ITEM NO. 10.1

Report of:	**Head of Finance and Acting Head of Housing**
Contact Officer:	**Bob Kean Janet Baldasera**
Telephone No:	**01543 464334 01543 464 317**
Portfolio Leader:	**Housing**
Key Decision:	**No**
Report Track:	**Cabinet 24/09/15**

CABINET

24 SEPTEMBER 2015

PROPOSED REDUCTION IN RENTS IN SOCIAL HOUSING IN ENGLAND

1 Purpose of Report

1.1 To consider the implications of the Government's budget announcement to reduce social rents by 1% a year for 4 years commencing April 2016.

2 Recommendations

2.1 That Cabinet note the contents of this report in relation to:

(a) The financial impact of the proposed reduction in social housing rent resulting in:

- A reduction in HRA resources of £6.1 million over the next four years
- An ongoing reduction in rent from 2014/15 onwards of £2.5 million per annum
- The removal of £75.8 million of resources from the Councils 30 year HRA Business Plan.

(b) The resultant potential shortfall on the approved Capital Programme to 2017-18 of £1.8 million.

and

(c) The current action taken in respect to lobbying against the Governments Rent Reduction proposals with the following:

(i) Cannock Chase Member of Parliament, Ms Amanda Milling

(ii) Housing and Planning Minister, Brandon Lewis

(iii) Shadow Housing and Planning Minister, John Healey

(iii) District Council's Network (DCN)

(ivi) Local Government Association (LGA)

2.2 That Cabinet authorise the Managing Director to continue to challenge the Government's proposals through lobbying and judicial review as set out in paragraphs 5.50- 5.54.

2.3 That in the light of the potential loss of HCA Affordable Housing Grant and the impact on the new build programme that the Council proceeds with the procurement exercise for the Redevelopment of Garage Sites and Other Council Owned Land to receipt of tender stage but that no contract award is made until a review of HRA Business Plan and associated Capital Programme is complete.

2.4 That the current medium term HRA Business Plan be reviewed to identify compensating measures to enable the scheme to proceed including the rescheduling of debt and other measures that mitigate the immediate impact on service provision.

2.5 That Cabinet agree to defer, pending a comprehensive review of the HRA Business Plan, any further progress on the uncommitted element of the Council's new build programme, in particular, with regard to the proposed use of the £1.94m of resources to fund an additional 16 Council dwellings.

2.6 That Cabinet authorise a review of the Council's 30 year Business Plan to:

(i) Undertake a full assessment of the implications of the Governments rent reduction proposals

(ii) Determine options available to mitigate the impact of the Governments Rent Reduction Proposals.

And

(iii) Agree to receive a further report on the implications of the Governments Rent Reduction Proposals.

2.7 That where the preparatory work as set out in 5.54 establishes grounds for a judicial review Cabinet agree to receive a further report to consider the implications of undertaking a challenge against the Government's proposal to reduce social rents by 1% a year for 4 years commencing April 2016.

3 Key Issues and Reasons for Recommendation

3.1 Local Authorities Housing Revenue Accounts now operate under the Governments Self Financing Regime. The regime was introduced in April 2012 to give local authorities the resources, incentives and flexibility they need to manage their own housing stock for the long-term and to drive up quality and efficiency.

3.2 The Self Financing regime involved the Council effectively purchasing from the Government its Housing Stock based upon a valuation model. The model was based upon the national social rent policy which essentially involved increasing rents by RPI + 0.5% per annum.

3.3 The assumptions in relation to Rent income are key to effective business planning for local authorities. In May 2014 the Government committed to a 10 year rent policy of CPI + 1% and stated:

"*Ten years of rent certainty should put them in a strong position to plan strategically and utilise the freedoms they now have following our reforms – including the ability to keep full rental income – and invest in homes and service*"

3.4 In accordance with the HRA self financing regime, (whereby authorities can use the whole of their rental income to support housing investment – rental income can be invested directly or can be used to finance additional borrowing), the Council in February 2015 approved the allocation of £2.340 million to provide new housing and the freezing of rent levels at a cost of £1.5 million that fully utilised the available balances of the HRA over the medium term.

3.5 The Chancellor in his Summer Budget back tracked on the May 2014 policy by determining that rents in social housing in England will reduce by 1% a year for 4 years.

