

7 January 2015

Housing & Health Committee

Rent Setting

Report of: *Helen Gregory, Head of Housing Services*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

- 1.1 This report seeks the recommendations of the Housing and Health Committee on the proposed new rent levels for 2015/16. The recommendations will be considered by the Finance and Resource Committee on the 11 February 2015 when the final recommendation will be made as part of the budget process; the final decision will be made by Full Council on the 4th March 2015.

2. Recommendation(s)

- 2.1 Members agree to increase Rent to CPI plus 1% from April 2015.
- 2.2 Members agree to freeze the proposed Services Charges at 2014/15 levels as outlined within the report, which will then be incorporated within the 2015/16 Budget, and that a further report be presented to this Committee providing details of the outcome of the planned review of the current charging policies, which will then inform the 2016/17 charging levels.
- 2.3 Members agree to applying the formula rent all new tenancies from April 2015/16.
- 2.4 Members comments are sought to consider increasing the rent for tenant households earning £60k and above.

3. Introduction and Background

- 3.1 The method of setting rents has changed the government has produced Guidance on Rents for Social Housing May 2014 [Guidance on Rents for Social Housing](#).
- 3.2 From April 2015, the guidance re rent increases has changed and it now recommends the use of CPI plus 1% for all properties; based on September CPI this would equate to a rent increase of 2.2% for 2015/16.
- 3.4 For background the recent average rent increases have been:
- 2013/14 3.99%
 - 2014/15 5.90%

4. Issue, Options and Analysis of Options

- 4.1 This is a change from the existing rent setting policy of using Retail Price Index (RPI) plus 0.5% plus £2 to move to convergence to a target rent.
- 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. 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 There is also a provision in the new government guidelines to charge a higher affordable rent on tenants households earning an income £60k and above.
- 4.5 The average rent increase using CPI plus 1% will be 2.2% - this will mean an average rent increase of £2.01 per resident. As a comparison if RPI were still being used the average increase would £4.02 per resident.

- 4.6 Having modelled a Rent Freeze for 2015/16 early indications are that this will create a deficit in the HRA for 2015/16 of some £190,290.00. If we follow the recommended 2.2% increase then the HRA indicates a potential surplus of £72,930.00.
- 4.7 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 a freeze 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 undertaken.
- 4.8 The table below shows the annual income to the HRA based on the different increases, it also shows the difference between the proposed increased and the government guidance of 2.2%.

	RPI (2.8%)	CPI (2.2%)	0%	2%
Annual Income	(12,397,900)	(12,227,860)	(11,964,640)	(12,203,930)
Difference (Gain)/Loss	(170,040)	0	263,220	23,930

- 4.9 Taking account the above annual income, the proposed (Surplus)/Deficit for the HRA's MTFP are:

	15/16
RPI (2.8%)	(242,970)
CPI (2.2%)	(72,930)
0%	190,290
2%	(49,000)

- 4.10 Therefore, a rent freeze would result in the HRA making a deficit in 15/16 onwards and therefore, the current proposed capital program would have to be revisited, this deficit would also mean the council would not meet its commitment to repay back the self financing debt it borrowed in 2012/13.

- 4.11 A 2% increase would bring the HRA into a surplus in 2015/16 and the council would meet its commitment to repay the first loan due for the self financing settlement and the proposed capital program can be funded. However, the 2% increase does mean that the surplus for the HRA in 2016/17 is rather volatile as it is so low £49,000.

5. Reasons for Recommendation

- 5.1 The recommendation will be to follow the guideline 2.2% increase. Rent increases are necessary in order to keep pace with maintenance and major improvements to our housing stock. More importantly the HRA has a £64m debt and we must ensure we have sufficient funds are set aside each year to repay this debt.

- 5.2 The following assumptions have been taken into account when considering the Rent Setting for 2015/16:

- The financial viability of the HRA business plan
- Delivering a repairs capital programme of £3m for 2015/16
- Budget provision for repayment of HRA self financing £1.5 m
- 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 the 25 November 2014 to discuss the proposed rent setting for 2015/16. In principle Tenants Talkback group agreed to rent setting at CPI plus 1%; tenants recognized the need to continue to invest in the homes and services.

- 6.2 In addition there was an acknowledgement that the CPI increase was a slight reduction compared to RPI formula previously used to set rents.

- 6.3 This reduction is timely; at a time when Tenants are concerned about affordability issues with the on set of Universal credit in 2015/16.

- 6.4 Tenants feedback on the Council's ability to charge higher rent to households earning £60k and above was mixed:

- A good idea – but what if a tenants circumstances changed i.e. they lost their job? What would happen then?
- How will the Council identify tenants who are earning the higher incomes? Will the costs outweigh the benefits?

7. Reference to Corporate Plan

- 7.1 The Council has a legal obligation to produce a balance HRA budget and to set the Housing Rent levels for 2015/16.

8. Financial Implications

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- 8.1 The impact of changes to the rent levels are outlined in the report. The recommendation of a 2.2% increase will provide an anticipated surplus on the account for 2015/16.

Legal Implications

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- 8.2 None.

9. Background Papers

None.

10. Appendices to this report

None.

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