



City of Westminster

Cabinet Member Report

Decision Maker:	Cabinet Member for Housing Services - Councillor Andrew Smith
Classification:	General Release
Title:	Annual Review of Housing Revenue Account (HRA) Rent and associated HRA charges 2019/20
Wards Affected:	All Wards
Policy Context	Service Planning Cycle and Budget Strategy Framework set by the Cabinet
Key Decision:	Yes
Financial Summary:	<p>The proposed average rent reduction in 2019/20 is 1% or £1.22 per week, which will reduce the average actual rents to £121.07 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 2019/20.</p> <p>The proposals contained within this report will result in a total reduction in annual HRA income of £0.704m.</p>
Report of:	Executive Director of Growth, Planning and Housing – Barbara Brownlee Assistant City Treasurers – Steve Muldoon and David Hodgkinson

1. Executive Summary

- 1.1 This report sets out the background and context of the annual council tenant rent review for 2019/2020. These changes will be implemented from Monday 1st April 2019.
- 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 continue.
- 1.5 Charges for car parking, sheds and garages within HRA estates will be increased by 3.3% in 2019/20 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 1st April 2019.
- 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 1st April 2019.
- 2.3 That tenant service charges be varied in line with estimated actual costs for 2019/20 from Monday 1st April 2019.
- 2.4 That charges for car parking, parking spaces and sheds and garages are increased by 3.3% (RPI as at September 2018) from Monday 1st April 2019.

3. Reasons for Decision

- 3.1 To set the HRA tenant rents and other charges for the financial year 2019/20. 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 2019/20.
- 4.4 In September 2018 the Government published a Consultation paper: "Rents for social housing from 2020/21" which was accompanied by a draft policy statement on rents for social housing. The consultation and policy statement propose from 2020 that local authority rents will be subject to the regulator of social housing and confirms the increase ceiling of CPI + 1% each year to 2024/25 (except where a property rent exceeds the formula rent plus the maximum flexibility level, where the ceiling is CPI). Responses to the Consultation are still being analysed, according to the MHCLG.
- 4.5 The 1% reduction does not apply to all charges. Non-dwelling charges such as car parking, garages and sheds are not included within rent setting policy. Council policy is for these to be linked to RPI. Service charges as well as heating and hot water charges are based on cost recovery so are charged based on costs incurred to fully recover the cost for the Council.

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 £122.29 per week in 2018/19 to £121.07 per week in 2019/20. The 2018/19 reduction equates to an annual income loss of £0.737m.
- 5.2 Table 1 shows the average rent reduction and loss by stock.

Bedroom sizes	Number of properties	2018/19 Actual Avg Rent	2019/20 Actual Avg Rent	Avg Rent Reduction (£)	Avg Rent Reduction %
0	1,603	£97.55	£96.57	£0.98	-1%
1	4,124	£113.90	£112.76	£1.14	-1%
2	3,523	£127.62	£126.34	£1.28	-1%
3	2,253	£141.07	£139.66	£1.41	-1%
4	348	£154.21	£152.66	£1.55	-1%
5	32	£166.55	£164.88	£1.67	-1%
>5	13	£172.22	£170.50	£1.72	-1%
	11,896	£122.29	£121.07	£1.22	-1%

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. The final 2019/20 charges to tenants will be dependent upon a complete analysis of costs and may change from those indicated but will be based upon full recovery of costs therefore resulting in no net benefit to the HRA. In addition, there have been some changes to the categorisation of charges alongside movement in tenant numbers, however overall charges remain fairly constant.
- 6.3 Table 2 below sets out the proposed average service charges for 2019/20. The average service charges will decrease by 0.99% or (£0.03p) in 2019/20 resulting in an estimated average weekly charge of £5.44 (£5.47 in 2018/19).

Table 2 - Average Tenant Service Charges 2019/20

Number of properties	Avg. No of Tenants Charged 2018/19	2018/19 Service Charge Costs	2018/19 Average Service Charge	Avg. No of Tenants Charged 2019/20	2019/20 Estimated Service Charge Costs	2019/20 Estimated Average Service Charge	Estimated Change in Service Charge
Caretaking	810	£82,005	£1.95	620	£81,536	£2.53	29.69%
Contract Cleaning	9,836	£1,646,257	£3.22	9,981	£1,613,567	£3.11	-3.45%
Local Management Agreement	178	£4,839	£0.52	223	£22,818	£1.97	278.41%
Concierge	836	£265,277	£6.10	897	£298,457	£6.40	4.90%
Window Cleaning	7,800	£34,490	£0.08	7,800	£29,935	£0.07	-7.75%
Tree Maintenance	8,349	£35,898	£0.08	8,349	£45,386	£0.10	26.43%
Grounds Maintenance	9,378	£368,535	£0.76	9,333	£363,684	£0.75	-1.40%
Communal Electricity	10,373	£589,800	£1.09	10,373	£538,735	£1.00	-8.37%
Number of properties	10,593	£3,027,099	£5.49	10,593	£2,994,117	£5.44	-0.99%

6.4 New term contracts for Estate services are due to come into effect as of 1 April 2019. The contract tender prices have been used for these calculations. Tollgate House tenants have not been included in the calculations as per current policy arrangements.

