


Cabinet Decision 7 th January 2015	 TOWER HAMLETS
Report of: Aman Dalvi – Corporate Director Development & Renewal	Classification:
Housing Revenue Account Rent Setting report 2015/16	

Lead Member	Councillor Rabina Khan
Wards affected	All
Community Plan Theme	One Tower Hamlets
Key Decision?	Yes

Executive Summary

This report sets out the options with regards to 2015/16 rent levels and seeks Cabinet approval of the level of the 2015/16 rent increase for the year ahead in order for the Council to comply with its statutory requirement to notify tenants.

The Council must prepare proposals in January and February each year relating to income from rents and other charges, and expenditure in relation to management and maintenance of its housing stock. A decision is required with regard to rents and service charges in January in order that statutory notice can be given to tenants prior to 1st April implementation.

Recommendations

The Mayor in Cabinet is recommended to:-

1. Agree an average 2015/16 weekly rent increase for tenanted Council dwellings of 2.5%, which equates to an average weekly increase of £2.75 (paras 4.8.7 & 4.8.8) from the first rent week in April 2015.
2. Agree that the average weekly tenanted service charge increase will be £0.20 from the first rent week in April 2015.
3. Agree that, with effect from April 2015, vacated Council properties will be re-let at formula rent.
4. Note that the Housing Revenue Account (HRA) budget will be presented to Cabinet for approval in February 2015.

1. REASONS FOR THE DECISIONS

- 1.1 The Council must prepare proposals in January and February each year relating to income from rents and other charges, and expenditure in relation to management and maintenance of its housing stock. A decision is required with regard to rents and service charges in January in order that statutory notice can be given to tenants prior to implementation from the first rent week of 2015/16.

2. ALTERNATIVE OPTIONS

- 2.1 The government's rent policy was published in May 2014 (see para 4.1 below). The rent policy is guidance only and the Mayor in Cabinet can determine the level of 2015/16 rent increase; the financial consequences of a variety of options are set out in section 4.8.

3 BACKGROUND

- 3.1 The Housing Revenue Account (HRA) relates to the activities of the Council as landlord of its dwelling stock. Since 1st April 1990 the Housing Revenue Account has been "ring-fenced"; this means that deficits on the Housing Revenue Account cannot be met from the General Fund. The HRA must remain in balance.
- 3.2 From April 2012, HRA Subsidy was abolished and replaced by self-financing, under which local authorities now retain all rental income, but are responsible for meeting all costs relating to council housing.
- 3.4 Cabinet on July 7th 2010 agreed the following financial principles to facilitate viability under self-financing, and these have been factored in as appropriate into the assumptions incorporated into the Council's 30 year HRA model:
- Income from the management of non-dwelling related HRA activities should aim to cover the total cost of providing these services to avoid being subsidised from tenants' rents;
 - Rents should not subsidise service charges, nor vice versa;
 - The Council aims to achieve rent convergence in line with Government guidelines (previously 2015/16);
 - High emphasis on debt collection is maintained to minimise provision for bad debts;
 - Treasury management strategy for the HRA focuses on longer-term stability at a rate below the CLG discounted net present value.

4. UPDATED SOCIAL RENT POLICY

4.1 In May 2014 the government published its '*Guidance on Rents for Social Housing*' for April 2015 onwards – the updated rent policy is intended to apply for 10 years, and is summarised below:

- rent restructuring has ended in 2014/15 rather than in 2015/16
- there is an expectation that new tenancies will be let at formula rent
- future rent rises will be linked to CPI (Consumer Price Index) rather than RPI (Retail Price Index)
- the current rent caps remain, and will increase annually by CPI +1.5%
- social tenant households with incomes over £60,000 can be charged market rent levels
- rent rebate subsidy limitation will remain in place (until any replacement following the introduction of Universal Credit)

The effect on Tower Hamlets of these changes is outlined in paragraphs 4.2 to 4.7.

4.2 Rent Restructuring – policy to 2014/15

- 4.2.1 Rent restructuring was introduced in 2002 in order to align council rents and housing association rents, so that similar social properties in the same location, although owned by different landlords, would charge comparable rents.
- 4.2.2 Local authorities increased rents annually by a maximum of RPI + 0.5% + £2 per week, and the target date for achieving rent convergence was 2015/16.

4.3 Rent Restructuring – policy from 2015/16

- 4.3.1 The government's revised rent policy is that, from 2015/16, rents in the social sector should increase by CPI + 1%. This means that rent convergence has ended a year early, in 2014/15.

