

REPORT TO: SCRUTINY COMMITTEE – COMMUNITY AND EXECUTIVE
DATE OF MEETING: 19 January 2016 and 26 January 2016
REPORT OF: Assistant Director Finance & Assistant Director Housing
TITLE: Housing Rents and Service Charges 2016-17

Is this a key decision?

Yes

Is this an Executive or Council Function?

Executive

1. What is the report about?

This report sets out the proposed increases in respect of council dwelling rents, garage rents and service charges with effect from 1 April 2016.

2. Recommendations:

That Members of Scrutiny Committee - Community support and Executive approves:

2.1 Rents of Council dwellings are reduced by 1% from 1 April 2016

2.2 Garage rents will remain at their existing levels from 1 April 2016

2.3 Service Charges will remain at their existing levels, with the exception of charges specified in paragraph 11.3, from 1 April 2016

3. Reasons for the recommendations:

On 8 July 2015 the Chancellor announced in the Summer Budget that local authorities would be required to reduce rents in social housing in England by 1% a year for 4 years.

Rents of garages and service charges fall outside the scope of this announcement. Authorities are expected to set reasonable and transparent charges which reflect the service being provided to tenants.

4. What are the resource implications including non financial resources

The proposed changes in housing rents, garage rents and service charges are reflected in the proposed 2016-17 estimates for the Housing Revenue Account, which are also presented to this committee.

In overall terms, the 1% reduction in rents over the next four financial years is expected to result in a loss of £7.9 million compared to previous income projections for this period.

In accordance with the Government's previous social rent policy, which was intended to give social landlords certainty over the 10 year period, 2015-16 to 2024-25, rents were expected to rise by Consumer Price Index inflation (CPI) + 1%. The unexpected policy change has resulted in a significant reduction in the level of financial resources available for housing investment.

5. Section 151 Officer comments:

This report has been prepared on behalf of the Section 151 Officer to set out the increases to rents and service charges for 2016-17 in accordance with the Government's latest social housing policy.

6. What are the legal aspects?

The requirement for social landlords to cut rents by 1% for each of the next four's years from April 2016 is contained within the Government's Welfare Reform and Work Bill. The Bill must be approved by both the House of Commons and the House of Lords before becoming an Act and this is expected to happen before 1 April 2016.

7. Monitoring Officers comments:

This report raises no concerns for the Monitoring Officer.

8. Report Details:

RENT SETTING BACKGROUND

- 8.1 Up until the Government's Summer Budget announcement, social housing rents were expected to increase by Consumer Price Index inflation (CPI) + 1 percent annually for ten years; 2015-16 to 2024-25. This was intended to give landlords certainty in order to help them plan for future investment.
- 8.2 Unfortunately, the 10 year inflation linked rent settlement was replaced with a new rent reduction policy announced in July, requiring social landlords to reduce rents by 1% annually for each of the next four years in accordance with statute (currently progressing through Parliament).
- 8.3 The rent baseline will be the rent payable on 8 July 2015, although the Secretary of State is intending to issue a general consent to enable local authorities to use an appropriate alternative 'permitted date'.
- 8.4 The underlying social rents will continue to be set on the current basis, whereby rent per property is calculated using a national formula that reflects the value of the property, number of bedrooms and local earnings. The 2015/16 'formula rent' will then be reduced by 1% in 2016/17 and so on for the following three years.

Social Rent Decreases for 2016-17

- 8.5 In accordance with the Government's revised social rent policy, it will be necessary to reduce rents by 1%. For 2016-17 this will result in an average reduction of £0.77 per week, over 52 weeks, per property.
- 8.6 Rents are collected over 48 weeks, resulting in an average reduction of £0.83 per collection week for 2016-17.
- 8.7 On a typical 2 bedroom flat the weekly rent for 2016-17 will be £76.63 (over 52 weeks). For comparative purposes, the average weekly rents for a 2 bedroom flat in Exeter are:
 - £85.21 per week with a housing association
 - £173.00 per week rented in the private sector

9. Affordable Rents for Newly Built Council Housing

- 9.1 Affordable rent allows local authorities to set rents at levels that are typically

higher than social rents, at up to 80% of local market rent inclusive of service charges. The intention behind this is to maximise returns and generate capacity for further investment in new affordable housing.

