

## LONDON BOROUGH OF WALTHAM FOREST

Meeting / Date	<b>Cabinet</b> <b>23<sup>rd</sup> February 2023</b>	
Report Title	<b>Housing Revenue Account (HRA) Budget and Rent Setting 2023/24</b>	
Cabinet Portfolio	Councillor Ashan Khan, Deputy Leader and Portfolio Lead Member for Housing and Regeneration	
Report Author/ Contact details	Joe Garrod, Corporate Director of Housing, Place, 07741 660399 <a href="mailto:joe.garrod@walthamforest.gov.uk">joe.garrod@walthamforest.gov.uk</a>  John Turnbull, Strategic Director of Finance and Governance, 020 8496 4260; <a href="mailto:john.turnbull@walthamforest.gov.uk">john.turnbull@walthamforest.gov.uk</a>	
Wards affected	All	
Public Access	Open	
Appendices	Appendix 1 - HRA Budget 2023/24 and MTFS Appendix 2 - Housing Capital Programme 10 Years Appendix 3 - EA Analysis	

### 1. SUMMARY

- 1.1 This report sets out the proposals for Housing Revenue Account (HRA) rent and services charges for the 2023/24 financial year. The report also covers charges in respect of temporary accommodation (TA) for homeless families and the Travellers' Site. Income and expenditure incurred by this provision is charged to the General Fund.

### 2. RECOMMENDATION(S)

- 2.1 Cabinet is recommended to agree:
- 2.1.1 That from 3<sup>rd</sup> April 2023, rents for existing tenants (excluding temporary accommodation) increase by 7% in line with the Rent Standard issued by the Regulator.
- 2.1.2 That from 3<sup>rd</sup> April 2023, rents for new tenancies are set at the 2023/24 formula rent for their property in line with the Rent Standard issued by the Regulator.

- 2.1.3 To increase garage rents from 3<sup>rd</sup> April 2023 by 7%, in line with dwelling rents.
- 2.1.4 That service charges to tenants are set for 2023/24 in accordance with Council policy to recover the costs from all tenants receiving the services.
- 2.1.6 That service charges for sheltered accommodation are increased by 5% from 3<sup>rd</sup> April 2023 in line with the general increase in fees and charges approved by Cabinet on 1<sup>st</sup> December 2022.
- 2.1.8 That from 3<sup>rd</sup> April 2023, rents charged for TA (including that provided by HRA Hostels and Regeneration units) continue to be tied to the prevailing Local Housing Allowance (LHA) levels.
- 2.1.9 To increase the charge for spaces at the Travellers' Site by 5% per week from 3<sup>rd</sup> April 2023, in line with the general increase in fees and charges approved by Cabinet on 1<sup>st</sup> December 2022.

### **3. PROPOSALS**

#### **Regulation and Policy**

- 3.1 In 2019, the government set a rent policy for social housing that would permit rents to increase by up to CPI plus 1 percentage point (CPI+1%) per annum and made clear its intention to leave this policy in place until 2025. This was to recognise the value of longer-term certainty for everyone who has a stake in social housing, and there was no intention to change rent policy before 2025.
- 3.2 However, we are living through exceptional times. Unforeseen circumstances resulted in CPI being at 10.1% in September 2022. This would permit social housing rent increases from 1<sup>st</sup> April 2023 to 31<sup>st</sup> March 2024 of 11.1%. This rate of inflation is much higher than anticipated, and is already placing considerable pressure on many households, including those living in social housing. These inflationary and cost pressures mean that the HRA's expenditure is forecast to rise faster than the rental income available to it, creating a funding gap.
- 3.3 In the face of these exceptional challenges, the government felt there was a strong case for making a temporary amendment to the CPI+1% policy next year in order to provide a backstop of protection for social housing tenants from significant nominal-terms rent increases. They consulted on a new Direction from the Secretary of State to the Regulator of Social Housing on social housing rents. This Direction will operate alongside the Direction on the Rent Standard 2019 issued on 26<sup>th</sup> February 2019.
- 3.4 In the Autumn Statement it was announced that a 7% ceiling would be implemented after the Consultation and on 14<sup>th</sup> December 2022 a direction to operate alongside the rent standard was published.

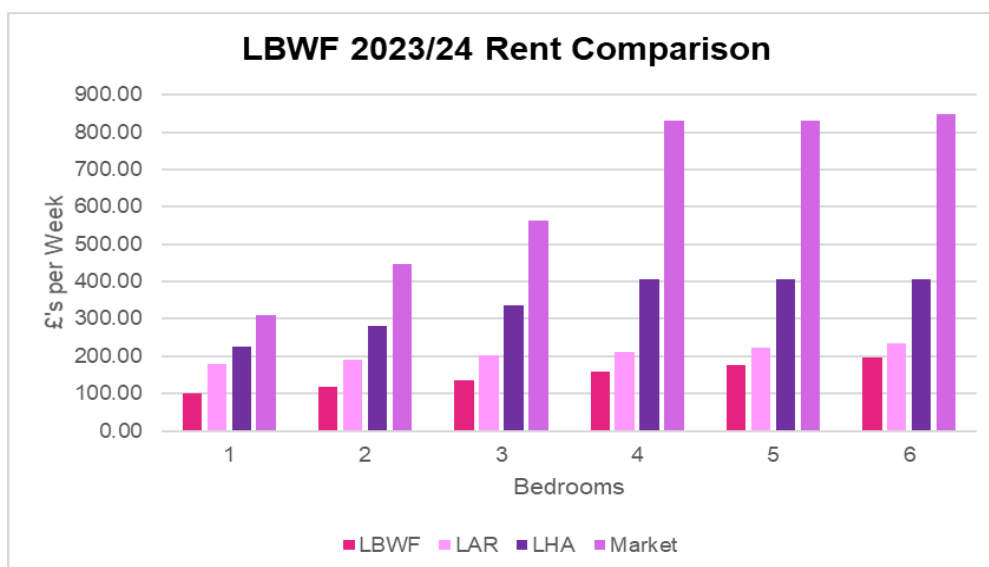
## 4. OPTIONS & ALTERNATIVES CONSIDERED

### HRA Income

- 4.1 By capping rents at 7% there will be a direct reduction in income in the HRA and then in turn resources available for capital investment. The HRA income drives the capacity to borrow and resources to service debt. The loss in income by applying a cap of 7% would be £4.6m in 2023/24. Over the next ten years this income would be lost from the base making the cumulative impact approx. £46m. The loss of income will impact on the HRA's future capacity for capital investment.
- 4.2 The cap could also be in place for 2024/25 rent increases. This would have the impact of removing another £5.8m of rental income from the HRA over 10 years. Local Authorities will not be compensated for the loss of income arising from the introduction of the cap. The government have indicated that they will consult on rent policy for 2024/25 at a later date, as a result there is no certainty over future rent policy.

### Social Rents

- 4.3 The chart below is an illustration of how proposed HRA rents compare to other levels of rent in the borough including London Affordable Rents (LAR). This demonstrates that whilst there is a requirement and recommendation to increase the current rents level in line with the government's proposals, social rent levels are still significantly lower than the local housing allowance (LHA) and market rent equivalents.



### Proposed 2023/24 HRA Rents

- 4.4 It is proposed to increase rents by 7% in 2023/24 in line with the Rent Standard and the 7% rent cap.
- 4.5 The 7% rent cap does not affect the calculation of the maximum initial rent when properties are first let or subsequently re-let. The restriction does not apply to the calculation of formula rent which continues to increase by CPI plus 1%.

	Average 2022/23	Average 2023/24	Increase £'s	Increase %
0	80.94	86.61	5.67	7.00%
1	93.63	100.18	6.55	7.00%
2	110.00	117.70	7.70	7.00%
3	127.64	136.58	8.93	7.00%
4	148.21	158.58	10.37	7.00%
5	163.90	175.38	11.47	7.00%
6	182.52	195.30	12.78	7.00%
<b>Overall</b>	<b>110.32</b>	<b>118.04</b>	<b>7.72</b>	<b>7.00%</b>

### **Benchmarking Against Other London Boroughs**

- 4.7 Rents charged by the Council are 21<sup>st</sup> in value out of 30 London Boroughs with an HRA, putting them in the lowest 10 Councils in London. In addition, all HRA dwellings rents are set as social rents. Rents charged by the Council are 13% lower on average than the rents charged by RP Providers in the borough. Other LA's and RP's charge Affordable Rents on new build units - up to 80% Market Rents capped at LHA Rates.
- 4.8 Over 70% of LBWF Council tenants receive Housing Benefit or the Housing Element of Universal Credit and 36% of the rent collected comes directly from Housing Benefit.
- 4.9 After conducting some low-level research, it is apparent that most other London Boroughs are similarly proposing a 2023/24 rent increase of 7% in line with the Rent Standard. The timeframe for official agreement is similar to that of Waltham Forest so these increases are yet to be approved formally.

### **Garage Rents**

- 4.10 As above, it is also proposed that the charges for garages within the HRA are increased by 7% in line with dwelling rents.

### **Service Charges**

- 4.11 Service charges for both tenants and leaseholders are based on the actual costs of providing services and are set on the basis of full cost recovery. Councils are entitled to recover the costs of these services from all users (i.e. both leaseholders and tenants). The cost of providing the services is reviewed annually as part of the budget setting process, and the charges are set accordingly. Leaseholder service charges are set in line with the terms set out in the lease.

- 4.12 In order to achieve an equitable charging model, the alignment of annual service charges to expenditure in the service areas will bring in some additional revenue. The resilience of the HRA is key to achieving the Council's ambitions to deliver new homes, maintain and improve the existing stock, and carry out the regeneration of the borough's social housing estates.
- 4.13 Service charges generate income in the region of £6m per annum to the HRA. This income is essential in order to support the continued delivery of the services included to tenants and leaseholders.
- 4.14 Details of the current tenants' service charges and the proposed increases are shown in the table below, with calculations done on a 50 week basis. These charges are eligible for Housing Benefit and the Housing element of Universal Credit.

	2022/23	2023/24	Change
	£	£	£
<b>Head of Charge</b>			
Lifts	3.14	3.29	0.15
Door Entry and Electronic Gate	1.13	1.19	0.06
Communal Aerials	0.33	0.35	0.02
CCTV	1.54	2.38	0.84
Caretaking	5.01	6.98	1.97
Grounds Maintenance	1.49	1.93	0.44
Bulk Waste Bins and Collection	0.55	0.64	0.09
Communal Electricity	1.15	2.69	1.54

- 4.15 It has been estimated that in order to ensure that the cost-of-service delivery is fully recovered, charges will increase by the rates set out above. This is to maintain a fair system overall whereby those groups of tenants actually receiving a specific service are charged for them rather than the cost being borne, and subsequently subsidised, by all tenants via rents.

#### **Lifts, Door Entry and TV Aerials**

- 4.16 These services are provided to tenants through the Astons contract, which increases by CPI each year. These proposed charges assume that the contract will be increasing by inflation.

#### **CCTV**

- 4.17 The CCTV monitoring team have recruited a new monitoring officer dedicated to the Housing SLA. This extra cost has been added to the SLA and needs to be passed onto tenants via an increase to the service charge.

#### **Caretaking and Grounds Maintenance**

- 4.18 These services have recently transferred back to Housing and there is now better oversight of the expenditure. The cost of the provision of the service is mainly staffing, with staffing costs estimated to increase

by 5% in 2023/24 in line with both the General Fund and HRA Medium Term Financial Strategies (MTFS).

### **Bulk Bins**

- 4.19 The proposed increase in charges is based on the cost data provided by the Neighbourhoods Team.

