

<b>Report To:</b>	<b>CABINET</b>
<b>Date:</b>	<b>29<sup>th</sup> JANUARY 2024</b>
<b>Heading:</b>	<b>HOUSING RENT SETTING 2024/25</b>
<b>Executive Lead Member:</b>	<b>EXECUTIVE LEAD MEMBER FOR FINANCE, REVENUES AND BENEFITS – CLLR RACHEL MADDEN</b>
<b>Ward/s:</b>	<b>ALL</b>
<b>Key Decision:</b>	<b>YES</b>
<b>Subject to Call-In:</b>	<b>YES</b>

## **Purpose of Report**

This report provides information on the proposed Housing Revenue Account (HRA) rent level and other HRA accommodation related charges for Council tenants for the financial year 2024/25.

## **Recommendation(s)**

1. To set an average rent increase of 7.7% for all Council house rents for 2024/25.
2. To set a garage and plot average rent increase of 7.7% for 2024/25.
3. To set a weekly amenity charge increase of 7.7% (rounded to the nearest pence) for all relevant Council house properties for 2024/25.
4. To set an increase to the service charges of 7.7% to 9 sheltered schemes and 21 blocks of general needs flats.
5. To set an increase for water charges at Brook Street Court of 7.2% for 2024/25.
6. To set an increase for service charges for the properties at Merlin Park of Retail Price Index (RPI) at December 2023 for 2024/25.
7. Introduction of Phase 2 Service Charges at £3.46 or £1.50 per week (dependent on the block) to be collected in line with the rent collection (addresses specified in appendix 1) or annually for leaseholders (21 leaseholders will be affected) effective as soon as practically possible for Sheltered Schemes, General Needs Flats and Flats above shops (Council Owned Stock).

## **Reasons for Recommendation(s)**

To set a 7.7% rent increase in line with the Department for Levelling Up, Housing and Communities policy statement on rents for social housing updated 14<sup>th</sup> December 2022.

To set an increase of 7.7% on garage rents to continue covering the increasing costs of maintenance and rental collection for the Council garage sites, consistent with the approach in previous years.

To increase the amenity charge in line with the rent increase of 7.7% to continue covering the costs of providing the services which do not fall within the provision of the rent charge.

To set an increase to the service charges of 7.7% to 9 sheltered schemes and 21 blocks of general needs flats to continue to cover the increased costs of providing the services to these schemes.

To set an increase to the service charge for water at Brook Street Court to cover the increase in prices from the utility company to the Council for providing water at Brook Street Court.

To set an increase of December 2023 RPI for the service fee for the properties at Merlin Park estate, Hucknall, in line with the legal agreement between the Council and the Housing Development Company.

To introduce a service charge to recover some of the costs of managing, maintaining, and providing specific services in addition to the basic rent and management costs (leaseholders) at the addresses specified in appendix 1. Which meet the requirements of the Regulator of Social Housing as set out in the "Neighbourhood Standard" and the Rent Regulations.

## **Alternative Options Considered**

The housing rent option considered was for a lower percentage, but this would have a detrimental effect on the HRA in the long-term leading to an unsustainable HRA.

The garage rent option considered was for a lower percentage, but this would have a detrimental effect on the HRA and not cover the inflationary increase in costs to be incurred in 2024/25.

To not increase the amenity charge to the proposed level would mean that the service would continue to not have full cost recovery of the additional services provided and this would adversely impact the HRA balances.

The increase in the Service Charges is calculated to cover the costs of providing the services to the housing court schemes. To not increase the service charge would mean the costs are inappropriately subsidised by the HRA i.e., the other rent payers.

The increase in the water service charge to Brook Street Court is calculated to cover the costs only of providing the water to the Brook Street Court tenants. This follows strict guidance from Office of Water Services (OFWAT) and no other option is available.

The increase in the service fee at Merlin Park is in line with the legal agreement between the Council and the Housing Development Company. To not increase the service charge would mean the costs are inappropriately subsidised by the HRA i.e., the other rent payers, and the legal agreement would be contravened.