- 9.2 The requirement to reduce rents by 1% in each year for four years from April 2016 will also apply to properties let at affordable rents. For Exeter, this applies to the Council Own Build sites; Knights Place, Rowan House, Silverberry Close, Barberry Close and Reed Walk.

10. Garage Rent Increase

- 10.1 Rentals of non-dwellings, such as garages, are outside the scope of the Government's social rent policy. However, previous annual increases to garage rents have been in-line with rises in social rents at CPI + 1%.
- 10.2 With rents reducing and the rate of inflation at or around 0% for most of 2015 it is proposed that garages rents are maintained at their existing levels for 2016-17.

11. Service Charge Increase

- 11.1 These charges cover services and facilities provided by the authority to tenants which are not covered by their rent. Service charges reflect additional services which may not be provided to every tenant, or which may be connected with communal facilities. Different tenants receive different types of service reflecting their housing circumstances.
- 11.2 Service charges are limited to covering the cost of providing the services. Previous Government guidelines advised that authorities should endeavour to keep increases in-line with rent changes, at CPI + 1%, to help keep charges affordable. Increases above this may be made on rare occasions when an authority has increases in costs outside its control, such as increases in fuel costs.
- 11.3 With rents reducing and the rate of inflation at or around 0% for most of 2015 it is proposed that service charges are maintained at their existing levels for 2016-17, with the following exceptions:
- 1.2% increase in respect of cleaning communal areas in line with anticipated rises in cleaning contract costs
 - 3.5% increase in respect of fire alarm testing in line with rises in maintenance and monitoring contract costs
 - 5% increase in respect of repair costs in line with Building Cost Information Service (BCIS) rates

12. 'Pay to Stay'

- 12.1 'Pay to Stay' is currently discretionary; social landlords can charge tenants with an income of over £60,000 a market rent.
- 12.2 As part of the Summer Budget 2015 it was announced that the discretionary 'pay to stay' scheme would be made compulsory (in England) and that new lower income thresholds would be introduced. The threshold is expected to be £30,000 outside of London. Local authorities will be expected to repay the additional income back to the Government.
- 12.3 The mandatory scheme is not expected to commence until April 2017 whilst the Government consult and set out details, including how income will be calculated for those affected.

13.

High Value Homes

Under the Housing and Planning Bill (currently progressing through Parliament) Councils will be required to make payments to the Government in respect of their high-value vacant housing. The payments will be used to extend the Right to Buy to housing associations and to pay off debt attached to the sold properties. Early indications are that the first quarterly payment will be due in June 2017.

The payment will be calculated using the market value of housing owned by the authority with 'high value' housing to be defined through regulations. The impact on the Council is pending the issue of detailed guidance regarding this new legislation, but could inevitably result in a reduction in stock numbers in the event that the Council is required to sell vacant homes to recoup sufficient capital receipts. The full financial implications of the High Value Assets Levy are presently unknown but may present a further significant challenge to the HRA.

14.

How does the decision contribute to the Council's Corporate Plan?

The Housing Revenue Account contributes to two key purposes, as set out in the Corporate Plan; help me find somewhere suitable to live and maintain our property assets.

15. **What risks are there and how can they be reduced?**

In addition to the 1% reduction in rental income over the next four years, the main risk to council dwelling rents relates to the impact of welfare reforms, in particular the move to Universal Credit and the reduction in the benefit cap.

Officers are already planning for their implementation including management techniques to support and encourage customer behaviour towards rent payment in order to help mitigate this risk.

16. **What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?**

No impact.

17. **Are there any other options?**

No other options.

**Assistant Director Finance
Assistant Director Housing**

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report: