

Service Charges Overview

Tenants & Leaseholder Panel update

11 October 2022

Service charges - background

- In Croydon annual increases in tenant charges have been linked to that of the rent
- For 2022-23. Charges were increased by £0.43 to £10.97 for flats and by £0.09 for estate houses to £2.25.
- The expectation is that the full cost of estate and communal services would be recovered via service charges applied to tenants. There is no profit generated from service charges.
- The service charges are applied to 8,448 properties that are currently listed as in receipt of the services provided. In addition to tenants, shared services are also applied to 2,583 leaseholders and 858 freeholders with service charges.

Service charges – forecast spend 2022-23 & 2023-24

- The current model for tenant's service charges is for the Council's running costs to be budgeted for at an overall service level. The total cost is pooled and allocated on a unit basis.
- Amount charged in 2021/22 resulted in cost recovery.
- Due to the large increases in costs forecast for 2022/23 (most significantly in utilities), the HRA will have a **shortfall** in recovering the costs for tenants service charges by approximately **£2.5m**
- The draft budget for 2023/24 if tenants services charges are not raised in line with actual costs would result in an **additional shortfall** in cost recovery of **£2.7m**

Service charges – options

- The Housing Directorate is in the process of developing the Housing Improvement Programme which seeks to ensure HRA-funded services meet the needs of the Council's tenant and leaseholders
- Resident engagement with tenants is required to acknowledge the current arrangements and what future options could be considered

Rents consultation

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Rent increase consultation 2023/24

- 31 August 2022 the 6 weeks consultation (closes 12 October) launched on varying the current government rent policy to increase by Consumer Price Index +1% (CPI+1%) taking the value of CPI in the September of the prior year.
- Bank of England forecasts from August 2022 show that CPI inflation is expected to rise from 9.4% in June 2022 and that forecast CPI for September 2022 is 9.9%.
- Government is consulting on impact of imposing a ceiling on any increase of 3%, 5% or 7%, and then reverting back to rent policy of CPI +1% from 2024/25
- 5 Scenarios have been modelled to determine the impact on the HRA

Scenario analysis

Model 1 – Current Policy

- Assuming the current policy is maintained and that a rate of 10.9% increase is applied to the current rents
- Increase in income of £5.3m
- Known pressures expected in 2023/24 £5.3m:
Including utilities increased costs by £1.8m;
- Net position is a balanced HRA

Scenario analysis

Model 2 – 3% ceiling

- Assuming a rate of 3% increase is applied to the current rents
- **Loss of £1.4m income** compared to our planned budget for 2023/24
- Known pressures expected in 2023/24 £5.3m:
Including utilities increased costs by £1.8m
- Net position is a **£6.7m deficit** to the HRA
- Net position if compared to current policy **£12m deficit**

Scenario analysis

Model 3 – 5% ceiling

- Assuming a rate of 5% increase is applied to the current rents
- Increase of £0.3m income compared to our planned budget for 2023/24
- Known pressures expected in 2023/24 £5.3m:
Including utilities increased costs by £1.8m;
- Net position is a **£5.0m deficit** to the HRA
- Net position if compared to current policy **£10.3m deficit**

Scenario analysis

Model 4 – 7% ceiling

- Assuming a rate of 7% increase is applied to the current rents
- Increase of £2m income compared to our planned budget for 2023/24
- Known pressures expected in 2023/24 £5.3m:
Including utilities increased costs by £1.8m;
- Net position is a **£3.3m deficit** to the HRA
- Net position if compared to current policy **£8.6m deficit**

Scenario analysis

Model 5 – Rent freeze

- Assuming a rate of 0% increase is applied to the current rents
- **Loss of £3.3m income** compared to our planned budget for 2023/24
- Known pressures expected in 2023/24 £5.3m:
Including utilities increased costs by £1.8m;
- Net position is a **£8.6m deficit** to the HRA
- Net position if compared to current policy **£13.9m deficit**

Average Rents potential increase

Model 1 – Current Policy CPI +1 (10.9%)

- | Bedroom Size | Average rent 2022-23 £ p/w | Average rent 2023-24 £ p/w | Increase £p/w |
|--------------|----------------------------|----------------------------|---------------|
| 0 Bedsit | 80.21 | 88.15 | 7.94 |
| 1 | 96.04 | 105.59 | 9.55 |
| 2 | 114.34 | 125.80 | 11.46 |
| 3 | 138.05 | 151.95 | 13.90 |
| 4 | 156.48 | 172.27 | 15.79 |
| 5 | 171.18 | 188.88 | 17.70 |
| >5 | 191.68 | 211.79 | 20.11 |

Average Rents potential increase

Model 2 – 3% Ceiling

• Bedroom Size	Average rent 2022-23 £ p/w	Average rent 2023-24 £ p/w	Increase £p/w
0 Bedsit	80.21	81.81	1.60
1	96.04	98.00	1.96
2	114.34	116.77	2.43
3	138.05	141.04	2.99
4	156.48	159.91	3.43
5	171.18	175.26	4.08
>5	191.68	196.64	4.96

Average Rents potential increase

Model 3 – 5% Ceiling

Bedroom Size	Average rent 2022-23 £ p/w	Average rent 2022-23 £ p/w	Increase £p/w
0 Bedsit	80.21	83.42	3.21
1	96.04	99.92	3.88
2	114.34	119.06	4.72
3	138.05	143.81	5.76
4	156.48	163.04	6.56
5	171.18	178.78	7.60
>5	191.68	200.48	8.80

Average Rents potential increase

Model 4 – 7% ceiling

Bedroom Size	Average rent 2022-23 £ p/w	Average rent 2022-23 £ p/w	Increase £p/w
0 Bedsit	80.21	85.02	4.81
1	96.04	101.84	5.80
2	114.34	121.35	7.01
3	138.05	146.57	8.52
4	156.48	166.17	9.69
5	171.18	182.20	11.02
>5	191.68	204.31	12.63

Implications of impact on HRA

- Cost pressures would not be capped to the same extent therefore efficiency savings will have to be achieved.
- The long term impact of a 1 year or 2 year cap on the HRA results in difficult decisions on the ability to fund the outcomes from the stock conditions survey's; the work required to meet the zero carbon pledge.
- Longer term the 30 year impact of a 1 year loss of income of even £3m (at a NPV of 5% over 30 years equates to a loss of £46m)
- Future redevelopment plans of the aging stock could be at risk
- Redevelopment and investments needed in the existing stock to ensure the standards needed

Tenants at Risk

- 67.9% of the tenants are eligible for some form of Housing Benefit. The remaining 32.1% receive no benefits and these self-payers would be at risk of any rental increases.
- Of the 67.9% of the tenants in receipt of some form of benefits, 53.2% of these would be deemed at risk as they are not in receipt of full housing benefit.

How can we support our tenants

- Further work will be undertaken to ensure that financial insecurity which may be experienced by tenants impacted by the proposed changes is mitigated by the following discretionary support:
 - **Discretionary Housing Payments**
 - **HRA discretionary funding for Council tenants**
- The existing **Household Support Fund** which provides discretionary support to residents closed in September 2022, however further funding has been announced by the Department for Work and Pensions and as more details are announced the councils dedicated webpage will be updated accordingly
- [Household Support Fund \(HSF\) | Croydon Council](#)