3.6 Cannock Chase Council had assumed a 2% increase in rent per annum and the literal interpretation of the proposal is a 3% per annum reduction in rent income for four years for Cannock Chase and equates to £600,000 per annum with the ongoing reduction after 4 years of in excess of £2.5 million. The impact on n the 30-year HRA Business Plan is a reduction in resources of £75.8 million

3.7 The Council has entered into commitments to build new houses, in support of Government Policy, and implemented a rent freeze in 2015-16 that now puts in jeopardy its medium term financial viability.

3.8 It is proposed that the Council challenges the proposals to reduce rent by 1% per annum for the next 4 years on the grounds that it is

- Not in accordance with the Government Social Rent Policy for 2015-16 to 2024-25
- Is contrary to the Self Financing Regime
- Has not been subject to consultation.

3.9 It is proposed that the Council requests that

(a) An exemption from the rent reduction requirement to avoid the serious financial difficulties that will be faced if clause 19 is complied with;

(b) A compensating grant is received from the government , similar to the Council Tax Freeze grant , to offset the impact of the change in policy

OR

(c) A repayment of the settlement sum based on the overstatement in the Council's housing stock valuation of £10.174 million

3.10 The amendment of rent increases from RPI + 0.5% per annum to a 1% reduction for four years reduces Cannock Chases valuation from £85.028 million to £74.854 million, an overstatement of £10.174 million or 12%.

3.11 The Government in response to the Self Financing consultation stated that Clause 169 will allow "a further adjustment to the debt allocated to local authorities if a future policy change has a significant material effect on their costs or income" and that the measure "is designed to protect both councils and the Exchequer."

4 Relationship to Corporate Priorities

4.1 This report supports the Council's Corporate Priorities as follows:

(i) The Housing Revenue Account is based on a 30 year Business Plan for the management, maintenance and enhancements to the Council's Housing Stock. Any reduction in resources to the current fully funded Business Plan will impact on the Council's ability to:

- Provide for long term investment in the Council's housing stock
- Enhance the level of planned maintenance beyond the Decent Homes/Statutory minimum
- To ensure provision is made for housing management in line with current policies and existing levels of service
- To provide additional Council dwellings

5 Report Detail

5.1 Local authorities with housing stock are required to record all income and expenditure in relation to these dwellings in their Housing Revenue Account (HRA). The HRA is often referred to as a 'landlord account. It is a ring-fenced account within the General Fund; this ensures that rent levels cannot be subsidised by increases in Council Tax and that rents cannot be increased in order to keep Council Tax levels down.

5.2 Historically, local authorities experienced a deficit on their HRAs, i.e. the rental income they received did not cover all outgoings on the account. In very simple terms, this was met by Government in the form of annual payments of HRA subsidy. A majority of local housing authorities, including Cannock Chase, were in “negative subsidy” and made annual contributions to the Treasury rather than receiving subsidy towards the management and maintenance of council housing stock.

5.3 In February 2011 the Coalition Government published “Implementing self-financing for council housing”. The document stated:

The reform of council housing finance was a Coalition Agreement commitment which we aim to implement in April 2012. The Housing Revenue Account subsidy system will continue until then. The objectives of these reforms are:

• To give local authorities the resources, incentives and flexibility they need to manage their own housing stock for the long-term and to drive up quality and efficiency.

• To give tenants the information they need to hold their landlord to account, by replacing the current opaque system with one which has a clear relationship between the rent a landlord collects and the services they provide
Self-financing will put all local authority landlords in the position where they can support their own stock from their own income

5.4 Provisions allowing for the abolition of the HRA subsidy system and its replacement with a self-financing regime were included in Part 7 of the *Localism Act 2011.*

5.5 The HRA self financing regime came into place as at April 2012 with Cannock Chase Council’s housing stock valuation amounting to £85.028 million. The Council already had a capital financing requirement of £25.784 million and hence had to make a payment to the Secretary of State of £59.245 million prior to Self Financing being implemented. In accordance with the Self Financing Determination the Council undertook borrowing of £59.245 Million to fund the payment.

5.6 The self-financing valuation of each local housing authority’s council housing stock had been made using a discounted cash flow model of each authority’s social housing business. This model is based on assumptions made by Government about the rental income and expenditure required to maintain each council’s housing stock over 30 years.

5.7 In the Government Response to the 21 November 2011 consultation on the self-financing determinations it stated

8 A change to rent policy would either leave councils with less to spend on their housing, or would need to be funded by Government from other programmes. Rents are an integral part of reforms which will deliver a long term, securely funded, future for council housing. We do not therefore propose to change rent policy.

10 The increase in the valuation reflects an actual increase in income for councils that follow social rent policy. Once the rent policy is established, it is right that the valuation should be based on this.

5.8 The model was based upon the national social rent policy which essentially involved increasing rents by RPI + 0.5%

5.9 <u>Cannock Chase Council 30 Year Business Plan</u>

5.10 Local Authorities Housing Revenue Accounts now operate under the Governments Self Financing Regime. The regime was introduced in April 2012 to give local authorities the resources, incentives and flexibility they need to manage their own housing stock for the long-term and to drive up quality and efficiency.

5.11 The Self Financing regime involved the Council effectively purchasing from the Government its Housing Stock based upon a valuation model. The model was based upon the national social rent policy which essentially involved increasing rents by RPI + 0.5% per annum.

5.12 In order to manage the financial risks of Self Financing local housing authorities were required to develop 30 year business plans for their HRAs. The plans were required to ensure that they generate enough rental income each year to run an efficient and effective housing management service. Rental income must also be sufficient to service any outstanding housing debt.

5.13 In addition it was recognised that what authorities could achieve under self-financing differs significantly depending on their individual profiles. Factors such as the level of debt they need to service, political priorities and the level of risk an authority is prepared to take on, are key to these decisions. Authorities can use the whole of their rental income to support housing investment – rental income can be invested directly or can be used to finance additional borrowing. However borrowing is limited by a debt cap that reflects the self financing valuation i.e. £85.028 million.

5.14 Cannock Chase Council approved its first HRA Business Plan on the 2 February 2012. The assumption on rent income was in accordance with the Rent Policy at that time and was as follows :-

> *"Dwelling Income Rent income is assumed to increase by RPI plus 0.5% until rent convergence by year 4. Thereafter, rents are assumed to increase annually by inflation only."*

5.15 The Business Plan included the provision to construct 50 new Council Houses on Council owned land in years 3 (2014-15) and 4(2015-16) of the plan and this was reflected in the authority's capital programme.

5.16 The Business Plan had however been amended to reflect a reduction in Rent income to reflect the impact of the Welfare Reform Bill, including the capping of housing benefit.

5.17 The latest Business Plan and associated Capital Programme were approved by Council in February 2015. The approvals now reflect:

- The provision of a further 79 new properties having obtained matching funding from the Homes and Communities Agency and Additional Borrowing from the Department for Communities and Local government.

- The decision not to implement the 2.5% rent increase included in the base budget of 2015-16 with rent levels being frozen.

5.18 The proposals which included the allocation of £2.340 million to provide new housing and the freezing of rent levels (costing £1.5 million) fully utilised the available balances of the HRA over the medium term.

5.19 **<u>Rent setting & rent convergence policy</u>**

5.20 Since 2001 most rents have been set based on a framework set by Government.

5.21 In October 2013 the Coalition Government undertook a consultation in relation to Rents for Social Housing from 2015-16. The proposals included:

- The move from an annual limit on weekly rent increases of RPI + 0.5 percentage points + up to £2, to a limit of CPI + 1 percentage point.

5.22 The Government, having considered the responses to the consultation, determined in May 2014 the revised national rent policy for social housing from 2015-16. With the exception of matters of clarification, the national rents policy as included in "Guidance on Rents for Social Housing" remained unchanged from that proposed within the consultation paper and the guidance stated.

For local authorities, specifically, our aim is also to support them to make use of the opportunities presented by self-financing. Ten years of rent certainty should put them in a strong position to plan strategically and utilise the freedoms they now have following our reforms – including the ability to keep full rental income – and invest in homes and service

5.23 The Spending Review document states that the Government will save £540 million in 2017/18 as a result of the change in formula.

5.24 In accordance with the regulatory framework for social housing, the Council is required to formulate its policies in accordance with the national rent standards and as a result the Council's rent setting policy for 2015-16 was amended on the 21 August 2014.

