

STEVENAGE BOROUGH COUNCIL
RENT and SERVICE CHARGE SETTING POLICY
(RESIDENTIAL PROPERTY)

1. Purpose

1.1 The purpose of this policy is to establish the principles and approach by which Stevenage Borough Council will set rent levels and service charges for its residential properties.

2. Policy Statement

2.1 This policy aims to provide a fair and affordable method of calculating rents and service charges within a viable and sustainable Housing Revenue Account (HRA) that enables the Council to deliver effective services, invest in its properties to ensure homes are of a modern standard and to provide new social housing to rent.

3. Policy Objectives

3.1 The objectives of the Rent and Service Charge Setting Policy are:

- to identify how Stevenage Borough Council will set rents and service charges for residential properties;
- to provide for rents at an affordable level for Stevenage Borough Council tenants whilst;
- ensuring the viability of the Council's 30 year HRA Business Plan and Medium Term Financial Strategy, making funds available to invest in service improvements, maintain and improve our homes, and provide new social housing to rent.
- to detail the process for providing statutory notice to tenants of proposed changes in rent levels;
- to ensure transparency and value for money when setting and reviewing service charges for both tenants and leaseholders.

4. Background

4.1 As of *December 2015*, Stevenage Borough Council owns and manages approximately 8300 rented properties and manages leasehold arrangements for around 1350 properties.

4.2 Rents have historically been set in accordance with Government guidance, following publication of the Government's Housing Green Paper, *Quality and Choice: A decent home for all* (April 2000).

4.3 In 2002, rent restructuring was introduced and most rents for social housing were set based on a formula determined by Government. This approach created a “formula” rent for each property, which was calculated based on the relative value of the property, relative local income levels, and the size of the property. Landlords were expected to move the actual rent of a property to this formula rent, over time. An aim of this formula-based approach was to ensure that similar rents were paid for similar social rent properties.

4.4 Annual changes in social rent levels have also been based on a policy set by Government. Under rent restructuring, weekly rents were expected to increase by up to RPI + 0.5 percentage points annually, plus up to an additional £2 where the rent was below the formula level for the property.

4.5 At the 2010 Spending Review, the Government extended this policy for social rent increases to 2014-15. It also introduced “affordable rent”, allowing landlords to let properties at up to 80 percent of local market rent where they have in place an agreement with the Homes and Communities Agency, Greater London Authority or the DCLG (for new housing under the Right to Buy replacement policy) to provide new affordable housing.

4.6 Changes to local authority housing finance came into place in April 2012 with the introduction of ‘Self Financing’. Under this regime, the level of debt assigned to this Council (c£200m) was calculated assuming rents would increase in line with the Government’s rent convergence formula. The Council’s first HRA Business Plan and its Rent and Service Charge Policy 2012 were predicated on that principle.

4.7 In announcements made at Budget 2013 and in the 2013 Spending Round, the Government signalled a change to rent policy for social housing, which was to apply for ten years from 2015-16. In May 2014, it set out this policy in the DCLG document, *Guidance on Rents for Social Housing*, which applied to all stock-owning local authorities. From April 2015, local authorities were expected to increase rents by no more than CPI (at September of the previous year) + 1 percentage point in any year. The guidance recognised that not all properties would have reached formula rent. Where this was the case, authorities were expected to adhere to the limit on rent changes, but to move the rent up to formula rent where the property is re-let following vacancy. In the case of newly developed or acquired social rented properties, the formula rent would apply.

4.8 The guidance confirmed that service charges are not governed by the same factors as rent. However, it stated that authorities should endeavour to keep increases for service charges within the limit on rent changes, of CPI + 1 percentage point, to help keep charges affordable. The only exception to this expectation is where new or extended services are introduced, where an additional charge may need to be made. Where this is the case, authorities are expected to consult

appropriately with tenants before introducing new or extended services and associated charges.

4.9 The guidance also confirmed that the Government does not expect local authorities to adhere to its social rent policy expectations in relation to social tenants with high incomes. It gave authorities the discretion to charge higher rent levels to tenant households with incomes over £60,000 (known as the 'pay to stay scheme').

4.10 In September 2014, the Council agreed an addendum to its Rent and Service Charge Policy in line with the Government's new guidance on social rents. A decision was made, however, that the Council would not use its discretion to charge those tenants with high income a higher level of rent.

4.11 In July 2015, the Government introduced the Welfare Reform and Work Bill into Parliament. The measures contained within this Bill implement policies outlined in the Conservative Party manifesto or which were announced in the Summer Budget on 8 July 2015, including its intention to reduce rents in social housing in England by 1% a year for 4 years from April 2016. Clause 21 of the Bill (as amended and introduced into the House of Lords) provides the mechanism through which social landlords will be required to ensure that the rents payable by individual tenants reduces by 1% each year between 2016/17 and 2019/20. The rent baseline will be the rent payable on 8 July 2015. Clause 22 makes provision for exceptions to the rent reduction requirement. For example, reductions will not apply to rents payable by residents in low cost homeownership and shared ownership properties. The Secretary of State will have regulation making powers to introduce other exemptions via statutory instrument.

