

**Committee:** Cabinet

**Agenda Item**

**Date:** 19 March 2015

**12**

**Title:** Revision to the Rent and Service Charge Setting Policy

**Portfolio Holder** Councillor Julie Redfern

Key Decision: no

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### **Summary**

1. Following government consultation on the future rent policy for local authority landlords in late 2013, the government issued revised 'Guidance on Rents for Social Housing' in May 2014.
2. This report highlights the changes in rent setting guidance compared with previous government guidance and proposes the revisions to the council's Rent and Service Charge Setting Policy which determines the levels by which housing rents and service charges will be increased on an annual basis

### **Recommendations**

3. That members of the Cabinet note the new government guidance and approve the revised Rent and Service Charge Setting Policy

### **Financial Implications**

4. The Council took on £88.4m in debt following the introduction of self-financing of the Housing Revenue Account. In agreeing a revised rent and service charge setting policy, the council will need to take account of the requirement to meet the debt repayments, which are fixed and are first call on the HRA finances prior to service provision or investment in its homes. In addition to the above, there has to be due regard paid to the ability of tenants to pay their rent and therefore rent levels need to be maintained at affordable levels.
5. The financial implications of the revised Rent and Service Charge Setting Policy have been incorporated into the financial assumptions made as part of the 2015/16 HRA budget setting.

### **Background Papers**

6. None

### **Published Papers**

7. Localism Act 2011

Department for Communities and Local Government – Implementing Self Financing for Council Housing  
 Department for Communities and Local Government - Guidance on Rents for Social Housing  
 Department for Communities and Local Government - Rents for Social Housing from 2015/16  
 Uttlesford District Council HRA Business Plan 2012 – 2042 – updated November 2014

## Impact

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Communication/Consultation	N/A
Community Safety	N/A
Equalities	An Equality Impact assessment of the policy has been undertaken
Health and Safety	N/A
Human Rights/Legal Implications	There are no legal implications associated with the report's recommendations.
Sustainability	N/A
Ward-specific impacts	Tenants in all wards affected
Workforce/Workplace	Continuity in the delivery of services is an important factor when considering rent and service charge increase. As the repayment of HRA debt has first call on available funds, services would need to be reduced in order to limit or reduce revenue expenditure if the rent policy is not followed

## Situation

9. As part of the Comprehensive Spending Review in 2013 the government announced plans for future rent policy for social housing. The proposals were subject to consultation, with the outcome of this published in May 2014.
10. There are a number of key changes introduced from April 2015 as part of the outcome to the Rent Policy Consultation, summarised in a document called 'Rents for Social Housing from 2015/16' with associated CLG Guidance issued alongside. The key changes are:
  - a. A change in the inflationary rate used as part of the rent review each year, with a move for both actual and target rents from the historic inflationary rate of RPI (Retail Price Index) plus 0.5% to the use of CPI (Consumer Price Index) plus 1%, for the 10 year period from 2015/16 to 2024/25

- b. Cessation of the rent convergence policy for existing tenants from 2015/16
  - c. Assumption that authorities will move the rent levels for all properties directly to target rent when a property becomes void, thus still achieving rent convergence, but over a longer time frame
  - d. Assumption that new homes will be let at the higher 'Affordable Rents' of up to 80% market rent levels (inclusive of service charge), if the authority has a Framework Development Agreement in place, or has entered into a Retention Agreement for the ability to retain right to buy receipts
  - e. Assumption that the rent for properties where the household income exceeds £60,000 per annum should be set at full market rent levels
11. Prior to the government's new guidance local authorities were expected to increase social housing rents annually by inflation, using the measure of the retail price index (RPI) at the preceding September, plus 0.5%, plus up to an additional £2.00 per week, until target rents were achieved across the entire housing stock. The current Rent and Service Charge Setting Policy assumes that rents will increase using this formula.
12. The Tenant Forum and Housing Board have recommended that the new government guidance is used for rent setting and the HRA budgets have been based on rents increasing at the new inflationary measure of CPI plus 1% from April 2015.
13. Further to these recommendations the Rent and Service Charge Setting Policy has been reviewed and where necessary amended to reflect the key changes in the new guidance as follows:
- 14.
- a) Inflation factor of CPI plus 1%** - the policy has been changed to reflect this.
  - b) Cessation of formula rents** – the policy has been changed to reflect this.
  - c) Transition of void properties to target rent at re-let** - The existing policy already allows for the rent in void properties to be moved directly to formula rent levels at re-let.
  - d) Rents for new homes at up to 80% of market rent** - The existing policy already allows for affordable rents to be charged on new build properties. Rent levels for new build housing schemes need to be driven by the financial viability of the scheme, recognising the impact upon viability of a number of different funding streams, including borrowing, right to buy receipts, other

capital receipts and application of HRA revenue surpluses as direct revenue funding of capital.

**e) Market rents for households with incomes of at least £60,000** -The consultation indicated that government would expect the process for identification of those households meeting this criterion to be self-disclosure in the first instance with earnings in the previous financial year dictating rent levels for the coming financial year. For existing tenants, there are currently no legal grounds under which the local authority can demand this level of financial information. Recognising that self-disclosure by tenants is likely to be ineffective it is proposed not to incorporate the ability to charge market rent levels for households with an income of £60,000. This will be reviewed should any legislative changes occur to facilitate collection of the necessary financial information.

15. The authority is not statutorily obliged to follow government guidance in setting rent levels, but to date the national policy has been adhered to locally. This was historically due to the penalties that used to exist in the HRA subsidy system for deviating from the policy and more recently was due to the level of debt that the authority was required to take on when the subsidy system was abolished.
16. When the government proposals were consulted on there was a strong suggestion that if local authorities decided not to follow the guidelines the government may in future take action to regulate rents.
17. The change in how rents are calculated will result in a smaller increase in rents which will lessen financial burden on tenants at a time when welfare reform continues to impact on families, in many instances significantly.
18. Despite the changes the council will continue to have a viable HRA, with sufficient balances to ensure loans can be repaid and sufficient funds to carry out actions identified in the HRA business plan.

## Risk Analysis

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Risk	Likelihood	Impact	Mitigating actions
There is some risk to the viability of the Housing Revenue Account Business Plan if rent levels do not increase in line with original estimations	3 – new guidance recommends the cessation of the rent convergence policy for existing tenants from 2015/16	3 – some programmes of work may need to be delayed or re-profiled	Work with the tenant forum and the housing board to identify what programmes of work can be re-profiled

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.