

<b>Housing Select Committee</b>			
Title	Housing Revenue Account (HRA) – Rent Setting Consultation		
Contributors	Executive Director for Customer Services and Executive Director for Resources and Regeneration	Item	6
Class	Part 1 (open)	17 December 2014	

## **1 Purpose of the report**

To inform members of the options being considered for rent increases in and the proposed service charge, garage and heating and hot water charges for Lewisham Council Dwellings in 2015/16, prior to reporting feedback from tenants consultation to Mayor and Cabinet in January 2015.

## **2 Executive summary**

- 2.1 As a part of the Council's rent setting process, tenants are asked to provide comments and feedback on proposed rent increases and changes to services charges. Officers met with Brockley PFI tenants on 11 December 2014 and Lewisham Homes tenants on 15 December 2014. Consultation with Excalibur tenants is carried out by post.
- 2.2 Within this report, officers have provided 4 illustrations of potential rent rises for 2015/16. These include following Government Guidance, continuation of rent convergence until all units have reached their formula rent and capped/uncapped increases. Tenants are asked to provide comments and feedback on the illustrations for inclusion in the Mayor & Cabinet budget report to be presented in January/February 2015.
- 2.3 The proposal for service and heating and hot water charge for Lewisham Homes Service in 2015/16 is a decrease of £0.01pw or 0.13%, moving the average charge from £7.72pw to £7.71pw.
- 2.4 The proposal for service and heating and hot water charge for Regenter B3 in 2015/16 is an increase an average increase of 1.9%, moving the average charge from £5.13pw to £5.23pw.
- 2.5 Details of the proposals mentioned in 2.3 and 2.4 above are set out in the reports attached as appendix 1 and appendix 2. These reports are also submitted to tenants as a part of the consultation process.
- 2.6 Efficiencies/Savings of £346k are being proposed for 2015/16 as outlined in section 5. These savings would be available to off-set any rental loss due to a constrained uplift or 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 2014 which is 2.30%. This represents an increase of £0.26pw and would raise the

average charge from £11.32pw to £11.58pw. The proposed increase will raise an additional £30k 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. Background**

- 4.1 Following the introduction of the self-financing system for the housing revenue account (HRA) in 2012, the Council is responsible for ensuring that the costs of managing, maintaining, improving and developing its social housing stock can be met from rents collected and other income.
- 4.2 The self-financing system allows the Council to develop plans over a longer term, unlike the previous annual housing subsidy system. This has enabled the Council to consider longer term options of how its stock is managed and developed.
- 4.3 To assist in assessing the various management and development options, a financial model has been developed. 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 would rise in line with the Government's 'Convergence Formula' until all units have converged to its 'target' or formula rent using an annual uplift of  $RPI + 0.5\% + £2pw$ , and increase by  $RPI + 0.5\%$  p.a. thereafter.
- 4.4 The intention of the Convergence Formula was to ensure that tenants in accommodation of a similar size in a similar location would pay similar rents, To date, the Council has set rents in accordance with this formula.
- 4.5 However, in October 2013, Government consulted with Local Authorities on the implementation of a new social rent policy, proposing to move from annual increases of  $RPI + 0.5\%$  to  $CPI + 1\%$ . This policy was confirmed by Government in May 2014 as its preferred method for rent increases for a 10 year period from 2015/16.
- 4.6 The Government also assumed that the majority, if not all, Local Authority stock would or should be at its formula level as there had 'been more than enough time' to have moved rents to this level. This is despite the fact that prior to the new policy announcement, Government had confirmed 2015/16 as the convergence date. As set out in the report, the Council is not obliged to follow this policy, but if it chooses not to do so there could be significant financial and service implications.

### **5. Proposal for rent increases**

- 5.1 Officers have provided 4 illustrations of potential rent rises for 2015/16. These include following Government Guidance, continuation of rent convergence until all units have reached their formula rent and capped/uncapped increases. Tenants are

asked to provide comments and feedback on the illustrations for inclusion in the Mayor & Cabinet budget report to be presented in January/February 2015.

