



## Housing Select Committee

### Housing Revenue Account (HRA) – Rent Setting

**Date:** 5<sup>th</sup> January 2023

**Key decision:**

**Class:** Part 1

**Ward(s) affected:** Borough-wide

**Contributors:** Executive Director for Housing, Regeneration & Public Realm, & Executive Director for Corporate Services

### Outline and recommendations

It is recommended that Housing Select Committee:

- Note and comment on the content of this report.

### Timeline of engagement and decision-making

5<sup>th</sup> December 2022 – Pinnacle meeting with residents

6<sup>th</sup> December 2022 – Lewisham Homes meeting with Leaseholders

7<sup>th</sup> December 2022 – Pinnacle drop-in session for residents

12<sup>th</sup> December 2022 – Lewisham Homes meeting with residents

February 2023 - Report to be presented to Mayor and Cabinet

## 1. Summary

- 1.1. This report outlines the forecast rent, service charge, garage and heating and hot water charge changes for Lewisham Council Dwellings and garages in 2023/24, including resident feedback on the proposals.
- 1.2. The rent increase under the current policy of increases in line with the formula or target rent calculation would have been 11.1%. However, government issued a consultation in October 2022 to social housing providers which proposed to limit rent increases to either 3%, 5% or 7% for 2022/23.
- 1.3. The council response was to agree that the impact of the cost of living crisis on residents was of great concern and that we are doing everything we can to support

residents, and target help at those who need it most and that it is right that something is done to protect social housing tenants.

- 1.4. However we face significant challenges in doing so and that without further support from Government to mitigate the funding gap, the imposition of a rent cap would severely impact on our ability to maintain decent homes, maintain and invest in our existing stock, meet building safety and new regulatory requirements and continue building new social homes. It was imperative that the Government recognise the financial impact on Councils a cap in increases would have and provide us with direct funding to bridge this gap.
- 1.5. The government's response to the consultation was to confirm and issue a notice to the regulator of social housing to cap rent increase to a maximum of 7%, without additional recompense to housing providers to allow us to continue to meet our obligations and invest in our stock.
- 1.6. The council therefore in an effort to continue to meet all of its obligations, will recommend that we take the difficult decision to increase rent at 7%.
- 1.7. The potential average service and heating and hot water charge changes are contained in the Regenter RB3 & Lewisham Homes Service charge report's 2023/24, which are included at appendix 2 & 3 to this report. The proposal is for an increase of £2.32pw or 7.0% for the Lewisham Homes area, and an increase of £0.93pw or 13.6% for the Brockley RB3 area
- 1.8. No Proposals have been received to vary the current levy for the Tenants' Fund contribution. It will therefore remain at £0.15pw for 2022/23.
- 1.9. Garage rents are proposed to be capped at a 10.0% increase. This represents an increase of £1.66pw and would raise the average basic charge from £16.62pw to £18.28pw. The proposed increase will raise an additional £191k of revenue income. A garage increase report is included at appendix 4 to this report.
- 1.10. Although no direct efficiencies or savings are currently being considered for 2023/24, work continues to identify opportunities for cost reductions and efficiencies relating to the HRA business model. Where identified, these savings would be available for reinvestment in stock, services or new supply.

## **2. Recommendations**

- 2.1. It is recommended that Housing Select Committee note and comment on the content of this report.

## **3. Policy Context**

- 3.1. The contents of this report are consistent with the Council's policy framework. It supports the achievements of the following corporate strategy objective:
  - 3.1.1. Tackling the housing crisis – Everyone has a decent home that is secure and affordable.
- 3.2. The contents of this report also support the objectives of the Housing Strategy 2020-26, as ensuring an appropriately funded HRA will work towards the delivery of the following objectives:
  - 3.2.1. Delivering the homes that Lewisham needs;
  - 3.2.2. Improving the quality, standard and safety of housing;
  - 3.2.3. Supporting our residents to live safe, independent and active lives;
  - 3.2.4. Strengthening communities and embracing diversity.