5.25 <u>Summer Budget 2015.</u>

5.26 The Chancellor of the Exchequer made his Summer 2015 Budget announcement to the House of Commons on 8 July 2015.

5.27 As part of the Government arrangements for **A Lower Welfare Society: Reforming the system to make it fairer and more affordable,** the government will reduce rents in social housing in England by 1% a year for 4 years. The Chancellor stated:

"**Alongside the freeze in working-age benefits, the government will reduce rents in social housing in England by 1% a year for 4 years**, requiring Housing Associations and Local Authorities to deliver efficiency savings, making better use of the £13 billion annual subsidy they receive from the taxpayer. Rents in the social sector increased by 20% over the 3 years from 2010-11. This will allow social landlords to play their part in reducing the welfare bill. This will mean a 12% reduction in average rents by 2020-21 compared to current forecasts. "

5.28 Rents have increased in accordance with the Governments Rent policy and reflect the prevailing increases in RPI over this period. Whereas under Self Financing the Council receives no direct subsidy as such any "subsidy" in relation to Housing Benefits has however been subject to reductions as part of other Welfare Reform initiatives.

5.29 At present in accordance with current Government Policy rents can increase by CPI +1% per annum and this is reflected in this Councils current budgets and financial plan in the form of a 2% increase per annum (Rents were however frozen in 2015-16).

5.30 The literal interpretation of the proposal is a 3% per annum reduction in rent income for four years for Cannock Chase and equates to £600,000 per annum. The Councils Business Plan assumption of a 2% increase per annum was within the Governments policy of CPI +1% per annum, whereas the Summer Budget reflects a 1% reduction per annum for the next four years.

5.31 The direct impact upon the current approved budgets to 2017-18, with all resources fully allocated, is a loss of capital resources of £1.8 million. The ongoing reduction in income in 2019-20 is some 4 fold and amounts to £2.5 million per annum. The impact on the 30-year HRA Business Plan is a reduction in resources of £75.8 million.

5.32 In accordance with Clause 21 of the Welfare Reform and Work Bill, as introduced in the House of Commons on 9 July 2015, the Secretary of State may, by direction, exempt a local authority from the rent reduction requirement if he considers that the local authority would be unable to avoid serious financial difficulties if it were to comply with clause 19.

5.33 **Councils Challenge to proposals**

5.34 The basis for a challenge to the proposals to reduce rent by 1% per annum for the next 4 years are:

- Not in accordance with the Government Social Rent Policy for 2015-16 to 2024-25
- Is contrary to the Self Financing Regime
- Has not been subject to consultation.

5.35 All stakeholders involved with Social Rent require a certainty about future rent increases. Assumptions around future rent increases are key to effective business planning for local authorities.

5.36 Based upon the Governments Rent Policy to 2024-25 Cannock Chase Council made two commitments as part of its 2015-16 budget that will now impact on the medium term financial viability of its HRA.

5.37 The Summer proposals are contrary to the Governments objectives of the Subsidy and Self Financing reforms and in particular the Localism Agenda:

- To give local authorities the resources, incentives and flexibility they need to manage their own housing stock for the long-term and to drive up quality and efficiency.

5.38 The Council in particular challenges the Valuation of the Councils Housing Stock as a result of the Policy Changes and calls upon the Secretary of State to compensate the Council for the material impact on income of the 1% reduction.

5.39 Clause 169 of the Localism Bill gives the Secretary of State power to make a further payment to a local authority or require a payment from a local authority where a settlement payment, as defined in Clause 168, has been made previously. It will be possible to revisit the settlement payment where there has been a change in any matter that was taken into account in making:

a. the determination relating to the settlement payment or a calculation under that determination; or

b. a previous determination made under Clause 156 relating to the local housing authority or a calculation under that determination.

5.40 In response to the Self Financing Consultation the Government has said that the provision will allow “a further adjustment to the debt allocated to local authorities if a future policy change has a significant material effect on their costs or income” and that the measure “is designed to protect both councils and the Exchequer.”

5.41 Based upon substituting a 1% reduction rather than 0.5% increase in the HRA Self Financing Model a revised valuation of £74.854 is arrived at a reduction of £10.174 million.

5.42 **Impact on Business Plan of future Government Policy**

5.43 The Capital Programme as reviewed by Cabinet on 23 July 2015 includes the following commitments which form part of the Councils new build programme of 129 dwellings:

Scheme	No of New Council Houses
Moss Road Estate Redevelopment Scheme	65
Green Lane Housing Scheme	23

Both the above sites have been procured, contracts entered and are under construction.

