

HOUSING PANELS		
<b>Report Title</b>	Housing Revenue Account (HRA) – Rent Setting Consultation Excalibur TMO	
<b>Key Decision</b>	Yes	
<b>Ward</b>	All	
<b>Contributors</b>	Executive Director for Customer Services & Executive Director for Resources & Regeneration	
<b>Class</b>	Part 1	Date: 17 <sup>th</sup> December 2012

## 1 Purpose of the Report

To outline the forecast rent, service charge, garage and heating and hot water increases for Lewisham Council Dwellings in 2013/14, based on the Rent Restructuring formula issued by Central Government. Residents are invited to consider this report and provide feedback on the proposals contained.

## 2 Executive Summary

- 2.1 Following the introduction of the new self-financing system for the housing revenue account (HRA) the Council has been considering in the round the options for how it's stock is managed and developed. This has been reported in detail to the Mayor and Cabinet on 11 July 2012. As summarised in paragraphs 10.2 of this report, the most significant feature of this new system for Lewisham has been that it leaves a gap of c£85m over the next 10 years between the investment need and the resources available.
- 2.2 The complex financial model underpinning this appraisal is dependent on assumptions about future costs, for example for lifecycle repairs, capital investment, new build and so on. Most significantly of all it is based on an assumption that rents will rise in line with the Government's 'Convergence Formula' until 2015/16 (RPI + 0.5% + £2pw) and at RPI + 0.5% p.a. thereafter. As set out in the report, the Council is not obliged to follow this formula, but if it chooses not to do so there would be significant financial implications.
- 2.3 Following Government's rent restructuring formula would result in average increases in rent for 2013/14 of £3.54 or 4.05% over a 52 week period. This will raise the full year average dwelling rent for the London Borough of Lewisham from £87.49 to £91.03pw. The proposed increase will raise an additional £2.724m of rental income to the HRA. The increase is in line with the assumptions in the current HRA financial model.

- 2.4 The authority can raise rents by more or less than that indicated by the Government's formula calculation. However, it is important to understand that if rent is increased by less than the Formula amount then the Council suffers the full cost of the lost rent which would have a significant impact the Council's investment plans. It should also be remembered that if rent is increased by more than the Formula amount, the Council receives only part of the financial benefit of the extra rent raised because of the way the housing benefit system operates in such circumstances.
- 2.5 The TMO does not currently implement service charges to its residents. However, the committee should note that the average service and heating and hot water charge for Lewisham Homes residents are proposed to increase by £0.19pw or 2.58%, moving the average charge from £7.27pw to £7.46pw. Service charges for the Brockley PFI residents are proposed to increase by £0.11pw or 2.27%, moving the average charge from £4.84pw to £4.95pw.
- 2.6 Efficiencies/Savings of -£1.690m and growth of £1.250m are being proposed for 2013/14 as outlined in section 5. The net effect of these proposals would be an overall saving of £0.440m to the HRA which would be available for reinvestment into stock or services. Whilst some of these proposals can be achieved by efficiencies in service delivery, there are policy choices to be considered.
- 2.7 No proposals have been received to increase the current levy for Tenants' Fund which will remain at 13p per week.
- 2.8 Garage rents are proposed to rise in line with RPI inflation @ September 2012 which is 2.60%. This represents an increase of £0.30pw and would raise the average charge from £10.69pw to £10.97pw. The proposed increase will raise an additional £23k of revenue income.

### **3 Policy Context**

- 3.1 The proposals in this report support the priorities of 'Shaping our Future' – Lewisham's Sustainable Community Strategy (2008 -20), specifically 'Clean, green and liveable - where people live in high quality housing and can care for and enjoy their environment' and supports the Council's corporate priority regarding 'Decent Homes for all'.

### **4 Introduction**

- 4.1 The delivery of Lewisham's housing management service has undergone significant changes in recent years. This is as a result of the stock options appraisal submitted in July 2005 which recommended a mixed approach to improving the stock to meet the Government's Decent Homes Strategy. The approach involved some stock transfers, refurbishment through Private Finance Initiatives (PFI) and the establishment of an Arms Length Management Organisation (ALMO).

4.2 Since the last tenant panel meeting, it has been confirmed that Lewisham will receive £94.5m of Decent Homes funding from DCLG for investment in the Lewisham Homes stock. This is currently profiled as:

2011/12	£14.0m
2012/13	£11.5m
2013/14	£24.0m
2014/15	<u>£45.0m</u>
	<b>£94.5m</b>

4.3 The council bid for £186m, being the cost of the full decent homes programme, and will continue to press DCLG for the balance of the funding.

#### **4.4 Self-financing**

4.4.1 HRA subsidy was abolished from 1<sup>st</sup> April 2012 and replaced by self-financing on the same date. The changes mean that authority can now keep all rents and income generated from its stock, rather than contribute it to the national HRA rent pool, to reinvest in the stock or services provided and move housing to a position where the housing stock is 'self sustaining'.

In summary the key features of the new system are:

- A one-off settlement and redistribution of existing housing debt, was undertaken on 28<sup>th</sup> March 2012 requiring each local housing authority to either take on new debt as at 1 April 2012 or have some of its existing housing debt repaid.
- Following the settlement local housing authorities are now free to either repay debt or take on new borrowing (up to a centrally determined cap), taking account of local priorities and housing investment needs.
- From 1 April 2012 local housing authorities are no longer required to make contributions to, or receive contributions from, the national subsidy system.
- The existing system of rent restructuring controls will continue, with the expected 'convergence date' of 2015/16.
- Local housing authorities will continue to be accountable for ensuring effective housing management and investment.
- The HRA 'ring-fencing' will continue.

4.4.2 The debt 'settlements' were undertaken on 28<sup>th</sup> March 2012. Under the self-financing regime Lewisham had £136.34m of debt paid off by Government. This reduced the current level of HRA debt down from £219.9m to £83.55m.

## **4.5 Welfare Reforms**

4.5.1 In March 2012 the Welfare Reform Act received royal Assent, legislating for the biggest change to the welfare system for over 60 years.

4.5.2 The Act introduces phased changes to the benefit system as follows:

- From April 2013 a cap will be introduced to the amount of benefits an out of work claimant can receive. This will be capped at £350pw for singles and £500pw for families.

Current information indicates that 880 households across the borough will be effected by the cap, of which 70% are in the private rented sector.

- From April 2013 the Under-Occupation rules will be introduced for working age people who live in social housing. This will be in the form of financial penalties for living in social housing which is larger than their needs defined by legislation. The reduction in Housing Benefit will be at the level of 14% of rent for under-occupying by 1 bed room and 25% of rent for under-occupying by 2 or more bedrooms.

Current information indicates that there are 1,420 under-occupying social housing tenants

- October 2013 will see the introduction of Universal Credit. This will replace many of the existing benefits, including housing benefit. The movement to UC will be in phases with new claims from out of work claimants from October 2013 and new claims from in work and HB claimants from April 2014. There will also be a period of 'migration' as a result of a change in circumstances up to October 2017. Key features of the scheme are:
  - The benefit is paid monthly in arrears
  - Is paid to one member of the household
  - Is paid directly to the claimant, not the housing provider

4.5.3 Changes to the welfare system and the impacts on the revenue account are still being assessed, but are likely to be substantial. At present, over 61% of tenants receive Housing Benefit. The changes being implemented could result in higher rent arrears and result in the need to increase bad debt provisions to cover the potential impact.

## **5 Efficiencies & Savings Proposals for 2013/14**

5.1 The HRA strategy and self-financing assessments are continually updated and developed with the view to ensuring resources are available to meet costs and investment needs and are funded for 2013/14 and future years.

5.3 Savings and efficiencies delivered in the 2013/14 budget can be re-invested to help bridge the investment gap identified. As a prudent measure no savings were identified in developing the financial model, and agreeing all of the

growth and savings proposals in this report will not reduce the investment gap previously reported. The package of savings proposed by way of this report can mostly be delivered through efficiencies in back office services.

### HRA Efficiencies/Savings & Growth proposals 2013/14

Item	Area	Proposals 2013/14 £'000
	<b>Savings/Efficiencies</b>	
1.	Hostels	-500
2.	Lewisham Homes Fee	-350
3.	Nil Inflation Increase for Repairs & Maintenance	-490
4.	Reduce Rental Void Allowance from 2% to 1.5%	-350
	<b>Savings/Efficiencies total</b>	<b>-1,690</b>
	<b>Growth</b>	
5.	Increase in Bad Debt provision to reflect potential impact of welfare reforms on tenant arrears	1,000
6.	Introduction of a rental charge for paladin bins on estates	250
	<b>Growth total</b>	<b>1,250</b>
	<b>Total Budget Proposals</b>	<b>-440</b>

- 5.4 As can be seen from the above table, savings/efficiencies and growth proposals result in a saving of £0.440m for 2013/14. If achieved, they could be used for investment needs currently identified by the HRA Business Plan.
- 5.5 An update of the HRA Strategy, Savings Proposals, proposed rent & service charge increases and comments from consultation with tenant representatives will be reported to Mayor & Cabinet as part of the HRA Rents and budget strategy report. Mayor & Cabinet will make the final budget decisions in the new year.
- 5.6 The following is a commentary on the savings and efficiencies listed in the table above.

## **Savings/Efficiencies**

### **Item 1 Hostels**

This proposal is to bring the hostels into line with self-financing and ensure that the service is self-sustaining and fully recovers costs incurred to provide temporary accommodation, including maintenance and asset investment.

The current hostel service runs at a deficit within the HRA, and this proposal seeks to rebalance the hostel account by raising appropriate charges to tenants to recover all costs incurred, this could be through increased service charges.

The hostel service is currently being reviewed, but is expected that to eliminate the current deficit, charges would need to be increased to generate an additional income of £500k. This would be over and above the normal inflationary increases applied annually. The additional increase in service charges to eliminate this deficit would be in the region of £14.13 per bed space per week, moving the charge from £16.68pw (after 2013/14 inflation is applied) to £30.81pw

### **Item 2 Lewisham Homes management fee**

The proposed saving of £0.350m is to reflect the reduction in the stock through right to buy sales' and regeneration schemes. The net effect, if the saving is taken, will be a management fee of £18.8m in 2013/14 (£18.9m in 2012/13). This reflects an overall increase of 1.23% in the fee per property compared to 2012/13 (reflects inflationary increases of 1% on salaries & 2.5% on running costs).

Savings of £0.350m can be achieved through efficiencies with minimal impact on service provision.

### **Item 3 No Inflationary increase to Repairs & Maintenance budgets**

It has been proposed by Lewisham Homes that the forecast inflationary increase to the Repairs & Maintenance budget of 2.5% is removed, producing a saving or cost reduction of £0.49m.

This proposal will have an impact on Lewisham Homes trading account and M&E budgets. However, the Repairs Trading Account, operated by Lewisham Homes, made surpluses in both 2010/11 and 2011/12 respectively. It is felt that this proposal can be accommodated without any impact on service provision, or reduction in repairs undertaken, due to improvements in efficiency.

### **Item 4 Reduce rental void allowance from 2.0% to 1.5%**

Current rental income budgets assume a loss of income from voids at 2.0% annually.

Current Lewisham Homes Void rates are running at 0.89%. This is due to better voids management etc, and therefore it is proposed to reduced the budgeted void allowance.

However, because of the uncertainties of the impact of welfare reforms this proposal is for a 0.5% reduction only. This amounts to an estimated saving of £0.35m in 2013/14.

## **Growth**

### **Item 5      Increase in bad debt provisions**

This proposal is to increase the bad debt provision by 1.4%, from its current level of 1.1% to 2.5% for rents and service charges.

This equates to an estimated extra provision of £1m for bad debts and reflects the impact of the welfare reforms on tenant arrears.

Whilst the exact timing and impact of the welfare reforms can not be estimated with a high degree of accuracy, it is felt that it is prudent to increase provisions now to mitigate some or all of the effects.

Both the Council and Lewisham Homes expect that the main impacts will not manifest themselves until after the introduction of Universal Credit in October 2013. Existing claimants will see a phased migration onto the new system, the timescales have not been announced, but are likely to move to Universal Credit when they either have a change of circumstance or need to make a new claim. New benefit claimants, from October 2013, will be moved straight to Universal Credit and will receive direct payment of all benefit, including the housing element, 1 month in arrears.

In the event that the impact is less than anticipated, the resulting surplus will be set aside for capital investment.

### **Item 6      Rental charges for paladin bins on estates**

Environmental Services have incurred increasing costs in maintaining bulk waste bins and replacing stolen bins. As resources available decrease, it is becoming increasingly harder for the service to absorb these costs. A proposal has therefore been made as a part of the Council's budget strategy to introduce a charge for the repair, maintenance and replacement of these bins used by landlords and managing agents for communal properties

This proposal is to recharge the Housing Revenue account for the service in respect of homes managed by Lewisham Homes and RB3.

Under section 46(3) of the Environmental Protection Act 1990 a local authority is empowered to levy a one off or annual hire charge for the provision of receptacles for the containment of household waste. Economic pressures have now deemed it

necessary to introduce an annual hire charge to cover maintenance and replacement costs.

The proposed charge is £3 per bin per week and covers repair, maintenance and refurbishment costs to maintain bins in a usable condition and in a condition to enable collection by the council's waste collection service.

Based on 1,400 bins the charge in respect of Lewisham Homes will be £220k and, based on 180 bins, the cost in respect of Brockley PFI will be £30k. The fee will be reviewed annually as a part of the budget strategy process.

## **6.0 Rents and Rent Restructuring**

- 6.1 The 2013-14 financial year is the 13<sup>th</sup> year of what was originally a 10-year rent restructuring programme due to complete by 2011/12. However, DCLG moved the convergence date to 1 April 2015 i.e. in 2 years' time.
- 6.2 The government has confirmed that the 2013/14 limit rent calculations (used for HB purposes) continues to assume a convergence date of 2015/16. In addition, they have confirmed that they expect that the actual rent rise calculations would also be based on this assumption if authorities are following formula rent increases.

### 2012/13 Rent Rise – Technical Formula Calculation

- 6.3 The forecast increase in actual tenants rents, using the rent restructuring guidance of limiting actual increases to RPI @ September 2012 of 2.60% + 0.5% + £2 (maximum convergence element) is 4.05%, which equates to an average rise of £3.54pw. This would raise the average 52 week dwelling rent for the London Borough of Lewisham from £87.49 to £91.03pw based on stock in the HRA as at 1<sup>st</sup> April 2012.
- 6.4 There have been no other changes in the methodology for calculating formula rents.
- 6.5 Following the rent restructuring formula will result in an average Limit Rent, which is the amount of rent that would be covered by Housing benefit, of £90.99pw, based on the stock in the HRA as at 1<sup>st</sup> April 2012.
- 6.6 The rent rise noted above in section 6.3 will generate £2.724m in additional rental income. A rent rise lower than the formula calculation is likely to result in lost resources in the HRA. For example a rent rise of RPI less 1% would generate £2.035m in additional rental income, a reduction of £0.689m or £0.88 per dwelling per week. A rent rise of £1 less than the forecasted amount would result in a reduction of £0.782m in additional rental income. Any reduction in the proposed rent increase would result in less resources available to the HRA business plan. It would therefore be likely that additional savings would be required to make up for any lost resources



- 6.7 A rent rise higher than the formula calculation is likely to result in additional recharges to the HRA via the HB subsidy limitation charges. For example an increase of 1% above the calculated average will generate additional income of £0.678m, but £0.416m would be lost in additional limitation recharges, resulting in a net benefit to the HRA of £0.262m. An increase of £1 above the calculated average will generate additional income of £0.780m, but £0.478m would be lost in additional limitation recharges, resulting in a net benefit to the HRA of £0.302m.

## **7 Service Charges & Garage Rents**

- 7.1 The agreed policy on Service Charges are that charges should reflect full cost recovery for the type of service undertaken. Heating and hot water costs are also recovered by a charge to tenants and leaseholders. Lewisham Homes are proposing an increase of £0.19pw or 2.58%, raising their overall charge from £7.27pw to £7.46pw. Regenter B3, who manage the Brockley PFI area are proposing an increase of £0.11pw or 2.27%, raising their overall charge from £4.84pw to £4.95pw.

### **Garage Rents**

- 7.2 Garage rents are proposed to rise in line with RPI inflation @ September 2012 which is 2.60%. This represents an increase of £0.30pw and would raise the average charge from £10.69pw to £10.99pw. The proposed increase would raise an additional 323k of revenue income.

## **8 Tenants' Levy**

- 8.1 As part of the budget and rent setting proposals for 2005/6 a sum of £0.13p per week was 'unpooled' from rent as a tenants service charge in respect of the Lewisham Tenants' Fund. There has been no increase in this levy since its introduction, following consultation with Housing Panels.
- 8.2 There have been no propels put forward by the tenants fund committee to increase the amount of the 2013/14 Levy.
- 8.3 The tenants' fund have provided the panels with a consultation report regarding the accounts of the fund and budget proposals for 2013/14.

## **9 Consultation**

### **9.1 Consultation under tenants' compact**

Consultation will take place in line with the tenants' compact arrangements. Since these arrangements provide an opportunity to engage tenants in a discussion on rent rises, it is proposed to continue to involve tenant representatives through the Housing Panels in December/January and feedback any views to Mayor & Cabinet.

