

REPORT TO EXECUTIVE

Date of Meeting: 9 January 2024

Report of: Director Finance

Title: Housing Rents and Service Charges 2024-25

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 2024.

2. Recommendations:

That Executive approves that:

- (1) Rents of Council dwellings are increased by 7.7% from 1 April 2024;
- (2) Garage rents are increased by 7.7% from 1 April 2024; and
- (3) Service Charges are increased by 7.7% from 1 April 2024

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 2023 was 6.7%, so under this policy the Council is permitted to apply a rent increase of 7.7% for 2024/25.

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.

There is an appreciation of the costs of living crisis on tenants of ECC. However, in addition to this we need to consider:

- Tenants benefited from 1% rent cuts per year between 2016/17 and 2019/20, which resulted in the HRA losing £7.9m over the 4 year period, so our base-line rents are already lower than previously anticipated over a 30 year business plan.
- A lower than permitted increase would place a financial constraint on the HRA and result in a lower base-line position for future year rents.
- For the 2023/24 rent increase the government capped rent increases at 7% where the actual CPI + 1% would have resulted in an increase of 11.1%. This resulted in a

reduction in rental income of approximately £2.5m over 3 years whilst the costs of materials and labour continued to increase at inflationary levels.

- Tenants on low income will have their rents met by Housing Benefit (HB full or partial) or Universal Credit (UC), so it will save the Government money as opposed to the tenant (23% full HB, 12% partial HB and 20% in receipt of UC).
- Costs of services and labour are increasing above inflation and a reduced rent increase would lead to a reduction of service delivery.

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 2024/25 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%.

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 remains 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 government has issued a policy statement on rents for social housing which was effective from 1 April 2020 and has since been updated. The policy requires the Regulator of Social Housing to have regard to the policy statement when setting its rent standard for registered providers of social housing. The term 'registered providers' includes both private registered providers of social housing (including housing associations) and local authorities. Subject to a number of limited exemptions, the government policy applies to 'low cost rental' accommodation. This is defined in section 69 Housing and Regeneration Act 2008.

Accommodation is low cost rental accommodation if:-

- a) it is made available for rent;
- b) the rent is below the market rate, and
- c) the accommodation is made available in accordance with rules designed to ensure that it is made available to people whose needs are not adequately served by the commercial housing market.

The policy sets a formula for the calculation of rents for properties let at a 'social rent' with the aim of ensuring that similar rents are charged for similar social rent properties. The policy also limits the maximum annual charges in social rent and affordable rent levels. From April 2016, the Welfare Reform and Work Act 2016 required social landlords to reduce their rents by 1% each year for four years (this was known as the 'social rent reduction')

The changes introduced by the policy from April 2020 onwards reflect the government's intention to set what it describes as a 'long term rent deal for both local authority landlords and housing associations. The policy permits annual rent increases on both social rent and affordable rent properties as set out in this report.

7. Monitoring Officer's comments:

The monitoring officer supports the recommendations and has nothing further to add to the legal aspects set out in paragraph 6 above.

8. Report details:

8.1 Rent Setting Background

The underlying rent for each council property is based upon a national rent formula.

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)

The rent formula for each council dwelling is set, based upon January 1999 levels, and uplifted for inflation each year.

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.

8.2 Social Rent Increases for 2024/25

In accordance with the social rent policy which came into effect from 1 April 2020, rents will be increased by CPI + 1% (CPI is the official method of calculating inflation in the UK). For 2024/25 this will result in an average increase of £6.65 per week, over 52 weeks, per property.

Rents are collected over 48 weeks, resulting in an average increase of £7.20 per collection week for 2024/25.

On a typical 2 bedroom flat the weekly rent for 2024/25 will be £92.98 (over 52 weeks). For comparative purposes, the average weekly rents for a 2 bedroom property in Exeter during 2023/24 are:

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

8.3 Rent arrears impact

From 3rd April to 30th October 2023 the rent arrears have increased from 2.32% (£548,055) to 3.04% (£719,545). We should see an expected reduction in the overall arrears figure over the Christmas rent free period, and likewise at the end of the current financial year. We will work with tenants giving them the opportunity to ensure their rent accounts do not fall into arrears, offering support and advice.

Factors that will have an impact on rent collection for next financial year are likely to include;

- Universal Credit

Starting January 2024, and over a 12-month period, customers who are in receipt of Tax Credits will start to be migrated to UC. This means we will cease to receive direct HB payments for those who are still in receipt of it while on Tax Credits. It should be remembered that HB payments are a reliable source of income so long as the customer remains entitled. UC payments are made directly to the customer and in some instances with the current pressures on household incomes the rent element is not always used to pay rent. It is possible under certain criteria to apply for direct payments from the Department of Works and Pensions (DWP). Previous evidence suggests that a significant number of those migrating will fall behind with their rent. The Housing Rent Team will work with tenants at an early stage to ensure they understand the importance of paying rent and financial planning. Claiming UC is time sensitive and failure to do so at the correct time will leave the tenant without an income as claims will not be backdated.

- Cost of Living / Energy

The increases in the cost of living and energy bills may have a direct effect on a tenant's ability to pay rent. We will work with tenants to see if we can support them with projects such as the retrofit programme which reduces energy bills.

- Collection Officers

The rents team has moved back to Tenancy Services, a move that will provide efficiencies as the team integrate with the lettings and housing officers. However, there will be a period of transition during which processes and policies will be reviewed.

In light of the pressure on arrears, the proposed budget for rental income in 2024/25 has estimated similar levels of arrears in 2023/24 and assumes no improvement from the current year position.

New guidance was issued by DLUHC 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; and
- 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.

It is not considered that there are grounds to depart from the Government's Rent Policy.

8.4 Affordable Rents for Newly Built Council Housing

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.

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 7.7% in line with social rent rises.

8.5 Garage Rent Increase

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.

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.

A 7.7% increase in garage rents and parking spaces is therefore proposed, in line with the permitted rises in social and affordable rents at CPI + 1%.

8.6 Service Charge Increase

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.

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 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.

It is proposed that service charges are increased by 7.7%, in line with rent rises.

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

The Housing Revenue Account contributes to the strategic priorities of 'Housing and building great neighbourhoods and communities' and 'Leading a well-run council', as set out in the Corporate Plan 2022-2026.

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

The main risk to council dwelling rents relates to the cost-of-living crisis and its impact on tenants' ability to pay.

The level of rent arrears is kept under review by the Housing Rents Team.

A provision has been made in 2024/25 for a similar arrears level to 2023/24. This assumes no recovery from current level of arrears during the next financial year.

11. Equality Act 2010 (The Act)

11.1. 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.

11.2. 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.

11.3. 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.

11.4. In recommending this proposal potential impact has been identified on people with protected characteristics as determined by the Act and an Equalities Impact Assessment has been included in the background papers for Member's attention.

12. Carbon Footprint (Environmental) Implications:

No direct carbon/environmental impacts arising from the recommendations.

13. Are there any other options?

From 1 April 2020, social landlords may not increase rents by more than CPI + 1% in any year. This limit is a ceiling and landlords are able to apply a lower increase. However, any

rent increases at less than 7.7% would have a significant impact on the HRA's financial position and resources available to invest in its stock.

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

Background papers used in compiling this report:-

None

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