

Date of issue: Tuesday, 10 January 2023

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| MEETING | CABINET | |
| | Councillor Swindlehurst | Leader of the Council and Cabinet Member for Council Recovery, Forward Strategy & Economic Development |
| | Councillor Mann | Deputy Leader and Cabinet Member for Housing & Planning |
| | Councillor Ajaib | Customer Services, Procurement & Performance |
| | Councillor Akram | Leisure, Culture & Community Empowerment |
| | Councillor Anderson | Financial Oversight & Council Assets |
| | Councillor Bains | Public Protection, Regulation & Enforcement |
| | Councillor Hulme | Children's Services, Lifelong Learning & Skills |
| | Councillor Nazir | Transport & The Local Environment |
| | Councillor Pantelic | Social Care & Public Health |
| DATE AND TIME: | MONDAY, 16TH JANUARY, 2023 AT 6.30 PM | |
| VENUE: | COUNCIL CHAMBER - OBSERVATORY HOUSE, 25 WINDSOR ROAD, SL1 2EL | |
| DEMOCRATIC SERVICES OFFICER: (for all enquiries) | NICHOLAS PONTONE 07749 709 868 | |

SUPPLEMENTARY PAPERS

The following Papers have been added to the agenda for the above meeting:-

* Item 7 was not available for publication with the rest of the agenda.

PART 1

| <u>AGENDA ITEM</u> | <u>REPORT TITLE</u> | <u>PAGE</u> | <u>WARD</u> |
|--------------------|---------------------------------------|-------------|-------------|
| 7. | HRA Rents and Service Charges 2023/24 | 1 - 10 | All |



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SLOUGH BOROUGH COUNCIL

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| REPORT TO: | Cabinet |
| DATE: | 16th January 2023 |
| SUBJECT: | Housing Rents and Charges for 2023/24 |
| CHIEF OFFICER: | Patrick Hayes Executive Director, Housing and Property |
| CONTACT OFFICER: | Trevor Costello Interim Housing Specialist |
| WARD(S): | ALL |
| PORTFOLIO: | Councillor Pavitar K Mann Housing and Planning |
| KEY DECISION: | YES |
| EXEMPT: | NO |
| DECISION SUBJECT TO CALL IN: | YES |
| APPENDICES: | None |

1 Summary and Recommendations

1.1 This report sets out the proposed changes in Housing rents and charges for 2023/24.

Recommendations:

1.2 Cabinet is requested to recommend the following decisions:-

- (a) The base rent for social rent tenancies (those whose rent is set using the rent-restructuring or 'formula' rent process) for 2023/24, excluding service charges, to **increase by 7%** with effect from Monday 3rd April 2023.
- (b) The rent of 'Affordable Rent' tenancies for 2023/24 to **increase by 7%** with effect from Monday 3rd April 2023.
- (c) Garage rents, heating, utility and ancillary charges to **increase by 7%** with effect from Monday 3rd April 2023.
- (d) Service charges to **increase by 7%** with effect from Monday 3rd April 2023.

Reason: The proposed increase to dwelling rents reflects the outcome of the Government's consultation on the level of rent increase to be allowed for private and local authority registered providers of social housing.

Government has since on 12th December 2022 issued a Direction to the Regulator of Social Housing to issue an Rent Standard for 2023/24, replacing the existing CPI+1% methodology that would have led to a maximum 11.1% increase, to one where rent increases are to be no more than 7%

Garage rents, service and other ancillary charges are to increase by 7% with effect from Monday 3rd April 2023. These charges do not fall within the scope of the Rent Standard 2023's 7% cap. They are proposed to be increased at September 2022 RPI figure and are set to enable the council to recover the cost of providing additional services to residents.

Commissioner Review

- 1.3 The Commissioners are content with the contents of this report and its recommendations.

2 Report

- 2.1 The council's 2022-2025 corporate plan, entitled 'Doing Right by Slough' sets out four priorities for the organisation. Objectives 1 and 2 within the plan state:
 1. A council that lives within our means, balances the budget and delivers best value for taxpayers and service users.
 2. An environment that helps residents live more independent, healthier and safer lives.
- 2.2 Housing Revenue Account ("HRA") income is derived predominantly from dwelling rents with additional supplementary income raised from garage and commercial assets 'owned' by the HRA. Income from HRA tenants' rents and charges is legally ring-fenced from General Fund services and is the source of income to pay for all landlord services to council tenants and leaseholders.
- 2.3 Service charges and heating costs are set at levels that aim to recover the cost of providing services to residents in their homes and to the blocks and estates where they live. The council does not aim to profit from these services and charges are reviewed periodically to reflect the cost of providing these services to tenants.
- 2.4 The provision of high quality affordable homes and housing management services to residents will improve the strength and sustainability of communities. Through a new 30-year HRA Business Plan the council is committed to ensuring the HRA is managed judiciously and sensibly to allow the council to maintain and invest in its housing stock.
- 2.5 Achieving Outcomes 1 and 2 of the 2022-2025 Corporate Plan will be supported by the responsible setting of income and expenditure budgets for the HRA housing stock, maximising the rental income stream and maintaining the asset value of the HRA by building financial stability and providing good quality, well maintained homes.

