

<b>REPORT TO:</b>	<b>25 January 2023</b>
<b>SUBJECT:</b>	HRA Rent Setting 2023-24
<b>LEAD OFFICER:</b>	Susmita Sen, Corporate Director for Housing
<b>CABINET MEMBER:</b>	Councillor Lynne Hale, Deputy Mayor and Cabinet Member for Homes
<b>WARDS:</b>	All

**SUMMARY OF REPORT:**

This report sets out for approval the Council's HRA rent setting arrangements for council tenants from 1 April 2023 to 31 March 2024.

**FINANCIAL IMPACT:**

The proposals sit within the Housing Revenue Account (HRA) and therefore will have no direct financial impact on the Borough's General Fund.

Government direction of a cap of 7% rent and service charge increases for 2023-24 has an adverse impact on the HRA business plan due to lost revenue and therefore impacts on its ability to balance without making significant adjustments to the expenditure budgets.

The HRA Business Plan will be brought to cabinet in February 2023.

**KEY DECISION REFERENCE NO.**

**RECOMMENDATIONS:**

The Executive Mayor in Cabinet is recommended to:

- i. To approve the request to set the rent increase at the government directed level of 7% for the financial year 2023-24.
- ii. To approve the request to set the tenants service charges increase at the same level as the rents of 7% for the financial year 2023-24.
- iii. Note impact of capping at 7% which is lower than an existing policy has had an adverse impact on the HRA budget and its ability to balance without making significant adjustments to the expenditure budgets within the HRA.

- iv. Note there is further work required to set a balance budget for 2023-24 to accommodate the lost income. This will be taken to cabinet in February 2023 alongside the HRA Business Plan.
- v. Note further work will be required to ensure that tenants and leaseholder are advised of all options available to them to mitigate the financial insecurity which may be experienced as a result of the increase in rent and tenants service charges
- vi. Note the development of proposals to create a specific Housing Revenue Account (HRA) hardship fund aimed to assist tenants who are financially impacted by the 2023/24 rent increase

## 1. BACKGROUND

- 1.1 The existing rent policy of CPI + 1% would allow for an increase of 10.9%, or £5.3m, when compared to our original business plan. This would eliminate the effect of the known pressures for 23/24 to show a balanced position. However, given the significant cost of living increases of the past year this level of rise would also put significant strain on tenants.
- 1.2 In this context, on 31 August the Secretary of State issued a consultation on setting a cap or ceiling on rents with views sought on 3%, 5% and 7% as ceiling options. The council sought the views of tenants through the tenants and leaseholder panel on the impact of setting a cap. Their views were incorporated into the formal response to government. Tenants ask was to “have safe, affordable warm homes”, that “their communities are not adversely impacted, and the conditions of their properties are improved”.
- 1.3 In the autumn statement, it was announced that the new direction will set a ceiling of 7% from 1 April 2023 to 31 March 2024. This cap would act as an upper limit on the maximum amount by which the local authority can increase rents in that year.
- 1.4 Follow up engagement with residents through a specially convened Tenants panel meeting was carried out in December to share the proposals. In addition, a short an engagement survey was launched the feedback of which will be used to inform the support provided to tenants and to capture tenants priorities.
- 1.5 The paper recommends implementing the full 7% rent increase for the period 1 April 2023 to 31 March 2024, noting the adverse impact this loss of income (when compared to the current policy) has on the HRA.

- 1.6 The recommendation is to increase the tenants service charges in line with rents as has been the policy in prior years, noting that further work in being carried out on how we set and ensure tenants service charges are clear and transparent.
- 1.7 The paper sets out the impact on our tenants by way of average weekly increase and the profile of tenants who will be impacted by the rent increase.
- 1.8 The paper also recommends the setting up of a specific Housing Revenue Account hardship fund aimed to assist tenants who are financially impacted by the 2023/24 rent increase.