5.44 Furthermore, Cabinet on 29 January 2015 approved the Development Brief for the Redevelopment of Garage Sites and Other Council Owned Land. Whilst the 11 sites could potentially provide up to 44 additional dwellings, resources of £3.16m in 2016-17 and 2017-18 have been agreed to provide an initial 27 dwellings. An application was made under the Homes and Communities Agency (HCA) Affordable Homes Programme for Affordable Housing Grant of £432,000 in respect of the 27 dwellings which has been approved and is paid in stages i.e. start on site and on completion. The Development Brief and tender documentation have been formulated and are ready to be issued.

5.45 A further £1,940,000 of uncommitted resources in 2016-17 and 2017-18 have been identified for the provision of an estimated additional 16 Council dwellings to complete the new build programme. As stated in 5.44 above sites for these additional dwellings have been identified for which these uncommitted resources were to be brought forward for future consideration by Cabinet.

5.46 The HRA Business Plan also provided further scope to potentially extend the New Build provision in 2018-19 as part of this year's budget process.

5.47 However, due to the Governments rent reduction proposals, the ability to deliver the current programme has been severely jeopardised. It is proposed that no further action is taken to commit to any further development to build new Council dwellings but that in the light of the potential loss of HCA grant and the impact on the new build programme that the Council proceeds with the procurement exercise for the Redevelopment of Garage Sites and Other Council Owned Land to receipt of tender stage but that no contract is awarded until the HRA review is completed.

5.48 Disposal of High Value Voids. In addition to the Government's proposal for a 1% rent reduction the Government announced in the Queens Speech that a Housing Bill will be introduced which will include the proposal to require local authorities to dispose of high-value vacant council houses which would help fund the Right to Buy extension discounts to housing association tenants and the building of more affordable homes in the area. It is anticipated that caps will be set above which Councils will be required to sell any vacant properties. The impact of this legislation on the Council's Business plan will need to be assessed when further details become available and a future report submitted to Cabinet for consideration.

5.49 Pay to Stay. As part of the Welfare Reform and Work Bill 2015 the Government intends to introduce "Pay to Stay" which will require higher income social housing tenants to pay market rents from 2017-18. The proposal is that higher income social housing tenants earning over £30,000p.a. outside London will be charged a market rent, instead of a social rent. The additional proceeds generated by charging a market rent are to be returned to the Exchequer. Whilst there will be no benefit from increased revenue for the Council the Governments impact analysis has identified as an area of uncertainty the numbers of tenants exercising the Right To Buy. The impact of this legislation on the Council's Business plan will need to be assessed when further details become available and a future report submitted to Cabinet for consideration.

5.50 **Current and Future Actions**

5.51 Following the Summer Budget announcement Cannock Chase MP Amanda Milling and the Housing Minister, Brandon Lewis are being lobbied with regard to the Council's challenge to the Governments proposal as set out in 5.34-5.41 above.

5.52 Correspondence to the MP setting out the impact of the proposals is attached (Appendix 1 letter) which was followed by a meeting with the Managing Director to further detail the Council's situation. Correspondence to the Minister of State for Housing and Planning is attached as Appendix 2.

5.53 Further work in relation to lobbying has taken place with both the District Councils Network (DCN) and the Local Government Association. It is expected that through the provision of financial implications as Stock Owning Councils assess the implications on their business plans that a case for judicial review will be established.

5.54 Whilst information relating to the financial implications has already been provided to the DCN in anticipation of a challenge to the Government's proposals it is anticipated that further and substantial information will need to be identified and provided. Furthermore, any legal challenge, in particular a judicial review, would involve committing the Council to a share of any costs.

5.55 It is therefore suggested that preparatory work is authorised which can be undertaken within existing budgetary provision. In addition, that Cabinet agree to receive a further report to approve any legal challenge which may require additional budget approval.

6 Implications

6.1 **Financial**

The Financial implications have been referred to throughout the report but can be summarised as follows:-

The proposed reduction of 1% per annum in rents for each of the next four years amounts to incremental reductions of approximately £600,000 per annum with an ongoing reduction in resources of nearly £2.5 million over annum from 2019 - 20. (A reduction of resources of £75.8 million over the 30 year business plan0

The direct impact on the existing approved capital programme (2015-16 to 2017-18) is a shortfall of £1.8 million. (Members will recall that the capital programme fully committed all available resources (revenue and capital) for this period

In light of the magnitude of the impact it is essential that the Council continues to challenge the proposals through the MP, Minister for Housing and Planning, District Councils Network and Local Government Association.

In the event that lobbying is unsuccessful a case for judicial review will need to be determined and the Council will be required to contribute to the costs of the DCN/LGA and any follow up action the council itself takes.

The costs of determining a case for judicial review can be contained in existing HRA resources. Any decision to proceed to judicial review will be subject to a separate report to Cabinet and Council.

In light of the impact on the existing capital Programme a comprehensive revision of the 30 year Business Plan needs to be undertaken to address the reduction in resources.

6.2 **Legal**

Legal implications are addressed throughout the report.

6.3 **Human Resources**

None.

6.4 **Section 17 (Crime Prevention)**

None.

6.5 **Human Rights Act**

None.

6.6 **Data Protection**

None.

6.7 **Risk Management**

This report identifies a number of risks associated with the management of the HRA Business Plan and mitigation is dealt with within the report. Further risk assessment will be undertaken as part of the HRA Business Plan review.

6.8 **Equality & Diversity**

The review of the HRA Business Plan will be subject to an Equality Impact Assessment.

6.9 **Best Value**

None.

7 Appendices to the Report

Appendix 1	Letter to MP 17 July 2015
Appendix 2	Letter to Minister of State for Housing and Planning

Previous Consideration

Housing Revenue Account Capital Programmes 2014-15 to 2016-17	Cabinet	30 January 2014 (agreed by Council 12 February 2014)
Housing Revenue Account Capital Programmes 2013-14 and 2014-15	Cabinet	17 July 2014
Rent Setting Policy	Cabinet	21 August 2014
Review of the Housing Revenue Account Capital Programme 2014-15	Cabinet	20 November 2014
Review of the Housing Revenue Account Capital Programme 2014-15	Cabinet	29 January 2015
Right to Buy Social Mobility Fund	Cabinet	23 April 2015
Extension of the Green Lane Housing Scheme	Cabinet	23 April 2015
Housing Revenue Account Capital Programmes 2014-15 And 2015-16	Cabinet	23 July 2015
Housing Revenue Account Provisional Outturn 2014-15	Cabinet	23 July 2015

Background Papers

Cabinet Office	Queens Speech 2015
HM Treasury	Summer Budget 2015

ITEM NO. 10.14

Cannock Chase COUNCIL

17 July 2015

Amanda Millling
Member of Parliament for Cannock Chase

Dear Amanda,

Implications of the proposed reduction in social housing rents in England by 1% a year for 4 years in Cannock Chase Constituency

I wanted to highlight a significant issue for the Council's social housing stock as a result of a recent announcement by the Chancellor on 8 July 2015.

Cannock Chase Council's Housing Revenue Account (HRA) operates under the Government's Self Financing Regime. The regime was introduced in April 2012 to give local authorities the resources, incentives and flexibility they need to manage their own housing stock for the long-term (30 years) and to drive up quality and efficiency.

The Self Financing regime involved the Council effectively purchasing from the Government its housing stock based upon a valuation model. The model was based upon the national social rent policy which involved increasing rents by RPI + 0.5% per annum. The model determined a notional valuation of the housing stock of £85.028million and as a result, a net settlement payment to the government of £59.245million was made.

In May 2014, the Government committed to a 10 year rent policy of CPI + 1%. This parameter in relation to projected rental income is critical to the Council's financial plan to improve existing Council housing stock and to build new Council houses in the 30 year period from 2012.

However, the Chancellor in his Summer Budget has reversed the May 2014 policy by determining that rents in social housing in England will reduce by 1% a year for 4 years from 1 April 2016 until 2019-20. This is to be included as Clause 19 in the Welfare Reform and Work Bill.

As Cannock Chase Council had assumed a 2% increase in rent per annum which equates to £400,000 per annum the result of the 1% reduction after 4 years will be a loss of rental income in excess of £2.5 million per annum. Furthermore based on the 1% reduction a revised valuation of £74.854million is arrived at which is a reduction of some £10.174million. Based upon the full repayment of debt within the 30-year Business Plan the Council would have a deficit in 2042 of £16.2 million.