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## 4. Background

- 4.1. During the period from April 2015 to April 2019, the Government mandated for all councils nationally to reduce dwelling rents by 1% per annum. The financial impact of this was significant which meant that maintaining service levels throughout this period was challenging as a direct result of the loss of income. The government mandated reduction resulted in a loss of actual income of £2.8m during the four year period. The loss was £25m when compared to the assumptions made within the Housing Revenue Account business plan for the same period and a total loss of £374m over the 30 years lifespan of the Business Plan.
- 4.2. Subsequently, from April 2020 government lifted the rent reduction policy and allowed councils with social housing stock to return to the previous method of rent increase calculations to at least 2025. This method of rent increase is based on CPI + 1%, which was the Government's policy for rent increases. This method had been implemented in Lewisham and became effective for rental increases applied from April 2020 onwards.
- 4.3. However, due to the current cost of living crises and current high inflation which would impact on rent increases, Government issued a consultation in September 2022 seeking opinion from Local Authorities on capping rent increases for 2023/24 to 3%, 5% or 7%, or to allow increases to follow the policy guidance of CPI + 1%. Any capping of increases would result in a loss to the HRA, as noted in table in paragraph 5.7. The consultation closed on 12th October 2022.
- 4.4. The council responded to the consultation and agreed that, like local authorities across London and the country, we were very concerned about the impact of the cost of living crisis on residents and that we are doing everything we can to support residents, target help at those who need it most and that it is right that something is done to protect social housing tenants.
- 4.5. However we face significant challenges in doing so and that without further support from Government to mitigate the funding gap, the imposition of a rent cap will severely impact on our ability to maintain decent homes, maintain and invest in our existing stock, meet building safety and new regulatory requirements and continue building new social homes.
- 4.6. It was imperative that the Government recognise the financial pressures on Councils and provide us with additional funding. Significant financial pressures are already bearing down on local authority HRAs. Primarily these pressures have been driven by the previous policy to reduce social housing rents by 1% for four years from 2016/17 but have also been compounded by the impacts of the COVID-19 pandemic, rising inflation impacting on the HRA cost-base and increasing demands on funding as noted above whilst continuing to achieve a balanced HRA.
- 4.7. While it is essential that rents increases are kept as low as possible, any cap in rent increases should be accompanied by additional funding from the Government, via a grant of some kind or through re-opening of the HRA self-financing settlement, in order to allow housing providers to continue to invest in their stock and meet their obligations,
- 4.8. The government's response to the consultation was to confirm and issue a notice to the regulator of social housing to cap rent increase to a maximum of 7%, without additional funding to housing providers.
- 4.9. We therefore propose to increase rents by an average 7% for 2023/24. We would have liked to have been able to propose a lower increase but, without additional funding from Government, this would have resulted in unsustainable pressures on the HRA and left us unable to carry out essential works to buildings. This results in an average increase of £7.22pw over a 52 week period. This will increase the full

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year average dwelling rent for the London Borough of Lewisham HRA stock (as at April 2022) from £103.25pw to £110.47pw

- 4.10. Following Grenfell, our top priority is to make our blocks safe; we also want to get all of homes to decent homes standard and, particularly following the tragic case of Awaab Ishaak, make all homes safe from damp and mould. Given the age of much of our stock, these works are costly and will severely impact the HRA. The lack of funding from the government means we are increasingly having to choose which of these crucial works to prioritise.
- 4.11. There is a further complication in that due to recent legislative changes, leaseholders cannot be recharged for some of the fire remediation works leading to further income losses
- 4.12. Sustainability and carbon reduction ambitions, as well as improving thermal comfort for our tenants is another pressure on the HRA.

## 5. Proposal for rent increases

- 5.1. In line with the formula rent calculation policy, rents would have been expected to rise by 11.1% based on CPI of 10.1% (as at September 2022) + 1% for 2023/24 and CPI + 1% up until 2025.
- 5.2. An 11.1% increase in average rents for HRA dwelling stock 2023/24 would have equated to an average increase of £11.45pw over a 52 week period. This would have increased the full year average dwelling rent for the London Borough of Lewisham from £103.25pw to £110.47pw. The proposed increase would have resulted in additional income of £8.185m for the HRA against 2022/23 income levels.
- 5.3. However, due to the current cost of living crises and current high inflation which would impact on rent increases, Government issued a consultation seeking opinion from Local Authorities on capping rent increases for 2023/24 to 3%, 5% or 7%, or to allow increases to follow the policy guidance of CPI + 1%. The capping of increases could take effect for either 1 or 2 years. At the time, Government stated that their preferred preference was for an increase capped at 5%.
- 5.4. However, following the autumn statement on 17th November 2022, Government confirmed that rents would be capped at a maximum increase of 7% for financial year 2023/24. Given the lack of additional funding by the Government, we are therefore proposing to increase by an average 7% for 2023/24. This results in an average increase of £7.22pw over a 52 week period. This will increase the full year average dwelling rent for the London Borough of Lewisham HRA stock (as at April 2022) from £103.25pw to £110.47pw.
- 5.5. It is right that rents are kept lower for tenants in these difficult times. However, without support from the government, lower rents will impact on our ability to invest further in the stock. As noted in the table in paragraph 4.7, a 7% increase will raise an additional £5.162m in rents, but will be some £3.0m lower than an increase based on CPI + 1% and result in a total of £159.9m of lost resources over the 30 year period of the HRA business plan, which isn't compensated for by the Government.
- 5.6. It should be noted that the HRA cost base for management and maintenance, materials and capital investment will be inflated based on inflation increases similar to or based on the CPI output data. In addition, debt interest charges will also increase based on the need to borrow for HRA investment needs and increase in interest rates applied to debt.
- 5.7. The table below sets out the rent increase at the capped rate and impact of any rent losses for 1 and 30 years against the normal calculation for increases based on CPI

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+ 1%.

