

Committee Name and Date of Committee Meeting

Cabinet – 20 December 2021

Report Title

Housing Revenue Account Rents and Service Charges 2022/23

Is this a Key Decision and has it been included on the Forward Plan?

Yes

Strategic Director Approving Submission of the Report

Anne Marie Lubanski, Strategic Director of Adult Care, Housing and Public Health

Report Author(s)

Mark Scarrott, Finance Manager (Adult Care, Housing and Public Health)
mark.scarrott@rotherham.gov.uk

Ward(s) Affected

Borough-Wide

Report Summary

The purpose of the report is to seek approval for the proposed values of the housing rents, non-dwelling rents, District Heating and service charges and the draft Housing Revenue Account Budget for 2022/23.

Recommendations

That the Cabinet note the content of the report and recommends to Council: -

1. That dwelling rents are increased by 4.1% in 2022/23 (Option 1) in line with the Government policy on rents for social housing which allows rents to increase by Consumer Price Index (CPI) (as at September 2021) plus 1%.
2. That shared ownership rents are increased by 5.4% in 2022/23 (Option 1) in line with the Government policy on rents for social housing which allows rents to increase by Retail Price Index (RPI) (as at September 2021) plus 0.5%.
3. That there is a 2% increase in charges for garages and parking spaces, communal facilities, cooking gas and use of laundry facilities, in line with the Council's policy on fees and charges.

4. The charging model for District Heating (as agreed by Full Council, 13th December 2017) is revised to allow for a planned deficit should energy price increases exceed scheme income.
5. The unit charge per Kwh and weekly prepayment charges for District Heating Schemes is increased by 15% in 2022/23 (Option 1) to limit the impact of anticipated market increases in the prices of energy and fuel costs.
6. Agree the draft Housing Revenue Account budget for 2022/23.

List of Appendices Included

Appendix 1 - Non Dwelling Rent, Service Charges and Furnished Homes Charges 2022/23

Appendix 2 - Draft Housing Revenue Account Budget 2022/23

Appendix 3 - Part A - Initial Equality Screening Assessment form

Appendix 4 - Part B – Equality Analysis form

Appendix 5 - Carbon Impact Assessment

Background Papers

Ministry of Housing, Communities & Local Government – Policy Statement on rents for social housing (February 2019).

District Heating Scheme Charges Review – Full Council (13 December 2017).

Consideration by any other Council Committee, Scrutiny or Advisory Panel

Overview and Scrutiny Management Board – 15 December 2021

Council – 12 January 2022

Council Approval Required

Yes

Exempt from the Press and Public

No

Housing Revenue Account Rents and Service Charges 2022/23

1. Background

- 1.1 The former Housing Revenue Account (HRA) subsidy system was replaced with a devolved system of council housing finance, called self-financing in April 2012. This gave local authorities the resources, incentives and flexibility needed to manage their own housing stock. It enabled long term financial plans to be developed and gave tenants greater transparency and accountability as to how rent is collected and spent on the services provided.

The Council currently manages approximately 20,019 properties of which 7,651(38%) are currently at formula rent. Government guidance states that where properties have not reached formula rent by April 2015 it is expected that the rent is moved up to formula rent when the property is re-let following vacancy. The average additional rent for re-lets to formula being £2.88 per week. Approximately 600 properties are re-let each year; it is anticipated that this will generate additional income of approximately £45k in 2022/23.

- 1.2 From April 2016, the Welfare Reform and Work Act 2016 required social landlords to reduce their rents by 1% each year for four years, 2019/20 being the final year.

In October 2017, the Government announced its intention to set a long-term rent deal for both local authority landlords and housing associations. This permits annual rent increases on both social rent and affordable rent properties of up to CPI plus 1% from April 2020, for a period of at least five years.

- 1.3 This report also considers the charges in 2022/23 for services including garages, garage plot sites, cooking gas and communal facilities including laundry services where provided, and District Heating charges and summarises the draft HRA budget.

2. Key Issues

- 2.1 The average rent in 2021/22 is currently £75.45 when aggregated over 52 weeks. The 2022/23 average weekly rent based on the Government policy of CPI (as at September 2021 = 3.1%) plus 1% would be £78.54, an average increase of £3.09 per week.