Tony McGovern | Managing Director
Civic Centre, PO Box 28, Beecroft Road, Cannock, Staffordshire WS11 1BG
tel 01543 462621 | fax 01543 462317 | www.cannockchasedc.gov.uk
Search for 'Cannock Chase Life' @CannockChaseDC

In accordance with the HRA self financing regime, (whereby authorities can use the whole of their rental income to support housing investment – rental income can be invested directly or can be used to finance additional borrowing), the Council in February 2015 approved the allocation of £2.340 million to provide 129 new Council houses in the District. The Council has also chosen to implement a rent freeze in 2015-16 for all Council tenants at a cost of £1.5 million thereby contributing to the reduction of the Housing Benefit's bill for the District. This Council has always taken a prudent approach to setting rental levels and has never acted irresponsibly by making large unjustified increases.

As a result of these decisions, the Council entered into commitments to build new houses, in support of Government policy on increasing the supply of affordable housing. The new challenge to reduce rents by 1% in the next four years now puts in jeopardy the HRA 30 year Business Plan's medium term financial viability and raises the possibility that this Council will have to stop improvement programmes and cease new build projects because it will have a reduced revenue stream. The Council wishes to avoid this if at all possible and will be engaging with DCLG on the basis of the following arguments:

In accordance with Clause 21 of the Welfare Reform and Work Bill, as introduced in the House of Commons on 9 July 2015, the Secretary of State may, by direction, exempt a local authority from the rent reduction requirement if he considers that the local authority would be unable to avoid serious financial difficulties if it were to comply with clause 19.

Furthermore, Clause 169 of the Localism Act gives the Secretary of State power to make a payment to a local authority where a settlement payment has been made previously. The Government in response to the Self Financing consultation stated that Clause 169 will allow "a further adjustment to the debt allocated to local authorities if a future policy change has a significant material effect on their costs or income" and that the measure "is designed to protect both councils and the Exchequer."

In conclusion, to avoid the serious financial difficulties within the Council's HRA Business Plan as set out above the Council will be seeking from the Government either:

(a) an exemption from the rent reduction requirement to avoid the serious financial difficulties that will be faced if clause 19 is complied with;

OR

Tony McGovern | Managing Director
Civic Centre, PO Box 28, Beecroft Road, Cannock, Staffordshire WS11 1BG
tel 01543 462621 | fax 01543 462317 | www.cannockchasedc.gov.uk
Search for 'Cannock Chase Life' @CannockChaseDC

Cannock Chase COUNCIL

(b) a repayment of the settlement sum based on the overstatement in the Council’s housing stock valuation of £10.174 million in line with clause 169.

This is a significant issue for Cannock Chase Council who has acted responsibly on rental levels and has detailed plans to expand social housing supply in the District but these are now threatened by recent announcements.

I am happy to arrange to brief you in further detail if required and hope that you can also lobby on this issue on our behalf.

Kind Regards,

Tony McGovern

Tony McGovern
Managing Director

Tony McGovern | Managing Director
Civic Centre, PO Box 28, Beecroft Road, Cannock, Staffordshire WS11 1BG
tel 01543 462621 | fax 01543 462317 | www.cannockchasedc.gov.uk
Search for ‘Cannock Chase Life’ @CannockChaseDC

ITEM NO. 10.17

14th September 2015

Mr Brandon Lewis,
Minister of State for Housing and Planning,
Department for Communities and Local Government,
2 Marsham Street,
London,
SW1P 4DF

Dear Mr Lewis,

Implications of the proposed reduction in social housing rents in England by 1% a year for 4 years in Cannock Chase Constituency

I wanted to formally raise my concern about the implications of the announcement by the Chancellor on 8 July 2015 of a 1% reduction in social housing rents for four years from 1 April 2016 and request that you review its application to this Council for reasons stated below.

Cannock Chase Council's Housing Revenue Account (HRA) operates under the Government's Self Financing Regime. The Self Financing regime involved the Council purchasing from the Government its housing stock based upon a valuation model. The model determined a notional valuation of the housing stock of £85.028million and as a result, a net settlement payment to the government of £59.245million was made.

