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Dear Councillor

ENVIRONMENT AND HOUSING MANAGEMENT COMMITTEE - WEDNESDAY, 7TH DECEMBER, 2016

I am now able to enclose, for consideration at next Wednesday, 7th December, 2016 meeting of the Environment and Housing Management Committee, the following reports that were unavailable when the agenda was printed.

Agenda No Item

9. **Rent Setting 2017/18 (Pages 3 - 10)**

Yours sincerely

Chief Executive

Encs

7 December 2016

Environment and Housing Management Committee

Rent Setting 2017/18

Report of: *Angela Williams, Acting Head of Housing*
Ramesh Prashar, Financial Services Manager

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

- 1.1 This report seeks the recommendations of the Environment and Housing Management Committee on the proposed rent levels for 2017/18.
- 1.2 The recommendations will be considered by the Policy, Finance and Resources Committee when the final recommendation will be made as part of the budget setting process. The final decision will be made by Ordinary Council on the 1st March 2017.

2. Recommendations

It is recommended that the Environment and Housing Management Committee agree:

- 2.1 To decrease Rent by 1% from April 2017 and for the next two years.
- 2.2 That Shared Ownership rent be increased by CPI + 1%
- 2.3 To freeze the proposed Services Charges at 2016/17 levels as outlined within the report, which will then be incorporated within the 2017/18 Budget, and that a further report be presented to this Committee providing details of the outcome of the review of the current charging policies, which will then inform the 2017/18 charging levels.
- 2.4 To apply the formula rent to all new tenancies from April 2017/18.
- 2.5 To note the possibility of charging market rents to households with more than £30,000 annual income.

3. Introduction and Background

3.1 The method of setting rents changed when as part of the summer budget in 2015, when the Government announced that rents in the social housing sector would be reduced by 1% a year for the next four years. .

3.2 From April 2016, the Council has had to apply a 1% reduction to all social housing apart from supported housing. Based on guidance issued from the Government, Supported Housing rents could have been increased by CPI + 1% for 2016/17 only and then decreased by 1% for the following 3 years. However, for 2016/17 the Council agreed to freeze Supported Housing Rents at the 2015/16 level rather than increase or decrease them.

3.3 For 2017/18 all rents included Supported Housing and Affordable Rents will be decreased by 1%. This decrease will also be applied for the following 2 years.

3.4 Shared Ownership properties are excluded from the 1% decrease and therefore the rent can be increased by CPI + 1%. The council currently has 16 Shared Ownership Properties of which the Council owns 50% of the property on 14 properties, 30% on 1 property and 40% on another property. The current average rent for a shared ownership property is £35.81. The average rent in 2017/18 will be £36.53 (an increase of 2%). CPI in September 2016 was 1%.

3.4 For background the recent average rent increases have been:

- 2013/14 3.99%
- 2014/15 5.90%
- 2015/16 2.20%
- 2016/17 -1.00%

4. Issue, Options and Analysis of Options

4.1 The 1% reduction is in line with the rent setting policy as per the previous year.

4.2 Formula rents are replacing target rents and are calculated using a pre-set formula which incorporates local housing values, local earnings of residents average rents and the number of bedrooms to each property.

4.3 Landlords are encouraged to re-let vacant properties at the formula rent. Formula Rent is to be reduced by 1% and for the next two years. Landlords have the added option of being able to charge a 5% margin (10% for sheltered housing) above formula rent and remain within the guidelines – but only on new tenancies.

- 4.4 The Housing and Planning Act, was passed on 12th May 2016. It made the implementation of the 'Pay to Stay' policy mandatory. The policy is where registered providers will have a new power to require tenants to declare their income (with verification through data sharing with HMRC) and tenants earning more than £30,000 (or £40,000 in London) will be required to pay up to market rents. Currently, full details of how this measure will be implemented are not yet confirmed and will be set out in regulations.
- 4.5 However, in November 2016 the Government announced that the mandatory 'Pay to Stay' will not be implemented, but that it will allow Local Authorities and Housing Association's to retain discretion on whether to implement higher rents for tenants with higher incomes.
- 4.6 The average rent decrease will be 1%. This will be equal to an average rent decrease of £0.93 per resident per week.
- 4.7 Having modelled the rent reductions into the HRA Business Plan, early indications show that the HRA will make a surplus of £249k for 2017/18.
- 4.8 Historically, the Council has increased fees and charges in line with inflation (currently projected at 2% per annum). This is to reflect that the costs of running the service will rise by approx 2%, and therefore we try and maintain Service Charges, fees and charges at the same level. There is therefore a risk that there will be an implicit cost to any freeze on charges since it will not keep pace with the inflationary cost increases. However, this cannot be quantified or confirmed until such time as the review of the current charging policies has been completed. This review will then need to be worked into the Business Plan.
- 4.9 The annual rent income to the HRA for 2017/18 is £11,779,063 (gross). A 1% void allowance is applied, budgeting a net annual income of £11,661,273.
- 4.10 The stock condition survey will inform the cost to the HRA of a structured capital programme. £3m has been budgeted for in 2017/18 for any repairs and maintenance but the final amount will depend on the outcome of the stock condition survey. Until this is complete, only imminent repairs will be carried out.
- 4.11 Table 1 shows the estimated (Surplus)/Deficit for the HRA over the 30 year business plan. This shows that despite (Surplus)/Deficits varying over the 30 year business plan, balances remain on average at over £2m. The 30 year business plan is attached as Appendix A.