Rent increases in respect of shared ownership properties are subject to a different formula of RPI (as at September 2021 = 4.9%) plus 0.5%. Currently there are 51 shared ownership properties that would be affected where rents would increase on average by £2.29 per week from £42.41 to £44.70.

This is the maximum that rents could be increased in 2022/23 in line with the Government policy.

The recommended rent increase will be used to fund the Council's ongoing Housing Growth Programme and ensure we maintain properties to the Decent

Homes Standard. It is proposed a further £92.3m will be invested to meet the Council's ambition to create 1,000 new homes between 2018 and 2025-26.

Whilst this is a significant investment of HRA resources into new build housing the vast majority of tenants are protected from the proposed rent increase as 14,262 tenants are in receipt of either Housing Benefit or Universal Credit so will see their benefit entitlement increase to cover all or part of the cost.

- 2.2 Total housing rent income generated through the weekly rents is currently £78.4m in 2021/22. If rents were increased in line with the Government policy this would result in an increase in rent income of an estimated £3.278m compared with 2021/22 rent levels based on 52 weeks.
- 2.3 This report also considers the potential increase in HRA non dwelling rent fees and charges for 2022/23 and proposes a 2% increase in line with the overall review of fees and charges across the Council, as part of the annual budget setting process.
- 2.4 Where the Council has been successful in securing grant income from Homes England (HE) to deliver Affordable Rent Properties the new properties will be managed in line with our existing policies e.g. mutual exchange, succession, subletting etc. The main difference for grant funded properties, compared to Social/Formula rent properties, is the method of managing the rent values which is prescribed by Government. These are contained within the Capital Funding Guide for HE grant and the Rent Standard Guidance.
- 2.5 The Council is required to rebase (revalue) the Affordable Rent value on each occasion that a new Affordable Rent tenancy is issued (or renewed) for a particular property; and ensure that the rent remains at no more than 80% of gross market rent (inclusive of service charges) as of the date the property is re-let.

All Affordable Rent properties are revalued in October and March each year to provide a valid rent value for when Affordable Rent properties are re-let. The rebased Affordable Rent will only apply to new tenants or tenancies.

The actual rents for existing tenants in Affordable Rent properties will only be adjusted in April each year as per the existing annual rent and charges review process.

3. Options considered and recommended proposal

3.1 Housing Rents

3.1.1 Option 1 – CPI plus 1% - recommended

In line with the Government policy on rents for social housing this option would increase rents by CPI (as at September 2021) plus 1% in 2022/23, therefore an increase of 4.1%. This would result in an average rent increase of £3.09 per week from £75.45 to £78.54 per week.

Government policy for rent increases in respect of shared ownership properties are subject to a different formula of RPI (as at September 2021 = 4.9%) plus 0.5%. Currently there are 51 shared ownership properties that would be affected where rents would increase on average by £2.29 per week from the current average weekly rent of £42.41 to £44.70.

If approved this would result in an increase in rent income of an estimated £3.278m compared with 2021/22 rent levels based on 52 weeks.

As the HRA is self-financing, the rental income stream makes up the majority of the funding available to the HRA. Option 1 provides the maximum amount of funding to support the ongoing maintenance and management services for Council dwellings

3.1.2 **Option 2: CPI only**

This option would increase social housing rents by 3.1% and would result in an average rent increase of £2.34 per week from £75.45 to £77.79 per week.

For properties under shared ownership, which are subject to a different formula, if rents were increased by 4.9%, this would result in an average rent increase of £2.08 per week from £42.41 to £44.49.

Overall, rent income would increase by approximately £2.5m if this option was approved. However, this option would result in 100% of all rents being below formula rent values.

3.1.3 **Furnished Homes Charges**

The recommended option for dwelling rents will also apply to tenants with a Furnished Tenancy. As such, Furnished Homes charges are subject to the same inflationary increase as standard rents (CPI+1% for Option 1 or CPI for Option 2). If Option 1 is approved these charges will increase by 4.1%. This would generate additional income of £164k in 2022/23. A full list of charges and proposed increase for 2022/23 is included in Appendix 1.