### **Communal Electricity**

- 4.20 The cost of gas and electricity fluctuates from year to year depending on energy prices and also on weather conditions. The outlook for energy prices is very uncertain. To ensure full cost recovery and prevent tenants from a large increase in 2023/24 we are proposing a phased increase across 5 years to full cost recovery in this area. Full cost recovery would mean a weekly increase of £4.62. It is proposed that the charges for Communal Electricity within the HRA are increased by £1.54 per week as year one of a phased increase to full cost recovery.

### **Sheltered Charges**

- 4.21 It is proposed that charges for 2023/24 are increased by 5%. The main cost of providing this service is staffing, with staffing costs estimated to increase by 5% in 2023/24 in line with both the General Fund and HRA Medium Term Financial Strategies (MTFS).

### **Heating Charges**

- 4.22 The cost of energy fluctuates from year to year depending on energy prices and also on weather conditions. The outlook for prices is very uncertain., To ensure full cost recovery and prevent tenants from a large increase in 2023/24 we are proposing a phased increase across 5 years to full cost recovery in this area. Full cost recovery would mean a weekly increase of 21%. It is proposed that the charges for Heating within the HRA are increased by 7% as year one of a phased increase to full cost recovery.
- 4.23 The full details and impact of the increases to charges form part of the HRA MTFS and the proposed detailed budget for 2023/24.

### **Temporary Accommodation Rents**

- 4.24 It is proposed that TA rents, across all forms of provision except rooms with shared facilities, continue to be charged in line with the prevailing LHA rent levels (which is currently the set of revised rates issued for 2020). There is no increase to LHA Rates for 2023/24. The rent for rooms with shared facilities (including hostels) will be increased to the housing benefit subsidy rate (90% of the 2011 LHA for 1-bed). This is to maximise the financial contribution that the Council is able to generate from housing benefit. Where the rent includes utility charges, such as heating and hot water, these will be increased by 7% in line with the increase in heating charges.

### **Travellers Rents**

- 4.25 On 1<sup>st</sup> December 2022, Cabinet agreed the level of fees and charges for most Council services. It was agreed that a minimum inflationary increase of 5% should be applied corporately. It is proposed that this level of increase is applied to rents at Travelers' Sites, increasing the charge to £97.38 per week.

### **Assistance for Residents**

- 4.26 Through our rents service we offer a wide range of support to help residents maximise their income and support them manage any debt. We are digital courses are available to residents that may be financially and or digitally excluded. Welfare Reform officers provide financial support, financial education and advice. More complex cases are referred to the CAB who provide one-on-one appointments with residents.
- 4.27 Where residents are in debt and live in a council home that's larger than they need, we support with downsizing referrals. The incentives offered can help clear debts and make future bills more manageable. We also make referrals to a wide range of support schemes including food & baby banks, credit unions and independent financial advice.
- 4.28 We work directly with several council and government run schemes and support residents with their benefit applications as well as various discretionary payments.
- 4.29 In addition, the team works closely with our Community Independent Living Service who provide floating tenancy support to vulnerable residents. They will visit vulnerable residents and help with applications and setting up key online accounts.
- 4.30 As part of the Council's 'Your crisis, our action: Cost of Living Support' Campaign, residents and tenants are being offered advice and/or support to pay their bills, heat their home, get quality food that's right for their family, and/or access the right type of benefits.
- 4.31 The Energy Bills Support Scheme (EBSS) is a non-repayable discount of £400 from the government, that every household with a domestic electricity connection has started to receive from October 2022 to help offset higher energy bills.

## **5. COUNCIL STRATEGIC PRIORITIES (AND OTHER NATIONAL OR LOCAL POLICIES OR STRATEGIES)**

### **Impact on the HRA Medium Term Financial Strategy (MTFS)**

- 5.1. The Council produces and regularly updates a medium-term financial forecast for the HRA. The HRA had an agreed (in February 2022) Capital Programme across the term of the MTFS from 2021/22 to 2031/32. At that time, there was additional capacity within the HRA of approximately £65m for future capital investment.