- 5.2 Three of the rent increase illustrations show a potential shortfall against the rent income assumption in the current HRA financial model. If the Council follows the Government Guidance for increases of CPI+1%, and the discontinuance of rent convergence, over the remaining life of the HRA financial model shows a deficit of £24.6m against the rental income assumptions. This will need to be made up by additional saving or efficiencies which would affect services to residents. It would also mean that approximately 30% of tenants would not reach convergence, i.e. there would be a high proportion of tenants paying differing rents for similar properties.
- 5.3 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 on the Council's investment plans. It should also be remembered that if rent is increased by more than the Formula amount, and the resulting average rent is higher than the amount Government has indicated it is willing to cover via Housing Benefit, the Council will receive only part of the financial benefit of the extra rent raised because of the way the housing benefit system operates in such circumstances.
- 5.4 The 2015-16 financial year would have been the final year of the rent restructuring programme, which used a formula increase of RPI + 0.5% + £2. to raise individual rents to its 'formula value'. However, DCLG issued a consultation paper in October 2013 regarding implementing a new policy of rent increase in line with CPI + 1% for a period of 10 years from 2015/16 and removed of the £2 convergence element. The DCLG confirmed, In May 2014, that, after considering the consultation responses, this was its preferred method of rent rises to be applied from 2015/16.
- 5.5 The government has confirmed that the 2015/16 formula and limit rent calculations (used for HB purposes) will also be increased in line with this new policy at CPI + 1%.

#### 2015/16 Rent Rise – Technical Calculation

- 5.6 The forecast increase in actual tenants rents, using the rent policy guidance of limiting actual increases to CPI @ September 2014 of 1.20% + 1.0% is 2.20%, which equates to an average rise of £2.10pw. However, this would leave the HRA with a shortfall in rent of £693k against the business plan assumptions. In addition, the loss over the remaining life of the plan, assuming increases only in line with CPI + 1% would be £26.3m.
- 5.7 The table below provides an illustration of various rent increases and its impact on moving units to its formula or target level and the shortfall in income compared to the business planning assumptions for the HRA. It should be noted that illustration A assumes that convergence will not continue, whilst illustration's B to D will continue with convergence.
- 5.8 Whilst no recommended increase is being made, tenants are asked for their opinion on the increase to be applied, for consideration by the Mayor & Cabinet. The

current average rent for the London borough of Lewisham is £95.91 based on stock in the HRA as at 1<sup>st</sup> April 2014.

<b>Illustration</b> CPI 1.2% RPI 2.3%	<b>A</b> CPI + 1%	<b>B</b> RPI + 0.5% + £2	<b>C</b> Overall 3% increase capped to £10pw	<b>D</b> Overall 3% Increase not capped
*Limit Rent	£98.92	£98.92	£98.92	£98.92
Continue Convergence	No	Yes	Yes	Yes
Rent Rise £	£2.10	£2.51	£2.77	£2.87
Rent Rise %	2.20%	2.61%	2.88%	3.00%
New Average rent	£98.01	£98.42	£98.68	£98.78
Units On Formula	10,264	13,031	14,079	14,241
Units not on Formula	4,266	1,499	451	289
Highest Rise £	£3.92	£6.61	£10.00	£20.92
Highest rise %	2.20%	6.49%	18.50%	13.71%
Lowest Rise £	£1.19	£1.44	£1.44	£1.44
Lowest rise %	2.20%	2.20%	2.20%	2.20%
Rent rise value	£1,583,970	£1,894,761	£2,089,886	£2,170,690
Additional rent	-	£310,791	£505,916	£586,720
Shortfall against business plan	-£613k	-£302k	-£107k	-
Long-term shortfall	£24.6m	£0.90m	£0.107m	-
Convergence (Yr's)	-	8	5	-

- 5.9 It has been estimated that the average Limit Rent, which is the amount of rent that would be covered by Housing benefit, will be £98.92pw for 2015/16, based on the stock in the HRA as at 1<sup>st</sup> April 2014.
- 5.10 The rent rise table shown in section 5.8 above, illustrates how much each option will generate from the proposed increase. For example a rise in line with the previous convergence formula will generate £1.89m in additional rental income. A rent rise lower than this is likely to result in additional lost resources in the HRA. For example a rent rise of CPI plus 1% would generate £1.58m in additional rental income, a reduction of £311k or £0.41 per dwelling per week.

- 5.11 The current illustrated proposals all show a reduction against the assumptions in the current HRA financial model, with 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. Tenants are asked to provide comments and feedback on the illustrations for inclusion in the Mayor & Cabinet budget report to be presented in January/February 2015
- 5.12 A rent rise higher than the Limit Rent 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.

