



City of Westminster

Cabinet Member Report

Decision Maker:	Cabinet Member for Housing
Date:	10 th February 2017
Classification:	General Release
Title:	Annual Review of Housing Revenue Account (HRA) Rent and associated HRA charges 2017-18
Wards Affected:	All
Policy Context	Service Planning Cycle and Budget Strategy Framework set by the Cabinet
Key Decision:	Yes
Financial Summary :	The proposed average rent reduction in 2017-18 is 1% or £1.12 per week which will reduce the average actual rents to £122.78 per week. The reduction responds to the requirement in the Welfare Reform and Work Act 2016 to reduce social housing rents by 1% in each of the four years from 2016/17 to 2020/21. The proposals contained within this report will result in a total reduction in annual HRA income of £1.283m.
Report of:	The City Treasurer – Steven Mair The Executive Director of Growth, Planning and Housing – Ed Watson

Executive Summary

- 1.1 The indicative five year HRA Capital Budgets were approved by Cabinet on 12th December 2016 in the Housing Investment Strategy and HRA Business Plan report. The draft 2017-18 HRA revenue budget will be considered by Cabinet on 20th February 2017 as part of the overall budget review. This report sets out the background and context of the annual council tenant rent review for 2017-18. These changes will be implemented from Monday 3rd April 2017.
- 1.2 Historically, social housing rents were set using a national formula that all Local Authorities and Private Registered Providers were encouraged to follow “The Social Rent Policy guidance”. In April 2012 the national subsidy system of financing council housing was replaced with a localised system of self-financing. In the 2015 Budget the Chancellor announced that rents for social housing tenants would be statutorily reduced by 1% annually for a period of four years.
- 1.3 The council however has discretion to set new tenancy rents at the target formulae rent and this has been the policy of the council in recent years.
- 1.4 The Council’s policy towards tenant service charges is that they should be set to recover actual costs and it is recommended that this policy continues.
- 1.5 Charges for car parking, sheds and garages within HRA estates will be increased by 2% in 2017-18 in line with RPI

2. Recommendations

- 2.1 In order to comply with the provisions of the Welfare Reform and Work Act 2016 it is recommended that HRA rents are reduced by 1% from the 3rd April 2017. The impact of this is a rent loss of £1.337m compared to 2016-17.
- 2.2 That the Council continues to exercise its discretion under the rent restructuring policy to set rents for new tenants and transfers on all re-lets at formula target rent from Monday 3rd April 2017. The impact of this is estimated to generate an additional £54k. Assuming current levels of turnover in HRA stock
- 2.3 That tenant service charges be varied in line with estimated actual costs for 2017-18 from Monday 3rd April 2017.
- 2.4 That charges for car parking, parking spaces and sheds and garages are increased by 2% from Monday 3rd April 2017, this will generate an additional £22k.

3. Reasons for Decision

- 3.1 To set the HRA tenant rents and other charges for the financial year 2017-18. The City Council is required by law to give tenants at least 28 days' notice of any variation to the rent charged.

4. Background

- 4.1 In April 2012 the national system of financing council housing was replaced with a localised system of self-financing. Westminster now has full responsibility for the management, maintenance, investment and financing of the HRA. It has the right to all future rent income streams, which provides it with a substantial degree of certainty, as well as responsibility for the management of business risk. Assumptions about future rent policy were a key driver in the valuation of the stock which determined the settlement buyout figure of £68m.
- 4.2 As part of the 2013 Spending Round the Government announced that from 2015-16 social rents should increase by up to CPI plus 1 per cent each year for 10 years. At the same time the previous policy of rent convergence was removed in order to provide greater certainty.
- 4.3 In the 2015 Budget the Chancellor announced that rents for social housing tenants would reduce by 1% annually for a period of four years from 2016/17 resulting in an estimated 12% reduction in average rents by 2020-21. Beyond the four year period of rent reduction, however, there is uncertainty about what rent regime will be in place. This is the second year of the national statutory rent reduction.

5. Tenant Rent

- 5.1 In line with the Welfare Reform and Work Act 2016 the 1% rent reduction will reduce average weekly rents from £123.90 per week in 2016-17 to £122.78 per week in 2017-18. The 2017-18 reduction equates to annual income loss of £1.337m.

Table 1 shows the average rent reduction and loss by stock.

Bedroom sizes	Number of properties	2016-17 Actual Avg Rent	2017-18 Actual Avg Rent	Avg Rent Reduction (£)	Avg Rent Reduction %
0	1,630	£99.39	£98.39	-£1.00	-1%
1	4,170	£115.94	£114.78	-£1.16	-1%
2	3,582	£128.88	£127.59	-£1.29	-1%
3	2,208	£143.49	£142.05	-£1.44	-1%
4	344	£156.74	£155.18	-£1.56	-1%
5	34	£169.90	£168.20	-£1.70	-1%
>5	13	£175.72	£173.96	-£1.76	-1%
	11,981	£123.90	£122.78	-£1.12	-1%

5.2 Housing Revenue Account savings of £5.2m over five years have been identified to help mitigate against this loss of income and ensure the HRA remains viable

6. Tenant Service Charges

6.1 Westminster, like nearly all other HRA stock-owning local authorities, has un-pooled certain service charges from its rents. This was done on the basis that all service charges were eligible for Housing Benefit and that recovery would be based upon recovering actual costs. The costs of delivering estate based communal services are recovered directly from tenants and leaseholders through service charges. Tenants who benefit from these specific estate based services will pay a weekly service charge in addition to their weekly rent charge.