3.2 **Non-Dwelling Rents**

3.2.1 In line with the review of fees and charges across the Council it is proposed to increase non dwelling charges by 2% in 2022/23.

The proposed increase of 2% would generate additional income of approximately £14k in 2022/23 compared with current charges.

3.2.2 There are a number of leasehold management charges that are based on the full recovery of actual costs and these are excluded from this report as they are not standard charges that are subject to an inflationary increase.

3.2.3 Appendix 1 shows the full list of non-dwelling rents and service charges and outlines the recommended increases for 2022/23.

3.3 District Heating charges

3.3.1 There are currently 18 different schemes and approx. 1270 properties which receive heat through the council's District Heating programme.

3.3.2 During 2017/18 there was an extensive review of district heating pricing to ensure that charges are fair and reasonable to all tenants. A revised schedule of charges was approved by the Council on 13th December 2017 and since then District Heating Charges have remained unchanged.

3.3.3 The energy market has recently seen unprecedented increases in prices for gas and electricity and this is expected to have a significant impact on the costs of operating the councils district heating scheme in 2022/23.

3.3.4 The total direct cost of the running the district heating scheme in 2020/21 resulted in an overall deficit of £62k and the latest forecast for 2021/22 is that the scheme will incur a deficit of around £80k.

3.3.5 Based on the latest price estimates for April 2022, if the Council was to pass on the full cost increase then district heating charges would need to increase by up to 50%. This is not deemed a viable proposition given the size of the increase to some of our most vulnerable households.

3.3.6 Most tenants on the district heating scheme pay a fixed weekly charge to the rent account based on the size of their property. Dependant on actual usage the annual cost to the tenant could be higher or lower than these amounts.

3.3.7 The following two options have been considered both of which protect tenants on the District heating scheme from the full effect of increasing gas prices faced by other tenants but also provides additional income to meet the increasing utility costs to the Council with the aim of achieving full cost recovery by year four (2025/26).

3.3.8 Both options are based on current estimates for the prices of gas and electricity in April 2022 and assume no further energy price increases.

3.3.9 **Option 1 – Tapered increase over 4 years - recommended**

This option recommends a 15% increase to the current unit cost in 2022/23 and further increases of 12%, 9% and 7.3% over the following three years. This would result in a potential deficit on the District heating budget of £207k for 2022/23 based on the latest forecast energy price increases. The total accumulated deficit over the first 3 years would be £394k.

Table 1 below shows the impact of this proposal over the full four-year period in terms of the actual unit charge and both weekly and annual prepayment charges per type of property.

Table 1 : Tapered Charges over 4 years

Tapered increase over 4 years	Current Weekly Charge 2021/22	Increase 15.0% 2022/23	Increase 12.0% 2023/24	Increase 9.0% 2024/25	Increase 7.3% 2025/26
All District Heating Schemes - Unit Cost KWh (inc VAT)	6.28p	7.22p	8.09p	8.82p	9.46p
Pooled Schemes - Pre-payment Charges per week (incl. VAT)	£	£	£	£	£
Bedsit	9.66	11.11	12.44	13.56	14.55
1 Bed	11.25	12.94	14.49	15.79	16.94
2 Bed	12.90	14.84	16.62	18.11	19.43
3/4 Bed	14.93	17.17	19.23	20.96	22.49

Annual Prepayment Charges inc VAT	£	£	£	£	£
Bedsit	502.32	577.72	646.88	705.12	756.60
1 Bed	585.00	672.88	753.48	821.29	880.88
2 Bed	670.80	771.68	864.24	941.72	1010.36
3/4 Bed	776.36	892.84	999.96	1089.92	1169.48

3.3.10 Option 2 – 15% Increase in 2022/23 then flat rate increase

An increase of 15% would increase the unit charge to 7.22p per Kwh (0.94p increase) in 2022/23 as in option 1, however, in the following three years there would be a flat rate increase of 9.4% in order to achieve full cost recovery by the end of 2025/26.

Prepayment charges would increase to between £11.11 per week and £17.17 per week depending on property size.

The potential deficit to the District Heating budget would be still be £207k for 2022/23. However, the total accumulated deficit over the first 3 years would be £427k.