4.4 Impact on the HRA of ending rent convergence in 2014/15

- 4.4.1 The Council's HRA modelling to date has assumed that it would aim to achieve rent convergence by 2015/16. The estimated impact of ending rent convergence a year early is a loss of over £1 million of rental income, and an anticipated cumulative loss of £18m (including inflation) over the 10 year period of the policy.

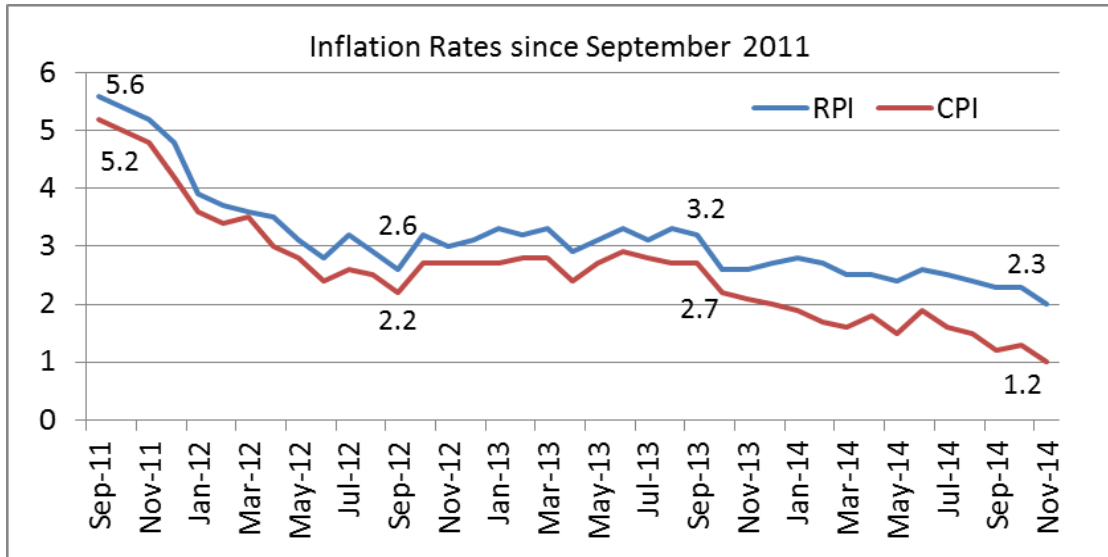
4.5 Re-Letting at Formula Rent

- 4.5.1 The rent restructuring system worked by setting a formula rent for each property and then moving the actual rent to the formula rent over time.

- 4.5.2 The formula rent was calculated with reference to a number of factors relating to the property and the local economy, and represents the target rent to be charged for social housing within the area.
- 4.5.3 As an Authority, Tower Hamlets has followed rent restructuring guidelines; however, as at April 2014, only 2% of our properties have reached formula rent. The government has recognised that not all local authority properties will reach formula rent by April 2015, however they *'expect authorities to adhere to the limit on rent changes, but to move the rent up to formula rent where the property is re-let...'*
- 4.5.4 Tower Hamlets does not currently have a policy of re-letting properties at formula rent and it is recommended that this policy be implemented from April 2015. However, as only roughly 5% of the Council's stock is re-let each year, it would take a number of years for formula rent to be achieved by this method alone.
- 4.5.5 As rent convergence has ended a year early in 2014/15, the 98% of stock that has not reached formula rent will not converge over the 10 years of the government's updated rent policy unless action is taken to move them closer to formula rent.

4.6 Rents linked to CPI rather than RPI

- 4.6.1 The government's 10 year rent policy is that from 2015/16 social rents should increase annually by CPI + 1%.
- 4.6.2 CPI is being used as a replacement for RPI in the majority of inflationary increases used by the government. If future CPI is within 0.5% or less of future RPI then it would not matter that future rent increases are linked to CPI. However, if, as predicted in a paper published by the OBR (Office for Budget Responsibility) in 2011 entitled "*The long-run difference between RPI and CPI inflation*", the future gap is likely to widen to 1.4% then the effect would be a cumulative reduction in rent income, with a significant impact on the HRA and the scope for new building.
- 4.6.3 September 2014 inflation rates are as follows:
- CPI – 1.2%
 - RPI – 2.3%
- 4.6.4 Graph 1 shows the gap between CPI & RPI has been 0.5% or less for the past three years, but has now widened, and at September 2014 was 1.1%.