- 5.2. Inflationary and cost pressures mean that the HRA's expenditure (on both revenue and capital) is forecast to rise faster than rental income available to it, creating a funding gap. Overall, the medium-term outlook for the HRA is extremely challenging, but the financial strategy will remain focused on delivering efficiency improvements to protect front-line services, invest in housing stock and build in longer-term financial resilience by increasing reserves.
- 5.3. The proposed rent increase of 7% will generate approx. £2.9m worth of additional resources into the HRA for 2023/24 and will be reflected in the base budget thereafter. These additional resources can finance both revenue activities and new borrowing for future capital investment.
- 5.4. By capping rents at 7% there will be a direct reduction in income in the HRA and then in turn resources available for capital investment. The HRA income drives the capacity to borrow and resources to service debt. The loss in income by applying a cap of 7% would be £4.6m in 2023/24. Over the next ten years this income would be lost from the base making the cumulative impact approx. £46m. The cap could also be in place for 2024/25 rent increases. This would have the impact of removing another £5.8m of rental income from the HRA over 10 years.
- 5.5. Local Authorities will not be compensated for the loss of income arising from the introduction of the cap. The loss of income will impact on the HRA's future capacity for capital investment.
- 5.6. In January 2023 the Housing Service launched its Housing Transformation Programme (HTP). The programme will review and improve existing services while evaluating new ways to help our residents. The overall aims of the HTP are to improve our resident satisfaction and to provide better value for money. Any financial implications arising from the programme will be reflected in future HRA MTFS refreshes.

#### **HRA Revenue Budget/MTFS Current Assumptions**

- 5.7. Based on the Autumn Statement announcement, a 7% rent increase has been assumed to inform a Draft HRA Budget for 2023/24. The assumptions made within the HRA MTFS, and Business Plan are consistent, where applicable, with those made in the Council's General Fund MTFS (e.g. staff pay awards, fees and charges uplifts, etc). These will continue to be reviewed and updated where applicable.
  - Energy Budgets rebased for 2022/23 and a 25% increase assumed for 2023/24.
  - Repairs and Maintenance budgets rebased for 2022/23 – contract inflation then linked to CPI.
  - Cost and income estimates for new build units have been included where appropriate.
  - No inflation included on other service budgets.



- Work has been undertaken on a Base Budget Review, which involved reviewing all revenue budgets in detail to align with the current service needs and commitments, and this resulted in net savings.
- 5.8. The proposed HRA Budget for 2023/24 along with the MTFS can be found in Appendix 1.

### **HRA Capital Programme**

- 5.9. The HRA currently has an agreed Capital Programme of £555m across the term of the existing MTFS from 2022/23 to 2027/28.
- 5.10. Modelling of a 7% rent increase has been used to inform the impact on the HRA 10 Year Capital Programme and HRA Future Capacity/(Shortfall). Capping rents at 7% results in a shortfall of resources of approx. £122m against the required expenditure.
- 5.11. A rent increase below 7% will result in an additional shortfall against the current capital programme of between £28m and £61m.
- 5.12. The updated ten-year HRA Capital Programme can be found in Appendix 2.

## **6. CONSULTATION**

- 6.1 Consultation with tenants (via the STAR Panel), to explain the implications of the proposed rent cap was carried out in October 2022. The proposals in this report were also presented to Housing Scrutiny in December 2022 and STAR Panel in January 2023, there were no additional recommendations to the proposals.

## **7. IMPLICATIONS**

### **7.1 Finance, Value for Money and Risk**

- 7.1.1 The recommended increase in rents in line with Central Government policy is essential to allow the HRA to remain financially viable. It also ensures that the HRA can continue to work towards its objectives of sustaining the capital investment needed to maintain the stock and fulfil its programme of capital delivery to ensure compliance with health and safety regulations.
- 7.1.2 A number of actions have been considered to address the funding gap in resources as a result of the 7% cap. These include:
- A review of the Capital Programme priorities is being undertaken and improvements to Council Housing will need to be scaled back to match the resources available.
  - The roll out of climate change retrofits will be dependent on external funding.
  - Alternative options may need to be considered for Sixty Bricks pipeline schemes.