## 9.2 Housing Select Committee

It is proposed that Public Account Committee will consider the proposals that Mayor & Cabinet will consider, in January/February 2013.

## 9.3 Public Accounts Committee

It is proposed that Public Account Committee will first consider the proposals that Mayor & Cabinet will consider, in January/February 2013.

## **10 Financial Implications**

10.1 The estimated financial implications are contained in this report in each section of the report. In summary these are:

- Rents are proposed to increase by 4.05% which is an average increase of £3.54pw.

- Tenant service charges are proposed to increase by 2.58%, which is an average increase of £0.19pw.

- Garage charges are proposed to increase by 2.6% which is an average of £0.30pw.

- There are no proposal to increase the tenants fund levy which will remain at £0.13pw.

10.2 The Council's HRA financial model, as reported to Mayor & Cabinet in July 2012, showed a deficit of £85m against resource needs for services, the capital programme and new build schemes. The deficit was made up as follows:

### **Business Plan Assumptions**

Decent Homes Programme	Yes
Lifecycle & Maintenance Programme	Yes
New Build Capacity @ £150k per unit	250
Borrowing Availability	£14.0m

### **Investment Requirement**

Sheltered & Extra Care	£17.0m
Aspirational Costs	£30.0m
Further New Build Units – to 600	£52.5m

Total Additional investment £99.5m

**Shortfall in investment Capacity £85.5m**

10.3 The model has now been updated to take effect of the proposals contained in this report and shows that the deficit is £87.5m, an increase of £2.0m. This is

mainly due to the increased need to set-aside higher provisions due to the impact of the welfare reforms.

## **11 Legal Implications**

- 11.1 Section 24 of the Housing Act 1985 provides that a local housing authority may make such reasonable charges as they determine for the tenancy or occupation of their houses. The Authority must review rents from time to time and make such changes as circumstances require. Within this discretion there is no one lawful option and any reasonable option may be looked at. The consequences of each option must be explained fully so that Members understand the implications of their decisions.
- 11.2 Section 76 of the Local Government and Housing Act 1989 provides that local housing authorities are under a duty to prevent a debit balance in the HRA. Rents must therefore be set to avoid such a debit.
- 11.3 Section 103 of the Housing Act 1985 sets out the terms under which secure tenancies may be varied. This requires –
- the Council to serve a Notice of Variation at least 4 weeks before the effective date;
  - the provision of sufficient information to explain the variation;
  - an opportunity for the tenant to serve a Notice to Quit terminating their tenancy.
- 11.4 The timetable for the consideration of the 2013/14 rent levels provides an adequate period to ensure that legislative requirements are met.
- 11.5 Part III of Schedule 4 of the Local Government and Housing Act 1989 provides that where benefits or amenities arising out of the exercise of a Housing Authority's functions, are provided for persons housed by the authority, but are shared by the community as a whole, the authority shall make such contribution to their HRA from their other revenue accounts to properly reflect the community's share of the benefits or amenities.
- 11.6 Where as an outcome of the rent setting process, there are to be significant changes in housing management practice or policy, further consultation may be required with the tenants affected in accordance with section 105 of the Housing Act 1985.

## **12 Crime and Disorder**

There are no specific implications.

## **13 Environmental Implications**

There are no specific implications.

## **14 Equality Implications**

- 14.1 Council tenants include a higher than average proportion of elderly people and black and ethnic minorities. Many tenants are unemployed or on low income. The service has specific provision for more vulnerable groups within the community. A significant proportion of new allocations are made to families and women with young children.
- 14.2 In undertaking consultation and examining potential options, the equalities impact for different groups of people will be considered, particularly black and ethnic minorities, women, disabled people and young people.

## **15 Conclusion**

- 15.1 It is currently forecasted that a rent rise of 4.05% (£3.54pw) will be applied to Council dwellings in 2013/14 under the rent restructuring formula.
- 15.3 The proposed timetable enables scrutiny of the budget and proposals by Public Accounts Select Committee in January/February 2013.
- 15.4 The consultation arrangements have been strengthened in the light of the Tenants Compact and Tenants Strategy Group are asked to consider the proposals accordingly.

**If you require any more information about this report please contact Conrad Hall on 0208 314 8379 ( e-mail [conrad.hall@lewisham.gov.uk](mailto:conrad.hall@lewisham.gov.uk) )**