includes a significant challenge to the Council's ability to deliver it's planned programme of new council homes - a key priority in the context of acute demand for affordable housing in the town.

## 2. RECOMMENDED ACTIONS

- 2.1 Policy Committee is asked to note the report and in particular the key implications of the emergency budget announcements which are:
- (a) Government is proposing removing control of HRA rents from the Council for the next 4 years
  - (b) The change to a 1% year on year annual reduction in rent is estimated to remove £233m from the Council's 30 year HRA business plan
  - (c) The reduction in resources of this magnitude will mean that the plan to build 1000 properties in 30 years is no longer affordable, and the business plan will need substantial revision to identify what can now be done
- 2.2 Policy Committee asks the Head of Housing & Neighbourhood Services and Head of Finance to review the HRA Business Plan with a view to preserving as much of the planned HRA New Build Programme as possible, without significantly compromising service delivery to existing tenants.

## 3. POLICY CONTEXT

### The Housing Revenue Account and Business Plan

- 3.1 The Housing Revenue Account (HRA) deals with council housing finance. The main income is housing rent, and all expenditure related to council housing (such as dealing with lettings; managing, maintaining and repairing the stock; collecting rent) is charged to this account. The Housing Revenue Account is 'ring-fenced' (separate) from other Council activity (this is accounted for through the 'General Fund' account).
- 3.2 In April 2012 council housing finance moved to a 'self-financing' regime nationally. Councils took on full responsibility for the long-term financial management of council housing. This means that councils keep their rental income and use it to manage and maintain their housing stock. At the point of self financing councils whose debt was lower than the value of their stock were required to borrow and pay the difference to the government. Reading's HRA debt increased by £147.8M and the annual cost increased to around £10m.
- 3.3 In the run up to self financing the then Housing Minister, Grant Schapps said
- "Our proposals for self-financing for council housing will:*
- *give councils the resources they need to manage their own housing stock for the long-term - correcting decades of under-funding*
  - *give councils the incentives and flexibility they have sought to drive up quality and efficiency*
  - *give tenants the information they need to hold their landlord to account - replacing the current opaque, centralised system with one which establishes*

*a clear relationship between the rent councils charge and the services they provide*

*These reforms are fair. They are rooted in a consistent and tested calculation of the value of each council's social housing business, producing a sustainable self-financing settlement for each local authority. I expect all councils to welcome the reforms and to start planning now how to make the most of their new freedom."*

- 3.4 Self-financing was predicated on an assumption of rents increasing by RPI + 1% over a 30 year period. Subsequently the Government changed the guidance to CPI + 1%.
- 3.5 Self-financing has required councils to take a much longer-term planning approach - to ensure that practically all of the Council's housing stock continues to meet the 'decent homes standard', to repay the debt and to ensure the continued viability of the Housing Revenue Account. The Council is required to prepare a financial plan for the Housing operation over a 30 year period. The financial model shows the estimates of rent and other income, the day to day management and repair costs as well as the long term major investment needs to maintain the stock and the cost of servicing the debt over 30 years.
- 3.6 An independent review of the Council's HRA business plan was reported to Policy Committee on 22<sup>nd</sup> September 2014. The review found that the assumptions underpinning the plan are prudent and largely in line with other social housing providers. The review reported that based on a range of assumptions, including that national guidelines for rent setting were followed, and therefore rents are increased annually by CPI plus 1%, there are sufficient resources to manage, maintain and invest in the Council's existing housing stock over the next 30 years.
- 3.7 Local housing authorities are now able, and have been actively encouraged by Government, to use rental income to support investment in housing in terms of both existing homes *and* building new council housing. This investment can either be financed directly from rent income or from borrowing that will be repaid from rent income in the future. The Government introduced a limitation on HRA borrowing (usually referred to as a 'debt cap') for each local authority at the point of self-financing. The Council's debt cap is £208.5m. This means that the Council currently has some 'headroom' for borrowing beneath the cap. At 1 April 2015 the Council's HRA debt was £192.6m.
- 3.8 The independent review assessed the level of resources available (beyond maintenance of the existing housing stock) to support a programme of building new Council housing in Reading. This included borrowing against the forecast rental income of new build housing; borrowing against the rental income of existing homes; and a range of internal subsidy including retained Right to Buy proceeds, some of which must be used on replacement housing. The review identified that based on the best assumptions and plans that were available at the time of doing the work:

- there was capacity over the next 30 years to continue to maintain and improve existing Council homes and their surroundings - and additional provision of £21.6m was made in funding plans for
  - a continuing energy efficiency programme to tackle fuel poverty (building on considerable works undertaken to date to replace boiler and heating systems and maximise insulation in Council stock);
  - shower installations to be included when bathrooms are replaced;
  - a range of environmental/estate improvement works.
- there was capacity in the Housing Revenue Account to finance a programme of circa 1,000 new homes over a 30 year period (about 300 of which could be built on Council-owned land), and to develop an estimated 250 homes over the first five years of the programme.

3.9 In May 2014, Government introduced a ten year rent policy 'Rents for Social Housing from 2015/16' introducing an annual increase of CPI + 1%, compared to the former policy of RPI + 0.5%. This took effect from April 2015.

3.10 In January 2015 the Council approved the draft budget for the Housing Revenue Account for 2015/16, setting the rent increase for 2015/16 at CPI+1% in line with the agreed rent policy. The approval included a programme of capital expenditure to maintain and improve the Council's housing stock. The Council also adopted a Rent Policy in line with this national guidance, and noted that a consultation with tenant representatives on this proposal was supportive.

3.11 In April 2015, Policy Committee received an update on the programme which identified the likely land required for the first 125 homes and approved the design standards for the new council housing.

#### Government Summer Budget

3.12 The Chancellor's Budget on 8<sup>th</sup> July announced a range of measures which will impact on Housing and specifically on the Council's HRA 30 year Business Plan and programmes of work which are predicated on this financial model. A number of measures announced in the budget will be enshrined in primary legislation in the Welfare Reform and Work Bill 2015. The key measures which will impact on the HRA are detailed below.

#### Rent setting:

3.12 A 1% reduction in social landlord rents for 4 years from 2016 has been announced. This therefore negates the national rent policy set last year. The Chancellor has stated that the driver for this policy is to reduce the national Housing Benefit budget. The proposed legislation effectively sets rent levels for the next 4 years.

3.13 The budget also outlines an intention to make it mandatory for social landlords to charge full (or near) market rents for households that earn £30,000 a year or more (outside of London). The additional rental income will be retained by Housing Associations to support house building. However, it is proposed that Local Authorities will have to passport the additional income to the treasury. No



further details have yet been made available as to how this is intended to be implemented in practice, and a consultation will be published in 'due course'. To set this proposal in context for Reading, an average weekly rent for a 2 bedroomed flat in the private rented sector is currently circa £270 per week, compared to circa £95 a week for a 2 bedroomed Council flat.

#### Welfare reforms:

- 3.14 A range of reforms to the welfare system are proposed which will additionally impact on rental income:
- Reduction of the Benefit Cap to £20,000 a year/£385 a week for households outside London (from £26,000 currently)
  - 18-21 year olds in receipt of Job Seekers Allowance (JSA) will not automatically be entitled to Housing Benefit
  - Most working age benefits (including tax credits) will be frozen for 4 years from 2016
  - There will be a reduction in Employment Support Allowance (ESA) to match JSA from 2017
  - Child tax credit as part of Universal Credit will no longer be awarded for 3<sup>rd</sup> or subsequent child(ren)

#### Other

- 3.15 Finally, the Chancellor also announced that the Government will be reviewing the use of lifetime tenancies in social housing with a view to limiting their use. There is no further detail currently available.
- 3.16 A fixed term tenancy, also known as a flexible tenancy, is where a property is let for a fixed number of years. At the end of the fixed term, the tenancy is then reviewed and is either renewed or the tenant is asked to move to alternative accommodation. In Reading, Council homes are let on a secure tenancy, which is effectively for life as long as the rent is paid and other tenancy conditions complied with. The Government introduced changes some time ago to enable Local Authorities to utilise fixed-term tenancies. As set out in the Council's Tenancy Strategy, Reading Borough Council considered that fixed-term tenancies could result in greater 'churn' and more transient populations in concentrated areas of social housing - undermining the sustainability and cohesion of communities, so decided to continue to offer secure tenancies.

