

<b>Housing Select Committee</b>		
<b>Report Title</b>	Housing Revenue Account (HRA) – Rent Setting	
<b>Contributors</b>	Executive Director for Customer Services & Executive Director for Resources & Regeneration	
<b>Class</b>	Part 1	Date: 31 <sup>st</sup> January 2018

## **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 2018/19, including resident feedback on the proposals.

## **2 Executive summary**

- 2.1 Until this year, the Council's rent setting process gave tenants the opportunity to provide comments and feedback on proposed rent changes and changes to service charges. The Government's current rent policy, as announced in the July 2015 budget statement, is for a 1% reduction in rents each year for 4 years from April 2016, is now set in statute and the Council has no choice but to follow Government policy and the consultation process in respect of rents has been rendered redundant.
- 2.2 This is the third year in which the reduction will apply, and will result in an average decrease in rent for 2018/19 of 1.0% or £0.97 over a 52 week period. This will reduce the full year average dwelling rent for the London Borough of Lewisham HRA stock (as at April 2017) from £96.69 to £95.72pw. The proposed decrease will result in a loss of £0.708m of rental income to the HRA.
- 2.3 The potential average service and heating and hot water charge changes are contained in the Lewisham Homes and Brockley RB3 Service charge report 2018/19, which are included as Appendix 2 & 3 to this report. The proposal is for an increase of £0.18pw or 2.0% for the Lewisham Homes area, and an increase of £0.47pw or 4.9% for the Brockley RB3 area.
- 2.4 Although no direct efficiencies/savings are currently being considered for 2018/19, work continues to identify opportunities for cost reductions and efficiencies relating to the HRA business model. Where identified, these savings would be available to off-set future rental losses due to a constrained uplift to protect investment in stock or services.
- 2.5 Proposals have been received to increase the current levy for the Tenants' Fund by £0.03pw, which will move the charge from £0.10pw to £0.13pw.
- 2.6 Garage rents are proposed to rise in line with RPI inflation @ September 2017 which is 3.9%. This represents an increase of £0.46pw and would raise the

average basic charge from £11.82pw to £12.28pw. The proposed increase will raise an additional £51k 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 Proposal for rent increases**

- 4.1 Due to the requirements to comply with Government legislation, rents are expected to reduce by 1% each year for a 4 year period starting April 2016.
- 4.2 A 1% reduction in average rents for dwelling stock 2018/19 will equate to an average decrease of £0.97 over a 52 week period. This will reduce the full year average dwelling rent for the London Borough of Lewisham from £96.69 to £95.72pw. The proposed decrease will result in a loss of £0.708m of rental income to the HRA against 2017/18 income levels.
- 4.3 Government are currently consulting on returning to the previous method of rent increase calculations once the rental contraction requirements have been completed. This was based on CPI + 1%. For the purpose of business and financial planning, it is assumed that this will be agreed and that rental charges will be increased in line with the prior Government guidance of CPI + 1%. Any variation to this could put additional pressure on the financial forecasts for the HRA.

### **5 Efficiencies & Savings Proposals for 2018/19**

- 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 2019/20 and future years.
- 5.2 Savings and efficiencies delivered against the HRA business model and future budgets 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 2018/19 to reflect stock losses through Right to Buy Sales.
- 5.3 An update of the HRA Strategy, 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 Service Charges & Garage Rents**

- 6.1 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. The overall tenant and leaseholder increase being proposed is £0.18pw or 2.0% for the Lewisham Homes managed area, and £0.47pw or 4.9% for the Brockley RB3 manages area.
- 6.2 Lewisham Homes and Regenter B3 provided separate consultation reports to their respective panels giving further details of the increase to be applied for 2018/19. These reports are included as Appendix 2 & 3 to this report.
- 6.3 Tenants were asked to provide any comments and feedback on service charges and garage rent proposals for inclusion in the Mayor & Cabinet budget report to be presented in February 2018. Tenants feedback and comments are included as Appendix 1 to this report.