## 6 Efficiencies & Savings Proposals for 2015/16

- 6.1 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 2015/16 and future years.
- 6.2 Savings and efficiencies delivered in the 2015/16 budget can be re-invested to off-set constrained rent rises or to help bridge any 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 2015/16

Item	Area	Proposals 2015/16 £'000
	<b>Savings/Efficiencies</b>	
1.	*Lewisham Homes Fee	-284
2.	Nil Inflation Increase for Repairs & Maintenance	-413
3.	Nil Inflation Increase for Energy Costs (now on 3 year fixed contract)	-304
4.	Nil Inflation on Internal Support Costs	-46
	<b>Savings/Efficiencies total</b>	<b>-763</b>
	<b>Increased costs/income reduction</b>	
5.	Reduction in Income on Communal Heating Systems	141
6.	Increased Property Insurance Costs	110
7.	Reduction in income forecast for tenants & leasehold service charges	166
	<b>Total increase in costs/income reduction</b>	<b>417</b>
	<b>Net effect of proposals</b>	<b>-346</b>

\* Already included in business plan

- 6.3 As can be seen from the above table, savings/efficiencies proposals result in a saving of £346k for 2015/16. If achieved, they could be used for investment needs currently identified by the HRA Business Plan, or to off-set reductions in the proposed rent increase.
- 6.3 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.
- 6.4 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.
- 6.5 The following is a commentary on the savings and efficiencies listed in the table above.

### **Savings/Efficiencies**

#### **Item 1 Lewisham Homes management fee**

The initial fee proposal for 2015/16 after allowing an inflationary increase of 1% on salaries and 2.5% on running costs is £18,957m. However a reduction of £284k for stock loss through right to buy sales' and regeneration schemes is also being made and will reduce the 2015/16 proposed fee to £18.673m.

The net effect, if the saving is taken, will be a management fee of £18.673m in 2015/16, against the fee for 2014/15 of £18.676m. This reflects an overall increase of 1.52% in the fee per property managed compared to 2014/15.

Savings of £284k can be achieved through efficiencies with no impact on service provision.

#### **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 £413k.

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 2012/13 and 2013/14 respectively and is forecast to do so again in 2015/16. 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 Nil Inflation on Internal Support Costs**

No inflationary increase has been included for Internal support costs. This is due to cost efficiencies in the general fund being passed down to the HRA. Savings of £46k can be achieved with no impact on service provision.

## **Item 5          Reduction in Income on Communal Heating Systems**

Lewisham Homes are proposing a reduction in the communal heating & hot water charge £1.87pw (18.93%). This will move the current charge down from £9.88pw to £8.01pw

The decrease is due to regular meter readings from the current supplier which has reduced the number of bills based on estimated readings. Consumption rates have also slightly decreased which has an effect on the 3 year average usage calculation.

## **Item 6          Increased Property Insurance Costs**

The recharge to the HRA for property insurance will increase due to the recent revaluation of the stock and other council property effecting the charges received from the insurance brokers. The current forecast is for an increase in recharges of £110k.

## **Item 7          Reduction in tenants & leaseholders service charge income**

The HRA financial model makes assessments regarding inflationary increases to both costs and income on annual basis. These need to be adjusted once firm proposals and inflationary data has been received.

It has been assessed that, following the proposals to reduce the average service charge levied to both tenants and leaseholders by Lewisham Homes, a shortfall of £166k against the model income assumptions for these areas is likely to arise.

## **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.
- 7.2      The proposal for service and heating and hot water charge for Lewisham Homes Service in 2015/16 is a decrease of £0.01pw or 0.13%, moving the average charge from £7.72pw to £7.71pw.
- 7.3      The proposal for service and heating and hot water charge for Regenter B3 in 2015/16 is an increase an average increase of 1.9%, moving the average charge from £5.13pw to £5.23pw.

### **Garage Rents**

- 7.4      Garage rents are proposed to rise in line with RPI inflation @ September 2014 which is 2.30%. This represents an increase of £0.26pw and would raise the average charge from £11.32pw to £11.58pw. The proposed increase would raise an additional £30k 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 2015/16 Levy.

8.3 The tenants' fund has provided the panels with a consultation report regarding the accounts of the fund and budget proposals for 2015/16.

## **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 on 17 December 2014 prior to the report to Mayor & Cabinet on 14 January 2015

## **10 Financial implications**

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

- 4 rent increase illustrations have been provided for consideration by residents.

- Tenant service charges are proposed to decrease by 0.13%, which is an average decrease of £0.01pw for Lewisham Homes tenants and increase by 1.9% which equates to £0.10pw for Regenter B3 tenants.

- Garage charges are proposed to increase by 2.30% which is an average of £0.26pw.

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

10.2 The Council 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.

## **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 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.

- 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 2014/15 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.
- 11.7 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.
- 11.8 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.
- 11.9 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.

11.10 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/>

11.11 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.

11.12 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/>

## **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 Whilst the HRA budget model assumes rent rises in accordance with the Government rent restructuring formula, all four options set out above are still under consideration.
- 15.2 The Council's budget setting timetable enables tenants comments to be included in the budget report being presented to Mayor and Cabinet on 14 January 2015.

**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))**