

Slough Borough Council

Report To:	Cabinet
Date:	15 th January 2024
Subject:	HRA Rents and Services Charges for 2024/25
Lead Member:	Councillor Paul Kelly, Highways, Housing and Transport
Chief Officer:	Patrick Hayes, Executive Director, Regeneration, Housing & Environment, and Adele Taylor, Executive Director, Finance & Commercial
Contact Officer:	Chris Stratford, Assistant Director, Housing Ruth Hudson, Director, Financial Management
Ward(s):	All
Key Decision:	YES
Exempt:	NO
Decision Subject to Call In:	YES
Appendices:	None

1. Summary and Recommendations

- 1.1 This report sets out in the main the proposed changes to social housing rents and service charges for 2024/25. This includes approval for the proposed increases to both Housing Revenue Account (HRA) dwelling rents, affordable housing rents, garage rents and tenant service charges from 1st April 2024.
- 1.2 A dwelling rent increase of 7.7% is proposed for 2024/25, plus 7.7% for non-dwelling rents and service charges based on the September CPI plus 1%, government rent formula direction.

Recommendations:

- 1.3 Cabinet is recommended to approve:
 - a) Social & affordable housing dwelling rent increase of 7.7% from 1st April 2024 in line with current national rent setting formula.
 - b) Tenant service charges increase of 7.7% from 1st April 2024 in line with inflation and support the proposal to recover the additional costs currently being incurred by the HRA in respect of actual costs of services and income received.

- c) Garage rents for council & private tenants and leaseholders increase of 7.7% from 1st April 2024 in line with inflation.
- d) Note that the HRA 30yr Business Plan & medium term revenue & capital budgets for 2024/25 will be considered by cabinet in February 2024.

Reason:

- 1.4 The HRA is a ringfenced account for Local Authority Housing under Section 74 of the Local Government and Housing Act 1989. The local authority as a social housing landlord is required to set HRA rents and budgets for each financial year. It is also required by law to give each tenant at least 28 days' statutory notice of any revised changes to their rents and service charges.
- 1.5 The report seeks the approval needed to set HRA tenant rents and service charges for the financial year 2024/25 and thereby facilitate the issuing of the necessary statutory notices.
- 1.6 The proposed dwelling rent increase reflects current rent regulation which allows actual rents to increase by a maximum of CPI+1%. The proposed other rents, service & charges increases do not fall within the scope of the rent regulation and as such the proposals are to enable the council to move towards full recovery of the cost of providing these additional services to tenants & leaseholders.

Commissioner Review

- 1.7 "Rent setting must be seen in the context of the statutory duty to set a balanced HRA budget. The HRA is reliant on the rental income from its tenants and leaseholders to provide Housing Management Services and make other improvements required to the stock because of legislative and proposed changes on, fire safety works, building safety compliance and the damp and mould. These services and improvements are wholly funded by the HRA and as such, the HRA must be financially viable on a long-term basis."
- 1.8 "Decisions relating to increases to rent & service charges have a direct impact on the Housing Management and improvement services that can be provided. Given the current financial uncertainty for the medium term, it will be important that the council can continue to provide services needed by the most vulnerable tenants, by ensuring that the HRA is funded accordingly and work to ensure that tenants and leaseholder are advised of all options available to them to mitigate financial insecurity which may be experienced as a result of the increase in rent and tenants service charges."

2. Introduction

- 2.1 The HRA derives its income from dwelling rents, service charges and income from garages, shops, and land. These incomes are ring fenced and used to pay for all landlord services to council tenants and leaseholders.
- 2.2 Service charges and heating costs are set at levels that aim to recover the cost of providing services to tenants 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 actual cost of providing these services.

- 2.3 The provision of high-quality affordable homes and housing management services to tenants will improve the strength and sustainability of communities. Through an annual 30-year HRA Business Plan the council is committed to ensuring the HRA is managed judiciously and sensibly to allow the council to manage, maintain and invest in its housing stock.
- 2.4 The proposals support the delivery of outcomes 1 & 2 of the 2022-2025 Corporate Plan by setting rents & service charges with a view to maximising all available rental income streams and maintaining the asset value of the HRA by building financial stability and providing good quality, well maintained and managed homes.

3. Background

- 3.1 The council is a local social 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 reviewed on an annual basis with new rents starting normally from the first Monday in April.
- 3.2 The regulation of rents in the social housing sector has undergone significant reform since 2002, when the regulation of rent-restructuring was launched. This regulation has set the criteria by which social housing rents are 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.
- 3.3 The rent regulation was then revised limiting social housing rent increase to the consumer price index (CPI) + 1%. The revised arrangement was to run for 10 years from 2015/16, to give social landlords certainty of approach to aid financial planning. However, the Welfare Reform and Work Act 2016 introduced a four-year period of 1% rent reduction from 2015/16 to 2019/20. After which, the original rent regime of CPI + 1% was resumed from 2020/21 for the period up to 2024/25.
- 3.4 Last year, due to exceptional economic circumstances rent increases were restricted to a maximum of 7% as CPI was exceptionally high at 11%. It is expected that, as set out in the DLUHC's rent cap consultation response last year, maximum permitted social housing rent increases will again return to CPI+1% for 2024/25 and continue thereafter until amended. It is therefore recommended that rents are increased in line with the current regime of CPI + 1% to continue to maintain the delivery of good quality accommodation and effective services to tenants especially given the ongoing inflationary pressures on most service expenditure. As before, rents for relet and void properties would continue to be set at the maximum rate possible.
- 3.5 It should be noted that because the government directed that rents be limited to 7% last year and inflation was significantly higher than the prescribed level the HRA incurred a significant reduction in available funds in that year and over the 30-year cycle because of that decision. It should be particularly noted by Cabinet that failure to implement the full year recommended rise of 7.7% for 24/25 will similarly reduce funding to the HRA in year and over the full 30-year plan. This will inevitably lead to shortfalls in investment capacity and the ability to maintain stock in a reasonable condition.
- 3.6 The council continues to invest in damp and mould inspections and remedial works following the recent national fatality and requirements for landlords to have a robust process and plans in place for manage damp and mould issues in their stock,

decarbonisation work and other ongoing investment to improve the stock. The HRA budget and BP will include as far as possible affordable investment to cover these and other emerging issues as they become known.

- 3.7 Service charges are 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. The council has historically applied a percentage-based uplift to service charge costs to reflect the increasing costs of providing services. Actual costs are periodically reviewed and compared to the annual charges to ensure good progress is made towards full recovery of costs. Costs of delivering services to tenants & leaseholders continue to rise at an above-inflation rate, particularly energy.
- 3.8 It is recognised therefore that service charge income does not cover such chargeable costs due to cost-of-living pressures especially in the context of such things such as electricity and gas charges which have risen sharply over the last three years. It is intended that as inflation falls to lower levels to recover the impact on service charges over several years thus keeping the burden to service charge customers to the minimum.
- 3.9 The council's new housing management system went live in October 2022 and all council and leaseholder service charge administration will eventually be delivered through the new housing system, including charge application, billing, and income collection. It is anticipated that service charge levels will then be harmonised for tenants and leaseholders (except for leaseholder-specific cost and administration charges) by April 2024. The implementation of the new system continues to be challenging but progress is being made as full implementation of all its functionalities is anticipated by end of the financial year. It is likely however that carry forward funding plus additional HRA funds will be required to complete full implementation including the acquisition of new modules such as Asset Management software will be required during 24/25. The Project Board has presented its proposals for funding to meet these requirements, and these will be included in the final HRA estimates for 24/25.
- 3.10 Once fully implemented the new IT system will bring 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 from 2024/25 onwards.

Options considered

- 3.11 The current social housing rent regulations permits social housing rents to increase by a maximum of CPI+1%. The September CPI is 6.7% resulting in a maximum permitted increase of 7.7%. The regulations exist to protect tenants and ensure social housing continue to be affordable for especially vulnerable tenants. The council will continue to ensure via the 30year HRA business plan that the management, maintenance, and improvement of the social housing stock is sustainable in the medium and long term. It is therefore recommended that dwelling rents should increase by 7.7%, the maximum permissible.
- 3.12 The level of variation of service and other charges are at the council's discretion and are not governed by regulations. However, the council chooses to set these charges reasonably and only at levels required to recover the cost of providing the additional services to tenants and leaseholders. Historically, these charges have increased in

line with rent at CPI+1%. It is therefore recommended that non dwelling rents and service charges increase by 7.7%. See comments in paragraph 3.5 above.

- 3.13 Alternative options considered include freezing rents and increases at a lower rate. None of these were considered viable and as such not recommended as they do not maintain the necessary level of funding to provide resources to maintain the overall sustainability of the HRA and allow investment objectives contained in the HRA Business Plan.

4. Dwelling Rents

- 4.1 It is expected that the maximum permitted social housing rent increases will return to CPI+1% for 2024/25 following last year's government intervention to cap rent increases. As a result, it is proposed that social dwelling rent is increased by 7.7%. This is the maximum increase allowed by the current rent regulation and calculated at CPI + 1%, where the September CPI is 6.7%. The council continues to exercise its discretion under the rent restructuring regulation to set rents for re-lets (both new tenants and transfers) up to formula target rent.
- 4.2 Table 1 below set out the average increases per week per bedroom sizes. On average dwelling rents will therefore increase from £117.58 per week currently to £126.62 per week from 1st April 2024, representing on average a £9.04 per week. This equates to an additional gross rent of £2.76m per annum, resulting in an estimated annual gross dwelling rent of £38.61m in 2024/25 compared to £35.85m last year. Of the current 5,864 properties, 195 are currently void reflecting a void rate of 3.3%.

Table 1 - Average HRA dwelling rent by bedroom size

Bedroom size	Stock numbers	2023/24 average weekly rent £	2024/25 average weekly rent £	2024/25 average weekly Increase £
0	248	88.27	95.06	6.79
1	2,096	100.97	108.74	7.77
2	1,548	121.67	131.03	9.36
3	1,788	134.13	144.45	10.32
4	148	146.99	158.30	11.31
5	33	166.98	179.84	12.86
>5	3	163.39	175.97	12.58
Total	5,864	117.58	126.62	9.04

- 4.3 Considering the ongoing national cost of living and economic crisis any rent increase is still likely to put considerable pressure on tenant's household income. However, on average about 67% of the council's social housing tenants are in receipt of housing benefit (HB) or the housing element of Universal Credit (UC) and so will also benefit from a similarly increase to HB/UC and as such should not be disproportionately affected by the rent increase. Members are however reminded that social housing rents remain below the comparable Local Housing Allowance which means those on HB/UC can qualify for the appropriate increase in benefit cover. Those tenants that however do not qualify for HB/UC will have to meet the full cost of any rent increase approved by Cabinet, these tenants should they be impacted by financial stress will be directed to those agencies able to provide financial advice.

5. Service Charges

- 5.1 The council operates two service charge calculation regimes for tenants and leaseholders. Tenants' charges are based on fixed service charges, which is set at the start of the rent year and the council can neither attempt to recover any undercharge, nor is required to refund any overcharge. However, checks are conducted periodically to ensure costs are being recovered from both tenants and leaseholders.
- 5.2 The council aims to set service charges reasonably and only at levels to ensure recovery of the cost of providing those additional services to relevant tenants. Services currently provided and charged for include communal heating and lighting, caretaking & cleaning, block maintenance, and grounds maintenance.
- 5.3 The council have reviewed the costs of services provided to both tenants & leaseholders and at present is not recovering its costs from council tenants. The shortfall is mainly because of very high energy costs in the last 2 years. As energy tariffs are expected to fall from October 2023 although because of previous rises well above inflation and recovered through service charges still means a gap exists between income and costs., it is anticipated that the relevant service costs may also reduce significantly in the coming months. The fully recovery of costs will be phased over several years to ensure the charges remain affordable to tenants.
- 5.4 It is therefore proposed to increase service charges by 7.7%, the rate of September inflation plus 1%. This will be sufficient to begin to close the income shortfall over the recovery. Table 2 below sets out the average tenant service charges per week.

Table 2 – Average Charges per week

Description	Tenant numbers	2023/24 average weekly charges £	2024/25 average weekly charges £	2024/25 average weekly Increase £
Heating	169	14.26	15.36	1.10
Service Charge Administration	2,760	1.37	1.47	0.11
Communal Estate and Cleaning	2,602	6.50	7.00	0.50
Communal Health and Safety	2,318	2.31	2.48	0.18
Communal Heat and Lighting	2,419	1.25	1.35	0.10
Average	2,769	11.37	12.24	0.88

- 5.5 The average weekly tenant service charges will therefore increase to £12.24 per week per tenant from £11.37 per week currently representing a £0.88 increase per week. These charges are covered by housing benefit where relevant. This will generate a gross additional income of £0.126m per annum, resulting in an estimated annual gross income of £1.76m in 2024/25 compared to £1.64m last year. Of the current 2,769 properties currently charged, 147 are currently void reflecting a void rate of 5.3%.
- 5.6 The shortfall in service charge income recovered against actual costs incurred is estimated to be £2.3m cumulative at the end of 2024/25. This gap in recovery has been primarily caused because of significant above inflation costs associated with energy and insurance premiums. Now that overall inflation is beginning to fall and

stabilise, it is intended that from 2025/26 service charge rises will be set in line with directed rent increases plus an estimated £2 per week to reduce the deficit on service charges enabling the current deficit to be recovered over a four-year period. Clearly it is essential to regularise the position in respect of service charges as any deficit is met by the HRA and associated costs covered by all tenants who do not necessarily receive the services being provided. The situation will of course be monitored carefully and any adjustments to the recovery amount applied notified to members in future Housing Rents and service charge reports.

