

<b>HOUSING SELECT COMMITTEE</b>		
<b>Report Title</b>	Housing Revenue Account (HRA) – Rent Setting Consultation	
<b>Key Decision</b>	Yes	Item 7
<b>Ward</b>	All	
<b>Contributors</b>	Executive Director for Customer Services Executive Director for Resources & Regeneration	
<b>Class</b>	Part 1	Date: 4 December 2013

## **1 Purpose of the Report**

- 1.1 To inform members of the forecast rent, service charge, garage and heating and hot water increases for Lewisham Council Dwellings in 2014/15, based on the Rent Restructuring formula issued by Central Government, prior to resident consultation meetings set for December 2013. It also outlines the financial context in which the proposed increases have been set.

## **2 Executive Summary**

- 2.1 Following the introduction of the self-financing system for the housing revenue account (HRA) the Council has been considering the options for how its stock is managed and developed.
- 2.2 A financial model has been developed to assist in assessing the various management and development options. Within this, there are 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 2014/15 of £4.61 or 5.05% over a 52 week period. This will raise the full year average dwelling rent for the London Borough of Lewisham from £91.36 to £95.97pw. The proposed increase will raise an additional £3.540m 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 potential average service and heating and hot water charge rises are contained in the Lewisham Homes Budget Strategy Report 2014/15, which is considered elsewhere on the agenda. The proposal is for an increase of £0.17pw or 2.23%. This will move the average charge from £7.55pw to £7.72pw.
- 2.6 Efficiencies/Savings of -£0.744m are being proposed for 2014/15 as outlined in section 5. These saving would be available for reinvestment into stock or services.
- 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 2013 which is 3.20%. This represents an increase of £0.35pw and would raise the average charge from £10.97pw to £11.32pw. The proposed increase will raise an additional £33k 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 Lewisham will receive £94.5m of Decent Homes funding from DCLG. This is currently profiled as:

2011/12	£14.0m
2012/13	£20.5m
2013/14	£24.0m
2014/15	<u>£36.0m</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. However, the government did announce that additional decent homes grant funding would become available during 2015/16 targeted at authorities with more than 10% of stock classified as non decent at that time.

4.3.1 Whilst full details of the processes for claiming this additional funding have not yet been clarified, it is expected that Lewisham will be able to bid for additional decent homes grant.

#### **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 the authority can now keep all rents and income generated from its stock, rather than contribute it to the national HRA rent pool. This allows the authority to reinvest in the stock or services provided and moves housing to a position where the housing stock is 'self sustaining'.

In summary the key features of the self financing system are:

- A one-off settlement and redistribution of existing housing debt. Lewisham had debt paid off by Government reducing the current level of HRA debt down from £219.9m to £83.5m. There has been no movement in the net debt levels since the self-financing settlement.
- 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. The cap for Lewisham was set at £127.3m.
- 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.

#### **4.5 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 introduced phased changes to the benefit system as follows:

- From April 2013 the Under-Occupation rules were introduced for working age people who live in social housing, and are in receipt of benefits. This is 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 is at the level of 14% of rent or up to £14 per week for under-occupying by 1 bed room and 25% of rent or up to £32 per week for under-occupying by 2 or more bedrooms.
- Between April and September 2013 (12<sup>th</sup> August 2013 for Lewisham) a cap was introduced to the amount of benefits an out of work claimant can receive. This has been capped at £350pw for single people and £500pw for families.
- October 2013 will see the national phased rollout of Universal Credit. However, Lewisham will not 'go-live' until after April 2014. UC replaces many existing benefits, including housing benefit. Nationally, 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 60% 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 2014/15**

- 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 2014/15 and future years.
- 5.2 Savings and efficiencies delivered in the 2014/15 budget can be re-invested to help bridge the investment gap identified. As a prudent measure the original financial model was developed with no savings identified. Subsequently, discussions have taken place regarding appropriate savings and 'target' management and maintenance costs per unit. The savings and growth below are part of the process to reduce costs to enable reinvestment in priority areas. 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 2014/15

Item	Area	Proposals 2014/15 £'000
	<b>Savings/Efficiencies</b>	
1.	Lewisham Homes Fee	-324
2.	Nil Inflation Increase for Repairs & Maintenance	-420
	<b>Savings/Efficiencies total</b>	<b>-744</b>
	<b>Growth</b>	n/a
	<b>Total Budget Proposals</b>	<b>-744</b>

- 5.4 As can be seen from the above table, savings/efficiencies proposals result in a saving of £0.744m for 2014/15. If achieved, they could be used for investment needs currently identified by the HRA Business Plan.
- 5.5 Lewisham Homes have prepared a separate paper on the increase in Tenants and Leaseholders service Charges, which is to be considered elsewhere on the agenda.
- 5.7 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.
- 5.8 The following is a commentary on the savings and efficiencies listed in the table above.