The introduction of the service charge is to recover costs from the specific tenanted/leasehold properties for extra services they either currently receive or will receive in the communal areas of the properties they occupy. To not introduce the service charge would mean that the communal costs of these properties are being subsidised by other tenants not in receipt of those services. i.e., other rent payers with no direct benefit of communal services. In addition to the above, service charges for other (fully self-contained) schemes/blocks were introduced in 2022. Not all blocks/schemes were included at that time. Following this, a request was made by Leadership and Cabinet for a phase 2 project to ensure a consistent approach across the District. To not introduce would mean there is an inconsistent, and therefore unfair, approach across the District in terms of charges. A further alternative consideration would be to recover the full cost of communal services as provided to specific blocks and/or schemes. The highest potential service charge under this criterion is £7.42 per week. This is deemed unsuitable in the current economic climate and may place a disproportionate burden on the more elderly and vulnerable tenants. **Not recommended.**

## **Detailed Information**

### **1. Rent Setting**

- 1.1 The Government sets the Policy for Social Housing Rents. The current Policy is that future rent increases to social housing rents are limited to September's Consumer Price Index (CPI) plus 1% for 5 years from 2020/21. This policy recognises the need for a stable financial environment to support the delivery of new homes and to enable registered providers to plan ahead, incorporating additional standards such as fire safety and thermal efficiency.
- 1.2 The Council is proposing to apply the Government policy resulting in a rental increase of 7.7% for 2024/25. As rent is charged weekly and 2024/25 is a 53-week year, the proposed average rent for 2024/25 is £91.98 per week (49-week basis), an average increase of £6.58.
- 1.3 The housing management database indicates that currently (Nov 2023) 74.72% of the Council's tenants receive some form of assistance with their rent (i.e., Housing Benefit or Universal Credit) and therefore will not be subject to paying the full rent increase themselves. The percentage of tenants on benefits could be higher than the 74.72% stated as the Council does not have a complete record of all tenants receiving Universal Credit as this benefit is now paid directly to the tenant rather than by the Council.

### **2. Garage Rents**

- 2.1 Following the recent sale of the first four garage sites assessed as being unsustainable, a further 4 sites have been identified and will be sold subject to Cabinet approval. The proceeds from sale will be used to develop new Council homes. Other future sales are planned. Demand to rent a garage on many sites has dwindled and the high cost of repairs compared to income generated through rents, means more and more sites require significant investment and will need to be considered for disposal.

It is recommended that the garage rents are increased by 7.7% for 2024/25 in line with the housing rent increase, which will generate an additional annual income of £10k on the occupied garages.

- 2.2 Table 1 below shows the current 2023/24 and the proposed 2024/25 weekly garage and plot rents.

**Table 1 – Garage Rents 2023/24 and 2024/25**

	<b>Rents 2023/24</b>	<b>Rents 2024/25</b>	<b>Proposed Increase</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Garages			
Band A	7.30	7.86	0.56
Band B	8.15	8.78	0.63
Band C	9.01	9.70	0.69
Plots			
Band A	0.94	1.01	0.07
Band B	1.11	1.19	0.08

### **3. Amenity Charge**

3.1 This charge contributes to the cost of providing the following existing services which do not fall within the provision of the rent:

- Grounds Maintenance/Estate Management of housing open space
- Community Safety

3.2 The current annual amenity charge is £1.53 per week, and it is proposed that this will increase by 7.7% in line with the proposed housing rent increase to £1.65 per week, an increase of £0.12. The amenity charge is eligible for state benefits.

### **4. General Needs and Sheltered Scheme Service Charges**

4.1 The service charges are to recover partial costs for a range of services to tenants at sheltered accommodation and blocks of flats including: -

- Electricity for communal lighting
- Cleaning of communal rooms, areas, hallways, corridors, and staircases
- Window cleaning in communal areas
- Fire alarm systems

4.2 It is proposed to increase the service charge in line with the rent increase of 7.7% to continue covering the costs of providing these services. The current charge is £3.21 per week, and it is proposed that this will increase by 7.7% in line with the proposed housing rent increase to £3.46 per week, an increase of £0.25. These services charges are eligible for state benefits.

### **5. Water Charges at Brook Street Court, Sutton In Ashfield**

5.1 There is a weekly service charge payable along with the rent, to cover water charges. The charge relates to the 22 apartments only and the charge depends on whether they are tenants of a 1 or 2 bed unit. This is only for cost recovery against strict guidance from Office of Water Services (OFWAT) with the Council being forbidden to make any surplus or profit on the provision of water. As water charges and water usage changes over time, the service charge is reviewed each year to ensure it accurately reflects the costs being incurred. It is

recommended that the charge for 2024/25 be increased by 7.2% in line with the increase levied by Severn Trent for 2023/24.

