

9 December 2015

Environment and Housing Management Committee

Rent Setting 2016/17

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

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

- 1.1 This report seeks the approval of the Environment and Housing Management Committee on the proposed new rent levels for 2016/17.
- 1.2 The recommendations will be considered by the Policy, Finance and Resources Committee on the 16 February 2016 when the final recommendation will be made as part of the budget process; the final decision will be made by Ordinary Council on the 2nd March 2016.
- 1.3 The method of setting rents has changed in the Government's summer budget 2015, as part of the new Welfare Reform and Work Bill 2015/16 it was announced that rents in the social housing sector will be reduced by 1% a year for the next four years.
- 1.4 The total rent reduction to the Housing Revenue Account (HRA) over the four year period will be £2,380,927.00. This is a significant reduction to income and will require the Council to make savings to HRA.
- 1.5 The Housing service at the same time as the proposed rent reduction is taking place, is undergoing a transformation programme, As part of this transformation programme we have identified the need to improve the method of identifying and prioritising planned maintenance capital works to our properties. To enable us to do this we need to undertake a full stock condition survey (see agenda item 10).

2. Recommendation(s)

- 2.1 Members agree to decrease Rent by 1% from April 2016 and for the next 4 years.**
- 2.2 Members agree to stop non priority planned maintenance and capital programme works for 2016/17. This will reduce the Capital programme by £1 million in the first year (1 of 4 years) and enable the additional £1 million (rent reduction) to be spread over the following 3 years.**
- 2.3 Members agree to freeze the proposed Services Charges at 2015/16 levels as outlined within the report (4.8) which will then be incorporated within the 2016/17 Budget.**
- 2.4 Members agree to applying the formula rent all new tenancies from April 2016/17.**
- 2.5 To monitor the new Pay to Stay policy and the charging affordable rents to households with more than £30,000 annual income from April 2017.**

3. Introduction and Background

- 3.1 From April 2015, the guidance on rent increases has changed and recommended the use of CPI plus 1% for all properties; based on September CPI based on this guidance, the rent increase for 2016/17 would have been -0.1% plus 1% (0.9%). However, the summer budget overrides this change and the rents are to decrease by 1%**
- 3.2 For background the recent average rent increases have been:**
- 2013/14 3.99%
 - 2014/15 5.90%
 - 2015/16 2.20%

4. Issue, Options and Analysis of Options

- 4.1 This is a change from the existing rent setting policy of using Consumer Price Index (CPI) plus 1.0%.
- 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% for the next for years.
- 4.4 The Housing and Planning Bill, published 13th October 2015, is proposing to implement the current discretionary 'pay to stay' policy compulsory. Local authorities and 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 affordable rent. The new Pay to Stay is currently in the House of Lords hearing stage; Officers will provide an update report at next Committee. It is proposed the Pay to Stay policy will be in force April 2017.
- 4.5 The average rent decrease will be 1% - this will mean an average rent decrease of £0.93 per resident. As a comparison if CPI were still being used the average increase would £0.84 per resident.
- 4.6 We have modelled the rent reductions into the HRA Business Plan, early indications show that the HRA will make a deficit of £188,000 for 2016/17. Below is the impact on the HRA Business Plan.

	2015.16	2016.17	2017.18	2018.19	2019.2	2020/25	2025/30	2030/35	2035/40	2040/45	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
(Surplus)/Deficit for HRA Services - CPI	(33)	(27)	(213)	(979)	(1,352)	(10,778)	(21,265)	(36,979)	(56,498)	(79,604)	(207,728)
(Surplus)/Deficit for HRA Services - 1% Reduction	(33)	188	612	471	679	521	(7,808)	(20,950)	(37,406)	(56,863)	(120,589)
Difference	0	215	825	1,450	2,031	11,298	13,457	16,029	19,092	22,741	87,139

- 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%.

4.8 However, we do not consider it reasonable to increase service charges until we are in receipt of the results of the proposed stock condition survey. Therefore the recommendation for 2016/17 is to freeze service charges. This will enable accurate charging to commence from 2017/18.

4.9 The table below shows the annual income to the HRA based on the proposed increased before the Summer Budget Announcement and the Government guidance of 2.2%.

	CPI (0.9%)	1% reduction
Annual Income	(12,119,660)	(11,905,480)
Difference (Gain)/Loss	0	214,180

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

	16/17
CPI (0.9%)	(27,000)
1% reduction	188,000

4.11 The rent reduction has resulted in the HRA making a deficit in 16/17 and onwards. Officers will be reviewing the planned maintenance and Capital works programmes provisionally planned for 2016/17. It is proposed that only priority works are completed.

4.12 There will be difficult decisions to make and implications for both our Contractors and Residents. It is expected to make savings in 2016/17 in the first year; of approximately £1.m which will be transferred back into HRA reserves.

4.13 By only completing priority works over the next 12 months whilst the Stock condition survey is completed; it will allow us to take stock, review and improve our approach to planning and identifying planned maintenance and capital works in the future.

4.14 The stock condition survey will provide independent professional advice on the condition of our Stock, each property will be surveyed. The results of the surveys will enable us to plan to invest in our stock over the 30 year term of the HRA business plan. All the property data will be uploaded in to the Keystone Asset management system. Over the longer term savings will be realised to our planned maintenance/capital works programme (see item 10 - Stock Condition Survey report).

- 4.15 The impact on HRA Balances, means that the HRA reserves become dangerously low and the HRA could become insolvent between 2020 – 2025 if no actions are taken now.

	2015.16	2016.17	2017.18	2018.19	2019.2	2020/25	2025/30	2030/35	2035/40	2040/45	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Working Balance b/f - CPI	1,759	1,792	1,819	2,032	3,011	4,363	15,141	36,406	73,385	129,883	209,487
Working Balance b/f - 1% Reduction	1,759	1,792	1,604	992	521	(158)	(679)	7,129	28,079	65,485	122,348
Difference	0	0	215	1,040	2,490	4,522	15,820	29,277	45,306	64,398	87,139

5. Reasons for Recommendation

- 5.1 The recommendation will be to follow the guideline 1% decrease for the next four years as this is what has been set by government.
- 5.2 To carry out a stock condition survey in 2016 to identify a maintainable program on the HRA Assets, reducing the spend on repairs & maintenance, planned maintenance .
- 5.3 To suggest that for 2016/17 only priority repairs are carried out, while the service is reviewed. This should ensure the HRA budget for 2016/17 is balanced.
- 5.4 The following assumptions have been taken into account when considering the Rent Setting for 2016/17:
- The financial viability of the HRA business plan
 - Delivering a repairs capital programme of £2m for 2016/17
 - Budget provision for repayment of HRA self financing loans
 - Development fund for new homes £500k
 - No allowance has been made for growth bids
 - Affordability for tenants – we are mindful of the forthcoming roll out of universal credit and changes to Welfare benefits.

6. Consultation

- 6.1 A meeting was held with Tenants Talk back group on the 9th and 23rd November 2015 to discuss the proposed rent setting for 2016/17. In principle Tenants Talkback group agreed to rent reduction of 1% and agreed to only prioritizing priority works in planned maintenance and capital works programme during 2016/17 whilst a Stock condition survey is undertaken.

- 6.2 Tenants talkback have requested a letter is sent to all residents advising them of the changes.
- 6.3 This reduction is timely at a time when Tenants are concerned about affordability issues with the on set of Universal credit in 2016/17.

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 2016/17.

Financial Implications

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- 8.1 The impact of changes to the rent levels are outlined in the report. The government recommendation to decrease rents by 1% for the next 4 years does impact the anticipated surplus's 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 Housing and Planning Bill, Chapter 4, provides for Mandatory Rents for High Income Social Tenants. The administrative details will be governed by Regulations (Clause 79 of the Bill) which may require a local housing authority to make a payment to the Secretary of State in respect of any estimated increase in rental income because of the regulations. Then regulations may provide for deductions to be made to reflect administrative costs of local authorities, and for interest in the event of late payment.

At this juncture it is not clear what will count as "income". The last consultation paper defined it as the taxable income of the two highest-income individuals in the household; however, a footnote states that the assumed income includes all income of all people in the household including benefits and tax credits as well as earning.

9. Background Papers

None

10. Appendices to this report

None

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