

CABINET

17 January 2023

Title: Housing Revenue Account: Review of Rents and Other Charges 2023/24	
Report of the Cabinet Member for Community Leadership and Engagement	
Open Report	For decision
Wards Affected: All	Key Decision: Yes
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Accountable Director: Joe Joseph, Director of Homes and Assets	
Accountable Strategic Leadership Directors: Leona Menville, Interim Strategic Director of My Place and Philip Gregory, Strategic Director of Finance and Investment	
Summary <p>The Council as a stock-owning local authority has an obligation to maintain a Housing Revenue Account (HRA). This is the income and expenditure relating to the management of the Council's housing stock and the Council is obliged to set a balanced budget.</p> <p>The Council's underlying policy on HRA rent is that rents should increase over time by at least the rate of inflation in order to maximise the funding available for investment in maintaining, improving and, if possible, expanding the Council's social housing stock. However, this year in the light of the very high rate of inflation Central Government has imposed a maximum 7% increase to social housing rents. This would mean that the average rate would increase from £100.97 per week to £108.04.</p> <p>This report also proposes increases to other charges in order to ensure that costs are recovered as far as possible. Throughout the Council is seeking to balance the financial sustainability of the HRA and the capital needs of the stock with its wish to protect tenants from economic hardship.</p>	
Recommendation(s) <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none">(i) Agree that rents for all general needs secure, affordable and sheltered housing accommodation be increased by the below-inflation rate of 7%, from the current average of £100.97 per week to £108.04 per week;(ii) Agree the following service charges for tenants:	

Service	Proposed Weekly Charge 2023/24	Increase
Grounds Maintenance	£2.93	£0.00
Caretaking	£7.65	£0.00
Cleaning	£3.68	£0.00
Estate Lighting	£4.34	£0.40
Concierge	£11.08	£1.02
CCTV (SAMS)	£6.79	£0.62
Safer Neighbourhood Charge	£0.57	£0.05
TV aerials	£0.62	£0.00

- (iii) Agree that charges for communal heating and hot water increase by 109% based on estimated charges, as follows:

Property size	Weekly Charge 2022/23	Weekly Charge 2023/24	Annual Charge 2023/24
Bedsit	£14.36	£30.01	£1,564.85
1 bedroom	£15.24	£31.85	£1,660.74
2 bedroom	£18.26	£38.16	£1,989.84
3 bedroom	£18.62	£38.92	£2,029.07
4 bedroom	£19.11	£39.94	£2,082.47

- (iv) Note that water and sewage charges shall be increased by the provider, currently estimated at a combined rate of 7.8%; and
- (v) Agree that the above charges take effect from 1 April 2023

Reason(s)

The recommendations in this report align to the Inclusive Growth theme of the Corporate Plan, in particular relating to improving the quality and management of homes. The Housing Revenue Account provides the financial resources for the housing services provided to council tenants as well as investment in council homes and estates.

The Council annually reviews housing rents and other and must give prior notification to tenants of the charges for be applied from the new financial year.

1. Introduction and background

Legislative context

- 1.1 The Local Government and Housing Act 1989 requires the Council to manage its housing stock, and to balance its accounts for the housing stock as a ring-fenced account. This means that the Housing Revenue Account (HRA) does not receive any subsidy from the Government, or from Council Tax, and nor is it allowed to subsidise the General Fund. The legislation sets out those items that can be charged to the HRA.

- 1.2 The Localism Act 2011 introduced a new method of managing the HRA called self-financing whereby in return for taking on a share of the national housing debt, local authorities could retain any rental surpluses, and manage their HRAs over a 30-year period. It is good practice therefore to maintain a 30-year Business Plan which projects the income that will be received alongside the expenditure required to manage and maintain the properties.

Policy context

- 1.3 There have been a number of changes in the external environment over the last five years which have had an impact on the HRA Business Plan. These included a four-year rent reduction period which caused a loss of approximately £34m of anticipated income over these four years and the revitalisation of the Right to Buy initiative resulting in increased stock sales. The compound impact of these policies on the 30-year Business Plan is much larger, with a significant effect on the level of resources available within the HRA compared to income assumptions made before the policy came into force.
- 1.4 At the same time there has been an increased understanding of the importance of robust maintenance of social housing stock and good practice in fire safety, energy efficiency and the prevention and treatment of damp and mould. However, although the Government has responded to these issues with some legislation and announcements there has been little specific funding for social housing providers. This means that the necessary investment continues to need to come from rent income.

2. Rents and Service Charges

Rents

- 2.1 Rent increases for social housing are largely determined by Government regulation. The Government imposed a four-year rent reduction policy from 2016/17 to 2019/20 and from April 2020 it announced that, for five years, rents would be allowed to rise by CPI + 1% (using September CPI (Consumer Prices Index)). However, in the light of the current unusually high rate of inflation and following a consultation, the Government has set an increase cap at 7% for 2023-24.
- 2.2 The rent paid by tenants is the main source of funding for all costs for social housing including the capital programme so any real-terms reduction in rents will feed through over time to reduced investment in the housing stock. The costs of running the HRA are expected to largely increase by around 7 to 10% so if the income does not increase by the maximum 7% permitted then this will result in a reduced revenue position. Given that rent levels are restricted by Government policy, it is unlikely to be possible to catch up the position by imposing a larger increase in future years.
- 2.3 For this reason, it is recommended that all HRA rents are increased by 7% except where there is a new tenancy in which case the rent should be set to the 2023-24 target rent for that property (which may, in some cases, be higher). An increase of 7% from April 2023 would represent the following average increases:

- Average rent in 2023/24: £108.04 per week – an increase of £7.07 per week (from previous rent of £100.97.)

2.4 The indicative average increase by bed size is shown in the table below:

No of Bedrooms	2022/23 Avg. Rent p.w.	2023/24 Avg. Rent p.w.	Rent increase p.w.
0	£76.80	£82.18	£5.38
1	£84.89	£90.83	£5.94
2	£101.50	£108.61	£7.11
3	£111.21	£118.99	£7.78
4	£120.37	£128.80	£8.43
5	£148.09	£158.46	£10.37

2.5 If there were no changes in stock numbers, this rent increase would bring in just over £6m additional income to offset the increasing costs of providing housing.

2.6 For the majority of tenants who are receipt of Housing benefit or Universal Credit, the rent increase will be covered by an increased benefit payment. In addition, tenants who are at risk of falling into debt can be offered support by Community Solutions and some will be able to access Discretionary Housing Payments or the Household Support Fund.

Service charges

2.7 Tenant service charges are specific charges for services that some tenants receive and others do not. The list of charges which are identified separately are set out below. Landlords may not charge more than the actual cost of the service, plus a reasonable management fee. Not all tenants pay service charges. Around 10,000 do not pay service charges at all, due to the type of property that they occupy. The current and proposed charges are set out below:

Service	Weekly Charge 2022/23	Proposed Charge 2023/24	Increase /	Basis of increase
Grounds Maintenance	£2.93	£2.93	£0.00	Nil
Caretaking	£7.65	£7.65	£0.00	Nil
Cleaning	£3.68	£3.68	£0.00	Nil
Estate Lighting	£3.94	£4.34	£0.40	CPI
Concierge	£10.06	£11.08	£1.02	CPI
CCTV (SAMS)	£6.17	£6.79	£0.62	CPI
Safer Neighbourhood Charge	£0.52	£0.57	£0.05	CPI
TV aerials	£0.62	£0.62	£0.00	Nil

- 2.8 The Council had a programme in place which has been reviewing the effectiveness of our services to tenants including caretaking and estate management in order to improve standards. However, the impact of Covid and the changing environment has meant that this has not yet reached final conclusions. Since under-recovery of charges means a financial loss to the HRA which has to be cross subsidised by other tenants who do not receive services, it is our intention to move towards full cost recovery. However, this will not be done until after the conclusion of the programme. Service charges for Caretaking, Cleaning, Grounds Maintenance will therefore be maintained at current levels in 2023-24.
- 2.9 The Safer Neighbourhoods charge recovers the cost of additional support from the Metropolitan Police to certain HRA estates and neighbourhoods. The charge is being increased by CPI as the costs of CCTV, Concierge (only paid by a small number of tenants who receive this service) and Estate Lighting. The cost of the TV aerials contract is not expected to increase so charges are being kept the same.

Communal Heating and Hot Water Charges

- 2.10 Where properties benefit from a communal heating and hot water system this is paid for through a weekly fixed rate charge alongside the rent. This is set based on the size of the property and does not take into account actual usage. As with all other energy consumers, the HRA has seen a large increase in costs during this financial year. The table below shows the proposed charges to tenants as a result – an increase of 109%. This will be a large increase for many families – however is not out of line with those paid by other borough residents. If the increase is not passed on, effectively these tenants would be subsidised from the overall HRA which would not be equitable.

Property size	Weekly Charge	Weekly Charge	Annual Charge
	2022/23	2023/24	2023/24
Bedsit	£14.36	£30.01	£1,564.85
1 bedroom	£15.24	£31.85	£1,660.74
2 bedroom	£18.26	£38.16	£1,989.84
3 bedroom	£18.62	£38.92	£2,029.07
4 bedroom	£19.11	£39.94	£2,082.47

Water and Sewage Rates

- 2.11 The Council collects water and sewage rates on behalf of the water company and receives income for this service. The Water company have indicated that charges will rise by November CPIH (Consumer Prices Index Including Housing) less 1% to 2%. This would suggest an estimate of 7.8% - an increase of £0.71 a week to an average charge of £9.67 (individual properties pay an amount based on rateable value.) This will be passed on to tenants.

3. Consultation

- 3.1 Consultation on the proposals in this report have taken place with relevant Cabinet Members and the proposals were considered and endorsed by the Corporate Performance Group on 22 December 2022.

4. Financial Implications

Implications completed by Katherine Heffernan, Head of Service Finance

- 4.1 The Council is required to maintain a specific ringfenced Housing Revenue Account for the management of its social housing properties. All expenditure on Social Housing must be fully funded from rental income with no call on general Council funds. The Council is also required to have business planning processes in place to ensure that the HRA remains sustainable over the longer term (thirty years.)
- 4.2 In the period immediately following the introduction of Self Financing in 2012, HRA finances were relatively buoyant especially when considered over the thirty years of the business plan. However, the four-year rent reduction and the “revitalisation” of Right to Buy have both reduced the income achievable from the HRA.
- 4.3 The requirement to reduce rents has now ended and this report proposes that Council rents should increase by the maximum amount permitted which is 7%. This brings in £6m additional income to the HRA. However, this increase is lower than inflation and there is a risk that expenditure in the HRA will increase by a higher figure thus restricting the surpluses available for reinvestment. We are working on the details of the HRA budget and how far this can pressure be offset by efficiencies and improvements. The budget will be brought to Cabinet in February along with the General Fund budget setting report.

5. Legal Implications

Implications completed by Dr Paul Feild, Principal Standards & Governance Solicitor

- 5.1 The setting of the rent and other housing charges is a cabinet function. The basis for setting rent is Section 24 of the Housing Act 1985 which provides that a local housing authority may make such reasonable charges as they determine for the tenancy or occupation of their houses.
- 5.2 Section 76 Local Government and Housing Act 1989 places a duty on local housing authorities to: (i) to produce and make available for public inspection, an annual budget for their HRA, which avoids a deficit; (ii) to review and if necessary, revise that budget from time to time and (iii) to take all reasonably practical steps to avoid an end of year deficit.

6. Other Implications

- 6.1 **Equality implications** – the report proposes that rents are increased in line with government regulations. HRA rents remain low compared to market rents even following the proposed increase, and in general are around 35% of the borough’s market rents. Rents for HRA properties can be fully covered by housing

benefit/Universal Credit if needed in most cases. The rental increase proposed this year is below the level of inflation. It is considered to be proportionate because rent is the main source of HRA income, and funds the services to council tenants as well as maintenance/investment in council stock. Community Solutions will be available to offer support to tenants who need assistance with financial management and budgeting and income maximisation. In addition, Discretionary Housing Payments and the Household Support Fund may be available for some eligible households who are struggling with their housing costs.

- 6.2 **Risk Management** – Rental income will be used to manage and maintain the Council's housing stock and any surpluses will be invested in capital works to improve and maintain the stock. It therefore supports the reduction and mitigation of housing related risks such as fire, damp and mould and housing related health impacts.
- 6.3 **Safeguarding Adults and Children** – Rental income will be used to manage and maintain the Council's housing stock and also to provide specific services and support for tenants including families and vulnerable adults.
- 6.4 **Property / Asset Issues** – Rental income will be used to manage and maintain the Council's housing stock and any surpluses will be invested in capital works to improve and maintain the stock.

Public Background Papers Used in the Preparation of the Report:

Rent Standard from April 2020 (Annexe 2 of linked document):

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/847359/Decision_Statement_Consultation_on_the_Rent_Standard_FINAL.pdf

List of Appendices: None