Graph 1 – CPI & RPI rates since April 2011 – September inflation rates are shown

4.7 Rents for Social Tenants with High Incomes

4.7.1 The 'Guidance on Rents for Social Housing' states that:

'.... local authorities should be able to charge those in social housing with high incomes a fairer level of rent to stay in their homes. This would help them to make best use of social housing and would help ensure sub-market rents are being provided only to those tenants who clearly need them.'

4.7.2 The government has exempted properties let to households with an income of £60,000 per year from its social rent guidance, and local authorities can now charge these households up to market rent.

4.7.3 As 80% of the borough's residents earn below £60,000 per annum, it is probable that the income criteria would affect only a small number of THH tenants, although there is no data available to confirm this as there is no legal duty for tenants to declare their income.

4.7.4 If this policy were implemented the scheme would rely on tenant self-declaration, and it could also be expensive to administer as the Council would have to set up a system to identify, assess and monitor a secondary rent regime.

4.8 Rent Increase Options – 2015/16

4.8.1 The 2014/15 rent increase was 4.9%, which was slightly lower than rent policy. The current Tower Hamlets stock average weekly rents are set out in Table 1 below.

Bedroom Size	Average 2014/15 LBTH weekly Rent £	Average 2014/15 LBTH weekly Formula Rent £	Gap between average LBTH rent & Formula Rent £
0	83.41	85.92	2.51
1	96.79	99.18	2.39
2	109.42	112.01	2.59
3	122.86	126.39	3.53
4	137.75	143.78	6.03
5	153.03	168.29	15.26

Table 1 – Comparison of LB Tower Hamlets rents and Formula Rents

4.8.2 Although the Government has issued an updated rent policy, this is not binding on authorities and therefore the Council is able to determine its own level of increase. This is particularly important in the context of being able to generate resources to support the revenue costs associated with providing new build properties. Some possible rent increase scenarios are outlined in the following paragraphs.

4.8.3 (1) Follow new government rent policy

The government's 'Guidance on Rents for Social Housing' states that "From April 2015, we expect local authorities to increase rents by no more than CPI (at September of the previous year) + 1 percentage point in any year." As September 2014 CPI was 1.2% this would mean an average 2015/16 rent increase of 2.2% and an anticipated 2015/16 rental income budget of £70.6m.

A move to the new social rent policy, i.e. no rental convergence and using CPI plus 1% instead of RPI plus 0.5%, would represent a real loss of potential income to the Council.

4.8.4 (2) Continue with the previous rent policy (rent restructuring)

If the Authority decided to continue with the previous rent policy of rent convergence then the 2015/16 rent increase would be a maximum of September RPI + 0.5% + £2 a week. Assuming that both formula rents and the rent caps are increased by RPI + 1%, then as September 2014 RPI was 2.3% this would mean a rent increase of 4.3% and an anticipated 2015/16 rental income budget of £72.1m. If, as stated in the updated rent guidance, formula rent and the rent caps are instead linked to CPI then the average rent increase would be 3.09%.

4.8.5 Table 3 below shows the anticipated impact of the two options. Continuing with rent convergence in 2015/16 would lead to additional rental income of approximately £1.5m in 2015/16 compared to the government's rent policy, and - due to the higher rental base – an additional £15m of rental income over 10 years.

Rent Increase	2015/16 Rent Measure	Average 2015/16 rent increase	Average 2015/16 rent	Estimated rental income 2015/16	Estimated cumulative rental income over 10 years
(1) New Social Rent policy	CPI + 1%	2.1%	£110.98	£70.6m	£721m
(2) Continue with Rent Convergence (rent caps/ formula rent linked to RPI)	RPI + 0.5% + £2 a week (max)	4.3%	£113.35	£72.1m	£736m

Table 3 – Comparison of the impact of 2015/16 rent increases – Government policies

4.8.6 Modelling indicates that every 0.1% increase in rent generates approximately £60,000 of additional rental income, and £660,000 of additional cumulative income over 10 years. However, the amount of additional income generated for each 0.1% increase reduces as the rent increase gets higher, due to the dampening effect of the rent caps.

Based on the Council's average rent, each 0.1% increase equates to approximately £0.11 per week per property. Table 4 below shows the effect of a range of options between the old and new Government policies.