Rise	Average Increase Per Week	Additional Income – 2023/24	Annual Loss against CPI + 1%	30 Year Loss
CPI+1% = 11.1%	£11.45pw	£8.185m	-	-
Capped @ 7.0%	£7.22pw	£5.162m	£3.023m	£159.9m

- 5.8. The following table provides details of the 7% capped average rise by bed size for stock in the HRA as at 1st April 2022.

Bed size	Average Rent 2022/23	Average Rent 2023/24	£ Change	% Change
Bedsit	£77.82	£83.26	£5.44	7.0%
1	£90.85	£97.21	£6.36	7.0%
2	£102.05	£109.19	£7.14	7.0%
3	£119.36	£127.71	£8.35	7.0%
4	£133.62	£142.98	£9.36	7.0%
5	£153.85	£164.62	£10.77	7.0%
6	£159.31	£170.46	£11.15	7.0%
7	£164.24	£175.73	£11.49	7.0%
<b>Average Total</b>	<b>£103.25</b>	<b>£110.47</b>	<b>£7.22</b>	<b>7.0%</b>

- 5.9. For the purpose of business and financial planning, it is assumed that rental charges for the period 2024/25 to 2025/26 will be increased in line with the previous guidance of CPI + 1%.
- 5.10. At the present time, the financial models used by the council forecast CPI to be an average of 6% for 2024/25 and 4% for 2025/26. It reverts back to the Bank of England target of 2.0% annually from 2026/27. This will be constantly monitored and updated when necessary.

## 6. Efficiencies and Savings Proposals for 2022/23

- 6.1. The HRA strategy and self-financing assessments are continually updated and developed, to ensure resources are available to meet costs and investment needs for 2023/24 and future years.
- 6.2. As a prudent measure the original HRA financial model was developed with no savings identified. There are ongoing discussions regarding appropriate savings and target management and maintenance costs per unit which may drive reduced costs. For example, there is already an assumed reduction in the management fees paid in 2023/24 to Lewisham Homes to reflect stock losses through Right to Buy Sales. Any savings and efficiencies that are delivered against the current financial budget will be reinvested back into the HRA.

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- 6.3. An update of the HRA Strategy, proposed rent & service charge increases and comments from consultation with tenant representatives will be reported to Mayor and Cabinet as part of the HRA Rents and budget strategy report. Mayor and Cabinet will make the final budget decisions in the New Year.

## **7. Service Charges and 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. The overall tenant and leaseholder increase being proposed is 13.6% for Brockley residents and 7.00% for Lewisham Homes residents.
- 7.2. Regenter RB3 and Lewisham Homes have provided separate consultation reports to the panels giving further details of the increase to be applied for 2023/24. These reports are included at appendix 2 & 3 to this report.
- 7.3. Residents in properties managed by Regenter B3 and Lewisham Homes 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 2023. Tenant's feedback and comments are included as appendix 1 to this report.

### Garage Rents

- 7.4. Garage rents are proposed to be capped at a 10.0% increase. This represents an increase of £1.66pw and would raise the average charge from £16.62pw to £18.28pw. The proposed increase would raise an additional £191k of revenue income, assuming no discount is applied.
- 7.5. The authority continually reviews rental values across the garage stock to ensure they remain on a sound commercial footing and reflect market rents. Any additional changes are likely to be consulted on and implemented for financial year 2024/25 onwards.
- 7.6. Property Services have provided a separate consultation report to the panel giving further details of the increase to be applied for 2023/24. This is attached at appendix 4 to this report.

## **8. Tenants' Levy**

- 8.1. As part of the budget and rent setting proposals for 2005/06, an allowance was 'unpooled' from rent as a tenant's service charge in respect of the Lewisham Tenants' Fund. The current levy is £0.15pw.
- 8.2. No proposals have been put forward by the Tenants Fund Committee to vary this levy for 2022/23. Therefore the charge will remain at £0.15pw for 2023/24.
- 8.3. The Lewisham Tenant's Fund Administrator has provided the panels with an update report regarding the accounts of the fund and budget proposals for 2023/24.