5.2 Table 2 below shows the current 2023/24 and the proposed 2024/25 weekly water charges for Brook Street Court.

**Table 2 – Brook street Water Charges 2023/24 and 2024/25**

	<b>Charge 2023/24</b>	<b>Charge 2024/25</b>	<b>Proposed Increase</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Water			
1 Bed Unit	2.15	2.3	0.15
2 Bed Unit	3.21	3.44	0.23

## **6. Service Fee at Merlin Park, Hucknall (21 properties purchased between 2018 and 2022)**

6.1 This is an annual charge payable by all residents to cover the maintenance costs (provided by a private contractor) of the wider estate. The Service Fee is subject to an inflation-linked annual increase (in line with the Retail Prices Index "RPI" as at December) each year and the Service Fee is not linked to or dependent on the number of houses on the estate.

6.2 The service fee funds the upkeep and maintenance of all open areas and landscaped parts of the estate that are for common use, primarily:

- The strips of trees / woodland areas along Watnall Road
- The ecology bund on the former runway
- The play area
- The footpaths and cycle ways
- The drainage swale
- All fencing, boundaries, street furniture etc.

## **7. Introduction of Service Charges for Sheltered Schemes, General Needs Flats and Flats above shops (Council Owned Stock) - Phase 2.**

7.1 A service charge is a payment made by a resident towards the cost of providing and maintaining communal areas and facilities.

7.2 Tenants in sheltered schemes and tenants/leaseholders in general needs flats benefit from the provision of a range of services including: -

- Communal Lighting
- Cleaning of communal rooms, areas, hallways, corridors, and staircases
- Window cleaning in communal areas
- Fire alarm systems

N.B. The above may vary dependent on whether a tenant lives in a general needs flat or sheltered scheme.

- 7.3 In April 2022, service charges were introduced for several sheltered schemes and general needs flats following approval by Cabinet in January 2022. At that time, the majority of tenants who were consulted understood why the Council was introducing the charge and did not mind paying but wanted to make sure that they would receive a good service that represented value for money. Following this, Leadership asked for the remaining sheltered schemes and flats to be considered for the introduction of service charges (Phase 2 project) so there is a consistent service provision and associated charges for tenants and approach across the District.
- 7.4 Prior to the April 2022, the costs for the communal facilities, which do not form part of the rent charged to tenants (as the rent only covers the curtilage of the individual property) had not been recovered from tenants/leaseholders. Nationally service charges are used extensively in the private sector whilst a significant number of councils and housing associations have already introduced greater flexibility to their rent setting structures through the introduction of service charging.
- 7.5 It should be noted that the income and expenditure of service charges comes under the Housing Revenue Account and that the Council has a duty to maintain (and achieve) a viable 30-year HRA business plan to ensure that it can maintain its existing housing stock in a decent and safe manner across the duration of the plan. The increasing financial pressures on the Council, particularly relating to inflation, material costs and additional regulatory and climate change compliance, means that it is now necessary to consider applying service charges to the remainder of the blocks of flats, flats over shops and sheltered courts.
- 7.6 It is important that the Council recovers expenditure attributed to service charges to enable delivery of services as well as support and meet the HRA's 30-year Business Plan assumptions. Despite significant efficiencies and service modifications achieved over recent years the service still cannot produce a fully funded 30-year plan incorporating all known and potential future regulatory requirements (such as carbon net zero) without looking towards maximising its income. The service charge items represent a significant cost to the business plan, and it is anomalous not to recover some or all these costs.
- 7.7 The expanding (sector wide) role of the Regulator for Social Housing means that Councils are now subject to rent regulations. The regulations clearly state that social housing providers need to charge for services in a fair and consistent way which can be accounted for.
- 7.8 It is also the case that under the Regulator for Social Housing's "Neighbourhood Standard" a review of standards in communal areas is required; specifically, the cleaning of communal areas needs to be considered for enhancement based on current service provided, along with the production of a service standard for tenants supported by regular inspections of communal areas to check that the standards are being achieved. Note all social housing landlords must comply with the Regulator for Social Housing's "Neighbourhood Standard".
- 7.9 A variation of the tenancy agreement is required to permit the introduction of new service charges.
- 7.10 All Council tenants pay a weekly rent under the terms of their tenancy agreement. The cost of services delivered are recovered through the HRA across all rents.
- 7.11 Leaseholders in leasehold properties (properties that are sold by the Council) come with various legal obligations for the leaseholder, one of which is the service charge. The

requirement to collect service charges and what the charge covers is within the Lease when the property is sold. Service charges are collected annually.

