

| HOUSING SELECT COMMITTEE | | |
|---------------------------------|--|-----------------------|
| Report Title | Housing Revenue Account (HRA) – Rent Setting Consultation | |
| Key Decision | Yes | Item: 8 |
| Ward | All | |
| Contributors | Executive Director for Customer Services & Executive Director for Resources & Regeneration | |
| Class | Part 1 | Date: 1 December 2015 |

Reasons for Lateness and Urgency

This report was not available for the original dispatch because of the need to ensure that the latest information on service charges was available. The report is urgent and cannot wait until the next meeting of Housing Select Committee on January 26 2016, and would give little time to feed comments into the response to the Mayor.

1 Purpose of the Report

To outline the forecast rent, service charge, garage and heating and hot water charge changes for Lewisham Council Dwellings in 2016/17 prior to residents consultations taking place in December

2 Executive summary

2.1 The Government's current rent policy, as announced in the July 2015 budget statement, is for a 1% reduction in rents each year for the next 4 years. This is expected to be passed within legislation within the next few months. This will result in an average decrease in rent for 2016/17 of 1.0% or £0.99 over a 52 week period. This will reduce the full year average dwelling rent for the London Borough of Lewisham from £98.42 to £97.43pw. The proposed decrease will result in a loss of £0.743m of rental income to the HRA.

2.2 The potential average service and heating and hot water charge changes are contained in the Lewisham Homes Service charge report 2016/17, which is considered elsewhere on the agenda. The proposal is for an increase of £0.81pw or 11.20%, moving the average charge from £7.26pw to £8.08pw for existing services, and the introduction of two new charges for lumber disposal and enhanced housing management for sheltered housing units at a pooled average of £0.60pw and £0.88pw respectively.

- 2.3 Efficiencies/Savings are current being considered for 2016/17 and beyond. These savings would be available to off-set any rental loss due to a constrained uplift to protect investment in stock or services.
- 2.4 Proposals have been received to reduce the current levy for Tenants' Fund from £0.13pw to £0.10pw.
- 2.5 Garage rents are proposed to rise in line with RPI inflation @ September 2015 which is 0.80%. This represents an increase of £0.09pw and would raise the average basic charge from £11.56pw to £11.65pw. The proposed increase will raise an additional £9k 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 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 and was implemented in 2015/16.
- 4.4 In the July 2015 budget statement, Government announced that it intends to legislate for a 1% reduction in social rents to be applied each year for the next 4 years from 2016/17. This is expected to be passed within legislation within the next few months.
- 4.5 The impact of the change in policy is a total reduction of forecast rental income within the business plan is £1.90m. The expected rent reduction over the next 4 years is £25.0m, with £374.0m being lost over the life of the 30 year business plan.
- 4.6 As the Government's proposals are to be enacted by legislation, the authority has no choice other than to implement the rent reduction. In order to protect

the business plan to provide the same level of investment and services, the reduction in income will need to be off-set through increased efficiencies and reprioritisation of investment requirements.

5. Proposal for rent increases

- 5.1 Due to the requirements to comply with Government legislation, rents are expected to reduce by 1% each year for the next 4 years.
- 5.2 A 1% reduction in average rents for 2016/17 will equate to an average decrease of £0.99 over a 52 week period. This will reduce the full year average dwelling rent for the London Borough of Lewisham from £98.42 to £97.43pw. The proposed decrease will result in a loss of £0.743m of rental income to the HRA against 2015/16 income levels.
- 5.3 The decrease was not anticipated within the HRA financial modelling, which assumed an increase in line with estimated September CPI + 1.0% (forecast CPI @ 2.0%). Therefore the total reduction of forecast rental income within the business plan for 2016/17 is £1.90m. The expected rent loss due to this initiative over the next 4 years is £25.0m, with £374.0m being lost over the life of the 30 year business plan. The table below illustrates the impact the 4 year rent reduction has on the HRA account.

| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|--|---------|---------|---------|---------|---------|
| *Original Business Plan Forecast Rental Income | £73.3m | £73.4m | £74.6m | £76.0m | £77.4m |
| Revised Business Plan Forecast Rental Income | £73.3m | £71.5m | £69.8m | £68.3m | £66.8m |
| Change | - | -£1.9m | -£4.8m | -£7.7m | -£10.6m |
| Revised Forecast Average rent | £98.42 | £97.43 | £96.46 | £95.50 | £94.55 |
| Change in average Rent | - | -£0.99 | -£0.97 | -£0.96 | -£0.95 |

* The original business plan forecast for rental increases was based on CPI @ 2.0% + 1.0% as per government guidelines issued in May 2014.

- 5.4 It is not yet clear what rent regime will be in place once the rental contraction requirements have been completed. However, for the purposes of business

and financial planning, it is assumed that rental charges will be increased in line with prior Government guidance of CPI + 1%. Any variation to this could put additional pressure on the financial forecasts for the HRA.

- 5.5 Tenants are to be asked to provide any comments and feedback for inclusion in the Mayor & Cabinet budget report to be presented in January/February 2016

6 Efficiencies & Savings Proposals for 2016/17

- 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 2016/17 and future years.
- 6.2 Savings and efficiencies delivered in the 2016/17 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. For example, there is already an assumed reduction in the Lewisham Homes fee in 2016/17 to reflect stock losses through Right to Buy Sales. 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.
- 6.3 Officers, together with Lewisham Homes, have already identified an saving of £1m arising from a reduction in Repairs and Maintenance allocations. This budget has under spent by at least this amount in the last financial year and is expected to do so again in the current year. This is as a result of the Decent Homes improvements carried out over the last four years.
- 6.4 Further savings are expected once a review of other asset investment priorities is completed in January 2016.
- 6.5 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.

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 have provided a separate consultation report to panels regarding the increase to be applied for 2016/17. The overall tenant in/decrease being proposed is 11.20% or £0.81pw. This will move the overall charges from £7.26pw to

£8.08pw for existing services, and the introduction of two new charges for lumber disposal and enhanced housing management for sheltered housing units at a polled average of £0.60pw and £0.88pw respectively.

- 7.2 RB3 are expected to raise service charges by approximately 1.8%, although the details have not yet been published. A report will be presented to tenants and leaseholders in mid December as a part of the consultation process, and comments fed back to the Mayor as a part of the budget report.

Garage Rents

- 7.3 Garage rents are proposed to rise in line with RPI inflation @ September 2015 which is 0.80%. This represents an increase of £0.09pw and would raise the average charge from £11.56pw to £11.65pw. The proposed increase would raise an additional £9k of revenue income.
- 7.4 The authority will be commissioning a review into rental values across the garage stock, with a view to reporting to Mayor & Cabinet sometime in the next year recommending rental values to take forward in the longer term. Any changes are likely to be consulted on and implemented for financial year 2017/18 onwards.

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 Proposals have been put forward by the tenants fund committee to reduce the amount of the 2016/17 Levy from £0.13pw to £0.10pw.
- 8.3 The tenants' fund has provided the panels with a consultation report regarding the accounts of the fund and budget proposals for 2016/17.

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 10 December 2015 prior to the report to Mayor & Cabinet on XX January 2016

10 Financial Implications

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

- rents are to reduce by 1.0% or an average of £0.99pw, resulting in a rent loss of £0.755m in comparison to 2015/16 rental income, and £1.90m against financial forecasts.

- Tenant service charges are proposed to in/decrease by 11.20%, which is an average in/decrease of £0.81pw.

- Garage charges are proposed to increase by 0.80% which is an average of £0.09pw.

- the tenants fund levy is proposed to reduce from £0.13pw to £0.10pw.

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)