## 2. RENT CAPPING IMPACT ON HRA BUSINESS PLAN

- 2.1 As noted above, the existing rent policy of CPI + 1% would allow for an increase of 10.9%, or £5.3m, when compared to our original business plan. This would eliminate the effect of the known pressures for 23/24 to show a balanced position.
- 2.2 The recommendation is to implement the full 7% rent increase for 2023-24 to limit the impact of the lost income on the HRA. Modelling for the impact of the cap on the HRA is set out in Table 1.
- 2.3 The 7% cap is a loss to the HRA when compared to the current policy and results in lost income of £3.3m for one year, which together with other known pressures results in £8.6m HRA budget pressure for 2023-24. Over the 30 year business plan lifecycle equates to £148.7m deficit (NPV of 4% used)
- 2.4 No mechanism has yet been proposed to recoup the lost £3.3m revenue. At a NPV rate of 4% over the 30 year business plan life cycle this equates to lost income of £57.1m to the HRA.
- 2.5 Whilst the 7% rent increase will generate an increased income stream of £2.0m, it will result in an overall pressure within the HRA budget for 2023-24 of £3.3m, once the known expenditure pressures are included.

**Table 1 Effect of capping rent policy for 1 year**

<b>1 Year changes</b>	<b>7% Cap - Comparison to Business Plan budget (4% increase) £'000</b>	<b>7% Cap - Comparison to Rent Policy (10.9% increase) £'000</b>
<b>Rental Income movement</b>		
Increase/(decrease) year 1	1,986	(3,322)
Known pressures	(3,504)	(3,504)
Utilities	(1,800)	(1,800)
<b>Total Pressures</b>	<b>(5,304)</b>	<b>(5,304)</b>
<b>Net Impact Year 1</b>	<b>(3,318)</b>	<b>(8,626)</b>

- 2.6 Whilst known expenditure pressures have been reflected in Table 1 to model the impact on the HRA revenue budget, there are also not yet quantified programmes that will require funding. Some of which are set out below the impact of the lost £57.1m income (over the 30 years of the business plan) may impact the timing of the delivery of these:
- 2.6.1. The statutory pressures as a result of legislative changes and proposed changes on, fire safety works, building safety compliance and the damp and mould programme
  - 2.6.2. The Housing Transformation Programme which has set out a number of key recommendations will need to be factored into the budget setting for 2023-24 and onwards, with a 3- to 5-year programme of transformation, to be funded.
  - 2.6.3. The impact of the legislative changes and proposed changes including the requirement to meet net zero carbon neutral building standards. The current estimate is £40k per property.
  - 2.6.4. The funding of the works on our tall buildings, including the decisions on the future options for the Regina Road site.
  - 2.6.5. The results from the immediate 5% stock conditions surveys will be reviewed in addition to the rolling stock conditions surveys outcomes. The funding of the requirements from these surveys will be projected over a longer period which will therefore impact key milestones originally sought to be achieved.
  - 2.6.6. Full details of the capital program will be taken to cabinet in February as part of the HRA Business Plan and budget update and will reflect the impact of potentially increasing the backlog of stock investment which is required.

### **3. AVERAGE RENTS INCREASE**

- 3.1 The rents increase is based on average rents model and excludes the service charges. Table 2 and Table 3 set out the impact of the 7% increase on current weekly rents and tenants service charges respectively.
- 3.2 Tables 2 and 3 also sets out the reduction in costs to tenants compared to if rents were allowed to increase by CPI+1%. This will benefit all households not only those who receive universal credit or housing benefit.

**Table 2 – Average rents per week and month**

Bedroom Size	Average rent 2022-23 £ p/w	<u>7% Cap -</u> Average rent 2023-24 £ p/w	<b>Increase vs 2022/23 £p/w</b>	<u>10.9% Rent Policy –</u> Average rent 2023-24 £p/w	<b>Tenants Reduction in cost 2023-24 – 10.9% vs 7% £p/w</b>	<b>Tenants Reduction in cost 2023-24 £p/m</b>
0 Bedsit	80.21	85.82	<b>5.61</b>	88.95	<b>3.13</b>	<b>13.56</b>
1	96.04	102.76	<b>6.72</b>	106.51	<b>3.75</b>	<b>16.25</b>
2	114.34	122.34	<b>8.00</b>	126.80	<b>4.46</b>	<b>19.33</b>
3	138.05	147.71	<b>9.66</b>	153.10	<b>5.39</b>	<b>23.36</b>
4	156.48	167.43	<b>10.95</b>	173.54	<b>6.11</b>	<b>26.48</b>
5	171.18	183.16	<b>11.98</b>	189.84	<b>6.68</b>	<b>28.95</b>
>5	191.68	205.10	<b>13.42</b>	212.57	<b>7.47</b>	<b>32.37</b>

**Table 3 – Average tenants service charges per week and month**

Dwelling type	Average 2022-23 £ p/w	<u>7% Cap –</u> Average service charge with increase 2022-23 £ p/w	<b>Increase vs 2022/23 £p/w</b>	<u>10.9% Policy –</u> Average service charge 2023-24 £p/w	<b>Tenants saving 2023-24 – 10.9% vs 7% £p/w</b>	<b>Tenants saving 2023-24 £p/m</b>
Flats	10.97	11.74	<b>0.77</b>	12.17	<b>0.43</b>	<b>1.86</b>
Estate Houses	2.25	2.41	<b>0.16</b>	2.50	<b>0.09</b>	<b>0.40</b>

#### 4. SUPPORTING OUR TENANTS

- 4.1 We recognise these increases may cause concern for some of our residents and we have carried out a modelling exercise to have a look at those who could be potentially vulnerable. The modelling of the tenants is limited and focuses on those in receipt of Housing Benefit, as we can confidently predict that this benefit will be applied to rent and service charges. Table 4 sets out the benefits eligibility of Croydon tenants.
- 4.2 67.9% of the tenants are eligible for some form of Housing Benefit. The remaining 32.1% receive no benefits and these self-payers would potentially be at risk as a result of the increases set out in section 3.

**Table 4 Our Tenants**

<b>Benefits Eligibility</b>	<b>No. of Tenants</b>	<b>Proportion of Total</b>	<b>Annual Rent and SC Roll</b>	<b>Housing Benefit</b>	<b>Potentially At Risk</b>	<b>Proportion of Annual Roll at Risk</b>
Full Housing Benefit	2,572	19.6%	£15,761,966	£15,761,966	£0	0%
Partial Housing Benefit	2,220	16.9%	£14,689,347	£11,115,166	£3,574,181	24.3%
Universal Credit	4,116	31.4%	£26,948,095	£2,873	£26,945,222	99.9%
<b>TOTAL ON BENEFITS</b>	<b>8,908</b>	<b>67.9%</b>	<b>£57,399,409</b>	<b>£26,880,006</b>	<b>£30,519,403</b>	<b>53.2%</b>
No Benefit/Self-payers	4,220	32.1%	£27,711,470	£0	£27,711,470	100%
<b>TOTAL</b>	<b>13,128</b>	<b>100%</b>	<b>£85,110,879</b>	<b>£26,880,006</b>	<b>£58,230,873</b>	<b>68.4%</b>
<b>PROPORTION OF ANNUAL ROLL</b>				<b>31.6%</b>	<b>68.4%</b>	

- 4.3 For those in receipt of full Housing Benefit, i.e. 19.6% of tenants on the rent roll, we are assuming that they will not be affected by the rent increase. This cohort accounts for £15.8m of the current annual rent income.
- 4.4 For those in receipt of partial Housing Benefit, i.e. 16.9% of tenants on the rent roll, we are assuming that they will be less affected by a rent increase, but are subject to benefit caps. There is currently 24.3%, or £3.6m pa, of the rent debit for this cohort, which is not covered by Housing Benefit, which is therefore potentially at risk. This cohort accounts for £14.7m of the current annual rent income.
- 4.5 For those in receipt of Universal Credit, i.e. 31.4% of tenants on the rent roll, we don't have any further information as to the housing elements included within it. However this cohort will be very sensitive to rent increases since the Universal Credit has to be used for more aspects of support and not just housing. Considering that Universal Credits are paid directly to tenants, there will also be a higher than usual risk of bad debts, when considering the current economic outlook. This cohort accounts for £26.9m of the current annual rent income.
- 4.6 No benefit/Self-payers account for 32.1% of tenants, this equates to 4,220 tenants who are not currently receiving Universal Credit or Housing Benefit. This cohort accounts for £27.7m of annual rent income.