- 7.12 Currently the costs of providing some services to tenants and leaseholders are not being charged specifically to the tenants / leaseholders who are in receipt of them.
- 7.13 By introducing service charges and introducing communal cleaning, we could generate additional income of around £61,000 per year.
- 7.14 It is proposed that rather than charge the full amount to tenants (to avoid significant rebalancing swings each financial year and large disparity of charges between the blocks), we limit this service charge to a minimum of £1.50 and a maximum of £3.46 per week (current charge is £3.21 but will increase in April 2024 in line with the proposed service charge price increase).
- 7.15 Positively most service charges qualify for Housing Benefit/Universal Credit and in most cases, welfare benefits will meet the charges that our tenants have to pay as a condition of occupying their home. Current estimates are that 72.3% of residents are in receipt of some form of state benefits. For those tenants who would have to pay to cover the cost of the new charge, advice would be provided in relation to income maximisation through our money advice team.
- 7.16 Any significant change to the Tenancy Agreement is accompanied by a requirement to consult. The process, requirements and timeframe for consultation are set out as a prescribed process in Section 103 of the Housing Act 1985.
- 7.17 The two primary areas to be noted are the issuing of a 'Preliminary Variation Notice' and a 'Variation Notice'. The Preliminary Variation Notice must be served on all Council tenants holding secure and introductory Tenancies.
- 7.18 The Preliminary Notice informs the tenant of the Council's intention to serve a Notice of Variation and is the primary method of consulting each tenant to obtain their views on the changes proposed to the Tenancy Agreement.
- 7.19 The Preliminary Notice along with a frequently asked questions summary sheet was posted out prior to the formal consultation commencement date (11 December 2023). The Notice outlined the proposed change, the effect of the change and the reason for the change. Feedback on the proposal was invited and a 4-week period was allowed for responses to be made. In addition to the Preliminary Variation Notice additional consultation also included holding 2 drop-in sessions at sheltered housing schemes, giving tenants an opportunity to ask any questions.
- 7.20 All tenant feedback received has been collected and formally considered in a minuted meeting providing a record showing that the comments were considered. Please see appendix 2 for a summary of the feedback received.
- 7.21 The next stage, if the service charge is approved, is to serve a formal Notice of Variation on all affected tenants. The Notice will again detail the changes and will also include a date no less than 4 weeks following service of the Notice, when the change will become effective. The Notice will also formally notify tenants where to find the service standard and cleaning rotas for their block or scheme i.e., sheltered housing schemes (notice boards) and general blocks (on the Council's website) along with details of how to report any concerns.

- 7.22 Service charge expenditure will be closely monitored, and charges reviewed at the same time as the rent is reviewed (annually). Where possible charges will be set at a level that will cover the costs of services provided. The change to the existing tenancy agreement and all new tenancy agreements will automatically take effect after the statutory 4 weeks' notice has been given in writing.
- 7.23 By law, landlords must consult leaseholders before carrying out qualifying work or entering into a long-term agreement for providing services. The process, requirements and timeframe for consultation are set out as a prescribed process in s20 Landlord and Tenants Act 1985.
- 7.24 As the introduction of communal cleaning would be a long-term agreement for cleaning and will last for more than 12 months and on some blocks will cost the Leaseholder more than £100 per year, s20 must be followed. The procedure is very strict and must be followed by the letter (this includes using standard Notices) otherwise there is a chance that the Council may not be able to obtain the increased service charge or be limited to £100 per year.
- 7.25 Landlords must serve consultation notices on leaseholders at the following three stages in the process of awarding a contract: -
- Before the tender is offered (the pre-tender stage), landlords must serve a notice of intention.
  - During the tender (the tender stage), landlords must serve notice of their proposals (estimates).
  - In some cases, when they award the contract (award of contract stage), landlords must serve notice of the award of contract.
- 7.26 The whole process above can take many months; therefore, the service charge would not be able to be introduced in April 2024 but part way through the year.
- 7.27 Leaseholders have already been sent an initial consultation letter asking for their feedback along with a frequently asked questions summary sheet which was posted out prior to the formal consultation commencement date (11 December 2023). The letter outlined the proposed change, the effect of the change and the reason for the change. Feedback on the proposal was invited and a 4-week period was allowed for responses to be made.
- 7.28 All leaseholder feedback received has been collected and included with tenant feedback and formally considered in a minuted meeting providing a record showing that the comments were considered.
- 7.29 The next stage, if the service charge is approved, is to commence with the statutory consultation with leaseholders as per legislation.