3. Options considered

- 3.1 Freezing council rents and charges with no increase is not an option. The 30-year HRA business plan is based on an increasing income stream that enables the council to continue to deliver services to tenants in future years and which expects the cost of delivering those services to increase.
- 3.2 The requirements for limiting rent increases apply differently to social rent and affordable rent tenancies. The new Rent Standard 2023 limits rent increases as follows:
 - 3.2.1 “For social rent housing – The weekly rent of an existing tenant may not be increased by more than 7%”. This does apply to any additional service charges charged on top of the base rent.
 - 3.2.2 “For affordable rent housing – the gross weekly rent of an existing tenant may not be increased by more than 7%”. This ‘gross weekly rent’ includes service charges.
- 3.3 The 7% cap on social rent or formula rent tenancies is only on the base rent element. There is no cap on service charges levied by the council to recover the costs of providing additional services to properties in blocks or on estates (e.g. communal heating and lighting, caretaking, window cleaning, block maintenance and statutory safety inspections and grounds maintenance. The council is entitled to charge service charges at a level that enables it to recover the costs incurred in providing those services.
- 3.4 Regulations exist to protect tenants from landlords who seek to profit from service charges. Providers should set service charges reasonably and only at levels to recover the cost of providing those additional services to those who receive them. By increasing service charges at 7%, the council is aiming to continue to cover the costs of providing these services. This is less than the September RPI figure of 12.6%, and potentially lower than suppliers increases are likely to reach, but the revised Policy Statement on Rents does require that service charge increases are also capped at 7%.
- 3.5 Historically, the council has kept service charge increases to the same CPI+1% formula level as the base rent increase. For this year, the council expects costs to rise at such a rate that any increase of service and other charges below inflation will lead to expenditure being subsidised from HRA reserves.

4. Background

- 4.1 The council is a local housing authority provider of social housing. It is a contractual term within the council’s periodic tenancy agreements and licences that rents and charges are to be reviewed on an annual basis, normally from the first Monday in April.
- 4.2 The council modelled a 3%, 5% and 7% increase level based on the suggestions contained within the government’s consultation on an amended 2023 Rent Standard.
 - 4.2.1 It has determined that a maximum 7% increase was necessary to maintain delivery of services and organisational momentum in rebuilding a strong financial base. Income at that increased level is necessary for the HRA to continue to be able to

deliver a high quality and effective service to its residents. Both 3% and 5% increases were not felt to be keeping up with costs increases being notified by suppliers.

- 4.2.2 This approach to both social rent and affordable rent tenancies would be in line with the Direction issued by the Department of Levelling Up, Communities and Housing on 12th December 2022 to the Regulator of Social Housing for it to issue a revised Rent Standard for 2023.
- 4.2.3 This Direction supersedes the existing Rent Standard for 2020-2025 which allowed for rent increases at no more than CPI+1% up to 105% of the formula rent for each property (the additional 5% being known as rent flexibility).
- 4.2.4 The council is preparing for intensive cost activity of approximately £200k in 2023-24 relating to damp and mould inspections and remedial work following the recent fatality in Rochdale and government requirements for providers to have a robust process and plans in place for managing damp and mould issues in their stock. These costs will cover anticipated increases for initial independent inspections and reports and work required to address damp and mould in the housing stock. This is likely to lead to an ongoing impact on repairs expenditure.
- 4.3 The regulation of rents in the social housing sector has undergone significant reform since 2002, when the policy of rent-restructuring was launched. This policy has set the criteria by which social housing rents were to be calculated, and which aimed to harmonise local authority and housing association rents so that tenants in similar-sized properties in the same area paid broadly similar rents. These 'formula rents' were to become the maximum rent chargeable. A 5% rent flexibility buffer is allowed so that up to 105% of the formula rent could be charged as long as the rent cap for each property size was not breached.
- 4.4 Providers were given until 2016 for their rents to reach 'rent convergence' with formula rents. As a consequence of stagnant inflation, providers' ability to reach convergence using the rent-restructuring increase formula of RPI + 0.5% + £2 was impacted and the government has extended the rent convergence deadline on repeated occasions. In 2016, government changed the rent review formula to CPI + 1% for an initial 10 year period to 2026.
 - 4.4.1 The Rent Standard 2020-2025 was introduced to give providers some certainty of approach to aid financial planning for a five year period. The rent charged up to 31st March 2020 was to become the Limit Rent and the figure upon which the CPI + 1% formula could be applied. The formula rent was also allowed to increase by CPI+1% each year.
- 4.5 Whereas the previous rent restructuring regime intended to provide for rents that were below their formula rent to increase gradually to its maximum allowable charge, the new Government policy of allowing both the current rent and the formula rent to increase by the same percentage value each year meant effectively rent convergence was paused until such time a rent increase percentage greater than the formula rent increase percentage is re-introduced.
- 4.6 The rent review formula was only to be applied to continuing tenancies. Upon relet, property's rent could be immediately raised to the formula rent and new tenancies let at the formula rent has led to examples of similar sized properties in the same