Average 2015/16 rent increase %	Average 2015/16 weekly rent increase (£)	Average 2015/16 weekly rent	Estimated rental income 2015/16	Estimated cumulative rental income over 10 years
2.5%	£2.75	£111.40	£70.9m	£724.0m
2.8%	£3.04	£111.69	£71.1m	£725.9m
3.0%	£3.28	£111.93	£71.2m	£727.5m
3.2%	£3.48	£112.13	£71.3m	£728.8m
3.5%	£3.82	£112.47	£71.6m	£730.9m
3.8%	£4.11	£112.76	£71.7m	£732.6m
4.0%	£4.33	£112.98	£71.9m	£734.3m

Table 4 – Comparison of the impact of 2015/16 rent increases

4.8.7 Following consideration by the Executive, it is proposed that an average rental increase of 2.5% is applied for the 2015/16 financial year. This will increase the total annual rental income to the Housing Revenue Account by approximately £1.7 million.

4.8.8 Although the Council could approve a higher rental increase as outlined in this report, given the levels of deprivation in the borough, Members are minded to adopt an increase of 2.5%. The recommendation that all new lettings are at formula rent will however mean that over a period of time the Council's rental base will increase.

4.8.9 Even after an increase, the 2015/16 rents charged by the Council will continue to be the lowest in the borough. Table 5 below shows a comparison of average 2014/15 weekly rents in Tower Hamlets.

	1 Bed	2 Bed	3 Bed	4 Bed	5 bed
2015/16 LBTH Social Rents (assuming a 2.5% increase)	£99	£112	£126	£141	£157
2014/15 Social Rent Cap Levels (RPs)	£138	£146	£154	£162	£170
2014/15 POD Affordable rent levels	£206	£244	£266	£284	£312
2014/15 Local Housing Allowance	£255	£299	£351	£413	£413
2014/15 80% Market rents	£254	£354	£425	£484	£555
2014/15 Market rents	£317	£442	£531	£604	£694

Table 5 – Comparison of weekly rents in Tower Hamlets

4.9 Rent Rebate Subsidy Limitation

4.9.1 As Rent Rebate Subsidy Limitation will continue under the new rent policy, the Authority must have regard to the Limit Rent mechanism, under which the HRA is financially penalised if its average rent is higher than the annual Limit Rent.

4.9.2 The 2014/15 Limit Rent for Tower Hamlets is £111.57. As Limit Rents will now increase by CPI + 1% each year, the 2015/16 Limit Rent for Tower Hamlets will be £114.02. Tables 3 & 4 above show that the average weekly rent would be less than £114.02 in all of the rent increase options modelled, and so the Limit Rent control mechanism would not apply.

4.9.3 It is unclear what will happen to Limit Rent when Universal Credit is introduced. From what is currently known about the Housing Element of Universal Credit, rents will have to be deemed 'reasonable'; however, current guidance states that affordable rent levels will be considered 'reasonable'.

4.9.4 It is not known what future measures may be put in place in order to control the overall benefit bill by controlling annual increases. Any future decisions in terms of alternate rent policy could breach future Government imposed controls, and could possibly result in the tenant having to make up any shortfall in the housing element of Universal Credit if rent increases are above set limits.

5. HRA BUDGET 2014/15 & PROJECTED OUTTURN

- 5.1 The latest HRA budget monitoring for 2014/15 is elsewhere on this agenda; current projections are for a forecast year-end underspend of £0.852m.

6. HRA BUDGET 2015/16

- 6.1 The 2015/16 HRA estimates will be considered by Cabinet in February.
- 6.2 To ensure that a rent increase is operative from the first rent week in April 2014, a Cabinet decision on the rent increase must be made in January to enable all scrutiny requirements to be met, and rent notices to be issued.

7. RISKS

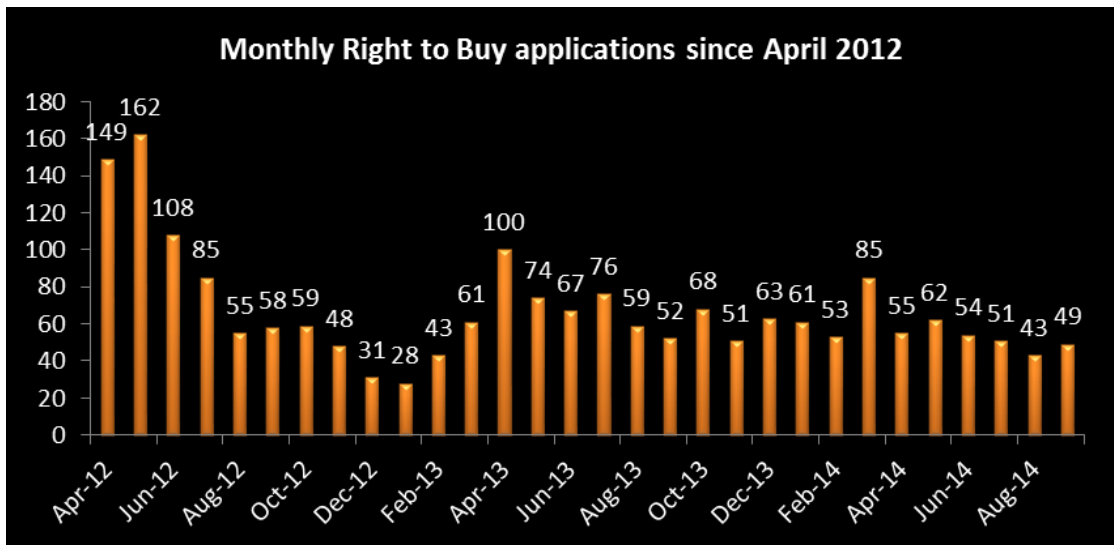
- 7.1 Notwithstanding the current modelling of the HRA financial position which indicates that the Council can fund the capital works currently anticipated to be needed over the 30 year period, as well as the current agreed programme of new builds, there are a number of risks to the HRA in the short to medium term; the principal ones are highlighted below.