### **Garage Rents**

- 6.3 Garage rents are proposed to rise in line with RPI inflation @ September 2017 which is 3.9%. This represents an increase of £0.46pw and would raise the average charge from £11.82pw to £12.28pw. The proposed increase would raise an additional £51k of revenue income.
- 6.4 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 2019/20 onwards.

## **7 Tenants' Levy**

- 7.1 As part of the budget and rent setting proposals for 2005/6 an allowance was 'unpooled' from rent as a tenants service charge in respect of the Lewisham Tenants' Fund. The current levy is £0.10pw.
- 7.2 Proposals have been put forward by the tenants fund committee to vary this levy for 2018/19 by £0.03pw which will raise the charge from £0.10pw to £0.13pw.
- 7.3 The tenants' fund has provided the panels with a consultation report regarding the accounts of the fund and budget proposals for 2016/17.

## **8 Consultation**

- 8.1 Consultation under tenants' compact

Consultation on service charge and garage rent proposals will continue to 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 January and feedback any views to Mayor & Cabinet.

## 8.2 Mayor & Cabinet

Mayor & Cabinet will consider the proposed increases and feedback from tenants and Housing Select Committee as part of the overall council budget setting report to be presented on 7<sup>th</sup> February 2018.

## 9 **Conclusion**

- 9.1 Following the Government's decision to legislate on the rent reduction, the Council has no alternative but to reduce rents in line with that policy. Service charges are set at a level to recover the full cost of the services included.
- 9.2 The Council's budget setting timetable enables tenants comments to be included in the budget report being presented to Mayor and Cabinet on 7<sup>th</sup> February 2018.

**If you require any more information about this report please contact Tony Riordan on 0208 314 6854 (email [tony.riordan@lewisham.gov.uk](mailto:tony.riordan@lewisham.gov.uk))**

**Tenants' rent consultation 2018/19****Appendix 1**

The Tenants' rent consultation meetings took place on 12<sup>th</sup> December 2017 with Regenter B3 (Brockley) managed tenants and 14<sup>th</sup> December 2017 with Lewisham Homes managed tenants.

Views of representatives on rent and service charge changes & savings proposals.

	<b>Lewisham Homes</b>	<b>Brockley PFI</b>
No of representatives (excl Cllrs)	15+	9
<b>Rent Reduction @ 1%</b>	No comments	No comments
<b>Savings Proposals:-</b>		
No Savings proposed	n/a	n/a
<b>Service Charges inc:</b>		
Heating & Hot Water Charges	See Below	No comments
Garage Rents	No comments	See Below
Tenants Fund	No comments	No comments

Summary of comments made by representatives

Lewisham Homes Panel

**Rent reduction:**

Agreed with no comments

**Tenants Service Charges & Heating & Hot water Charge:**

Main questions related to the proposal to enhance the grounds maintenance service which was supported but was it enough to provide an enhancement to the estates.

Lewisham Homes responded by informing residents that the increase will provide resources to pay for a new team and undertake tenant's suggestions for more/new painting on estates.

There was also a discussion on the improvements needed to pavements and walkways and the installation of Thames Water smart meters.

These will be taken forward by Lewisham Homes and responses provided at the next panel meeting.

**Garage Charges:**

No comments

**Tenants Fund:**

Agreed with no comments

**Savings Proposals:**

n/a

Brockley PFI Area	<p><b>Rent reduction:</b></p> <p>Agreed with no comments</p> <p><b>Tenants and Leaseholders Service Charges:</b></p> <p>Agreed with no comments</p> <p><b>Garage Charges:</b></p> <p>Increase seems high, especially as there is no parking enforcement on estates and cars are frequently parking in front of resident garages blocking them in. There was also a query regarding repairs and the process for reporting work requests.</p> <p><b>Tenants Fund:</b></p> <p>Agreed with no comments</p>
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## APPENDIX 2: Leasehold and Tenants Charges Consultation 2018/19