- All investment decisions will require prioritisation.

7.1.3 The continuation of the policy to keep TA rents in line with LHA will ensure that the Homelessness service maximises the financial contribution that it is able to generate from housing benefit (within the current HB Subsidy regulations). This helps to keep the Housing General Fund budgets sustainable and ultimately ensures that the Homelessness service has the resources to continue to meet the needs of households with a housing need. Whilst the cost of providing temporary accommodation is forecast to increase in 2023/24, LHA rates will remain the same, therefore increasing the net cost to the General Fund.

## **7.2 Legal**

7.2.1 Section 76 of the Local Government and Housing Act 1989 imposes a duty on local housing authorities to prevent debit balances arising in their Housing Revenue Account (“the HRA”). The HRA is a record of revenue expenditure and income in relation to an authority’s own housing stock.

7.2.2 The principal statutory provision governing the fixing of rent for Council property is contained in section 24 of the Housing Act 1985, which provides that authorities may “make such reasonable charges as they may determine.” Further, it requires the local authority, from time to time, to review rents and other charges and make such changes, as circumstances may require. These provisions are subject to the limits set out in the Rent Standard set by the Regulator of Social Housing and the Governments Policy statement on rents for social housing published in February 2019. The Government announced from 2020/21 onwards for 5 years rent increases would be allowed up to CPI plus 1%. For rent periods that begin in the 12 months from 1 April 2023 to 31 March 2024, as set out in the report due to unexpected high levels of inflation Government has replaced the CPI plus 1 percentage point by a 7% ‘ceiling’. This means that, in this year, registered providers may increase rents by up to 7%.

7.2.3 The provisions on tenant consultation set out in S105 of the 1985 Act do not apply to rent or service charge increases. Service charges are outside the rent envelope as they relate to the recovery of actual costs but are subject to the requirements of notice of variation and the provisions of our tenancies/leases. They are limited to recovering costs incurred.

7.2.4 The Equality Act 2010 requires public authorities to have due regard to the need to eliminate discrimination and advance equality of opportunity. The Council must further take into account its wider Public Sector Equality Duty (PSED) under s.149 of the Equality Act 2010 when making its’ decisions which are outlined in 7.3 below. The equalities impact analysis carried out into the proposals is set out at Appendix 3.

## **7.3 Equalities and Diversity**

- 7.3.1 The Council must have due regard to its Public Sector Equality Duty (PSED). The Council will consider the impact of its budgetary decisions on these duties. Mitigating action will be identified wherever possible. The outcome will be reported as an integral part of the HRA/rent setting report to be considered in February which will include an equalities analysis.
- 7.3.2 An initial screening exercise of the equality impact of this decision was undertaken and determined there was minimal impact on the Council's equality duty. The decision to increase rents will have a potential impact on certain protected groups. Mitigations will be implemented via support to residents as outlined in 4.26 and 4.31.
- 7.3.3 The Council will consider the impact of changes that might arise as a result of implementing the proposals for change arising out of its HRA strategy on those with protected equality characteristics. Individual proposals will be subject to a full equality analysis wherever relevant, prior to any decision taken to proceed, including the identification of mitigating action where possible. Where there is any potential impact on staff, the agreed HR procedures will be followed.
- 7.4 Sustainability (including climate change, health, crime and disorder)**
- 7.4.1 The capital programme includes provision for communal boiler replacement, energy efficiency improvements, heat recovery ventilation, anti-condensation programmers and boiler upgrades to a more efficient standard after 10-12 years. There would be an impact on delivery of this should there not be sufficient resources available within the HRA.
- 7.5 Council Infrastructure (e.g. human resources, accommodation or IT issues)**
- 7.5.1 Any proposals to review the budget which involved staff reductions would be subject to consultation with staff.

**BACKGROUND INFORMATION (as defined by Local Government (Access to Information) Act 1985)**

None