7.2 Right to Buy

- 7.2.1 Recent changes to Right to Buy legislation led to a maximum discount of £102,700, and this will increase annually in line with CPI.
- 7.2.2 The reinvigorated Right to Buy regime is a three year policy, although the government is currently consulting on plans to amend the capital regulations to enable the current system of pooling to continue after 31st March 2015.

7.3 Right to Buy Applications

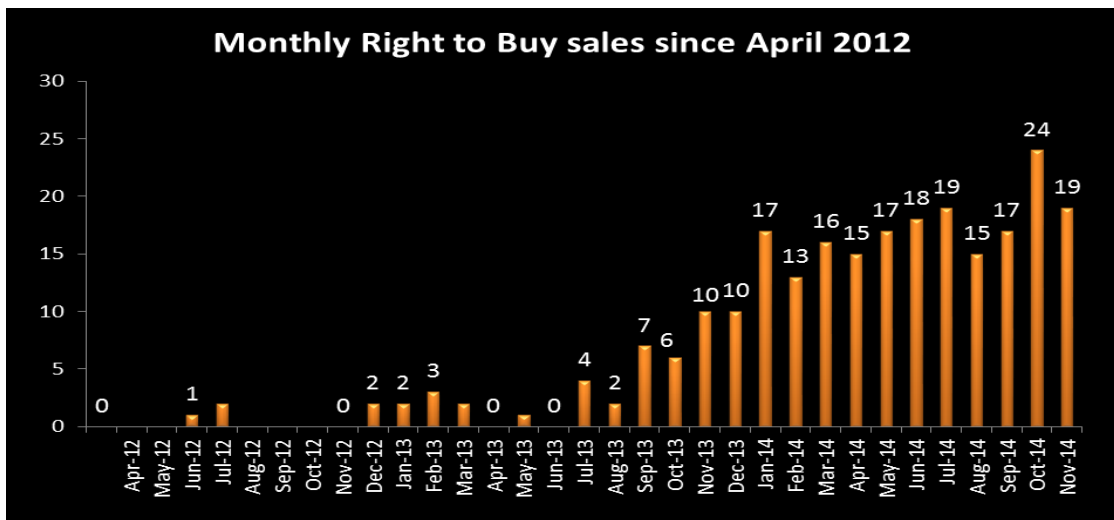
- 7.3.1 Graph 3 below shows that, as at the end of September 2014 there had been over Right to Buy applications received since April 2012.



Graph 3 – 2,010 Right to Buy applications have been received since April 2012

7.4 Right to Buy Sales to Date

7.4.1 Between April 2012 and the end of November 2014 there were 242 RTB sales; Graph 4 shows the number of sales each month since April 2012.



Graph 4 – 223 Right to Buy sales have taken place since April 2012

7.5 Future Right to Buy Sales

7.5.1 Although the HRA financial model assumes a certain level of stock reduction, the disposal of significant additional numbers of properties will cause major financial pressures, as the reduction in rental income will outweigh the marginal savings that will be made in management and maintenance costs.

7.5.2 The 2014/15 budget assumes that there will be 100 sales in 2014/15, however it is currently anticipated that 200 sales will take place this year resulting in lower than budgeted rental income. Current modelling assumes that there will

be 20 RTB sales in future years, however this assumption will be increased in the light of the current number of live RTB applications.