4.12 Clause 28(5) clarifies that reference to an amount of rent payable to a registered provider for social housing:

(a) in the case of social housing that is affordable rent housing and is let at an affordable rent, includes a reference to an amount payable by way of service charge, and

(b) in the case of other social housing, does not include a reference to an amount payable by way of service charge.

4.13 Schedule 2 of the Bill makes provision for the rent initially payable by tenants of social housing whose tenancies begin after the beginning of 8 July 2015. Part 1 of the Schedule sets out how such rents should be set in 3 different scenarios: new and existing social rent housing and Affordable Rent housing.

a) New tenant of existing social rent housing - the maximum initial rent payable by that tenant should be no more than the higher of the 'social rent' rate (i.e. the formula rent at 8 July 2015), or the 'assumed rent' rate (i.e. the actual rent at 8th July 2015), on a pro-rata basis, with appropriate rent reductions.

b) New tenant of new social rent housing - the maximum rent payable is the 'social rent rate' i.e. the formula rent as at 8 July 2015, on a pro-rata basis, with appropriate rent reductions.

c) New tenant of Affordable Rent housing - the rent payable by that tenant should be set at no more than 80% of the market rate for that social housing, with the 1% reductions then applied in each of the following years.

4.14 As part of the Sumer Budget 2015 the Chancellor announced that the discretionary 'pay to stay' scheme would be made compulsory (in England) and that new, lower, income thresholds would be introduced. These thresholds are expected to be £40,000 in London and £30,000 elsewhere. Part 4 of the Housing and Planning Bill, which was introduced into Parliament in October 2015, gives the Secretary of State regulation-making powers through which this policy will be implemented. The mandatory scheme is anticipated to come into effect from April 2017.

5.0 Principles of the Policy

5.1 Stevenage Borough Council's Rent and Service Charge Setting Policy focuses on the following statements of principle:

- the method used to set rents for Stevenage Borough Council tenants will remain in force for the duration of this policy.
- rents will be set at a level that ensures that the Council can meet its landlord obligations to tenants by delivering good quality services, continue to maintain stock to a high modern standard including investment to reduce fuel poverty, provide new social housing to rent and deliver a financially viable Housing Revenue Account over the longer term.
- any service charges will be set annually and aim to recover the costs incurred in providing the services. The Council will consult with tenants and leaseholders regarding the setting of service charges, including what services are provided and why charges are incurred.
- the Council will provide tenants and leaseholders with clear information which explains how rents and service charges are set and, if applicable, what changes have been included.
- where possible guidance will be given to those tenants who have difficulty in managing their finances, ensuring income is maximised and debts are kept to a minimum.

6. Affordability

6.1 When calculating rents and service charges account will be taken of the need to balance any increase in the combined rent and service charge with the potential financial impact on customers.

6.2 In its annual rent and service charge report to *Council*, Officers will take account of the need to maintain a viable HRA whilst ensuring rents and service charges for Stevenage Borough Council are comparable with those for the social housing sector.

7. Annual Rent Changes

7.1 *Subject to the Welfare Reform and Work Bill passing into statute and any associated statutory regulations and guidance being issued by the Secretary of State, Stevenage Borough Council will apply annual changes to rent as follows:*

7.2 *HRA dwelling rents to which Clause 21 of the Welfare Reform and Work Bill applies will be subject to a 1% per annum reduction for a period of 4 years, starting in the rent year commencing 4 April 2016. The formula to be applied for rent increases from April 2020 onwards will be determined in 2019/20, taking into account statutory guidance at that time.*

7.3 *Rents for other tenancies not subject to Clause 21 will be set to ensure financial viability, and if applicable will be increased in accordance with any regulatory guidance. Where applicable, this will include Low Start Shared Ownership, Shared Ownership, exemptions introduced by the Secretary of State via statutory instrument and any other properties not provided for elsewhere in this policy. As a default position, rents for these properties will be increased by CPI+1% per annum, unless a different rate of increase is determined via statutory regulation or the Council uses its discretion to apply a different rate of increase for valid business reasons.*

7.4 *The Council will not use the current discretionary flexibility to charge those tenants with high incomes a higher level of rent to stay in their own homes, as set out in the DCLG's Guidance on Rents for Social Housing. However, the Council recognises that it may have to implement a mandatory scheme in future, subject to the Housing and Planning Bill being enacted.*

