

Meeting: EXECUTIVE

Agenda Item:

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Portfolio Area: HOUSING

Date: 22 November 2016

REVISED RENT AND SERVICE CHARGE SETTING POLICY

KEY

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1 PURPOSE

- 1.1 To recommend amendments to the Council's Rent and Service Charge Policy.
- 1.2 To ensure that the Rent and Service Charge Policy informs the HRA Final Budget Proposals 2017/18 and Rent Setting report and underpins the delivery of the HRA Business Plan's key housing objectives and planned service outcomes.

2 RECOMMENDATIONS

- 2.1 That Council be recommended to approve the revised Rent and Service Charge Policy (Appendix A), to be included as part of the HRA final budget and rent setting report to Council on 31 January 2017.

3 BACKGROUND

- 3.1 The Rent and Service Charge Policy, which was approved by the Executive in September 2012 and at Full Council in October 2012, established the principles and approach by which Stevenage Borough Council would set rent levels and service charges for its residential properties. It was subsequently revised in 2014 to comply with the DCLG's *Guidance on Rents for Social Housing (2014)* and again in 2015 in response to the provisions in the Welfare Reform and Work Bill.
- 3.2 On 16th March 2016, the Welfare Reform and Work Act became law. This requires social landlords to reduce rents in social housing in England by 1% a year for 4 years from April 2016. The rent baseline is the rent payable on 8th July 2015.
- 3.3 Provision is made in the Act for exceptions, for example, reductions do not apply to rents payable by residents in low cost homeownership and shared ownership properties. At the end of January 2016, after the Council had set its rent levels for the financial year 2016/17, the Government announced that

rents in supported housing would be exempt from the rent reduction for 1 year until 2017. This was put before Members for consideration with the outcome that the rents set for 2016/17 would remain the same, with council tenants in supported housing benefiting from the 1% rent reduction.

- 3.4 The Act states that reference to 'rents for social housing' does not include reference to an amount payable by way of service charge, except in the case of 'affordable rent' housing. Therefore, the rent reduction does not apply to service charges for the Council's social housing properties.
- 3.5 The Housing and Planning Act 2016 gives the Government the power to require social tenants on a higher income to pay a higher rent ('Pay to Stay' scheme). These provisions cannot come into force until the Government lays the required regulations before Parliament. The Government aimed to publish the draft regulations in July 2016. However, these have not yet been published and there is no update on whether the regulations will still come into force in April 2017 as originally intended. Whilst we have the main provisions of Pay to Stay, some of the detail will remain unknown until publication of these regulations.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

- 4.1 The rent and service charge income funds the HRA Business Plan and therefore, the delivery of the key housing objectives. These key objectives are the delivery of effective services, the investment in existing council properties to ensure homes are of a modern standard and the provision of new social and affordable housing to rent. The policy statement at section 2 of the policy has been revised to emphasise the link with the HRA Business Plan's service objectives and outcomes.
- 4.2 A revised version of the Rent and Service Charge Policy is attached at Appendix A and is recommended for approval. Revised text is shown underlined and in italics.
- 4.3 Members are advised that HMB have considered this report and commented as follows 'We broadly support this policy in principle'.
- 4.4 A number of changes have been made to ensure the policy recognises that the Welfare Reform and Work Bill and the Housing and Planning Bill are now both Acts; to make reference to the mandatory Pay to Stay Scheme; to give further clarification on our approach to affordable housing for new builds; and to give further clarification on our approach to service charges, including the Council's position in relation to service charge increases, de-pooling and new service charges. This will enable the Council to proceed with setting the HRA budget and rents for 2017/18 in line with its standard annual timetable. The key changes to the policy are outlined in paragraphs 4.5 to 4.10 below.

4.5 Background (section 4 of the policy)

- 4.5.1 Section 4 of the policy has been updated to reflect recent legislation:

- Paragraph 4.6 sets out the relevant provisions of the Welfare Reform and Work Act 2016 and includes details of the announcement made by the Work and Pensions Secretary on 15th September that the 1% rent reduction would apply to supported housing for the 3 years up to 2019/20.
- Paragraphs 4.9 and 4.10 set out the main provisions of Pay to Stay with an update on the delay in the publication of the regulations needed to bring this into force.

4.6 Annual Rent Changes (section 7 of the policy)

- 4.6.1 With regard to annual rent changes, paragraphs 7.4 and 7.5 now confirm that the Housing & Planning Act 2016 makes the Pay to Stay scheme mandatory and that rent changes under Pay to Stay may take effect at any time during the year. We are still waiting for the regulations to provide how Pay to Stay will interact with taxable years and whether it will be based on previous income or current income.

4.7 Re-lets (section 8 of the policy)

- 4.7.1 The policy confirms that when properties are re-let the rent charged will be the formula rent, as previously agreed at the Executive meeting on January 2016. It adds that this re-let to formula rent will not apply to transfers where the under-occupation charge is a factor.