## **Implications**

### **Corporate Plan:**

The financial position of the HRA has a direct impact on delivery of key objectives in the Corporate Plan. Sustainability of the HRA will assist in maintaining existing homes and increase the supply of affordable homes in the District in the future.



## Legal:

The Council is required by the Local Government Housing Act (LGHA) 1989 to have a separate Housing Revenue Account.

The Council is required to comply with the Direction on the Rent Standard 2023. The Secretary of State set Direction in exercise of the powers conferred by section 197 of the Housing and Regeneration Act 2008.

The Council is required to comply with the Department for Levelling Up, Housing and Communities statement on rents for social housing updated 14 December 2022.

The Council is required to comply with the Housing Act 1985 section 103 in relation to notice of variation of the tenancy. [RLD 20/12/2023]

Leaseholders – The Council is required to comply and consult in accordance with the Commonhold and Leasehold Reform Act 2002, section 151 (s.20). Although the main purpose of the consultation process is to gather leaseholders' views on the landlord's proposals, it also limits the landlord's ability to recover their costs if they do not follow the correct procedure. If the landlord fails to carry out the full consultation procedure in the correct way, they cannot collect or recover service charges above the level of the minimum amounts allowed by law (that is, £100 per leaseholder per year for a long-term contract). If this applies, the landlord will have to cover the loss, which may have implications for the Housing Revenue Account and, possibly, the District Auditor. [RLD 08/01/2024]

## Finance: [PH 20/12/2023].

Budget Area	Implication
General Fund – Revenue Budget	<p>The introduction of service charges will mean that there will be a recharge to the General Fund for the following: -</p> <p><u>Temporary accommodation used by Housing Options for homeless cases.</u></p> <p>1 x Central Avenue, Kirkby – 41a – £3.46 4 x Western Avenue, Kirkby – 9a,11,11a,11b - £3.46 1 x St Marys Court, Sutton - 21 - £3.46 1 x Willow Crescent, Sutton - 94 - £1.50</p> <p><u>Serenity Unit</u></p> <p>53 Northwood Avenue, Sutton - £3.46</p> <p><u>Flats associated with commercial units (shops) – 15-year lease</u></p> <p>5 and 8 Leamington Hall Buildings, Sutton - £1.50</p> <p>Estimated annual cost £875.00.</p>

General Fund – Capital Programme	None
Housing Revenue Account – Revenue Budget	Recommendations 1-6 as outlined in the report. Recommendation 7 -the introduction of service charges will raise additional income for the Housing Revenue Account (HRA). The proposed £1.50/£3.46 Service Charge will generate circa £61k additional income per annum.
Housing Revenue Account – Capital Programme	None

**Risk:**

<b>Risk</b>	<b>Mitigation</b>
Rents, fees, and charges increases do not cover the cost increases in delivering the services.	Rents, fees, and charges are reviewed annually.
The Council does not follow the correct procedure for introducing a service charge.	Legal process is followed in line with consultation, formal written notice process and the correct decision-making body.
The Council does not comply with the Neighbourhood Standard as set out by the Regulator of Social Housing.	Cleaning based on a defined service standard introduced in communal areas (general needs flats) as outlined in this report.

**Human Resources:**

There are no HR implications contained in the report.

**Environmental/Sustainability:**

An equality impact assessment has been undertaken. This assessment identified that there will be a minimal impact on a small number of tenants (Socio Economic – Deprivation), although through consultation tenants’ have not raised this as a major issue. If tenants are on low income, they can apply for assistance for Housing Benefit/Universal Credit as the charge is means tested. Where affordability is an issue, Housing’s Money Management Advisors can undertake financial assessments with tenants and look to maximise income where possible.

**Equalities:**

An equality impact assessment has been undertaken. This assessment identified that there will be a minimal impact on a small number of tenants (Socio Economic – Deprivation), although through consultation tenants’ have not raised this as a major issue. If tenants are on low income, they can apply for assistance for Housing Benefit/Universal Credit as the charge is means tested. Where affordability is an issue, Housing’s Money Management Advisors can undertake financial assessments with tenants and look to maximise income where possible.

## **Other Implications:**

There are no IT implications. The required changes to recent accounts can be made using existing software.

## **Reason(s) for Urgency**

Not Applicable

## **Reason(s) for Exemption**

Not Applicable

## **Background Papers**

Please see Appendices to the report.

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