REPORT TO EXECUTIVE

Date of Meeting: 10 January 2023

Report of: Director Finance

Title: Housing Rents and Service Charges 2023-24

Is this a Key Decision?

No

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 2023.

2. Recommendations:

That Executive approves that:

(1) the Rents of Council dwellings are increased by 7% from 1 April 2023;
(2) the Garage rents are increased by 7% from 1 April 2023; and
(3) the Service Charges are increased by 7%, with the exception of charges specified in paragraph 11.3, from 1 April 2023.

3. Reasons for the recommendation:

In October 2017, the government announced its intention to set a long term rent policy in respect of annual rent increases on both social rent and affordable rent properties of up to CPI plus 1% from 2020, for a period of 5 years. The policy on rents for social housing came into effect from 1 April 2020. The CPI figure for September 2022 was 10.1%, so under this policy the Council would have been permitted to apply a rent increase of 11.1% for 2023/24. However in the autumn budget statement in November 2022 the government announced a cap on this increase of 7% for 2023/24 as part of their response to the cost of living crisis.

Rents of garages and service charges fall outside the scope of the Government's rent policy. Authorities are expected to set reasonable and transparent charges which reflect the service being provided to tenants.

Senior managers within Housing and Customer Access have considered the impact of the increase and the level of support available for people who may struggle to pay their bills. Officers fully appreciate the lasting impacts of Covid-19 and the increase in fuel costs on is having on many households and Services have and continue to work to assist households in financial difficulty where possible, including the administering of government funds to support those households in need. The council does, however need to consider that tenants have benefited from 4 years of 1% rent cuts per year for 2016/17, 2017/18, 2018/19 and 2019/20, which resulted in the Housing Revenue Account (HRA) losing £7.9m over the 4 year period, so our base-line rents were already lower than previously anticipated.

A lower than permitted increase will place a considerable financial constraint on the HRA and will result in a lower base-line position for future year rents (resulting in lost rental income of over £7 million over 30 years if increased by 3.1% for 2022/23).

Significantly the costs of services and labour are already increasing above inflation and a reduced rent increase would lead to a reduction of service delivery. While officers acknowledge the impact a rent increase might have on some tenants, the impact on service delivery and long term investment plans would have an impact on projects which would assist tenants financially in other areas, for example such as retrofit, which will reduce energy bills for tenants.

Many tenants will have their rents met by Housing Benefit (HB) or Universal Credit (UC), so a lower rent increase would not necessarily benefit them. 30% of the council's tenants are on full HB, 10% on partial HB and 20% in receipt of UC.

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 2023/24 estimates for the Housing Revenue Account (HRA).

The current rent policy was intended to apply for five years from 2020, in order to allow landlords to plan ahead. The medium term financial plans for the Council's HRA therefore reflect assumptions for the annual uplift of property rents by CPI + 1%. The rent cap of 7% is higher than was anticipated in the MTFP, however the HRA is experiencing considerable financial pressures from inflationary increases and a higher than expected pay award.

5. Section 151 Officer comments:

The report contains details of the Government rent policy. Whilst the increase is significant and well above the amount in the medium term financial plan, it is below inflation and lower than the level of cost pressures faced by the HRA. This will offer an uplift in the resources available to the HRA to offset some of those pressures and it is a legal requirement to have regard to Government policy. Council will note the changes in other charges, which have been set following the same principle. Council should also note that rent arrears are continuing to rise for the reasons set out in the report.

Members are reminded that the funds generated from rents are only used to support the tenants of those properties and to maintain and enhance their homes. Any reduction in the amount proposed would therefore have a negative impact on the amount available to maintain those homes.

6. What are the legal aspects?

The Council, in setting its annual rents, is directed to have regards to the Government's policy on Rents for Social Housing 2018 which came into effect from 1 April 2020.

7. Monitoring Officer's comments:

The Monitoring Officer supports the recommendations set out in this report

8. Report details:

RENT SETTING BACKGROUND

8.1. 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; and
- 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 uplifted for inflation each year.

8.4. On 4 October 2017, DLUHC announced that increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020. In the autumn budget statement a cap on rent increases of 7% for 2023/24 was announced.

Social Rent Increases for 2023/24

8.5. In accordance with the social rent cap announced on 17th November rents will be increased by 7%. For 2023/24 this will result in an average increase of £5.65 per week, over 52 weeks, per property.

8.6. Rents are collected over 48 weeks, resulting in an average increase of £6.12 per collection week for 2023/24.

8.7. On a typical 2 bedroom flat the weekly rent for 2023/24 will be £86.34 (over 52 weeks). For comparative purposes, the average weekly rents for a 2 bedroom property in Exeter during 2022/23 are:

- £99.30 per week with a housing association
- £182.19 per week rented in the private sector

Rent arrears impact

8.8. From April to October 2022 the rent arrears have increased from 3.35% (£707,778) to 3.90% (£822,513). Mid-year the rent arrears follow a pattern to peak higher, but we do usually see a drop in the arrears as we close the financial year, this is affected by the team's ability to engage and take enforcement action on the wilful non-rent payers and utilising the councils rent free week periods to encourage those tenants in debt to clear a greater proportion of their arrears. The factors affecting this increase can be identified as follows:

- **Universal Credit**
  The conclusion of the migration from Working Age Housing Benefit over to Universal Credit. This means that we will cease to receive payments of Housing Benefit directly onto rent accounts (this does not include our Pensioner claims), payments we were

guaranteed so long as the customer remains entitled. On average we currently receive a total of £280,000 a fortnight from Housing Benefit directly on to the rent accounts. The migration will cause revenue to dip as there can be problems associated with collecting rent from some customers in receipt of Universal Credit. Some customers do not always choose to use the rent element of their UC to pay their rent, this is exacerbated when there is pressure on household incomes. Even where we have requested direct payment of UC rent element from the Department for Work and Pensions (DWP) a change of circumstances will cause any direct payment to cease and this can result in the tenant being paid their rent element direct again when a new UC award is made. Moreover, waiting days to receive the first UC payment from DWP remain an issue and will continue to have a negative impact on rent debt. It is difficult to judge the exact amount that will be lost. If the previous migration is used as a measure then at point of migrating 80% of tenants fell behind with their rent. After the initial shock the figure dropped with tenants getting used to the change and with UC rent element direct payment being requested by us as a landlord, but the hit on our overall arrears was significant.

- **Cost Of Living / Energy**
  The increases in the cost of living and energy bills will have a direct effect on tenant's ability to pay. This will impact all tenants both working and those on benefit. But as already mentioned it could potentially amplify the impact that full migration to UC has on rent payment.
- **COVID 19**
  The legacy of the pandemic will continue into the next financial year and beyond, as the arrears accumulated during the pandemic remain on the accounts and although the amounts are reducing it will take time to clear then in full as we continue to work with our tenants in debt on sustainable payment arrangements.
- **Increase In Housing Stock**
  The Council is purchasing more properties to rent. A greater stock portfolio should increase revenue, but new tenants will also be impacted by the above issues such as the rise in the cost of living, higher energy costs, Covid pandemic financial legacies, the impact of global recession on people's finances and the migration to UC.

8.9. In light of the pressure on arrears, the proposed budget for rental income in 2023/24 has estimated similar levels of arrears in 2023/24 and assumes no improvement from the current year position.

8.10. New guidance was issued by MHCLG in November 2020 that set out arrangements for local authorities to apply to the Secretary of State for agreement to depart from the Government Rent Policy, if it would cause the authority 'unavoidable and serious financial difficulty'.

In considering whether the application of the Government Rent Policy would cause unavoidable and serious financial difficulty, the Secretary of State will expect to be provided with evidence that:

- the local authority's Housing Revenue Account (HRA) is at risk of a deficit in either the current or subsequent financial year

- complying with the requirements set out in the Rent Standard would jeopardise the local authority's ability to meet legal requirements/ obligations, including ensuring the health and safety of its residents

- all possible steps have been taken to avoid the need for an application to the Secretary of State, including reviewing services and commitments and taking action to minimise costs and curtailing non-essential commitments.

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, allowing more people in housing need to have access to a good quality home at sub-market rent. Affordable rent is charged on new properties built to passivhaus standard, with the expectation that tenants would benefit from lower fuel bills.

9.2. For Exeter, this includes properties the Council has built at Knights Place, Rowan House, Silverberry Close, Barberry Close, Reed Walk and Chester Long Court, Antony Road, Bovemoors and Thornpark Rise. Affordable rents may also be increased by 7% in line with the 2023/24 social rent capped increase.

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 annual increases to garage rents are generally kept in-line with rises in social rents.

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. Allowing for inflationary rises for employee costs and for general repair costs, a rise in line with rent charges is considered appropriate.

10.3. A 7% increase in garage rents and parking spaces is therefore proposed, in line with the permitted rises in social and affordable rents.

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. Government guidelines advised that authorities should endeavour to keep increases in-line with rent changes, at 7%, 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. It is proposed that service charges are increased by 7%, in line with rent rises, with the following exception:

- 12% increase in contents insurance to reflect anticipated increases in premiums

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

12.1. The Housing Revenue Account contributes to three key priorities, as set out in the Corporate Plan; providing value-for-money services, leading a well-run council and building great neighbourhoods.

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

13.1. The main risk to council dwelling rents relates to the COVID-19 pandemic and its impact on tenants' ability to pay.

13.2. The level of rent arrears is kept under review by the Payments and Collection Team.

A provision has been made in 2023/24 for a similar arrears level to 2022/23. This assumes no recovery from current level of arrears during the next financial year. We would, however, expect recovery from the current year position over the next 12 to 24 months.

14. Equality Act 2010 (The Act)

14.1. Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

14.2. In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

14.3. In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

14.4. An equality impact assessment accompanies this report in respect of the impact of the recommendations on people with protected characteristics as determined by the Act.

15. Carbon Footprint (Environmental) Implications:

15.1. No direct carbon/environmental impacts arising from the recommendations.

16. Are there any other options?

For the 2023/24 financial year social landlords may not increase rents by more than 7%. This limit is a ceiling and landlords are able to apply a lower increase. However, any rent increases at less than 7% would have a significant impact on the HRA's financial position and resources available to invest in its stock.

Director Finance, David Hodgson

Author: Claire Hodgson, Finance Manager – Corporate

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

Background papers used in compiling this report:-

None

Contact for enquires:
Democratic Services (Committees)
Room 4.36
01392 265275