4.7 These tenants will be contacted prior to the increase taking effect and offered support. Our welfare officers will be able to identify what, if any, benefits these tenants may be able to claim and offer assistance with this. As well as providing support with budgeting and directing them to available grants and organisations which provide advice on saving energy. These tenants will be our priority, following which we will review the details of tenants who are already receiving housing benefit, to check that they are receiving other benefits, to which they may be entitled.

4.8 In addition we will establish a Housing Revenue Account specific discretionary fund to assist households that experience severe financial difficulties and whose circumstances have been adversely impacted as a result of the 2023/24 rent increase.

## 5. RESIDENT ENGAGEMENT

5.1 Engagement with our tenants began in October through Tenants and Leaseholder Panel (TLP) meeting, feedback from this meeting was included in the submission to government on the impact of setting a rent cap. Tenants flagged concerns surrounding:

- *The need for safe, affordable, warm homes*
- *Lack of investment in homes*
- *The impact of potential cuts on communities - the condition of properties has a big impact on the community & behaviours*
- *Impact on future redevelopments required & new homes required*
- *Impact of any significant rent increase would have on other sectors within health and adult social care E.G mental health*

5.2 Following on from the government directive on the rent cap a special sitting of TLP was held in December to outline the impact of the proposed 7% rent and tenants service charges increase. In addition, a short survey was launched from 21 December to 5 January to invite residents with concerns regarding the rent increase to respond directly with their contact details to the resident engagement team to find out about financial support that might be available.

5.3 The survey also requested residents feedback on their priorities and for comments on or suggestions where resources should be focused. The top 5 priorities from the survey are:

- 1) Keeping my block, estate, and neighbourhood clean and tidy
- 2) Improved repairs service
- 3) Internal works (windows, doors replacement)
- 4) Tackling anti-social behaviour
- 5) More CCTV (closed circuit television) and security

5.4 Some of the clear messages from the survey responses were:

*“All services are important and needed so with the proposed rent increase all above should be improved without sacrificing another”*

*“The council needs to take much better care of their properties, they are all falling into disrepair”*

## **6. CONCLUSION**

- 6.1 The recommendation will be for cabinet to approve the request to set the rents increase at the government directed level of 7% and no lower.
- 6.2 The impact of capping at 7% which is lower than the existing policy has had an adverse impact on the HRA budget and its ability to balance without making significant adjustments to the expenditure budgets within the HRA.
- 6.3 Work is ongoing to ensure a balanced HRA budget is set for 2023-24, accommodating the lost income and other pressures.
- 6.4 The HRA business plan will be impacted by the lost income over the 30 year period of £57.1m and will require adjustments to plans in order to accommodate the changes.
- 6.5 Further work will be carried out to establish a HRA specific discretionary hardship fund to assist tenants.
- 6.6 Continue to work with our tenants impacted by the changes noting there is also potential mitigation for the impact of any increase through the discretionary housing payments and HRA discretionary funding for Council tenants in addition to the various types of energy support payments offered by the government, which tenants will be made aware of.
- 6.7 Applications for the Government’s Household Support Fund which provides discretionary support to tenants closed in September 2022. The Council anticipates the provision of further funding following an announcement from the Department of Work & Pensions and will advise tenants accordingly.

## **7. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

- 7.1 The financial impacts to the HRA as a result of the lost income through setting the rent increase at the government directed level of 7%, rather than in line with the existing policy of CPI +1%, are set out in the paper above.
- 7.2 Further work will be required to set a balanced budget for the HRA for 2023-24 as a result of the lost revenue and other pressures referred to in the report.