7.6 Right to Buy Receipts

7.6.1 The Authority has signed an agreement with the Secretary of State to allow us to retain a proportion of our Right to Buy receipts to be spent on replacement social housing, with the following conditions:

- i. Retained 1-4-1 receipts can fund no more than 30% of the total spend
- ii. The receipts cannot be used in conjunction with funding from the GLA/HCA
- iii. The receipts must be spent within three years or be returned with interest
- iv. The receipts cannot be given to a body in which the local authority has a controlling interest

7.6.2 Alternatively, the authority may use these receipts to grant fund another body, such as a Registered Provider.

7.6.3 As at the end of Q2 of 2014/15, the Authority has £12.7m of 1-4-1 retained receipts, the breakdown of which is show in Table 5 below:

RTB Sales	Quarter Received	Retained Receipts (30%) £'000	Deadline for use	Total spend on social housing needed £'000	Council resources needed (70%) £'000
26	Q3 - 2013/14	1,503	31/12/16	5,010	3,507
46	Q4 - 2013/14	3,508	31/03/17	11,693	8,185
50	Q1 - 2014/15	3,480	30/06/17	11,600	8,120
51	Q2 - 2014/15	4,246	30/09/17	14,153	9,907
	TOTAL	12,737		42,456	29,719

Table 5 – Summary of current retained 1-4-1 RTB Receipts

7.6.4 Any receipts unspent within 3 years must be returned to the government with compound interest; the interest rate chargeable is 4% above the base rate, and is charged on a daily basis, for example if we did not spend any 1-4-1 receipts within 3 years we would be liable for total interest charges of £1.8m.

7.6.5 We already have schemes in place to spend £5.202 million of the 1-4-1 receipts. In order to allocate the remaining £7.535 million we will need to spend a total of £25.116 million on replacement social housing, and so will need to fund the balance of £17.581 million (70%) from other resources. The new-build properties already approved will be let at 'POD' affordable rents rather than at social rents.

- 7.6.6 Assuming that the current pace of RTB sales continues we may have £16 million of unallocated 1-4-1 receipts by the end of 2014/15. This would mean we would need to plan total further spend of £53 million on replacement social housing by the end of 2017/18, with the Authority having to find £37 million in order to fund resources to fund 70% of the cost.
- 7.6.7 In terms of resources, as part of the ongoing update of the HRA Financial model an assessment is being made of the capacity within the HRA to fund the 70% contribution necessary to spend 1-4-1 receipts. There are already a number of commitments against the HRA debt cap, such as our current new build schemes, and borrowing for the Decent Homes Backlog Programme.
- 7.6.8 Therefore it is possible that we may be close to the point of not having sufficient HRA resources to contribute towards an ever-increasing amount of 1-4-1 receipts. In this case, the Authority would need to agree to either:
- a) return newly arising 1-4-1 receipts immediately (to avoid any interest charges);
 - b) pass newly arising 1-4-1 receipts to a third party (i.e. an RP)
- 7.6.9 In addition we need to be able to fund the revenue costs of borrowing and limiting the 2015/16 rent increase to the new social rent policy will impact on our ability to fund the required borrowing, even if we have sufficient borrowing headroom within the debt cap. Savings will be necessary within the Housing Revenue Account in future years in order to provide additional resources to support the delivery of new housing provision.

7.7 Welfare Reform

- 7.7.1 Welfare reform consists of a number of major changes to the benefits system, the main changes that will affect THH tenants are:
- (1) Benefit Cap
 - (2) Under-occupancy charge
 - (3) Universal Credit and Direct Payments
- 7.7.2 Universal Credit (UC) is a welfare benefit launched in 2013, which replaces six means-tested benefits and tax credits: Jobseeker's Allowance, Housing Benefit, Working Tax Credit, Child Tax Credit, Employment and Support Allowance and Income Support. Universal credit will be applied for online only and will be paid monthly directly to only one member of the household, except in exceptional circumstances.
- 7.7.3 As part of Tranche 1 of the implementation, from March 2015 Universal Credit will be rolled out to new, single applicants in Tower Hamlets. It is anticipated that this may affect approximately 300 claimants in the borough in 2015/16, of which a proportion may be Council tenants, although it is not possible to determine the number affected in advance of the implementation.

- 7.7.4 It is not yet known when Universal Credit will be rolled out more widely within the borough, and so the cumulative impact on the HRA will not be clear until the various reforms all take effect. Provision was made in the 2014/15 budget for an anticipated increase in the amount of bad debt, but it is now expected that this level of provision will not be fully required in 2014/15 as the implementation dates for Universal Credit and Direct Payments have slipped. However, it is recommended to maintain an increased level of provision for bad debts over the next few years as the reforms take effect.
- 7.7.5 Further details will be presented to Cabinet in the HRA 2015/16 Budget report in February 2015.

