

4 December 2018

Community, Health and Housing Committee

Rent Setting 2019/2020

Report of: *Phoebe Barnes, Interim Financial Controller*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

- 1.1 This report seeks the recommendations of the Community, Health and Housing Committee on the proposed rent levels for 2019/20.
- 1.2 The recommendations will be considered by the Policy, Projects 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 28th February 2019.

2. Recommendation(s)

It is recommended that the Community, Health and Housing Committee agree:

- 2.1 To decrease Rent by 1% from April 2019.**
- 2.2 That Shared Ownership rent be increased by CPI + 1%.**
- 2.3 To increase General Fund Property Rents by CPI + 1%.**
- 2.4 To apply a 1% increase to Garage Rents.**
- 2.5 To note that Service charges have been reconciled and charges have been increased or decreased so they are brought in line with actual costs and that no increase will exceed CPI + 1%.**
- 2.6 To apply the formula rent to all new tenancies from April 2019/20.**
- 2.7 To note that all rents, excluding garage rents, will be charged at CPI + 1% from 2020/21 for the next 5 years.**

3. Introduction and Background

- 3.1 In summer budget of 2015, Government announced that rents in the social housing sector would reduce by 1% every year, for the next four years from 2016/17.
- 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. From April 2017 all rents have been decreased by 1%.
- 3.3 For 2019/20 all rents including Supported Housing and Affordable Rents will be decreased by 1%.
- 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 15 Shared Ownership Properties of which the Council owns 50% of the property on 13 properties, 30% on 1 property and 40% on another property. The current average rent for a shared ownership property is £37.89. The average rent in 2019/20 will be £39.10 (an increase of 3.2%). CPI in September 2018 was 2.2%.
- 3.5 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%
 - 2017/18 -1.00%
 - 2018/19 -1.00%
 - 2019/20 -1.00%
- 3.6 The Council has 9 properties that are in the General Fund and are rented on tenancies. The rents on these properties are not set by Government Guidelines as the properties are not for Social Housing Purposes. However, it is proposed to set the rents in line with Shared Ownership Rents at an increase of CPI + 1%
- 3.7 The average weekly rent for the 9 General Fund properties are £107.18. This would increase to £110.61.
- 3.8 Garage Rents are let to tenants and other public interest, as well as on a commercial basis. Garage Rents were increased by 3% for 2018/19 as the last increase was in 2014/15. It is proposed to increase the Rents by 1%.

- 3.9 The garage sites are under review as potential sites to be redeveloped into Affordable Housing. The Council has successfully developed 2 garage sites at Magdalen Gardens and Fawters Close to provide Affordable Housing within the Borough.
- 3.10 The Council in total currently has 20 homes that are let at Affordable Rents. These rents are set against the Affordable Rents Policy. Proposals are to decrease these rents already set by 1%.
- 3.11 Currently, the average weekly rent for Affordable rents are £173.34, proposals would see this decrease to £171.6.

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 and as recommended by Government Guidelines.
- 4.2 Formula rents are replacing target rents and are calculated using a pre-set formula which incorporates local housing values, local earnings of resident's 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%. 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 average rent decrease will be 1%. This will be equal to an average rent decrease of £0.91 per resident per week for those on Social Housing Rent. Affordable Rents will decrease on average by £1.73 per week.
- 4.5 From 2020/21 the Government has proposed to allow Councils to increase rents by CPI + 1% for 5 years. This is a welcomed response from Council's nationwide as it gives Council's the stability and certainty it needs to build more desperately needed new homes and to invest in their existing homes and services for tenants.
- 4.6 Having modelled the rent reductions into the HRA Business Plan early indications show that the HRA will make a deficit of £285k for 2019/20.
- 4.7 Historically, the Council has increased fees and charges in line with inflation (currently projected at 3% per annum). This is to reflect that the costs of running the service will rise by approx. 3%, and therefore we try and maintain Service Charges, fees and charges at the same level.
- 4.8 The current Service Charge Policy ensures that services supplied are cost recoverable. Any increases to current Service Charges, will be capped at CPI plus 1% as recommended in the Governments guidance. Tenants will be informed in due course regarding charges made to their current service

charges. The financial impact of any Service Charge increases will be built into the final budget setting process for the HRA.

- 4.9 The annual rent income to the HRA for 2019/20 is £11,677,115 (gross). A 0.5% void allowance is applied, budgeting a net annual income of £11,619,774.
- 4.10 This annual rental income is broken down as follows:

Table 1 – 2019/20 Annual Rental Income

Rental Income	Amount £
Social Housing Rent	11,468,139
Affordable Housing Rent	178,476
Shared Ownership Rent	30,500
Void Allowance	(57,341)
Gross Rent Total	11,677,115
Net Rent Total	11,619,774

- 4.11 The annual garage rent income to the HRA for 2019/20 is £548,718 (gross). A 30% void allowance is applied, budgeting a net annual income of £384,102.
- 4.12 The garage void allowance is high, due to the garage sites that are hard to let out or have low demand. These sites are being reviewed to develop into Affordable Housing.

5. Reasons for Recommendation

- 5.1 The recommendation is to follow the guideline 1% decrease 2019/20 and to note that rents from 20/21 will be increased by CPI plus 1%.
- 5.2 The following assumptions have been taken into account when considering the Rent Setting for 2019:
- The financial viability of the HRA business plan
 - Provision for a repair's capital programme
 - Development funding for new homes
 - No allowance has been made for growth bids
 - Affordability for tenants

6. Consultation

- 6.1 The current proposals will be taken to Tenants Talkback group on 11th December to discuss the proposed rent setting for 2019/20.
- 6.2 Service Charges will also be taken on the same date, to discuss the charges and any increases/decreases proposed.

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 2019/20.

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/deficit on the HRA Business Plan.
- 8.2 The increase to rents from 2020 is a welcomed one. This allows the HRA to have certainty around rent setting and the Business Plan for the next 5 years.
- 8.3 Currently, the HRA budget for 2019/20 is proposing a deficit balance to be funded from working balances. The 1% decrease in rents since April 2016 contributes a significant impact towards this deficit balance. Officers are currently working through the budget setting process to refine and improve the current forecast position. The final position on the HRA will be considered at Policy, Performance and Resources, to then be agreed at Ordinary Council.

Legal Implications

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- 8.2 The recommendations within this report are lawful and within the Council's powers and duties. The Council has duties within an existing legal framework to set and approve rents and to keep a separate HRA account and ensure that the account does not go into deficit. The Council's budget-setting process is set out in the Constitution.

9. Background Papers

- 9.1 Background papers are kept in the finance department.

10. Appendices to this report

- 10.1 None

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