location or block having a greater degree of difference as new tenants move in alongside existing tenants.

4.7 The exceptional economic circumstances and intervention by Government to restrict rent increases to a maximum of 7% does not extend to the calculation each property's maximum chargeable rent, known as the formula or target rent. Therefore, each property's maximum chargeable rent formula or target rent will retain its existing CPI+1%-based uplift.

4.7.1 As a result of formula rents raising at a higher percentage rate than actual rents, a new gap between actual and formula rents will emerge. If economic conditions or government direction leads to the continuing capping of rent increases at a level below the percentage for formula rents, the rent-restructuring programme will have been compromised and it will take significantly longer to reach rent convergence (the point at which the actual rent reaches its formula rent).

4.8 Limit Rents are maximum average rents that can be charged in a financial year and are set by bedroom size. The Government's announcement states that Limit Rents will continue to rise by CPI + 1.5% each year.

4.9 The figures for 2023/24 compared to 2022/23 are shown below:

| Number of Bedrooms | 2022/23 Rent Cap per week | 2023/24 Rent Cap per week |
|--------------------|---------------------------|---------------------------|
| 1 and bedsits | 150.90 | 168.40 |
| 2 | 159.76 | 178.29 |
| 3 | 168.64 | 188.20 |
| 4 | 177.51 | 198.10 |
| 5 | 186.38 | 221.07 |
| 6 or More | 195.25 | 217.89 |

4.10 As at 31st December 2022, the council's HRA housing stock comprises:

| Number of bedrooms | Number of dwellings |
|--------------------|---------------------|
| Bedsit/Studio | 249 |
| 1 | 2105 |
| 2 | 1619 |
| 3 | 1874 |
| 4 | 152 |
| 5 | 33 |
| 6 | 3 |
| Total | 6035 |

4.11 Service charges should be set to cover the cost of those services that are only provided to a proportion of tenants and leaseholders and are often connected with communal facilities.

4.12 The council has historically applied a percentage-based uplift to service charge costs to reflect the increasing costs of providing services. Although costs for

delivering services to tenants are increasing at an above-inflation rate through general market, labour and materials price the council is proposing to cap service, heating and ancillary charges at 7%.

- 4.13 The council operates separate service charge regimes for tenants and leaseholders. Tenants' charges are based on fixed service charges, which is where the figure for the year is set and the council can neither attempt to recover any undercharge, nor is required to refund any overcharge.
- 4.13.1 Leaseholder service charges are based on a variable service charge regime. This enables the council to attempt to recover any undercharge to ensure income and expenditure is neutral. It does mean that if the council has overcharged in any given year, it must either refund the overcharged amount or offset the credit from future years' charges.
- 4.14 The council's new housing management system went live in October 2022. From April 2023, all council and leaseholder service charge administration will be delivered through the new housing system, including charge application, billing and income collection.
- 4.14.1 During 2023/24 the council intends to fully review the cost of providing additional services to its stock and to identify proposals to address any variances with service charge recovery versus cost of providing services on a block by block basis and to consult on proposals for changes to take effect from the 2023/24 rent year.
- 4.14.2 By April 2024, service charge levels will be harmonised for tenants and leaseholders ensuring that there is consistency in the level of service charges applied to residents. Leaseholders will continue to pay tenure-specific buildings insurance and leasehold administration charges.
- 4.14.3 Once implemented significant efficiencies as to how the council implements its rent and service charge changes. It will enable the council to provide greater detail on service charge calculation to all tenants and leaseholders and will support the comprehensive review of service charge setting processes 2023/24.