- 5.7 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. Leasehold service charges are calculated, and invoices issued twice a year. The first invoice is based on an estimated charges for the new year. The second charge is based on re-calculated charge based on actual spend for the prior year. The charges recovered from leaseholders is based on actual costs and will not be impacted by the proposed increases above.
- 5.8 It is intended that by April 2025, 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. Once the new housing management system is fully implemented significant efficiencies as to how the council implements its rent and service charge will change. 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 in 2024/25.
- 5.9 In addition to recovering service costs from Leaseholders the council also recovers the costs of administering the leasehold service from the leaseholders. The management fee is a flat rate added to the cost of services to cover the preparation of estimates and actual costs, billing consultation on repairs and improvement works and estate management. At the end of each financial year, the actual cost is determined, and an appropriate adjustment made to the charge. The aim is to ensure that the service provided to the leaseholders are cost neutral to the HRA. The service is recoverable fully from leaseholders and it is unlawful for the HRA tenants to subsidise it. The current leasehold of the management fee is under review to ensure it is sufficient to cover the cost of administering the service.

6. Garage Rents

- 6.1 It is proposed that Garages Rent increased by 7.7%, in line with proposals for service charge increase. The average weekly council tenant charges will therefore increase to £11.53 per week per tenant from £10.70 per week currently representing a £0.83p per week increase. This will generate a gross additional income of £0.66m per annum, resulting in an estimated annual gross income of £0.940m in 2024/25 compared to £0.872m last year. Of the current 1,567 garages, 1,028 or 66% are currently void.
- 6.2 Most garages are run down and/or dilapidated and not fit to be used without significant investment and an appropriate estates strategy to deal with these assets and sites will emerge during 2024. A long-term garage strategy is being considered as part of a new Estates Strategy which will investigate a range of options for

achieving income both capital and revenue to the council. This will be commissioned in 24/25 and recommendations made later in that financial year. In the meantime, housing officers will identify and arrange through the council’s contractor to complete any essential H&S works to keep sites safe.

Table 3 – Average Garage rents by Tenant type

Type	Number of Stock	2023/24 Average weekly rent £	2024/25 Average weekly rent £	Average weekly Increase £
Occupied	539	11.93	12.85	0.92
Void	1,028	10.06	10.84	0.78
Total	1,567	10.70	11.53	0.83

7. Financial implications

- 7.1 The proposals are robust, in line with current social housing rent regime and will help ensure that the council prepares a viable 30yrs Business Plan and sets an affordable medium-term budget.
- 7.2 The financial impact of the proposal is reflected throughout the report. The proposed rental increase for the housing stock and garages is expected to generate an additional gross rent of £2.95m per annum per annum. However, as these properties are part of the HRA they cannot be used to off-set GF savings targets as per the draft budget paper that was considered by Cabinet on the 18th of December.

8. Legal implications

- 8.1 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, which deals with consultation on housing management, does not apply.
- 8.2 The Local Government and Housing Act 1989 (the “1989 Act”) 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 of the 1989 Act 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.
- 8.3 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.

- 8.4 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.
- 8.5 The Policy statement on rents for social housing (updated 14 December 2022) 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.”
- 9.6 Pursuant to Part 3.5 of the council's Constitution, the making of key decisions is a function for the Cabinet. Article 13 of the Constitution defines a key decision as a decision like to be significant in terms of its effects on communities living or working in an area of two or more wards of the Borough. A decision is “significant” includes decisions involving receipt of an amount in excess of £1 million for capital expenditure or £500,000 for revenue expenditure.

9. Risk management implications

- 9.1 The issuing of rent review notices in late February/early March 2024 and implementation of the rent review on the first Monday in April will ensure the rent review is actioned correctly and within prescribed timescales to deliver the projected increased rental stream income.
- 9.2 There are no other risk management implications.

10. Environmental implications

None.

11. Equality implications

11.1 Pursuant to the Equality Act 2010 (the “2010 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 2010 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.

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

12. Procurement implications

None.

13. Workforce implications

None.

14. Property implications

None.

15. Background Papers

None.