

To: Cabinet **Date:** 24 January 2024
To: Council **Date:** 29 January 2024
Report of: Head of Financial Services
Title of Report: Housing Revenue Account (HRA) Rent Setting Report 2024/25

Summary and recommendations	
Purpose of report:	To present the outcome of Oxford City Council's (the Council's) annual rent review and associated rent setting proposal for 2024/25 in respect of all Council dwellings within the Housing Revenue Account (HRA), including the setting of associated services and facilities charges.
Key decision:	Yes
Cabinet Member:	Councillor Ed Turner, Deputy Leader (Statutory) - Finance and Asset Management Councillor Linda Smith, Cabinet Member for Housing
Policy Framework:	Budget and Medium Term Financial Plan

Recommendations: That Cabinet resolves to:	
1.	Recommend to Council to approve an increase of 7.7% for 2024/25 (subject to any subsequent cap on increases imposed by central government) in social dwelling rents from 1 st April 2024 giving an average weekly increase of £9.27 per week, and a revised weekly average social rent of £129.72 as set out in the Financial Implications section of this report;
2.	Recommend to Council to approve an increase to rents for shared ownership dwellings as outlined in paragraph 15 of the Financial Implications;
3.	Recommend to Council to approve an increase to service charges by 7.7% (CPI + 1%) to enable the HRA to recover the associated cost of supply;
4.	Recommend to Council to approve an increase to the charge for a garage of 7%, equating to an increase of £1.25 per week for a standard garage with a revised charge of £19.10 per week, and an increase of £1.44 per week for a premium garage with a revised charge of £21.60 per week; and
5.	Recommend to Council to approve the option to exercise the Rent Flexibility option in respect of re-lets to new tenants as outlined in paragraph 6 below.

Appendices	
Appendix 1	Housing Revenue Account Rent by Ward
Appendix 2	Risk and Equalities Assessment

Introduction and background

1. On an annual basis, as part of the Medium-Term Financial Plan (MTFP), the Housing Revenue Account (HRA) sets the Rent for HRA tenants for the next financial year. The rent setting is governed by two national documents – The Rent Standard and the Rent Policy Statement.
 - a. **The Rent Standard states:** *Registered providers must comply in full with all the requirements and expectations set out in this Rent Standard. They must additionally comply with all the requirements and expectations of the Rent Policy Statement on the setting, increase and decrease of rents and service charges.*
 - b. **The Rent Policy defines:**
 - i. **Weekly Formula Rent** as 70% of the national average rent; multiplied by relative county earnings; multiplied by the bedroom weight; plus 30% of the national average rent; multiplied by relative property value.
 - ii. **Affordable Rent** (inclusive of service charges) must not exceed 80% of gross market rent, where ‘Gross market rent’ means the rent (inclusive of any applicable service charges) for which the accommodation might reasonably be expected to be let in the private rented sector. Property size, location type and service provision must be taken into account when determining what gross market rent a property might achieve if let in the private rented sector.
 - iii. **Rent Flexibility Level** - The government’s policy recognises that registered providers should have some discretion over the rent set for individual properties, to take account of local factors and concerns, in consultation with tenants. As a result, the policy contains flexibility for registered providers to set rents at up to 5% above formula rent (10% for supported housing). If applying this flexibility, providers should ensure that there is a clear rationale for doing so which takes into account local circumstances and affordability.
2. The maximum increase in both types of rent is currently restricted to CPI + 1% (CPI as at September in the preceding year) until 2025 at which point this will be reviewed by the government. The September 2023 CPI rate was 6.7%, giving a maximum increase of 7.7% subject to any additional cap imposed by the government. The government imposed a 7% cap on rent increases for the 2023/24 rent setting (Ref. GOV.UK Policy Statement on Rents for Social Housing).
3. As well as the restriction on maximum increases, rents are also capped as follows:
 - a. Social Rent – rent caps apply as a maximum ceiling on the formula rent and depend on the size of the property (the number of bedrooms it contains). Where the formula rent would be higher than the rent cap for a particular size of property, the rent cap must be used instead (Ref. GOV.UK Policy Statement on Rents for Social Housing).
 - b. Affordable Rents - The rent for affordable rent housing (inclusive of service charges) must not exceed 80% of gross market rent. ‘Gross market rent’ means the rent (inclusive of any applicable service charges) for which the accommodation might reasonably be expected to be let in the private rented sector. Property size, location

type and service provision must be taken into account when determining what gross market rent a property might achieve if let in the private rented sector (*Ref. GOV.UK Policy Statement on Rents for Social Housing*).

4. The HRA must adhere to these restrictions and caps on rent increases even if a tenant's rent is below formula rent, or if the HRA has previously applied a lower – or no – annual increase. Where this is the case, the HRA may only move the rent up to formula rent when the property is re-let following vacancy (subject to the rent cap).
5. The table below demonstrates the amount of rental income foregone because of these restrictions, and last year's cap of 7% maximum increase:

	Number of Properties	Total Weekly Rent Foregone	Total Annual Rental Income Foregone
Actual Rent is less than Formula Rent	7,208	£72,856	£3,788,523

One additional consideration is for OCC to join other social housing providers in lobbying government (DLUHC) for the re-introduction of rent-convergence measures to address the gap between actual rents of £48.7m and formula rents of £52.5m. Currently this is an annual loss to the HRA of £3.8m.

6. Rent Flexibility

Landlords are permitted under the regulations to set rents at levels above the social formula rents where it has taken local factors, market conditions and affordability into account.

- For general needs accommodation a 5% flexibility is allowable.
- For supported housing, such as sheltered schemes a 10% flexibility is allowable.

(Ref. GOV.UK Policy Statement on Rents for Social Housing)

Not all our rents are at a level equal to the formula rent for the property. Where a property becomes vacant and is going to be let to a new tenant following refurbishment, the formula rent for the property is proposed to be set at 105% of formula for general needs accommodation and 110% of formula for all supported housing units.

7. Housing Stock

As at 1st April 2023 the HRA held 7,833 dwellings, as shown below:

	Number of bedrooms						Total
	0	1	2	3	4	5+	
Flat / Maisonette	140	1,222	1,732	156	5		3,255
House / Bungalow		275	830	2,791	253	42	4,191
Sheltered	29	271	30				330
Shared ownership		23	31	3			57
Totals	169	1,791	2,623	2,950	258	42	7,833

8. Types of Rent

There are two types of rent charged within the HRA:

- **Social Rent** - Since 2001, rents for properties let at 'social rent' (which constitute a majority of rented social housing properties) have been set based on a formula set by government. This creates a 'formula rent' for each property, which is calculated based on the relative value of the property, relative local income levels, and the size of the property.
- **Affordable Rent** - In 2011, the government introduced 'affordable rent' which permits rents to be set at up to 80% of market rent (inclusive of service charges).

9. A table of the highest rents charged by OCC HRA is shown below:

No. of Bedrooms	2023/24 Highest Weekly Rents	
	Social Rent	Affordable Rent
1 and bedsits	£133.61	£190.85
2	£174.71	£233.91
3	£199.09	£281.98
4	£195.07	
5	£214.65	
6 or more	£189.72	

Formula rent caps for 2023-24

Number of bedrooms	Rent cap
1 and bedsits	£173.79
2	£184.00
3	£194.22
4	£204.43
5	£214.66
6 or more	£224.87

Housing Benefit / Universal Credit Housing Cost Element

10. As at the end of July 2022 there were a total of 3,559 HRA tenants (45.6%) claiming Housing Benefit or the Housing Cost element of Universal Credit, made up of 2,318 Housing Benefit claimants and 1,241 Universal Credit claimants. The amount claimed by each tenant will vary depending on their individual circumstances.

As Social Rents are based on formula rent, the maximum amount housing benefit will cover is 100% of the rent depending on the tenants' eligibility and financial circumstances.

11. For Affordable Rents, the current Local Housing Allowance Rates for Oxford are set out below. These are the maximum eligible rents to be used when calculating Housing Benefit for Affordable Rental Properties. The government recently announced that these would be increased for the year beginning 1st April 2024.

Local Housing Allowance Rates for 2023/24		
Number of Bedrooms	£ per week	£ per month
Room in Shared Accommodation	118.87	516.52
1 Bedroom	178.36	775.02
2 Bedrooms	210.00	912.50
3 Bedrooms	253.15	1,100.00
4 Bedrooms	364.77	1,585.01

Financial implications

12. The recent HRA Strategic Review identified that the HRA faced an uncertain financial future within the next 10 years due to the scale of investment required because of the demands placed on it by new legislation and housing standards. As a result, the review recommended that the HRA maximised its income streams where permissible. Implementing the maximum rent increase allowed by government would help the HRA to meet its legal obligations and remain viable going forward.
13. A rent increase that is lower than inflation will have a detrimental impact on the viability of the HRA as the income will not be able to keep pace with rising costs and as a consequence would be at risk of failing its tenants in the supply of services and support.
14. The CPI rate for the 12 months to the end of September 2023 was 6.7%. For comparison purposes the impact on rents is shown in the table below using the recently announced Welsh assembly cap of 6.7%, last year's cap of 7%, and CPI+1% of 7.7%:

Rent Increase	Weekly Increase based on Average Social Rent of £120.45	Weekly Increase based on Maximum Social Rent of £214.65	Weekly Increase based on Average Affordable Rent of £215.07	Weekly Increase based on Maximum Affordable Rent of £281.98	Total Annual Increase to HRA Rental Income
6.7%	£8.07	£14.38	£14.41	£18.89	£3.265m
7.0%	£8.43	£15.02	£15.05	£19.74	£3.411m
7.7%	£9.27	£16.52	£16.56	£21.71	£3.752m

15. Shared ownership rent setting is currently laid out in the lease agreements and reviewed annually in accordance with the greater of:

- i) the Gross Rent under this Lease immediately preceding the Relevant Review Date x 1.005; and
- ii) the Gross Rent under this Lease immediately preceding the Relevant Review Date x ((B/A) + 0.01). (Where B & A are the CPI indexes for the review month and 12 months prior respectively).

The rent rise included in the Consultation Budget under these agreements is effectively an increase of 0.5% for properties less than 12 months old of which the Council currently has 2 such properties and CPI + 1% (7.7%) for older properties of which the Council owns 57 properties.

16. The charge for garages is proposed to be increased by 7% from £17.85 to £19.10 per week for a standard garage, and up from £20.16 to £21.60 per week for a premium garage.
17. Service charges such as caretaking, cleaning, CCTV, communal areas etc. will be increased by CPI plus 1% across all tenure types in the HRA to ensure that the HRA recovers the cost of providing these services. Service charges are monitored and reviewed regularly to ensure costs of provision are being recovered and tenants are not being overcharged.
18. The proposed increases and estimates contained within this report are also contained within the report: *Medium Term Financial Strategy 2025-26 to 2027-28 and 2024-25 Budget for Consultation* to be presented at Cabinet on 13th December 2023. Due to the requirement to give written notice of increases to tenants - one months' written notice (Social Tenants) and two months' written notice (Shared Ownership Tenants) the need to approve these increases by way of a separate report has arisen. The main budget consultation period runs from the 14th December 2023 to the 31st January 2024, and any responses received relevant to this report by the 17th January 2024 will be included in the version of this report presented to Cabinet and Council.

Budget Consultation

19. The budget consultation concentrates on a number of key areas with 34 responses received as at 10th January. Of the 34 responses, 26 were residents of Oxford, of which 7 were Council Tenants. A summary of the responses is shown below for the main areas:
 - Service Priorities
 - There was strong support for the provision of affordable housing with 67% of respondents either agreeing or strongly agreeing.
 - Capital Investment
 - Highest support (73% of respondents agreed or strongly agreed) for capital investment in new social housing of £352 million which will deliver a return in the future.
 - Energy Efficiency initiatives and Climate Change improvement, funded out of tenants' rents at £33 million – 59% agreed or strongly agreed, with only 17% disagreeing or strongly disagreeing.
 - 56% of respondents agreed or strongly agreed with £40 million of internal and external capital investment in Council dwellings funded from tenant's rent, whilst only 10% disagreed or strongly disagreed.

- Council Housing
 - Highest support was for targeted estate regeneration (66%) closely followed by investing in the look and feel of our Council estates (65%) and improving Energy Efficiency and progressing to zero carbon (60%) with least support given to Building & acquiring new Council homes (49%) and maintaining the quality of existing homes (45%) although it should be noted that only 7 respondents were Council tenants.

20. Members will be updated at the Council budget meeting with any further responses that are received up until the consultation closes on 31st January.

Legal issues

21. The rent setting is governed by two government documents – The Rent Standard (Regulator of Social Housing), and the Policy Statement on Rents for Social Housing (GOV.UK).
22. The HRA is a ring-fenced account and is required to finance its activities from the income it generates - predominantly rental income. Failure to maintain a positive balance of the HRA account would lead to the collapse of the HRA at Oxford City Council.

Risk Implications

23. The main risk to the HRA is that the increases are not approved resulting in an unsustainable financial position that would require significant reductions in the provision of services and support to its residents.

Equalities impact

24. See Appendix 2.

Carbon and Environmental Considerations

25. This report is for rent setting purposes, and the proposed budget changes do not affect the Council's ability to reach our net zero target.

Report author	Jason Jones
Job title	Finance Business Partner
Service area or department	Financial Services
Telephone	01865 252365
e-mail	jjones@oxford.gov.uk

Background Papers:
1 GOV.UK: Policy statement on rents for social housing
2 Regulator of Social Housing: Rent Standard

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