7.8 Interest Rates & Debt

- 7.8.1 Over the next few years, the Authority will need to borrow within the HRA in order to finance the capital programme, including new-build schemes. Although interest rates currently remain at 0.5%, when they rise the HRA will be exposed to interest rate risks as its current loan portfolio mainly consists of market loans at variable rates.
- 7.8.2 The Governor of the Bank of England delivered the Inflation Report on November 17th; although he did not detail when interest rates would rise he stated that when rates do start rising it will be slowly and gradually. Market expectations highlighted in the Bank's report are that rates will start to rise in late 2015, moving gradually up to 1.7 per cent in three years' time.

7.9 Leaseholder Recovery

- 7.9.1 Leaseholders represent 40% of the total HRA stock, with leaseholder numbers increasing each time a Right to Buy sale takes place. Where capital works carried out on stock are of an external or communal nature, leaseholders are required to contribute to their share of the costs.

7.10 Leasehold Major Works

- 7.11 The Tower Hamlets HRA 30 Year Financial Model assumes full recovery of leaseholder major works over a period of seven years. However, this assumed profiling means that a high level of leaseholder major works "forward funding" is required, and it is therefore crucial that leasehold major works debt is pursued in a robust manner, as failure to do so will result in an HRA budget pressure.
- 7.12 In August 2014 the government issued the '*Social landlords reduction of service charges: mandatory and discretionary directions 2014*' which introduces a mandatory cap of £15,000 in London on leaseholder major works bills where the local authority has received assistance for works of repair, maintenance or improvement provided by the Secretary of State or the Homes and Community Agency.

7.13 Whilst the cap does not affect funding already confirmed, it will apply to allocations made from the 2013 Spending Round Decent Homes funding. The Authority has submitted a bid for 2015/16 Decent Homes funding and is waiting to hear the outcome, however initial modelling carried out at the time of the bid submission indicated that the effect of the cap would be minimal.

8. COMMENTS OF THE CHIEF FINANCE OFFICER

8.1 The report asks the Mayor in Cabinet to agree an average weekly rent increase of £2.75 for 2015/16, an average weekly increase in tenanted service charges of £0.20, and to agree that from April 2015, vacated Council properties will be re-let at formula rent.

8.2 Under HRA Self-Financing the Authority is responsible for the financing of all expenditure necessary to maintain and improve the housing stock, including completion of the Decent Homes programme. As referred to in paragraph 4.8.6, each 1% increase in rent equates to additional ongoing income of approximately £600,000 per annum and increases the HRA's base budget for future years.

8.3 Previously, the Council followed the government's rent policy of rent convergence, which would have resulted in the majority of the Council's properties reaching their formula rent in 2015/16; this assumption was built into both the government's and the Council's modelling of the HRA. The new government rent policy brings rent convergence to an end in 2014/15 and proposes rent increases of CPI + 1% from 2015/16 for a period of 10 years. Under this policy, the Council would implement a rent increase of 2.1% rather than the 4.3% that would have resulted from following rent convergence for a final year.

8.4 As outlined in this report however, although the government expect local authorities to *'have regard to this guidance when setting rents for their housing stock'*, it is not mandatory. As a result, this report has considered the impact of a range of rent increase options as shown in Tables 3 & 4, and recommends an increase of 2.5%.

8.5 The decision to implement a 2015/16 rent increase of 2.5% means that approximately £1.2m less rental income will be generated in 2015/16 than if a rent increase of 4.3% based on the previous rent policy (rent convergence) had been implemented, but will generate approximately £300,000 more than a rent increase based on the new rent guidance (2.1%).

8.6 The fact that the 2015/16 rent increase is lower than 4.3% means that there will be a reduction of £1.2 million to the HRA rental base for future years and this reduced income means that there will be a lower level of HRA resources; therefore there may be a reduced scope to generate financing for new-build projects unless savings are made to the HRA's base budget.

- 8.7 The decision to re-let vacated Council properties at formula rent will help to move more properties to their formula rent. As approximately 5% of the Council's stock is re-let each year, over time this will lead to a higher level of rental income in the HRA compared to these properties being re-let at their previous rent level.