- 7.3 The lost revenue over the 30 year business plan life cycle this equates to £57.1m to the HRA the impact of which will be reflected in the HRA business plan paper going to cabinet in February 2023.
- 7.4 Approved by Alan Layton, Interim Head of Service, on behalf of the Corporate Director of Resources and Section 151 Officer.

## **8. LEGAL CONSIDERATIONS**

- 8.1 The Head of Litigation & Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer as follows:
- 8.2 Section 197 of the Housing and Regeneration Act 2008 gives the Secretary of State the power to direct the Regulator of Social Housing to set a standard on rent, and about the content of that standard. Once issued, a direction is binding on the Regulator. The Secretary of State is proposing to use this power to issue a new direction which will apply to all registered providers of social housing, including local authority registered providers. This direction will sit alongside the Direction on the Rent Standard 2019, so that the current CPI+1% limit on annual rent increases will be subject to a ceiling from 1 April 2023 to 31 March 2024. On 31 August the Secretary of State issued a consultation on a draft direction based on setting the ceiling at 5%, but sought views on 3%, 5% and 7% as ceiling options. In the Autumn Statement, it was announced that the new direction will set a ceiling of 7%, but the new direction has not yet been issued.
- 8.3 In relation to varying the terms of secure tenancy agreements in respect of rents and service charges, the Council must comply with the provisions of Sections 102 & 103 of the Housing Act 1985.
- 8.4 Approved by Sandra Herbert, Head of Litigation & Corporate Law, on behalf of the Director of Legal Services and Monitoring Officer.

## **9. HUMAN RESOURCES IMPACT**

- 9.1 There are no direct Human Resources considerations arising from this report.
- 9.2 Approved by Dean Shoemith, Chief People Officer, Assistant Chief Executive's Directorate

## **10. EQUALITIES IMPACT**

- 10.1 The report identifies that the tenants most likely to be impacted from the proposals are from the following: between 30 – 50, female, from White communities or African and African Caribbean communities.
- 10.2 The housing directorate is seeking to improve the collection of data regarding protected characteristics and will utilise a new IT system to do so.
- 10.3 The Equalities analysis has been conducted and is available, it highlights those affected and identifies mitigation that has been put in place to support those affected by the changes.
- 10.4 The Equalities analysis notes the mitigation through the provision of a discretionary fund to support those affected by the proposed rent increase.
- 10.5 Approved by : Denise McCausland Equality Programme Manager

## **11. ENVIRONMENTAL IMPACT**

- 11.1 There is no environmental impact from the increased rent proposed
- 11.2 Approved by Steve Iles MBE, Director of Sustainable Communities.

## **12. CRIME AND DISORDER REDUCTION IMPACT**

- 12.1 The Housing Revenue Account funds crime prevention services for tenants in Croydon, ranging from anti-social behaviour to domestic violence support. These essential services directly support tenants across the Borough. We know from our data and the 2022 Strategic Crime Assessment that some of the highest crime areas of the borough include social housing, and that tenants face a greater risk of becoming a victim of crime than average in the borough.
- 12.2 The 7% cap, and the requirement to rebalance expenditure budgets as a result, may impact the provision of critical services for residents. The current HRA element of crime prevention and support services is being reviewed to ensure that appropriate charges are in place to support tenants. Any changes to expenditure will need to be assessed in the planned February 2023 cabinet report on the HRA budget.
- 12.3 Approved by Kristina Aspinall, Director of Culture & Community Safety

### **13. DATA PROTECTION IMPLICATIONS**

- 13.1 The report contains no sensitive or personal data.
- 13.2 The recommendations will involve the processing of personal data or special category data. There will be the need to complete a Data Protection Impact Assessment for review by the Data Protection Officer in relation to the data to be collected.
- 13.3 Approved by Susmita Sen, Corporate Director of Housing.