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/27	2027/32	2032/37	2037/42	2042/47
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(Surplus)/Deficit for HRA Sevices	(249)	(492)	(96)	40	(81)	638	(570)	560	459	(2,155)
Working Balance b/f	1,792	2,041	2,533	2,629	2,589	2,669	2,031	2,601	2,041	1,582
Accumulated Surplus	2,041	2,533	2,629	2,589	2,669	2,031	2,601	2,041	1,582	3,737

5. Reasons for Recommendation

- 5.1 The recommendation is to follow the guideline 1% decrease for the 2016/17 and the following two years as this is what has been set by government.
- 5.2 The following assumptions have been taken into account when considering the Rent Setting for 2017:
- The financial viability of the HRA business plan
 - Provision for a repairs capital programme of £3m for 2017/18 pending the results of the stock condition survey.
 - Development fund for new homes £500k
 - No allowance has been made for growth bids
 - Affordability for tenants

6. Consultation

- 6.1 A meeting was held with Tenants Talk back group on 29th November to discuss the proposed rent setting for 2017/18.
- 6.2 This reduction is timely; at a time when Tenants are concerned about affordability issues with the on set of Universal credit in 2017/18.

7. Reference to Corporate Plan

- 7.1 The Council has a legal obligation to produce a balanced HRA budget and to set the Housing Rent levels for 2017/18.

8. Financial Implications

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- 8.1 The impact of the changes to the rent levels are outlined in the report. The government recommendation to decrease rents by 1% for the 4 years starting 1 April 2016 does impact on the anticipated surplus on the HRA Business Plan. The actions arising from this report will ensure that the HRA sets a balanced budget.

Legal Implications

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- 8.2 The Council has a legal obligation to produce a balanced HRA budget and to set the Housing Rent levels for 2017/18.

9. Background Papers

9.1 Background papers are kept in the finance department.

10. Appendices to this report

10.1 Appendix A - HRA Summary 30 year Business Plan

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Brentwood Borough Council
Summary Business Plan 2017/18 to 2046/47

Year Details of Expenditure	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/27 £'000	2027/32 £'000	2032/37 £'000	2037/42 £'000	2042/47 £'000	TOTAL £'000
Repairs and Maintenance	2,670	2,670	2,670	2,805	2,875	15,491	17,527	19,830	22,436	25,384	114,360
General Management	1,584	1,589	1,593	1,615	1,636	8,520	9,120	9,773	10,483	11,257	57,171
Special Services	1,195	1,201	1,207	1,230	1,252	6,605	7,223	7,910	8,673	9,523	46,020
Supervision and Management Total	2,779	2,790	2,800	2,845	2,889	15,125	16,344	17,683	19,157	20,781	103,191
Rent, Rates, Taxes and Other Charges	198	198	198	204	209	1,126	1,274	1,442	1,631	1,845	8,326
Subsidy Payable	0	1	2	3	4	0	0	0	0	0	10
Depreciation and Impairment of Property	2,318	2,318	2,318	2,318	2,318	11,590	11,590	11,590	11,590	11,590	69,540
Increased Provision for Bad Debts	85	85	85	39	40	213	237	263	292	325	1,664
Loan Repayment					5,000	10,000	15,000	15,000	0	36,972	81,972
TOTAL EXPENDITURE	8,050	8,062	8,073	8,214	13,335	53,546	61,971	65,808	55,106	96,898	379,063
Capital Charges Reversal	0	0	0	0	(5,000)	(10,000)	(15,000)	(15,000)	0	(36,972)	(81,972)
Interest on Loan	2,000	2,000	2,000	2,030	2,040	10,330	9,794	8,415	6,135	2,175	46,919
Interest on Balances	(44)	(61)	(61)	(61)	(61)	(305)	(305)	(305)	(305)	(305)	(1,813)
	10,006	10,001	10,012	10,183	10,314	53,571	56,460	58,918	60,936	61,796	342,197
Details of Income											
Dwelling Rents (net)	(11,661)	(11,545)	(11,429)	(11,553)	(11,792)	(62,731)	(69,509)	(77,018)	(85,339)	(94,559)	(447,136)
Non Dwelling Rents (net)	(376)	(372)	(372)	(376)	(383)	(2,034)	(2,246)	(2,480)	(2,739)	(3,024)	(14,403)
Charges for Services and Facilities	(825)	(850)	(882)	(915)	(945)	(5,211)	(6,124)	(7,197)	(8,458)	(9,941)	(41,346)
Contribution Towards Expenditure	(249)	(191)	(191)	(191)	(191)	(955)	(955)	(955)	(955)	(955)	(5,788)
Net Cost of HRA Services	(3,105)	(2,956)	(2,862)	(2,851)	(2,998)	(17,361)	(22,373)	(28,732)	(36,554)	(46,683)	(166,476)
CDG	443	446	454	463	471	2,478	2,699	2,944	3,215	3,516	17,131
Pension Interest Cost	300	300	330	347	364	2,111	2,694	3,438	4,388	5,601	19,873
Net Expenditure of HRA Services	(2,362)	(2,210)	(2,078)	(2,042)	(2,163)	(12,772)	(16,980)	(22,350)	(28,951)	(37,565)	(129,472)
Investment Fund	500	500	0	0	0	0	0	1,000	2,500	2,500	7,000
Funding Volatility	0	0	0	500	500	3,000	6,000	12,500	19,000	25,000	66,500
Capital Program Funding	1,613	1,218	1,982	1,582	1,582	10,410	10,410	9,410	7,910	7,910	54,027
(Surplus)/Deficit for HRA Services	(249)	(492)	(96)	40	(81)	638	(570)	560	459	(2,155)	(68,445)
Working Balance b/f	1,792	2,041	2,533	2,629	2,589	2,669	2,031	2,601	2,041	1,582	3,737
Accumulated Surplus	2,041	2,533	2,629	2,589	2,669	2,031	2,601	2,041	1,582	3,737	

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