5. Implications of the Recommendation

5.1 Financial implications

- 5.1.1 The proposals help in ensuring that the council sets a balanced HRA annual budget and can deliver a capital programme within available resources.
- 5.1.2 The HRA 30 year financial business plan has been updated to reflect the introduction of the 7% increase for the 2023/24 year and uses a prediction that inflation should fall towards 6% and on a downward trend thereafter until it reaches the government's inflation target.
- 5.1.3 The impact of the 7% increase in 2023/24 is a projected dwelling rental income of £36.907M which considers a voids rate of 1.5% and adjustment for Right to Buy properties. This compares with an estimated dwelling income outturn of £34.608M for 2022/23, giving an increase of £2.299M.
- 5.1.4 The proposed average weekly rent for HRA socially rented tenancies in 2023/24 is £117.80 as compared to £109.93 in 2022/23. This represents an average increase

in council rents for 2023/24 of 7.1%. This takes into account some properties moving to formula rent throughout the year.

- 5.1.5 The impact of the 7% inflationary uplift applied to the non-dwelling income and service charge income provides for a projected income of £1.835M and £2.670M respectively. This compares with estimated non-dwelling income and service charge income of £1.714M and £2.495M in 2022/23.
- 5.1.6 The projected service charge income for 2023/24 is £2.670M while the estimated 2022/23 service charge income outturn is £2.495M.

6.1 Legal implications

- 6.1.1 Whilst a preliminary notice under Section 103 of the Housing Act 1985 is not required for periodic secure tenancies, the council is required to issue a Notice giving details of the proposed changes to rent and service charges (if any) and the date upon which those changes are to take effect. The council will issue Notice of changes to rent and service charges (if any) giving no less than four weeks' notice of the change. The change of rent and service charges is not considered a housing management matter, the changing of which would require a consultation process to take place. Consequently, Section 105 of the Housing Act 1985 does not apply.
- 6.1.2 The Local Government and Housing Act 1989 requires the council to maintain a ring-fenced budget for its housing stock related income and expenditure, known as the Housing Revenue Account. Section 76 requires the council during the months of January and February to formulate proposals which satisfy the requirements of this section relating to the income of the authority for the following year from rents and other charges and the expenditure in respect of the repair, maintenance, supervision and management of such properties.
- 6.1.3 Compliance with the Rent Standard 2023 will be required under the Regulator of Social Housing's regulatory framework. Data used to calculate rental income based on the new Rent Standard arises from the original rent restructuring review dataset and there is an auditable trail of rent charges from 2002 to date.
- 6.1.4 The timetable for implementation of the rent review allows for the requirement to issue four weeks' notice of review in line with the terms and conditions of the council's various tenancy and occupancy agreements.
- 6.1.5 The Policy statement on rents for social housing states the following on setting of service charges:
 - 2.35 In addition to their rent, tenants may also pay service charges. Rents are generally taken to include all charges associated with the occupation of a property, such as maintenance and general housing management services. Service charges usually reflect additional services which may not be provided to every tenant, or which may be connected with communal facilities rather than being particular to the occupation of a dwelling. Service charges are subject to separate legal requirements and are limited to covering the cost of providing the services.
 - 2.36 Registered providers are expected to set reasonable and transparent service charges which reflect the service being provided to tenants. Tenants should be supplied with clear information on how service charges are set. In the

case of social rent properties, providers are expected to identify service charges separately from the rent charge.

2.37 Service charges are not governed by the same factors as rent. However, registered providers should endeavour to keep increases for service charges within the limit on rent changes, of CPI (as at September in the previous year) + 1 percentage point (or 7% in 2023-24), to help keep charges affordable.

2.38 Where new or extended services are introduced, and an additional charge may need to be made, registered providers should consult with tenants.

6.1 Risk management implications

6.1.1 The issuing of rent review notices in late February/early March 2023 and implementation of the rent review on the first Monday in April will ensure the rent review is actioned correctly and within prescribed timescales in order to deliver the projected increased rental stream income.

6.1.2 There are no other risk management implications.

7.1 Environmental implications

7.1.1 There are no environmental implications as a result of this report.

8.1 Equality implications

8.1.1 Pursuant to the Equality Act 2010 ("the Act"), the Council, in the exercise of its functions, has to have due regard to (i) eliminating discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; (ii) advancing equality of opportunity between those with a relevant protected characteristic and those without; and (iii) fostering good relations between those with a relevant protected characteristic and those without. The relevant protected characteristics are age, race, disability, gender reassignment, pregnancy and maternity, religion or belief, sex and sexual orientation. The duty also covers marriage and civil partnership, but to a limited extent.

8.1.2 When making decisions, the Council must take account of the equality duty and in particular any potential impact on protected groups.

8.1.3 There are no potential impacts on protected groups by the recommendations in this report.

9.1 Procurement implications

9.1.1 There are no procurement implications as a result of this report.

10.1 Workforce implications

10.1.1 There are no workforce implications as a result of this report. Tasks and workflows already sit within existing teams with no anticipated resource issues affecting delivery of the proposals.

11.1 Property implications

11.1.1 There are no physical property implications as a result of this report.

12. Background Papers

12.1 None

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