The model was based upon the national social rent policy which involved increasing rents by RPI + 0.5% per annum. In May 2014, the Government committed to a 10 year rent policy of CPI + 1%. This parameter in relation to projected rental income is critical to the Council's financial plan to make year on year increases in affordable housing in the 30 year period from 2012.

However, the Chancellor in his Summer Budget has reversed the May 2014 policy by determining that rents in social housing in England will reduce by 1% a year for 4 years from 1 April 2016 until 31 March 2020. There was no consultation period prior to this announcement to provide local authorities and housing associations with the opportunity to warn Government of the implications of such a policy change.

The financial implications are an ongoing reduction in rents of 12% per annum with a resultant reduction in HRA rental income of £2.5m per annum leading to a £75.8m gap in the Council's 30 year Business Plan. In the short term, it creates an immediate deficit in our approved capital programme 2015-16 to 2017-18 of £1.8m and hence our plans to increase the number of affordable houses in the District.
The Council has detailed plans to use part of this rental income to support investment in accordance with the HRA self-financing regime. Amongst other improvements, this included in its capital programme schemes to provide 129 new Council houses in the District. Of these, we already have contractors on site to deliver 65 new homes in Cannock (Moss Rd estate) and a further 23 in Rugeley (Green Lane) meaning that 88 new homes will be delivered through these schemes. However, the

implication of the proposed change in rental policy means that the balance of 41 new homes which could be delivered in the District is now uncertain. There are also other planned improvement programmes over the 30 year business plan period which may not be taken forward as the Council will not be able to afford these if rental income is lower than planned.

An important part of the context for our concerns is that this Council has always chosen to act responsibly in setting social rent level locally. By way of example, the Council has frozen rent freeze in 2015-16 for all Council tenants at a cost of £1.5 million thereby contributing to a reduction of the Housing Benefit's bill for the District. This Council has always taken a prudent approach to setting rental levels and has never acted irresponsibly by making large unjustified increases.

Now that I have set out the local implications of this policy change, I want to formally request that the proposed reduction in social housing rents is reconsidered and in particular the Government provides compensation to mitigate the serious financial consequences of the change in policy.

I accept that the proposal represents, in the short term, good news for existing tenants however any decision to vary rents within national policy must be undertaken under the "localism" umbrella and the same rules should apply to controlling rents as apply to Council Tax. To this end I would propose that the rent reduction proposals are discretionary and a "Housing Rent Reduction Compensation Grant", similar to the Council Tax Freeze Grant, is provided to local authorities that freeze rents or reduce them by 1% per annum.

In requesting a change in the national stance on the proposal I also formally request that if the proposed reduction is implemented, without change, then the position of this Council is specifically reviewed so that either an exemption or a repayment of the Self Financing Valuation is enacted based on existing and proposed legislation set out below:

In accordance with Clause 21 of the Welfare Reform and Work Bill, as introduced in the House of Commons on 9 July 2015, the Secretary of State may, by direction, exempt a local authority from the rent reduction requirement if he considers that the local authority would be unable to avoid serious financial difficulties if it were to comply with clause 19.

Furthermore, Clause 169 of the Localism Act gives the Secretary of State power to make a payment to a local authority where a settlement payment has been made previously. The Government in response to the Self Financing consultation stated that Clause 169 will allow "a further adjustment to the debt allocated to local authorities if a future policy change has a significant material effect on their costs or income" and that the measure "is designed to protect both councils and the Exchequer."

In conclusion, to avoid the serious financial difficulties within the Council's HRA Business Plan as set out above the Council is requesting that the:

- **The proposed reduction in social housing rents is made discretionary with a compensating grant paid to local authorities that freeze social housing rent or reduce them by 1% per annum**

Alternatively if the current proposal is enacted then either:

(a) **an exemption from the rent reduction requirement to avoid the serious financial difficulties that will be faced if clause 19 is complied with;**

OR

(b) **a repayment of the settlement sum based on the overstatement in the Council's housing stock valuation of £10.174 million in line with clause 169.**

I hope that the position and circumstances of this Council will be properly reviewed in relation to this matter and I look forward in due course to your response to this request. Our local MP has been briefed on this matter in detail.

Yours sincerely

Councillor George Adamson
Leader of the Council

Cc: Ms. Amanda Milling MP