### Savings/Efficiencies

- 5.8.1 Item 1 - Lewisham Homes management fee** – The initial fee proposal for 2014/15 after allowing an inflationary increase of 1% on salaries and 2.5% on running costs, less a reduction of £176k for stock loss through right to buy sales' and regeneration schemes was £19.000m.
- 5.8.2 However, Lewisham Homes have proposed a fee for 2014/15 of £18.676m which is a saving of £0.324m.
- 5.8.3 The net effect, if the saving is taken, will be a management fee of £18.676m in 2014/15, against the fee for 2013/14 of £18.891m. This reflects an overall decrease of 0.23% in the fee per property compared to 2013/14.

- 5.8.3 Savings of £0.324m can be achieved through efficiencies with minimal impact on service provision.
- 5.8.4 **Item 2- 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 £0.420m.
- 5.8.5 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 2011/12 and 2012/13 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.

## **6.0 Rents and Rent Restructuring**

- 6.1 The 2014-15 financial year is the 14<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 1 years' time.
- 6.2 The government has confirmed that the 2014/15 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.

### 2014/15 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 2013 of 3.20% + 0.5% + £2 (maximum convergence element) is 5.05%, which equates to an average rise of £4.61pw. This would raise the average 52 week dwelling rent for the London Borough of Lewisham from £91.36 to £95.97pw based on stock in the HRA as at 1<sup>st</sup> April 2013.
- 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 £95.68pw, based on the stock in the HRA as at 1<sup>st</sup> April 2013.
- 6.6 The rent rise noted above in section 6.3 will generate £3.540m 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 £2.834m in additional rental income, a reduction of £0.706m or £0.92 per dwelling per week. A rent rise of £1 less than the forecast amount would result in a reduction of £0.767m 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 will result in additional recharges to the HRA via the HB subsidy limitation charges. For example an increase of 1% or £1 above the calculated average will generate some additional income, all of which will be lost through additional limitation recharges and therefore result in no benefit to the HRA.

## **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.

- 7.2 Lewisham Homes have provided a separate consultation report to panels regarding the increase to be applied for 2014/15. The overall tenant increase being proposed is 2.23% or £0.17pw. This will raise the overall charges from £7.55pw to £7.72pw.

- 7.3 RB3 have provided a separate consultation report to panels regarding the increase to be applied for 2014/15. The overall tenant increase being proposed is 3.59% or £0.18pw. This will raise the overall charges from £4.95pw to £5.13pw

### **Garage Rents**

- 7.4 Garage rents are proposed to rise in line with RPI inflation @ September 2013 which is 3.20%. This represents an increase of £0.35pw and would raise the average charge from £10.97pw to £11.32pw. The proposed increase would raise an additional £33k 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 proposals put forward by the tenants fund committee to increase the amount of the 2014/15 Levy.

- 8.3 The tenants' fund has provided the panels with a consultation report regarding the accounts of the fund and budget proposals for 2014/15.

## **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 feed back any views to Mayor & Cabinet.

## 9.2 Housing Select Committee

It is proposed that Housing Select Committee will consider the proposals that Mayor & Cabinet will consider, in January/February 2014.

