



Housing Select Committee

Housing Revenue Account (HRA) – Rent Setting

Date: 28th November 2023

Key decision: Yes

Class: Part 1

Ward(s) affected: Borough-wide

Contributors: Interim Director, Resident Engagement and Services and 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

1st November 2023 – Meeting with residents in properties managed by Regenter B3, attended by Lewisham Council and Pinnacle

13th November 2023 – Lewisham Council meeting with TRA Chairs and the Leasehold Forum

February 2024 - Report to be presented to Mayor and Cabinet

1. Summary

- 1.1. This report outlines the rent service charge, garage and heating and hot water charge increase for Lewisham Council Dwellings and garages in 2024/25, including resident feedback on the proposals.
- 1.2. The proposed rent increase for 2024-5 would see rents rise by 7.7% (CPI @ 6.7% + 1.0%) or £8.57 per week on average.
- 1.3. The proposed average service and heating and hot water charge changes are detailed in the Lewisham Council and Regenter RB3 Service charge reports 2024/25, which are included at appendix 2 and 3 to this report. The proposal is for

an increase of £1.19 or 7.7% for Lewisham Council, and an increase of £0.76pw or 9.9% for RB3 managed properties.

- 1.4. No Proposals have been received to vary the current levy for the Tenants' Fund contribution. It will therefore remain at £0.15pw for 2024/25.
- 1.5. Garage rents are proposed to increase by 8.9%. This represents an increase of £1.58pw and would raise the average basic charge from £17.70pw to £19.28pw. The proposed increase will raise an additional £190k of revenue income. A garage increase report is included at appendix 4 to this report.
- 1.6. A target of 10% Housing Revenue Account efficiencies and/or savings are currently being sought for 2024/25. Work is in progress to identify these. These savings will 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.

4. Background

- 4.1. The Government's Rent Policy directs Registered Providers (RPs), including local authority landlords, to increase the annual rent charge by a maximum of CPI +1%.
- 4.2. During the period from April 2015 to April 2019, the Government mandated for all RPs to reduce dwelling rents by 1% per annum. The financial impact of this loss of income was significant and maintaining service levels throughout this period was challenging. For Lewisham Council this 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 resulting total loss of £374m over the 30-year lifespan of the Business Plan.
- 4.3. From April 2020 Government lifted the rent reduction policy and allowed a return to the previous method of rent increase calculations to at least 2025. This method of rent increase is based on CPI + 1%. This method had been implemented in Lewisham and became effective for rental increases applied from April 2020 onwards.
- 4.4. However, the exception to this was for the year 2023/24, when RPs were required to cap the rent increase to a maximum of 7%, in light of the high inflation as illustrated by the 10.1% CPI figure as announced in September 2022. This resulted in a real-terms loss of £3.0m to the HRA.

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- 4.5. The Housing Revenue Account (HRA) faces significant challenges in meeting its obligations and the councils plans for new supply. This is partly due to the imposition of recent rent caps/reductions which has severely impacted 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. Delivering sustainability and carbon reduction ambitions, as well as improving thermal comfort for our tenants is another pressure on the HRA.
- 4.7. Following the Grenfell Tower tragedy, our top priority is to make our blocks safe; we are also required to achieve the mandated Decent Homes Standard, and particularly following the tragic case of Awaab Ishak, protect homes from damp and mould. We are increasingly having to choose which of these crucial works to prioritise.
- 4.8. 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.
- 4.9. In addition, debt interest charges will also increase based on the need to borrow for HRA investment needs and the increase in interest rates applied to debt.
- 4.10. At the present time, the financial models used by the council forecast CPI to be an average of 4% for 2025/26 and 2% for 2026/27. 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.

5. Proposal for 2024-5 rent increases

- 5.1. In line with the formula rent calculation policy, it is proposed that rents rise by 7.7% based on CPI of 6.7% (at September 2023) + 1% for 2024/25.
- 5.2. An 7.7% increase in average rents for HRA dwelling stock 2024/25 equates to an average increase of £8.57pw over a 52-week period. This would increase the full year average dwelling rent for the London Borough of Lewisham from £111.33pw to £119.91pw. The proposed increase will result in additional income of £6.140m for the HRA against 2023/24 income levels.
- 5.3. Looking forward, and 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%.