Committee	<b>Brockley Residents Panel</b>	Item No	
Report Title	<b>Leasehold and Tenant Charges Consultation</b>		
Contributor	<b>Regenter Brockley Operations Manager</b>		
Class	<b>Decision</b>	Date	<b>12<sup>th</sup> December 2017</b>

### 1 Summary

- 1.1 The report sets out proposals to increase service charges to ensure full cost recovery in line with Lewisham Council's budget strategy.
- 1.2 The report requests Brockley Residents Panel members to consider the proposals to increase service charges based on an uplift of 4.90% for 2018/19 on specific elements. This is based on full cost recovery in line with previous years' proposals.

### 2 Policy Context

- 2.1 The policy context for leasehold and tenant service charges is a mixture of statutory and Council Policy.
- 2.2 The Council's Housing Revenue Account is a ringfenced revenue account. The account is required to contain only those charges directly related to the management of the Council's Housing stock. This requires that leaseholder charges reflect the true cost of maintaining their properties where the provision of their lease allows. This prevents the situation occurring where tenants are subsidising the cost of leaseholders who have purchased their properties.

### 3. Recommendations

- 3.1 The Brockley Residents Panel is requested to consider and comment on the proposals contained in this report and the feedback from the residents will be presented to Mayor and Cabinet as part of the wider rent setting report.

### 4. Purpose

- 4.1 The purpose of the report is to:
  - outline the proposals for increases in service charges in line with the contract arrangements for leaseholders and tenants to recover costs incurred for providing these services

## **5. Housing Revenue Account Charges**

- 5.1 There are a number of charges made to residents which are not covered through rents. These charges are principally:
- Leasehold Service Charges
  - Tenant Service Charges
- 5.2 A service charge levy is applied to Tenants for caretaking, grounds maintenance, communal lighting, bulk waste collection and window cleaning. Tenants also pay a Tenants Fund Levy which is passed onto the Tenants Fund as a grant.
- 5.3 The key principles that should be considered when setting service charges are that:
- The charge should be fair and be no more or less than the cost of providing the service
  - The charge can be easily explained
  - The charge represents value for money
  - The charging basis allocates costs fairly amongst those receiving the service
  - The charge to all residents living in a block will be the same
- 5.4 The principle of full cost recovery ensures that residents pay for services consumed and minimises any pressures in the Housing Revenue Account in providing these services. This is in line with the current budget strategy.
- 5.5 In the current economic environment it must however be recognised that for some residents this may represent a significant financial strain. Those in receipt of housing benefit will receive housing benefit on increased service charges. Approximately 50% of council tenants are in receipt of housing benefit.

## **6. Analysis of full cost recovery**

- 6.1 The following section provides analysis on the impact on individuals of increasing charges to the level required to ensure full cost recovery. The tables indicate the overall level of increases.

### **6.2 Leasehold service charges**

The basis of the leasehold management charge has been reviewed and externally audited this summer to reflect the actual cost of the service. In line with best practice in the sector this is now a fixed cost rather than a variable cost. The management charge is £53.00 for street properties and £145.30 for blocks.

- 6.2.1 The uplift in leaseholder charges should reflect full cost recovery for the type of service undertaken. It is proposed that any uplift is applied at 4.90% [RPI (September 2017) +1.00%].