6.2 It is proposed that the service charges payable by tenants are increased in line with actual costs. Table 2 below sets out the proposed average service charges for 2017-18. The average service charges will increase by 2.1% or (£0.12p) in 2017-18 resulting in an estimated average weekly charge of £5.51 (£5.39 in 2016-17). The final actual charges will be dependent upon a complete analysis of costs and may change from those indicated, but will be based upon full recovery of costs.

Table 2 - Average Tenant Service Charges 2017-18

Number of properties	No of Tenants Charged	2016-17 Estimated Service Charge Costs	2016-17 Average Service Charge	2017-18 Estimated Service Charge Costs	2017-18 Estimated Average Service Charge	Estimated Change in Service Charge
Caretaking	817	£96,014	£2.26	£97,033	£2.28	1.00%
Communal Electricity	10,330	£564,018	£1.05	£641,840	£1.19	13.43%
Concierge	835	£252,704	£5.82	£252,689	£5.82	0.00%
Contract Cleaning	9,861	£1,615,232	£3.15	£1,599,012	£3.12	-1.00%
Grounds Maintenance	9,410	£371,883	£0.76	£365,801	£0.75	-1.00%
Local Management Agreement	177	£4,418	£0.48	£4,444	£0.48	0.00%
Tree Maintenance	7,810	£32,490	£0.08	£39,080	£0.10	18.63%
Window Cleaning	8,109	£37,950	£0.09	£36,687	£0.09	-1.00%
Total Average Charges	10,605	£2,974,709	£5.39	£3,036,587	£5.51	2.10%

7. Non Dwelling Charges

7.1 The costs of car parking, sheds and garages are recovered directly from tenants and leaseholders that benefit from the services. It is therefore proposed to increase the average charges for garages, parking spaces and sheds by 2% in line with RPI. Average weekly charges will therefore increase to £12.67 from £12.42 for garages, £4.49 from £4.40 for car parking spaces and £1.29 for sheds generating additional annual income of £21k.

8. Heating & Hot Water Charges

8.1 The cost of providing central heating and hot water services is charged and recovered from tenants who benefit from the district heating and hot water systems. Charges are based on estimated energy costs and usage within each block (or on estate-wide usage where blocks are not yet individually metered). These charges were reviewed in July 2015 and changes implemented in October.

8.2 The charges for the Pimlico District Heating Undertaking (PDHU) which provides heating and hot water to Churchill Gardens Estate, Russell House, Abbots Manor Estate and Lillington & Longmoore Gardens Estate were last reviewed in July 2015 and remained unchanged. The charges for the 58 non-PDHU communal systems which provide heating and/or hot water to tenants have also been reviewed and revised accordingly.

9. Financial Implications

- 9.1 The proposed reduction to tenant rent will result in an overall annual income loss of £1.337m, this will be offset by £54k from letting new tenancies at target rents and £22k for parking charges. The impact of the increase in income from tenants service charges is to cover increased costs so has no impact on the bottom line of the HRA.
- 9.2 The Housing Investment Strategy and HRA Business Plan report approved by Cabinet on 12th December 2016 reflects the implications of the 1% rent reduction and the £5.2 million HRA revenue savings required over four years to help mitigate against the loss of income.

10. Legal Implications

- 10.1 .The principal statutory provision governing the fixing of rent for Council property is contained in Section 24 of the Housing Act 1985.
- 10.2 Sub-section (1) provides that authorities may "...make such reasonable charges.... as they may determine". However, this section has to be considered in the light of Section 76 of the Local Government and Housing Act 1989 which imposed a duty on local housing authorities to prevent a debit balances arising in their Housing Revenue Account ("HRA") and which also imposes "ring-fencing" arrangements in respect of such account. It is now no longer possible for a local housing authority to subsidise rents from its General Fund.
- 10.3 Sections 23 to 33 of the Welfare Reform and Work Act 2016 sets out the requirements for the reduction in social housing rents.
- 10.4 The City Council is required by law to give tenants at least 28 days' notice of any variation to the rent charged

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

Dick Johnson, Strategic Finance Manager
djohnson1@westminster.gov.uk (0207 641 3029)

NB: For individual Cabinet Member reports only

For completion by the **Cabinet Member for Housing**

Declaration of Interest

I have <no interest to declare / to declare an interest> in respect of this report

Signed: _____ Date: _____

NAME: **Councillor Rachael Robathan, Cabinet Member for Housing**

State nature of interest if any

.....

.....

(N.B: If you have an interest you should seek advice as to whether it is appropriate to make a decision in relation to this matter)

For the reasons set out above, I agree the recommendations in the report entitled **Annual Review of Housing Revenue Account (HRA) Rent and associated HRA charges 2017-18** and reject any alternative options which are referred to but not recommended.

Signed

Councillor Rachael Robathan, Cabinet Member for Housing

Date

If you have any additional comment which you would want actioned in connection with your decision you should discuss this with the report author and then set out your comment below before the report and this pro-forma is returned to the Secretariat for processing.

Additional comment:

.....

.....

.....

If you do not wish to approve the recommendations, or wish to make an alternative decision, it is important that you consult the report author, the Director of Law, the City Treasurer and, if there are resources implications, the Director of People Services (or their representatives) so that (1) you can be made aware of any further relevant considerations that you should take into account before making the decision and (2) your reasons for the decision can be properly identified and recorded, as required by law.

Note to Cabinet Member: Your decision will now be published and copied to the Members of the relevant Policy & Scrutiny Committee. If the decision falls within the criteria for call-in, it will not be implemented until five working days have elapsed from publication to allow the Policy and Scrutiny Committee to decide whether it wishes to call the matter in.