4.8 Pay to Stay (section 9 of the policy)

- 4.8.1 Paragraph 9.1 states that the Council will use a RICS valuation method for assessing market rents, subject to any further Government regulations/guidance. This is consistent with the methodology used for assessing the market rent level used to calculate affordable rents on new builds.

4.9 New Homes (section 10 of the policy)

- 4.9.1 Paragraph 10.3 has been amended to show that Stevenage Borough Council may choose at any time during this policy to enter into an agreement to supply new housing that will be let as housing at an affordable rent. Affordable rents are currently defined as up to 80% of market rents. In keeping with the Welfare Reform and Work Act 2016, schedule 2 (3) (7), the methodology used for determining market rents would be by RICS valuation. In setting the level of affordable rents, the Council will have regard to the current Local Housing Allowance rate. The affordable rent payable by the new tenant will have the appropriate rent reductions applied in each of the following years. The Council is currently piloting the use of affordable rents and it is noted that the success or otherwise of such pilots will inform future policy in this regard.
- 4.9.2 Paragraph 10.4 has been added to show that the proportion of new build properties let at affordable rents will be aligned with assumptions built into the HRA Business Plan. The Business Plan assumes, as presented in a separate report to this Executive that 50% of new builds will be let at social rents and 50% let at affordable rents.

4.9.3 Paragraph 10.5 has been added to show that the Council is currently piloting the use of affordable rents and the pilot scheme will be kept under review to inform future decision making in this area.

4.10 Service Charges (section 12 of the policy)

4.10.1 Section 12 of the policy refers to service charges and has been changed to state that the Council will ensure that service charges are set based on the actual costs of the services. Paragraph 12.3 states that the Council will seek to recover in full, service charge costs. The Policy, subject to any legal constraints, will allow capping in a particular year, if the increase in service charge would cause financial hardship.

4.10.2 Paragraph 12.4 has been added and relates to the de-pooling of service charges (i.e. separating service costs from rents and charging for them separately). Historically, the Council has recovered some service costs through separately identified service charges, but has used rental income to cover other service costs. An external service review report has highlighted the financial benefit of moving towards a fully de-pooled service. The Council therefore plans to review service charges in 2017/18 ahead of implementing a new and more transparent model from 2018/19 which will have regard to the impact on tenants as well as any financial benefit gained. This may include service charge de-pooling (charging those who receive the service) and the introduction of new service charges with those tenants who want an enhanced service, paying for the actual cost of the Council providing such a service. This review will include consideration of both service charges and support charges and will involve consultation with tenants and leaseholders.

4.10.3 It should be noted that further changes may have to be made to the Rent and Service Charge Policy, in order to comply with the publication of new statutory regulations and guidance associated with the Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016.

5 IMPLICATIONS

5.1 Financial Implications

5.1.1 As previously stated in the January 2016 Executive report, the Government's proposed 1% rent reduction will have a significant impact on the Council's rental income, estimated to equate to a £12m loss over 4 years (£225m loss over the 30 year HRA Business Plan). The Business Plan has been extensively reviewed and is the subject of a separate report to this Executive meeting.

5.1.2 We are still in the process of setting the service charges for 2017/18 and these will be agreed through the final HRA budget and rent setting report. Officers are still in the process of calculating the service charges for 2017/18 and Members will be updated as part of the December 2016 Draft and January 2017 Final HRA budget report to the Executive. The 2017/18 rent and service charges will be approved at Council on the 31 January 2017.

5.2 Legal Implications

- 5.2.1 Although the document at Appendix A is described as a policy, for the avoidance of any doubt, its purpose is to guide the Council's policy decisions year to year at the rent setting stage and not to provide discretion on a case by case or property by property basis.

5.3 Equalities and Diversity Implications

- 5.3.1 A draft EqIA is attached. There will be ongoing equalities monitoring of affordable rent pilot activities.

5.4 Risk Implications

- 5.4.1 The Government's 1% rent reduction will have a significant impact on the Council's rental income. As previously noted a review of the HRA Business Plan has been undertaken in order to mitigate against the impact of the rental income loss and ensure ongoing viability of the HRA. The policy also allows for rents that are exempt from the rent reduction to be increased at CPI+1%; and for social rents to be maximised in the case of re-lets and the letting of new homes. It also allows for new builds to be let as housing at an affordable rent. These measures will further mitigate against the impact on the Council's rental income stream.

BACKGROUND DOCUMENTS

BD1 - Rent and Service Charge Setting Policy Executive Report (2012) - [Executive - 11 September 2012](#) (item 5)

BD2 - Rent Addendum Executive Report(2014) - [Executive - 30 September 2014](#) (item 8)

BD3 – Revised Rent and Service Charge Setting Policy Executive Report - [Executive - 19 January 2016](#) (item 11)

BD4 – Welfare Reform and Work Act 2016 - [Welfare Reform and Work Act 2016](#)

BD5 – Housing and Planning Act 2016 - [Housing and Planning Act 2016](#)

APPENDICES

Appendix A – Revised Rent and Service Charge Setting Policy

Appendix B – Equality Impact Assessment