6.2.2 The following table sets out the average weekly increase for the current services provided by Regenter Brockley:

<b>Service</b>	<b>Leasehold No.</b>	<b>Current Weekly Charge</b>	<b>Weekly Increase</b>	<b>New Weekly Amount</b>	<b>Increase (%)</b>
Caretaking	393	£4.80	£0.24	£5.04	4.90%
Grounds Maintenance	393	£2.50	£0.12	£2.62	4.90%
Lighting	393	£1.15	£0.06	£1.21	4.90%
Bulk Waste	393	£0.46	£0.02	£0.48	4.90%
Window Cleaning	221	£0.15	£0.01	£0.16	4.90%
Resident Involvement	557	£0.23	£0.01	£0.24	4.90%
Customer Services	557	£0.36	£0.02	£0.38	4.90%
Ground Rent	557	£0.20	£0.01	£0.21	4.90%
General Repairs	557	£1.73	£0.08	£1.81	4.90%
Technical Repairs	400	£0.34	£0.02	£0.36	4.90%
Entry Phone	139	£0.05	£0.00	£0.05	4.90%
Lift	235	£0.31	£0.01	£0.32	4.90%
Management Fee	557	£1.70	£0.08	£1.78	4.90%
<b>Total</b>		<b>£13.98</b>	<b>£0.69</b>	<b>£14.67</b>	<b>4.90%</b>

### 6.3 Tenant service charges

6.3.1 Tenant service charges were separated out from rent (unpooled) in 2003/04, and have been increased by inflation since then. RB3 took over the provision of the caretaking and grounds maintenance services in 2007/08. Both tenants and leaseholders pay caretaking, grounds maintenance, communal lighting, bulk waste collection and window cleaning service charges.

6.3.2 In addition, tenants pay a contribution of £0.10pw to the Lewisham Tenants Fund. At present there are no plans to increase the Tenants Fund charges.

6.3.3 In order to ensure full cost recovery, tenant's service charges for caretaking, grounds maintenance and other services should be increased in line with the percentage increase applied to leaseholder service charges. Overall, charges are suggested to be increased by an average of £0.43 pw which would move the current average weekly charge from £8.72 to £9.15.

6.3.4 The effect of increases in tenant service charges to a level that covers the full cost of providing the service is set out in the table below.

<b>Service</b>	<b>Current Weekly Charge</b>	<b>Weekly Increase</b>	<b>New Weekly Amount</b>	<b>Increase (%)</b>
<b>Caretaking</b>	£4.80	£0.24	£5.04	4.90%
<b>Grounds Maintenance</b>	£2.50	£0.12	£2.62	4.90%
<b>Communal Lighting</b>	£1.15	£0.06	£1.21	4.90%
<b>Bulk Waste</b>	£0.46	£0.02	£0.48	4.90%
<b>Window Cleaning</b>	£0.15	£0.01	£0.16	4.90%
<b>Tenants fund</b>	£0.10	£0.00	£0.10	
<b>Total</b>	<b>£9.16</b>	<b>£0.47</b>	<b>£9.63</b>	

6.3.5 The RB3 Board is asked for their views on these charges from April 2018 to March 2019. Results of the consultation will be presented to Mayor and Cabinet for approval in Spring 2018.

## **7. Financial implications**

The main financial implications are set out in the body of the report.

## **8. Legal implications**

8.1. 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.

8.2 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.

8.3 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.

- 8.4 The timetable for the consideration of the 2017/18 rent levels provides an adequate period to ensure that legislative requirements are met.
- 8.5 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.
- 8.6 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.

## **9. Crime and disorder implications**

There are no specific crime and disorder implications in respect of this report paragraph.

## **10. Equalities implications**

The general principle of ensuring that residents pay the same charge for the same service is promoting the principle that services are provided to residents in a fair and equal manner.

## **11. Environmental implications**

There are no specific environmental implications in respect of this report.

## **12. Conclusion**

- 12.1 Revising the level of charges ensures that the charges are fair and residents are paying for the services they use.
- 12.2 The additional resources generated will relieve some of the current pressures within Housing Revenue Account and will contribute to the funding of the PFI contract which is contained within the authorities Housing Revenue Account.

