

STEVENAGE BOROUGH COUNCIL

RENT and SERVICE CHARGE SETTING POLICY 2017/18 – 2019/20

(RESIDENTIAL PROPERTY)

1. Purpose

1.1 The purpose of this policy is to establish the principles and approach by which Stevenage Borough Council (the Council) will set rent levels and service charges for its residential properties over the next 3 years subject to any changes being required by law in the interim period.

2. Policy Statement

2.1 This policy provides a framework for setting our rents and service charges within legislative requirements. The rent and service charge income underpins the delivery of the Housing Revenue Account Business Plan's key housing objectives to deliver effective services, to 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 the Council will set rents and service charges for residential properties;
- to provide for rents at a level that is financially viable for the Council's tenants whilst;
- ensuring the viability and delivery of the Council's 30 year HRA Business Plan and Medium Term Financial Strategy, within the current restraints of Government rent setting legislation and guidance;
- 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 October 2016, the Council owns and manages approximately 8000 rented properties and manages leasehold arrangements for around 1390 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 The Government issued guidance in 2014, under which local authorities were expected to increase rents by no more than CPI plus 1%.

4.6 In July 2015, the Government introduced the Welfare Reform and Work Bill into Parliament. This became law on 16th March 2016. Clause 23 of the Act 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 8 July 2015. Clause 24 makes provision for exceptions to the rent reduction requirement. For example, reductions do not apply to rents payable by residents in low cost homeownership and shared ownership properties. The Secretary of State has regulation-making powers to introduce other exemptions via statutory instrument. At the end of January 2016, the Government announced that rents in supported housing would be exempt from the rent reduction for 1 year until 2017. This came into force under The Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations 2016/390 which were laid before parliament on 18th March 2016. The Council did not apply this exemption. On 15th September 2016, the Work and Pensions Secretary announced that the 1% rent reduction would apply to supported housing for the 3 years up to 2019/20.

4.7 For social rent properties, the reduction applies to the rent element and not to service charges. For Affordable Rent properties, the reduction applies to the total amount, inclusive of service charges.

4.8 Schedule 2 of the Act 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 appropriate reductions then applied in each of the following years.

4.9 The Housing and Planning Act 2016 gives the Government the power to require 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.

4.10 In summary, a market rent instead of a social housing rent will be charged where the taxable household income is more than £31,000 per annum with a 15% taper. The Government have not set a definition for market rents. It will be for the Council to decide on the methodology to determine market rents appropriate to our local area. If tenants fail to provide The Council with the required income details, the maximum market rent will be charged. Tenants in receipt of housing benefit or universal credit will be exempted from the scheme. The Council will be required to pay the additional money collected to Government. For the first year, the Council will have to pay only what it collects. The Council will be able to retain reasonable administration costs which are likely to be based on a government formula.

5.0 Principles of the Policy

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

- the method used to set rents for the Council's tenants will remain in force for the duration of this policy.
- rents will be set at a level, subject to the restraints of current Government rent policy, 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 to recover the full 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. The Council will provide budgeting support, as needed, to those tenants affected by Pay to Stay.

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. In terms of Pay to Stay, the Council must comply with the requirements of the Housing and Planning Act 2016 including any subsequent regulations and government guidance, when calculating market rents.

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 the Council are comparable with those for the social housing sector.

7. Annual Rent Changes

7.1 The Council will apply annual changes to rent as follows:

7.2 HRA dwelling rents to which Clause 23 of the Welfare Reform and Work Act 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 23 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 Housing and Planning Act 2016 Pay to Stay scheme is mandatory and the Council will implement this scheme when the required Government regulations have been published.

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 10 of this policy). Rent changes, whether an increase or a decrease, under Pay to Stay may take effect at any time during the year. We are waiting for the regulations on how to deal with changes in a tenant's income.

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 The Council will continue to re-let at formula rent. This re-let at formula rent is subject to the 1% rent reduction. The re-let at formula rent will not apply to mutual exchanges where a new tenancy is not created. It also does not apply to transfers where the under-occupation charge is a factor.

8.2 A further 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. Pay to Stay

9.1 When the Pay to Stay scheme comes into force, the Council will use a RICS valuation method for assessing market rents, subject to any further Government regulations/guidance. This means a method for determining market rent that complies with standards for valuation published from time to time by the Royal Institution of Chartered Surveyors.

10. New Homes

10.1 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').

10.2 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.

10.3 The Council may choose at any time during the lifetime of 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. The method for setting such rents will be in line with Schedule 2 of the Welfare Reform and Work Act 2016. Schedule 2 (3) (7) of this Act states that 'The market rent is to be determined using a RICS valuation method'. In setting the level of affordable rents, the Council will also have regard to the current Local Housing Allowance rate.

10.4 The proportion of new build properties let at affordable rents will be aligned with the assumptions built into the Housing Revenue Account Business Plan.

10.5 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.

11 Notification of a Rent Increase/Decrease

11.1 The 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.

11.2 In the case of a rent increase being applied under Pay to Stay, notification will be given in keeping with the terms of the regulations.

12. Service Charges

12.1 The Welfare Reform and Work Act 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.'

12.2 Service charges will be set based on the actual costs of the services provided and that the method of calculation is transparent and can be easily understood.

12.3 The Council will seek to recover in full service charge costs. In the event that an increased service charge would cause financial hardship for tenants, the Council may, subject to any legal constraints, consider placing a maximum limit on the service charge increase in a particular year.

12.4 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 charge review has made recommendations regarding future service charges, including the potential to de-pool (i.e. to separate service costs from rents and charge for them separately). The Council aims to review service charges during 2017/18 so that a new, transparent service charge model can be implemented from 2018/19 that may include de-pooling and the introduction of new service charges. Service charges will reflect the service level agreed with tenants. This review and model will also cover support charges.

12.5 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.

13. Responsibility

13.1 The Assistant Director (Finance) is responsible for recommending the level of the annual rent increases/decreases for Council approval and the Assistant Director (Housing) is responsible for ensuring tenants are given the statutory period of notice of any subsequent rent increases/decreases.

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

14. Consultation

14.1 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.

14.2 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.

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

15. Review

15.1 This revised Rent and Service Charge Setting Policy will become effective immediately and remain in place until 31st March 2020 subject to any changes being required by law in the interim period. It will run concurrently with the HRA Medium Term Financial Strategy.

15.2 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.