9. LEGAL COMMENTS

- 9.1 The report seeks agreement to rent increases in amounts specified in Recommendation 1. The Council has power under section 24 of the Housing Act 1985 to make reasonable charges for the tenancy or occupation of its houses. The Council is required to review from time to time the rents that it charges for the tenancy or occupation of its dwellings.
- 9.2 The Council may increase the rent for its tenants by giving four weeks' notice. The notice period appears from section 103(4) of the Housing Act 1985, but also from the terms of the Council's standard tenancy agreement.
- 9.3 The Council is subject to an obligation under Part VI of the Local Government and Housing Act 1989 to maintain a housing revenue account (HRA). The Council is required to prepare proposals in January and February each year relating to the income of the authority from rents and other charges, expenditure in respect of repair, maintenance, supervision and management of HRA property and other prescribed matters. The proposals should be based on the best assumptions and estimates available and should be designed to secure that the housing revenue account for the coming year does not show a debit balance. In this regard, the report correctly identifies the effect of Chapter 3 of Part 7 of the Localism Act 2011 regarding self-financing. When determining the rent it will charge, it is reasonable for the Council to have regard to the matters set out in the report, relevant to self-financing and other matters relevant to the likely income to the HRA. The report refers to the new Government rent policy set out in the 'Guidance on Rents for Social Housing'. Whilst the guidance does not have statutory force, the government has stated that it expects local authorities to have regard to it when setting their rent levels for 2015 onwards. The report contains a detailed comparison of the benefits to the Council of setting rents for 2015-2016 using the previous rent policy. This can be seen as a proper exercise of the Council's power under section 24 of the Housing Act 1985 and justification for a departure from the new government rent policy. However the Council should be mindful of the possibility of a legal challenge by way of judicial review in respect of any decision to set rent levels that do not comply with government policy.
- 9.4 Before setting rents as proposed in the report, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. Information relevant to these considerations is contained in the One Tower Hamlets section of the report and in Appendix 1.

10. ONE TOWER HAMLETS CONSIDERATIONS

- 10.1 A detailed equality impact assessment is attached at Appendix 1. This identifies that the rent increase, which will apply equally to all tenants, will in practice have some differential impacts by reference to the protected characteristics under the Equality Act 2010. For example, a greater proportion of men occupy bedsits than women, when compared to the general population. Any such differential impact is considered to be a proportionate means of maintaining the Housing Revenue Account and continuing to provide housing services in a fair way, for reasons given in paragraphs 10.2 and 10.3 below and in the equality analysis in Appendix 1.
- 10.2 As set out in the report, the Council is subject to an obligation to determine proposals targeted at maintaining a positive balance in the Housing Revenue Account. The aim of this report is to agree a level of rents that strikes the balance between maximising resources available to the Council for social housing purposes, and avoiding undue additional hardship to vulnerable tenants. If rents are not increased then additional savings will have to be identified to ensure that Tower Hamlets has a sustainable, balanced HRA business. Those savings will impact upon services relating to both the management and maintenance of the housing stock, and are likely to impact upon specific services supporting vulnerable residents. It is considered that a rent increase of the size proposed in the report strikes the right balance and provides the best overall outcome for residents, allowing services to be maintained. For the same reason, the rent increase is considered preferable from an equalities perspective.
- 10.3 The Housing Benefits system is designed to ensure a proportionate level of protection for low-income residents. This is reimbursed by Central Government, but only up to "Limit Rent" levels, as outlined in paragraph 4.9.2.

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 11.1 There are no specific implications arising directly from this report, however the Housing Revenue Account does finance initiatives to promote and maintain a greener environment. These are managed by Tower Hamlets Homes.

12. RISK MANAGEMENT IMPLICATIONS

- 12.1 With the introduction of Self-Financing, Tower Hamlets is responsible for running its HRA as a viable business, using HRA income in order to fund all HRA expenditure, including the capital works necessary to maintain and improve the housing stock, and the Decent Homes programme.
- 12.2 Various areas of risk and uncertainty are highlighted in section 7, in particular the reinvigorated Right to Buy regime and the various Welfare Reform changes. Over the next few months, it will be essential that the HRA medium-

term financial strategy be kept under review, and updated to reflect changes in economic conditions and policy changes.

13. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 13.1 There are no specific crime and disorder reduction implications arising directly from this report, however the Housing Revenue Account does finance various crime prevention and safety initiatives which are managed by Tower Hamlets Homes.

14. EFFICIENCY STATEMENT

- 14.1 Draft estimates for the 2015/16 HRA budget will incorporate any savings agreed by Cabinet, and those necessary to ensure that the HRA remains in balance in 2015/16. The draft estimates will be presented to Cabinet in February.

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- Equalities Impact Assessment

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- None

Officer contact details for documents:

- n/a

Originating Officers and Contact Details

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