## 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 2014.

# 10 **Financial Summary**

- 10.1 The impact on rents and service charges are contained in each section of the report. In summary these are:
- Rents are proposed to increase by 5.05% which is an average increase of £4.61pw.
  - Tenant service charges are proposed to increase by 2.23%, which is an average increase of £0.17pw.
  - Garage charges are proposed to increase by 3.20% which is an average of £0.35pw.
  - There are no proposal to increase the tenants fund levy which will remain at £0.13pw.
- 10.2 The housing matters programme is currently undertaking a full assessment of both long and short-term requirements against resources available, including assumptions on future liabilities, programmes, savings and other requirements in-order to confirm the resource need and identify potential gaps in funding.
- 10.3 In June 2013, the Government published its spending review. Within this review Government announced that funding for decent home would continue into 2015/16 but would only be aimed at Local Authorities with more than 10% non-decent stock. Whilst exact details are yet to be published on how to access this funding, Lewisham is expected to benefit from this announcement.
- 10.5 Also announced within the spending review, the Government has put forward proposals to change the way rent increase are made from financial year 2015/16 onwards. The Governments proposal is to raise rents by CPI + 1% for up to 10 years, rather than RPI + 0.5% and remove the convergence element of a £2 maximum where rents are not at formula levels.
- 10.6 The Government is to issue a consultation paper on these proposals, however, the impact of this change is currently being assessed, but is likely to



reduce rental income projections and could put pressures on the HRA Business Plan.

## **11 Financial Implications**

- 11.1 This report is for information only and, as such, there are no direct implications arising from this report.

## **12 Legal Implications**

- 12.1 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 there is discretion to look at any reasonable option. The consequences of each option must be fully explained so that Members are fully informed of the implications.
- 12.2 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.
- 12.3 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.
- 12.4 The timetable for the consideration of the 2014/15 rent levels provides an adequate period to ensure that legislative requirements are met.
- 12.5 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.
- 12.6 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.
- 12.7 The Equality Act 2010 (the Act) introduced a new public sector equality duty (the equality duty or the duty). It covers the following nine protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

- 12.8 In summary, the Council must, in the exercise of its functions, have due regard to the need to:
- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the act.
  - advance equality of opportunity between people who share a protected characteristic and those who do not.
  - foster good relations between people who share a protected characteristic and those who do not.
- 12.9 The duty continues to be a “have regard duty”, and the weight to be attached to it is a matter for the Mayor, bearing in mind the issues of relevance and proportionality. It is not an absolute requirement to eliminate unlawful discrimination, advance equality of opportunity or foster good relations.
- 12.10 The Equality and Human Rights Commission has recently issued Technical Guidance on the Public Sector Equality Duty and statutory guidance entitled “Equality Act 2010 Services, Public Functions & Associations Statutory Code of Practice”. The Council must have regard to the statutory code in so far as it relates to the duty and attention is drawn to Chapter 11 which deals particularly with the equality duty. The Technical Guidance also covers what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guidance does not have statutory force but nonetheless regard should be had to it, as failure to do so without compelling reason would be of evidential value. The statutory code and the technical guidance can be found at:  
<http://www.equalityhumanrights.com/legal-and-policy/equality-act/equality-act-codes-of-practice-and-technical-guidance/>
- 12.11 The Equality and Human Rights Commission (EHRC) has previously issued five guides for public authorities in England giving advice on the equality duty:
1. The essential guide to the public sector equality duty
  2. Meeting the equality duty in policy and decision-making
  3. Engagement and the equality duty
  4. Equality objectives and the equality duty
  5. Equality information and the equality duty.
- 12.12 The essential guide provides an overview of the equality duty requirements including the general equality duty, the specific duties and who they apply to. It covers what public authorities should do to meet the duty including steps that are legally required, as well as recommended actions. The other four documents provide more detailed guidance on key areas and advice on good practice. Further information and resources are available at:  
<http://www.equalityhumanrights.com/advice-and-guidance/public-sector-equality-duty/guidance-on-the-equality-duty/>
- 13 Crime and Disorder**  
There are no specific implications.

## **14 Environmental Implications**

There are no specific implications.

## **15 Equality Implications**

- 15.1 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.
- 15.2 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.

## **16 Conclusion**

- 16.1 It is currently forecasted that a rent rise of 5.05% (£4.61pw) will be applied to Council dwellings in 2014/15 under the rent restructuring formula.
- 16.3 The proposed timetable enables scrutiny of the budget and proposals by Public Accounts Select Committee in January/February 2014.
- 16.4 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 Mark Humphreys on 0208 314 8379 ( e-mail [mark.humphreys@lewisham.gov.uk](mailto:mark.humphreys@lewisham.gov.uk))**