

REPORT TO: SCRUTINY COMMITTEE – PEOPLE AND EXECUTIVE
DATE OF MEETING: 5 January 2017 and 10 January 2017
REPORT OF: Assistant Director Finance & Assistant Director Housing
TITLE: Housing Rents and Service Charges 2017-18

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 changes to council dwelling rents, garage rents and service charges with effect from 1 April 2017.

2. Recommendations:

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

2.1 Rents of Council dwellings are reduced by 1% from 1 April 2017

2.2 Garage rents are increased by 2% from 1 April 2017

2.3 Service Charges will remain at their existing levels, with the exception of charges specified in paragraph 11.3, from 1 April 2017

3. Reasons for the recommendations:

With effect from 1 April 2016, the Welfare Reform and Work Act 2016 requires social housing landlords to reduce rents by 1% a year for 4 years from a 2015-16 baseline.

The financial year 2017-18 represents Year 2 out of 4 of implementing the 1% rent cut.

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 2017-18 estimates for the Housing Revenue Account, which are also presented to this committee.

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

The Government's previous social rent policy was intended to give social landlords certainty over the 10 year period, 2015-16 to 2024-25, with rents expected to rise by Consumer Price Index inflation (CPI) + 1%. The 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 proposed changes to rents and service charges for 2017-18 in accordance with the Government's current social housing policy.

6. What are the legal aspects?

Section 23 of the Welfare Reform and Work Act 2016 requires registered providers of social housing in England to reduce social housing rents by 1% a year for 4 years from a frozen 2015-16 baseline.

7. Monitoring Officers comments:

This report raises no issues for the Monitoring Officer.

8. Report Details:

RENT SETTING BACKGROUND

8.1 Despite applying a 1% reduction to rents, the underlying rent for each council property is based upon a national rent formula.

8.2 The rent formula was established to ensure that social rents take account of:

- The condition and location of a property – reflected in its value
- Local earnings
- Property size (specifically, the number of bedrooms in a property)

8.3 The rent formula for each council dwelling is set, based upon January 1999 levels, and up until 2015-16 was uplifted for inflation each year.

8.4 During the 4 year rent reduction period, the baseline 2015-16 'formula rent' will be incrementally reduced by 1% in 2016-17, 2017-18, 2018-19 and 2019-20.

Social Rent Decreases for 2017-18

8.5 In accordance with the Welfare Reform and Work Act 2016, it will be necessary to reduce rents by 1%. For 2017-18 this will result in an average reduction of £0.76 per week, over 52 weeks, per property.

8.6 Rents are collected over 48 weeks, resulting in an average reduction of £0.82 per collection week for 2017-18.

8.7 On a typical 2 bedroom flat the weekly rent for 2017-18 will be £75.85 (over 52 weeks). For comparative purposes, the average weekly rents for a 2 bedroom flat in Exeter are:

- £88.54 per week with a housing association
- £173.54 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% for four years also applies 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 Under self-financing local authorities are encouraged to review the rents of non-dwellings in order to ensure associated costs are fully recovered. In light of the proposed £100,000 investment in garages in both of the next 2 years, it is considered appropriate to recover the costs over a period from a higher rental.

10.3 A 2% increase in garage rents is proposed, which represents an uplift at the former CPI + 1% level. Rents for car-spaces will remain at their existing levels.

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 below 1% for most of 2016 it is proposed that service charges are maintained at their existing levels for 2017-18, with the following exception:

- 3.5% increase in respect of water at Magdalen Gardens in line with rises in water and sewerage charges
- 5% reduction in respect of door entry systems in line with system maintenance costs

12. Introduction of New Older Persons' Property Service Charge

12.1 Following tenant consultation and Executive approval on 8 November 2016, a new service charge will be implemented from 1 April 2017 in respect of an enhanced management service to residents in older persons' housing.

13. 'Pay to Stay'

13.1 The Government introduced powers in the Housing and Planning Act 2016 to provide for a compulsory 'pay to stay' policy, under which higher earning tenants would be required to pay up to market rents if they earn over £31,000.

- 13.2 On 21 November 2016, the Government announced that it has decided not to proceed with the policy in its compulsory form. Instead, local authorities will continue to have the discretion to implement the policy for tenants with incomes over £60,000.

14. High Value Assets Levy

- 14.1 The Government introduced powers in the Housing and Planning Act 2016 in respect of the sale of local authority higher value vacant housing. The Act enables the government to set out a definition of 'higher value' homes and will create a duty on local authorities to consider selling homes that meet this definition when they become vacant.
- 14.2 The Act allows the government to estimate the amount of money they would expect each individual authority to receive, in each financial year, from sales of higher value homes. Authorities will then be required to pay this amount to the Treasury.
- 14.3 The payments will be used to extend the Right to Buy to housing associations and to pay off debt attached to the sold properties.
- 14.4 The impact on the Council is pending both the definition of higher value homes and the mechanism by which the government will calculate the amount payable, 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.
- 14.5 On 30 November 2016, the government confirmed that authorities will not be required to make payments in 2017-18, whilst the detailed regulations are developed.

15. 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.

16. 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.

The uncertainty regarding the definition of 'high value' and calculation of the High Value Asset levy is also a risk, it is therefore considered prudent to maintain the HRA Working Balance at no less than £4,000,000 over the medium term.

17. 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.

18. 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: