

STEVENAGE BOROUGH COUNCIL

RENT and SERVICE CHARGE SETTING POLICY 2020/21 – 2024/25

(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.

1.2 To ensure compliance with the government's direction on the Rent Standard 2019 for the next five years.

2. Policy Statement

2.1 This policy provides a fair and affordable method of calculating rents and service charges for different tenure types 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 November 2019, the Council owns and manages approximately 8100 rented properties and manages leasehold arrangements for around 1396 properties.

*4.2 Please see **Appendix A- For relevant Legislation, regulation and guidance***

4.3 In October 2017, government announced plans to permit registered providers to increase rents on social rent and affordable rent properties by up to CPI+1% each year from 2020, for a period of at least five years.

4.4 This proposal recognised the need for a stable financial environment to support the delivery of new homes by registered providers including local authorities and enable them to plan ahead.

4.5 The Direction on the rent standard 2019 replaces the 2014 Direction from 1 April 2020 onwards for a period of at least five years. The rent standard applies to local authority registered providers from 2020 onwards because the previous arrangements for limiting the welfare costs associated with local authority rents (the Rent Rebate Subsidy Limitation scheme) will not operate alongside Universal Credit.

4.6 The legislation detailed (section 4.2) above provides direction on various matters relevant to our rent and service charge setting, including but not restricted to:

- *Calculation of Formula Rent*
- *Exemptions from the Rent Standard*
- *Rent caps*
- *Changes to rents (including annual increases and decreases)*
- *Service charges*

4.7 It should be noted that from time to time, temporary regulatory or legislative changes are implemented that override our policy approach to the setting of rent and service charges, e.g. the Welfare Reform Act 2016. In such cases, the regulation will be reflected in reviews of this document subsequent to the regulatory or legislative change.

*4.8 Please see **Appendix B – For more detailed Legislative background***

5.0 Principles of the Policy

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

- 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 and support 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 assessment, consideration 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 the Council are comparable with those for the social housing sector.

7. Annual Rent Changes

7.1 *Please see **Appendix C** which provides a narrative detailing Stevenage Borough Council's approach to rent setting for its different tenure and service types that this policy applies to.*

7.2 *The formula to be applied for rent increases from April 2025 onwards will be determined in 2024/25, taking into account statutory guidance at that time.*

7.3 Rents for other tenancies not subject to the *Direction on the rent standard 2019* 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 current *Guidance on Rents for Social Housing 2020*.

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 *Please see Appendix C for Rent Setting Narrative*

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 guidelines, with the appropriate rent increases 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 Act 2016 and guidance published by the DCLG.

10 Notification of a Rent Increase

10.1 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, and use the form prescribed for this purpose as it applies at the time of the increase and following any amendments to this.

11. Service Charges

1.11 Service charges are collected in addition to rent to recover the costs incurred in providing services to a property or estate. Service charges are set with the intention of covering costs, not delivering surplus. This is in addition to, the rent 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. As from 2016/17, the Council will aim to continue with the work on de-pooling services charges *which might result in increasing service charges* based on projected costs incurred (plus or minus any prior year adjustments).

11.5 *The Council recognises that increased service charge based on actual costs 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 *Other charges that payers of service charges may also be liable for:*

- *management fees; these are charged in line with the provisions made for such charges in the relevant tenancy agreement or lease.*
- *administrative fees; these cover Council's costs associated with managing properties, administering service charge and rent accounts, income collection and providing customer services where these are not covered by rent.*

11.8 *In general service charges will be reviewed annually and tenants will be given at least one month's notice prior to the implementation of any changes to service charges. These changes will usually become effective on the first Monday of April in any given year.*

11.9 *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 from *01 April 2020* and remain in place until *31st March 2025*. It will run concurrently with the HRA Medium Term Financial Strategy.

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.

Appendix A -Legislation, regulation and guidance

Relevant regulation and legislation includes, but is not restricted to:

- Policy Statement on Rents for Social Housing, February 2019
- Direction on the Rent Standard, 2019
- Welfare Reform and Work Act 2016 (including amendments)
- HCA Rent Standard Guidance 2015
- Guidance on rents for social housing from April 2015
- Rent setting: social housing (England) 7 October 2015
- Summer Budget 2015, HC 264, July 2015, para 1.140
- Housing Act 1985 Section 24
- Local Government and Housing Act 1989 Section 76
- HRA Rent Setting Policy

Appendix B – Legislative background

- 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).
- 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.

- 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.
- 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.
- 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 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.
- 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.
- 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.
- 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’).
- 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.

- Government introduced the welfare reform and work act 2016 which 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 Act 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 was the rent payable on 8 July 2015. Clause 22 makes provision for exceptions to the rent reduction requirement.
- Schedule 2 of the Act made provision for the rent initially payable by tenants of social housing whose tenancies began 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.