## **9. Engagement**

### Engagement with residents

- 9.1. Engagement meetings on rents, service charges and garage rent proposals have taken place in line with the existing arrangements through tenant representatives. These arrangements provide an opportunity to engage tenants in a discussion on rent rises. The views of residents will be collated and included in the report to Mayor and Cabinet.

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## Mayor and Cabinet

- 9.2. Mayor and Cabinet will consider the proposed increases and feedback from tenants and Housing Select Committee as part of the overall council budget setting report.

## **10. Financial implications**

- 10.1. Financial Implications are contained within the body of the report.

## **11. Legal implications**

- 11.1. s103 Housing Act 1985 .. Notice of variation of periodic tenancy states that ...  
(1)The terms of a secure tenancy which is a periodic tenancy may be varied by the landlord by a notice of variation served on the tenant ...  
(2)Before serving a notice of variation on the tenant the landlord shall serve on him a preliminary notice —  
(a)informing the tenant of the landlord’s intention to serve a notice of variation,  
(b)specifying the proposed variation and its effect, and (c)inviting the tenant to comment on the proposed variation within such time, specified in the notice, as the landlord considers reasonable; and the landlord shall consider any comments made by the tenant within the specified time. (3)Subsection (2) does not apply to a variation of the rent, or of payments in respect of services or facilities provided by the landlord or of payments in respect of rates.
- 11.2. The Council’s duties in relation to the consultation of tenants on matters of housing management, as set-out in Section 105 of the Housing Act 1985, do not apply to rent levels, nor to charges for services or facilities provided by the authority. There is therefore no requirement to consult with secure tenants regarding the proposed increase in charges. The Council still needs to act reasonably and the decision maker should therefore be satisfied that the increase is reasonable and justified.
- 11.3. The Equality Act 2012 (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.
- 11.4. In summary, the Council must, in the exercise of its functions, have due regard to the need to:
- 11.4.1. Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- 11.4.2. Advance equality of opportunity between people who share a protected characteristic and those who do not.
- 11.4.3. Foster good relations between people who share a protected characteristic and those who do not.
- 11.5. 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.
- 11.6. The Equality and Human Rights Commission has recently issued Technical Guidance on the Public Sector Equality Duty 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->

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- 11.7. The Equality and Human Rights Commission (EHRC) has previously issued five guides for public authorities in England giving advice on the equality duty:
  - 11.7.1. The essential guide to the public sector equality duty
  - 11.7.2. Meeting the equality duty in policy and decision-making
  - 11.7.3. Engagement and the equality duty
  - 11.7.4. Equality objectives and the equality duty
  - 11.7.5. Equality information and the equality duty
- 11.8. 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-sectorequality-duty/guidance-on-the-equality-duty/>

## **12. Equalities implications**

- 12.1. Social housing is a tenure type reserved for those households who are on lower incomes. Therefore, Lewisham Council tenants are more likely to be on lower incomes than the wider population. There is a likelihood that they may be in receipt of housing benefit or universal credit to support their ability to pay their rent.
- 12.2. Where a tenant is in receipt of Housing Benefit, the increased rent will be applied to all affected claims and a mass recalculation done. This will increase the HB for those both in receipt of full HB and for those on partial HB. Where a tenant is in receipt of Universal Credit, the full schedule of rents with the new rent level applied will be uploaded by Lewisham Homes to the UC portal for a recalculation and recovery for tenants.
- 12.3. Where tenants may struggle with the increased rent, Lewisham Homes and Regenter B3 offer in depth budgeting and financial support, which is available for all residents regardless of their arrears level.
- 12.4. Revenues raised as a consequence of the rent changes to HRA tenants will be retained within the HRA. This will be used to run the service and deliver future improvement programmes and stock investment to benefit our residents.
- 12.5. Residents of Lewisham's housing stock represent a wide range of protected characteristics. Whilst this change will have the same broad impact on all affected groups, any re-investment as noted above, means that those affected will continue to receive the expected level of service and benefit from future investment programmes.

## **13. Climate change and environmental implications**

- 13.1. There are no specific climate change or environmental implications arising from this report.

## **14. Crime and disorder implications**

- 14.1. There are no specific crime and disorder arising from this report.

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## 15. Appendices

- 15.1. Appendix 1 – Tenants’ rent consultation 2023/24
- 15.2. Appendix 2 – Leasehold and tenants charges 2023/24 Brockley
- 15.3. Appendix 3 – Leasehold and tenants charges 2023/24 Lewisham Homes
- 15.4. Appendix 4 – Garage rent increase report 2023/24

## 16. Report author and contacts

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