#### 4. IMPLICATIONS

- 4.1 For Reading Borough Council, an annual reduction in social housing rent charged of 1% will result in an estimated 12% reduction in anticipated rental income from year 4 to year 30 of the business plan, which is estimated to cost c. £233m over the life of the business plan.
- 4.2 The reduction in the capacity in the HRA Business Plan will very significantly impact the Council's ability to deliver its planned programme of new build council housing. Further work is necessary over the coming weeks to recast the

Business Plan assumptions and model a range of scenarios to better appraise the likely impact on the programme. Potential mitigations will be considered but these are likely to be limited given the scale of the changed rent assumption.

- 4.3 Furthermore, when taken together the package of welfare reform measures are likely to increase the pressure on tenants on low incomes and there is a more significant risk that rent arrears will increase. The Housing Service has been very effective in proactively targeting household's impacted by Welfare Reforms to date and has maintained top quartile performance nationally in respect of rent collected as a result - maximising income to the HRA. However, the Council will need to undertake further analysis and revise it's bad debt assumptions in the HRA Business Plan. Clearly an increase in bad debt will reduce further projected capacity to finance the development of new homes (or stock improvements).
- 4.4 The 'pay to stay' proposal to charge market rents to households with incomes above a £30,000 threshold also has implications for arrears and bad debt provision as it too will impact on tenants' ability to pay their rent. It is also expected to fuel a further rise in Right To Buy (RTB) applications as for some a mortgage will be cheaper than paying full market rent. This will have wider implications as it will further reduce the town's supply of affordable housing, but also has the effect of reducing rental income (whilst creating a capital receipt). It will be difficult to predict the impact on RTB accurately and again scenario planning will be needed to enable the Council to plan ahead and effectively manage risk.
- 4.5 The Council has not chosen to adopt fixed-term tenancies. If required to do so then administering this, and the 'pay to stay' policy, would incur additional costs.
- 4.6 The changes to national rent policy, the proposed introduction of 'pay to stay' and the pre-election proposal in relation to Council's effectively subsidising a new Housing Association Right to Buy scheme together undermine Council autonomy in respect of the HRA and provide little certainty in planning ahead to effectively utilise HRA capacity to deliver better outcomes for our communities.

## 5. CONTRIBUTION TO STRATEGIC AIMS

- 5.1 The Budget measures announced impact negatively on work programmes set out in the Council's Corporate Plan under the strategic priority 'Providing homes for those in most need'.

## 6. EQUALITY IMPACT ASSESSMENT

- 6.1 The Budget proposals are disadvantageous to Reading and, even with mitigating measures, will result in a reduction in the number of new affordable homes which the Council is able to build over the next 30 years for those in priority housing need. The Council will undertake further work to identify options to seek to mitigate the impact of the changes on Reading residents.

## **7. LEGAL IMPLICATIONS**

7.1 The Welfare Reform and Work Bill 2015 has been published and had its first reading in Parliament on 9<sup>th</sup> July 2015. The second reading debate is due to take place on 21<sup>st</sup> July 2015 and the Bill is expected to get Royal Assent in the Autumn. Implementation dates are not yet clear for all of the measures proposed. The Bill is available online:

<http://services.parliament.uk/bills/2015-16/welfarereformandwork.html>

7.2 The purpose of the bill is to make provision about:

- reports on progress towards full employment and the apprenticeships target;
- reports on the effect of certain support for troubled families;
- social mobility;
- the benefit cap;
- social security and tax credits;
- loans for mortgage interest;
- social housing rents.

## **8. FINANCIAL IMPLICATIONS**

8.1 As indicated above the changed rent assumption required following the emergency budget will significantly reduce the Council's rent income over the 30 year period of the business plan. Our initial estimate is that this will be £233m.

8.2 We will need to reduce our costs over the 30 year life of the plan; including the amount of money we can spend on new build housing. Given the magnitude of the change officers need to take some time to recast the plan and identify possible mitigating measures to report to committee in the autumn.

## **9. BACKGROUND PAPERS**

Government's Emergency Budget and related announcements

<https://www.gov.uk/government/speeches/council-housing-finance>