7.5 *Rent changes will be effective from the first Monday in April each year, for all tenants and shared ownership lessees (this clause does not apply at the point of letting an existing or new home, where that letting occurs part way through the year, the treatment of which is covered in sections 8 and 9 of this policy)*

7.6 *For leaseholders we will comply with the terms of Section 153 of the Commonhold and Leasehold Reform Act 2002, providing clear and transparent information to leaseholders regarding service charges and management fees.*

8 Re-lets

8.1 *Subject to the Welfare Reform and Work Bill passing into statute, the rent payable by new tenants of existing social rent housing where the tenancy commences on or after 4 April 2016 will be charged at the higher of the formula rent as at 8th July 2015 (i.e. the 'social rent rate'), or the actual rent as at 8th July 2015 (i.e. the 'assumed rent rate'), with the appropriate rent reductions applied. (This does not apply to mutual exchanges because a new tenancy is not created in such circumstances.) An exception to this principle would be where the Council entered into a specific agreement with the DCLG or the Homes and Communities Agency, which allowed alternative rents to be implemented for a proportion of re-lets in connection to the delivery of new homes.*

9. New Homes

9.1 Rents for new social housing, or where adaptations or extensions have resulted in the property being increased in size (for example an additional bedroom), will be set in accordance with the formula rent as at 8th July 2015, with the appropriate rent reductions applied (i.e. at the 'social rent rate').

9.2 In applying this approach to new and adapted or extended homes, this Council is ensuring the rents charged reflect the immediate benefit of the enhanced facilities provided as opposed to the longer term programme of providing modern facilities through Decent Homes and other property and environment improvement schemes.

9.3 If Stevenage Borough Council chooses at any time during the lifetime of this policy to enter into an agreement to supply new housing to which Affordable Rents were to apply, then the method for setting such rents would be in line with *Schedule 2 of the Welfare Reform and Work Bill (subject to it being enacted)* and guidance published by *the DCLG*.

10. Notification of a Rent Increase

10.1 Stevenage Borough Council will give at least one month's notice of any increase in the rent it charges. Rent increases will be applied in line with *the Housing Act 1985*, and use the form prescribed for this purpose as it applies at the time of the increase and following any amendment to this.

11. Service Charges

11.1 *The Welfare Reform and Work Bill defines a service charge as 'an amount payable by the tenant of particular accommodation as part of, or in addition to, the rent, and which is payable, directly or indirectly, for services, repairs, maintenance, improvements or insurance or the landlord's costs of management.'*

11.2 The overall aim of the policy is to ensure that service charges are set based on the *projected* costs of the services provided and that the method of calculation is transparent and can be easily understood.

11.3 *Historically, the Council has not always fully recovered the costs of all services. Specifically in 2015/16, in accordance with the DCLG's Guidance on Social Rents, service charge increases were capped at a maximum of 2.2% (the average rent increase) rather than being based on the total service charge cost.*

11.4 *With effect from 2016/17, the Council will aim to increase service charges based on projected costs incurred (plus or minus any prior year adjustments).*

11.5 *However, the Council recognises that moving from a capped increased service charge to one based on actual cost could cause financial hardship for some tenants. Furthermore, in future years factors such as high inflation could result in cost-based service charge increases being unaffordable for some tenants. Through its annual budget and rent setting process, the Council may decide to place a maximum limit on the service charge increase in a particularly year, based on an assessment of the affordability of the charge.*

11.6 Stevenage Borough Council will aim to ensure its tenants are not disadvantaged by the effect on services charges through the introduction of Universal Credit and will show transparency in all of its service charge accounting.

11.7 *Support Charges are not included in the scope of this policy.*

12. Responsibility

12.1 The Chief Executive of Stevenage Borough Council is responsible for setting the level of annual rent increases and ensuring tenants are given the statutory period of notice of any subsequent rent increases.

12.2 The Assistant Director (Housing *Development*) is responsible for arranging rent assessment of all new properties.

13. Consultation

13.1 Stevenage Borough Council will give details of its rent policy in its tenancy agreement *and on the Council's website*. The tenancy agreement also states how and when the rent may be increased.

13.2 Stevenage Borough Council will consult with involved tenants using existing consultation mechanisms, and to ensure commitment to the HCA Regulatory Framework's Tenant Engagement Standard.

13.3 The Council will also consult with involved tenants and leasehold with regard to the provision of services and the charges made for these services, to ensure these are effective and provide value for money.

14. Review

14.1 This revised Rent and Service Charge Setting Policy will become effective immediately and remain in place until 31st March 2017. It will run concurrently with the HRA Medium Term Financial Strategy. A review will be undertaken during the year 2016/17 to ensure any revised policy comes into force with effect from 1st April 2017.

14.2 It is the intention of Stevenage Borough Council to maintain a 5 year cycle of review for the Rent and Service Charge Setting Policy, subject to any changes being required by law in the interim period.