Table 2 : Impact on charges – Option 2

15% Increase then flat rate increase	Current Weekly Charge	Increase 15.0%	Increase 9.4%	Increase 9.4%	Increase 9.4%
	2021/22	2022/23	2023/24	2024/25	2025/26
All District Heating Schemes - Unit Cost KWh (inc VAT)	6.28p	7.22p	7.90p	8.64p	9.46p
Pooled Schemes - Pre-payment Charges per week (incl. VAT)	£	£	£	£	£
Bedsit	9.66	11.11	12.15	13.29	14.54
1 Bed	11.25	12.94	14.16	15.49	16.94
2 Bed	12.9	14.84	16.23	17.76	19.43
3/4 Bed	14.93	17.17	18.78	20.55	22.49

Annual Prepayment Charges inc VAT					
Bedsit	502.32	577.72	631.80	691.08	756.60
1 Bed	585.00	672.88	736.32	805.48	880.88
2 Bed	670.80	771.68	843.96	923.52	1010.36
3/4 Bed	776.36	892.84	976.56	1068.60	1169.48

3.3.11 It should be noted this is the amount a tenant would pay to their rent account on an annual basis. The annual cost to the tenant will depend on their actual usage, therefore the annual cost could be higher or lower than the amounts in tables 1 and 2 above.

4. Consultation on proposal

4.1 The Council has a strong track record for tenant engagement and has recently been recognised by the Tenant Participation and Accreditation Service for the excellent framework that is in place to consult and work with tenants on how services are developed and improved.

4.2 The Housing Involvement Panel is made up of Area Tenant Panel Chairs and was consulted on 24th November 2021.

5. Timetable and Accountability for Implementing this Decision

5.1 This report will be considered by the Council on 12th January 2022 and subject to approval, would be implemented from Monday 4th April 2022.

6. **Financial and Procurement Advice and Implications (to be written by the relevant Head of Finance and the Head of Procurement on behalf of s151 Officer)**

6.1 Appendix 2 of this report presents the 2022/23 detailed Draft Operating Statement which is effectively “The HRA Budget”.

6.2 Table 3 below presents an overall summary position of the Income and expenditure budgets based on an increase of 4.1% (Option 1): -

Housing Revenue Account	Proposed Budget
	2022/23
	£'000
Expenditure	84,185
Income (including service charges)	-89,111
Net Cost of Service	-4,926
Interest Received	-7
Net Operating Expenditure	-4,933
Revenue Contribution to Capital Outlay	2,896
Transfer to Reserves	2,037
Surplus/Deficit for the Year	0

6.3 Based on the recommended 4.1% increase (option 1) in dwelling rent income and an increase in service charges of 2%, the budgeted income of £89.111m is anticipated to be collected in 2022/23 and this is reduced by £84.185m of budgeted expenditure, which represents the net cost of delivering the service.

6.4 As budgeted income is greater than the net cost of delivering the service, there is an overall net income of £4.933m to the service after interest received.

6.5 Based on a review of the HRA business plan a Revenue Contribution to Capital of £2.896m has been made towards the approved HRA Capital investment Programme. Therefore, there will be a transfer to the HRA Reserves of £2.037m to provide an overall balanced budget for 2022/23, this is provided for within the revised HRA Business Plan.

6.6 The contribution to reserves will be drawn down in 2024/25 as part of the capital financing requirement for Housing Growth and investment in existing stock.

6.7 There are no direct procurement implications within this report.

7. **Legal Advice and Implications (to be written by Legal Officer on behalf of Assistant Director Legal Services)**

7.1 Section 24 of the Housing Act 1985 allows local authorities to make such reasonable charges as they may determine for a tenancy or occupation of their houses. Further, it requires the Council from time to time to review rents and other charges and make such changes, as circumstances may require. The

changes proposed in the recommendations to this report would fall within the ambit of the Council's discretion as set out in section 24 of the Housing Act 1985.