If you require any further information on this report please contact

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## APPENDIX 3: Leasehold and Tenants Charges and Lewisham Homes Budget Strategy 2018/19

[www.lewishamhomes.org.uk](http://www.lewishamhomes.org.uk)



# Service Charge Consultation 2018/19

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## Introduction

- Inform tenants of changes to rents
- Explain changes to service charges
- Consult residents on service charge changes

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## Lewisham Homes aims to

- Deliver services that are value for money
- Deliver services that are affordable to residents
- Improve services whilst limiting cost increases to inflation or below

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## Changes to rents

- The Government has directed that rents reduce by 1% in social housing for the next 2 years
- The Council has reduced rents to match this policy

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## Changes to rents

Bed size	Average of Rent - 2017/18	Average of Rent - 2018/19	£ Change
<b>Bedsit</b>	£73.28	£72.54	-£0.74
<b>1</b>	£85.21	£84.35	-£0.86
<b>2</b>	£95.46	£94.50	-£0.96
<b>3</b>	£111.87	£110.75	-£1.12
<b>4</b>	£125.05	£123.80	-£1.25
<b>5</b>	£143.49	£142.06	-£1.43
<b>6</b>	£149.01	£147.52	-£1.49
<b>7</b>	£154.42	£152.88	-£1.54
<b>Average Total</b>	<b>£96.53</b>	<b>£95.56</b>	<b>-£0.97</b>

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## Changes to garage rents

- Garage rents are proposed to rise by 3.9% (RPI)
- This is an increase of £0.46pw
- Rents would rise from £11.82pw to £12.28pw
- The increase will raise an additional £51k
- The additional income will be used to maintain garages

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## Service Charges

- Sets out proposed service charge levels for 2018/19
- Shows changes from 2017/18

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## 2017/18 compared to 2018/19 - i

Leaseholders and Tenants	2017/18	2018/19	Change
Caretaking (L&T)	£5.93	£5.81	-£0.12
Ground Maintenance (L&T)	£1.66	£1.93	£0.27
Repairs and Maintenance - Building (L)	£2.32	£2.32	£0.00
Repairs and Maintenance Technical (L)	£1.00	£1.00	£0.00
Lifts (L)	£2.77	£2.77	£0.00
Entry Phone (L)	£0.76	£0.76	£0.00
Block Pest Control (L&T)	£1.60	£1.63	£0.03
Ground Rent (L)	£0.19	£0.19	£0.00
Sweeping (L)	£0.88	£1.00	£0.12
Management (L)	£2.36	£2.48	£0.12
Window Cleaning (L&T)	£0.06	£0.09	£0.03
Bulky House Hold Waste Collection (L&T)	£0.47	£0.48	£0.01
Bulk Waste Disposal (L&T)	£0.79	£0.81	£0.02
Insurance (L)	£1.16	£0.94	-£0.22
Communal Lighting (L&T)	£1.13	£1.14	£0.01
Communal Heating and Hot Water (L&T)	£9.89	£9.89	£0.00

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## Estate Services

- Caretaking, Grounds Maintenance, Bulk Collection, Sweeping
- Charged to tenants and leaseholders
- There are some cost variations due to a restructure of the service
- It is proposed to invest £180,000 in grounds maintenance which is included in the previous table

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## Repairs and Maintenance

- Only charged separately to leaseholders
- Charges maintained at last year's levels
- Leaseholders will receive an actual cost adjustment following the year end

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## Management

- The estimated management charges have been based on 2016/17 actual costs, and increased by 2% to reflect two 1% pay awards.



## Insurance

- There has been a reduction in insurance costs charged to the HRA and these are being passed on to leaseholders.



## Energy

- Charged to tenants and leaseholders in blocks where there is a communal supply
- Charges are maintained at last year's levels
- The Council has entered into new energy contracts
- Charges will be reviewed after the first year of these contracts



## Overall Impact

- RPI is at 3.9%
- Tenant charges (rent and service charge) move from £105.60 pw in 2017/18 to £104.81 in 2018/19, a reduction of £0.79 pw (-1%)
- Leaseholder charges move from £14.43 pw to £14.69 pw, an increase of £0.26 pw (+1.8%)



## Your input

- Comments on the proposed charges
- Comments on the increased investment in grounds maintenance
- We will feedback your comments to the Council