6. Efficiencies and Savings Proposals for 2024/25

- 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 2024/25 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 delivering up to 10% efficiencies/savings and target management and maintenance costs per unit which may drive reduced costs. For example, there is already an assumed reduction in management costs for 2024/25 to reflect stock losses through Right to Buy Sales. However, this would need to be offset against reduced future rent income arising from Right to Buy. Any savings and efficiencies that are delivered against the current financial budget will be reinvested back into the HRA.
- 6.3. An update of the HRA Strategy, proposed rent and 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.

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7. Service Charges and Garage Rents

- 7.1. The agreed policy on Service Charges is 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 9.9% for residents in properties managed by Regenter B3 and 7.7% for the remaining council residents.
- 7.2. The Regulatory Rent Standard recommends that service charge increases for social housing tenants are in line with rent increases. Regenter B3 residents are not included in the Rent Standard because PFIs are excluded, being subject to a separate contract.
- 7.3. Regenter RB3 and the council have provided separate consultation reports to the panels giving further details of the increase to be applied for 2024/25. These reports are included at appendix 2 & 3 to this report.
- 7.4. Residents in properties managed by Regenter B3 and council dwellings were asked to provide any comments and feedback on service charges and garage rent proposals for inclusion in the Mayor and Cabinet budget report to be presented in February 2024. Tenant's feedback and comments are included as appendix 1 to this report.

Garage Rents

- 7.5. Garage rents are proposed to be increased by 8.9%. This represents an increase of £1.58pw and would raise the average charge from £17.70pw to £19.28pw. The proposed increase would raise an additional £191k of revenue income, assuming no discount is applied.
- 7.6. 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 2025/26 onwards.
- 7.7. Property Services have provided a separate consultation report to the panel giving further details of the increase to be applied for 2024/25. 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 2024/25. Therefore, the charge will remain at £0.15pw for 2024/25.
- 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 2024/25.

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 and leaseholders. These arrangements provide an opportunity to engage tenants in a discussion on rent rises and with residents regarding service charges. The views of residents received to date have been collated within Appendix 1 and these and any additional comments will be 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 residents 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. The Local Government and Housing Act 1989 (the “**1989 Act**”) sets out legal requirements in relation to housing finance, in particular a duty to maintain a Housing Revenue Account (“**HRA**”). The 1989 Act provisions also include a duty to budget to prevent a debit balance on the HRA and to implement and review the budget.
- 11.2. The Housing Act 1985 (the “**1985 Act**”) gives the council power to “make such reasonable charges as [it] may determine for the tenancy or occupation of [its] houses”. The council is additionally required by the 1985 Act to review rents from time to time. The council must set rents in accordance with the Rent Standard and the Rent Policy Statement. The Council must act reasonably in relation to rent setting, and the decision maker should therefore be satisfied that the increase is reasonable and justified.
- 11.3. 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 statutory requirement to consult with secure tenants regarding the proposed increase in charges. The Council however has undertaken to consult with tenant representatives as set out in this report. The results of any consultation must be conscientiously taken into account.
- 11.4. The council is required by the 1985 Act to notify tenants of variations of rent and other charges. If approved, the council will need to serve a notice of variation, at least 28 days before the variation takes effect.

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 because 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.

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- 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.

15. Appendices

- 15.1. Appendix 1 – Tenants' rent consultation 2024/25
- 15.2. Appendix 2a – Rent report 2024/25 Brockley PFI
- 15.3. Appendix 2b – Service charges 2024/25 Brockley PFI
- 15.4. Appendix 3 – Rent and Service charges 2024/25 Lewisham Council
- 15.5. Appendix 4 – Garage rent increase report 2024/25

16. Report author and contacts

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