- 7.2 The Housing Revenue Account (HRA) is designed for management of income-based collection finance generated by housing stock falling under the remit of section 74 Local Government and Housing Act 1989. Such income includes, but is not limited to, rent recovery. Clause 2 of the RMBC Tenancy agreement outlines the scope of rent obligations for RMBC Tenants. This includes reference to District Heating charges. It is perceived that there is an intention for District Heating in full or in part to be viewed as a rent. The Government also identifies that matters considered to be "core services" will fall within the scope of the HRA. Communal heating is listed as one of the Government's "Core Services" and is therefore perceived to be an income which can be allocated to the HRA. On this basis, and upon scrutiny of HRA operational rules, there appears to be a legal basis for District Heating to be brought under the HRA as well as any associated deficit arising from the same.
- 7.3 It should be noted that there is no definitive legal position in relation to the above and there therefore still exists a risk of legal challenge. In order to minimise any such risks, the Council must be clear and transparent in relation to its intentions with the HRA.
- 7.4 When setting rents and other charges, the Council must be clear and transparent in doing so and this must also be in line with the Government's rules in respect of rent setting, as well as being in line with rules around fair social housing rent, in order to minimise any risk of legal challenge. Furthermore, the Council should also ensure that it fully considers and takes into account all consultation responses to ensure that its decision is robust.
- 7.5 As with all decisions, the Council should consider all possible impacts taking into account its Public Sector Equality Duty and Human Rights implications, in order to further minimise the risks of legal challenge.

8. Human Resources Advice and Implications

- 8.1 There are no Human Resources implications arising from this report.

9. Implications for Children and Young People and Vulnerable Adults

- 9.1 No direct implications.

10. Equalities and Human Rights Advice and Implications

- 10.1 The local authority is aware of its duties under the Equality Act 2010 to promote equality, diversity, cohesion and integration. An initial equalities screening has been carried out to assess the impact of the proposals within the report to increase Housing Rents and services charges for 2022/23 and an Equality Impact Assessment put in place. This will ensure the Council continues to promote positive impact and reduce or remove any negative impact as a result

of the proposed increase in charges. An Equalities Analysis is attached at Appendix 3 and 4.

11. Implications for CO2 Emissions and Climate Change Implications for Partners

11.1 This report recommends increases to the unit and prepayment charges for tenants on the Councils District Heating Schemes and this may impact on their future energy usage. A completed Carbon Impact Assessment is attached to this report at Appendix 5.

12. Implications for Partners

12.1 No direct implications for partners and other directorates.

13. Risks and Mitigation

13.1. The greatest risk and uncertainty is the level of rent income received into the Housing Revenue Account. This is dependent upon the number of properties available to generate income.

13.2 The level of properties is directly affected by the level of sales and demolitions which may vary to those used in the budget assumptions. Rules regarding Right to Buy (RTB) receipts were implemented in April 2012 included increasing the discount cap, which is currently £84,600. This has seen the number of RTB sales increase significantly because of the higher discount cap. Total sales in 2020/21 were 90, it is estimated that there will be 245 RTB by the end of 2021/22 and the HRA Business Plan assumes a further increase of 162 sales in 2022/23.

13.3 Strategic Housing Investment plans involve the acquisition or build of 165 new properties for council rent in 2022/23 and 37 new shared ownership properties which will also bring in additional rent income. This will assist in mitigating against lost rental income for RTB sales.

13.4 The changes to the rent formula from 2016/17 has resulted in the Council receiving less income in the last four years, therefore impacting on the 30-year business plan.

13.5 The Government's changes to welfare benefits and the introduction of Universal Credit will also impact on the level of rent income collected including the level of arrears and therefore be reflected in the Housing Revenue Account balances.

13.6 All budgets carry a certain level of risk in that unforeseen circumstances may arise, causing additional pressures on the level of resources applied.

14. Accountable Officers

Anne Marie Lubanski, Assistant Director of Adult Care, Housing and Public Health annemarie@rotherham.gov.uk

Paul Walsh, Assistant Director of Housing. paul.walsh@rotherham.gov.uk

Approvals obtained on behalf of Statutory Officers: -

	Named Officer	Date
Chief Executive	Sharon Kemp	10/12/21
Strategic Director of Finance & Customer Services (S.151 Officer)	Judith Badger	30/11/21
Assistant Director, Legal Services (Monitoring Officer)	Phil Horsfield	26/11/21

Report Author: *Mark Scarrott, Finance Manager - Adult Care, Housing and Public Health*
mark.scarrott@rotherham.gov.uk

This report is published on the Council's [website](#).