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 3.3% in line with RPI at September 2018. Average weekly charges will therefore increase to £13.63 from £13.19 for garages, £4.82 from £4.67 for car parking spaces and £1.38 for sheds, generating additional annual income of £0.032m.

8. Heating and Hot Water Charges

8.1 The cost of providing central heating and hot water services is charged and recovered from tenants who benefit from district heating and hot water systems, or from electricity for heating 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). The charges were last reviewed in July 2018 and changes implemented in October. Full costs are recovered so there is no net impact on the HRA from changes in year.

8.2 Of the 54 communal and individual heating systems operated by the City Council, 11 are currently included in the rollout of individual or block-based billing in accordance with the Heat Networks Metering and Billing Regulations 2014. These

include systems contained within a single housing block as well as those that serve entire estates.

- 8.3 208 tenants across four heating systems have been billed based on metered usage since April 2018. A further 810 tenants will begin to receive metered charges from April 2019.
- 8.4 Heating and hot water charges for these 1,018 tenants will be adjusted from 1 April 2019 to reflect actual metered usage in line with the regulations. Further heating systems will be included in April 2020 as part of the continuing rollout

9. Rent issues in 2019/20 arising from 53 Mondays falling in the financial year

- 9.1 Rent weeks are calculated based on the amount of Mondays that fall in each calendar year.
- 9.2 Every six to seven years 53 Mondays fall in a financial year and this will be the case in 2019/20. As rent debits are raised on Mondays, this means that the HRA ordinarily benefits from an 'extra' week's rent when there are 53 Mondays in a year. This might be interpreted as taking Local Authorities over the required 1% decrease on rents in the 52 Monday year in 2018/19.
- 9.3 However, as set out in an LGA briefing note dated 4th January 2019, several LAs and partners have investigated this issue and have reached a consensus that "the definition within the legislation could be interpreted so that rent payable 'in respect of that relevant year' should be calculated as it is for accounting purposes at the year-end on a daily basis, though still charged on a weekly basis. This would allow 53 weeks' worth of rent to be charged as normal, and still be in compliance with the Welfare Reform and Work Act requirements to reduce rents by 1%".
- 9.4 The Council intends to take the approach of reducing rents by 1% per week as set out in table 1.
- 9.5 A further complication is that currently Universal Credit does not allow for 53 Monday years and as such claimants would find themselves 1 week in arrears come the end of the year. Proposals have been made to central government to either introduce a statutory instrument to allow this or ask for a temporary top up to cover this shortfall. However, at present there has been no confirmation of whether there will be any adjustment to resolve this issue.

10. Financial Implications

- 10.1 The proposed reduction to tenant rent will result in an overall annual net income loss of £0.737m, this will be offset by £0.032m for garages and parking charges to give a net impact of £0.704m. Other changes for service charges, heating and hot water are to reflect full cost recovery so has no impact on the bottom line of the HRA.

11. Legal Implications

- 11.1 The principal statutory provision governing the fixing of rent for Council property is contained in Section 24 of the Housing Act 1985 which provides that authorities may "...make such reasonable charges.... as they may determine".
- 11.2 Section 76 of the Local Government and Housing Act 1989 imposes a duty on local housing authorities to prevent debit balances arising in their Housing Revenue Account ("HRA"). It is not possible for a local housing authority to subsidise rents from its General Fund.
- 11.3 Sections 23 to 33 of the Welfare Reform and Work Act 2016 set out the requirements for the reduction in social housing rents.
- 11.4 The Council is required 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:
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For completion by the **Cabinet Member for Housing Services**

Declaration of Interest

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

Signed: _____ Date: _____

NAME: **Councillor Andrew Smith, Cabinet Member for Housing Services**

State nature of interest if any

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(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 2019/20** and reject any alternative options which are referred to but not recommended.

Signed

Councillor Andrew Smith, Cabinet Member for Housing Services

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:

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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.