

SUBJECT:	COUNCIL HOUSE RENTS 2015/16
DIRECTORATE:	DIRECTOR OF HOUSING AND COMMUNITY SERVICES
LEAD OFFICER:	FRANCES JELLY - (INTERIM) HOUSING SUPPORT SERVICES MANAGER

1. Purpose of Report

- 1.1 To propose an increase in council house rents in line with the Government's social rent guidance and to seek approval for the introduction of revised rents from Monday 6th April 2015.

2. Executive Summary

- 2.1 In line with the Government's new *Guidance on Rents for Social Housing*, issued in May 2014, and in line with the approved Housing Business Plan, the formula rent rise for 2015/16 is based on CPI in the previous September (Sept 2014) plus 1.0%. In Lincoln's case this will mean an average rent increase of 2.2% from April 2015, resulting in an average actual 52 week rent of £70.52 per week.

- 2.2 Garage rents are also proposed to be increased by 2.2%.

3. Background

- 3.1 Members will be aware that a new system of financing for council housing was introduced in April 2012 – the "Self-financing Regime" under which local authorities were required to 'buy themselves out' of the national housing subsidy regime in return for the keeping of future rental income at local level. The valuation of the housing stock and the Council's Housing Business Plan was based on rental income rising in line with the Government's Rent Convergence Policy and Rent Guidelines in place at that time.

4. Government's Social Rent Policy

Rent Restructuring – Policy to 2014/15

- 4.1 The concept of the Rent Convergence Policy and Social Rent Guidance introduced in April 2002, was that rents in the social housing sector (local authority rents and those charged by housing associations) should be brought onto a common system based on a formula set by Government. The aim was to ensure that irrespective of the landlord similar rents are paid for similar properties in any particular area based on relative property values, size of property and local earning levels. The formula created a "formula rent" for each individual property which was based on:

- The relative value of the property
- Relative local income levels; and
- The size of the property.

The Council and other social landlords were expected to move the actual rent of a property (which may be lower or higher than the formula rent) over the implementation period, initially set at 10 years, from the actual rent for each property to reach “convergence” with its “formula rent” or target rent.

- 4.2 Annual changes in social rent levels under this policy were expected to rise by RPI+0.5% plus up to an additional £2.00 p.w. where the actual rent was below the formula rent for the property. The annual rent increases calculated in accordance with this formula became known as the “Guideline Rent Increase”. Successive governments have from time to time sought to restrict annual Guideline Rent Increases by amending the date at which actual rents are expected to converge with formula rents. Under this arrangement the date for achieving convergence would have been at least 2015/16 and once convergence was achieved rents would be expected to rise by RPI + 0.5%.

Rent Restructuring – Policy from 2015/16

- 4.3 In May 2014 the government published its ‘*Guidance on Rents for Social Housing*’ for April 2015 onwards – the updated rent policy is intended to apply for 10 years, and is summarised below:

- rent restructuring has ended in 2014/15 i.e. full convergence nationally has not been achieved
- there is an expectation that new tenancies will be let at the new full formula rent
- future rent rises will be linked to CPI (Consumer Price Index) rather than RPI (Retail Price Index)
- social tenant households with incomes over £60,000 can be charged market rent levels
- rent rebate subsidy limitation will remain in place (until any replacement following the introduction of Universal Credit)

- 4.4 Bringing forward the end of rent convergence from April 2015 allowed only 1 year of adjustment to achieve rent convergence meaning that for a number of individual properties actual rents would not have reached their target formula rent by that date. As the Council’s HRA Business Plan was predicated on all rents reaching their target formula rent the Council, in setting rents for 2014/15, allowed for an expedited progression to target rent resulting in an overall average increase of 4.67%, as opposed to 4.24% if convergence had remained at 2015/16. However, despite this expedited progression there were still over 900 properties that had not achieved their target rent with the only opportunity to converge actual rents on to the target formula rent being if and when the property becomes available for re-letting. The impact on the overall housing rent levels over the period of the 5-year Medium Term Financial Strategy was estimated to be a loss of £140k.

- 4.5 In addition to this loss of rental income the move to link future rent increases to CPI + 1% as opposed to RPI +0.5% has also had a detrimental impact on housing rent income as the annual rent increase is likely to be lower than that experienced under the previous calculation methodology. The loss over the 5-year period of the Medium Term Financial Strategy has been estimated at £740k. Provision for both of these reductions in housing rent levels was made in the Medium Term Financial Strategy approved in March 2014.

5. Calculating Council housing Rents for 2015/16

- 5.1 Proposed individual Council housing rents for 2015/16 have been based on the formula increase in accordance with the Government's revised Social rent Guidance (i.e. CPI + 1.0%). As the relevant CPI rate (as at the preceding September) was 1.2% the proposed rent rise for 2015/16 is a 2.2% increase.
- 5.2 The impact of this change would be an increase to the current average actual 52 week rent from £69.01 per week to £70.52 per week – an average increase of £1.51 per week, or 2.2%. Changes in individual rents will vary according to the level of actual current rent as illustrated in **Appendix 1**.
- 5.3 The previous Medium Term Financial Strategy 2014-19 assumed annual CPI at 2% for the calculation of rental income in 2015/16. Inflation rates, however, during 2014/15 have remained low with the actual CPI rate at September 2014, being the rate used for housing rent increases, of 1.2%. The reduction in the CPI rate from 2.0% to 1.2% in 2015/16 will result in a loss of rental income of circa £400k pa. across the 5 year MTFS.
- 5.4 The Council does have some flexibility to vary rents but if the Council were to set rents higher than the Guideline then it would potentially be penalised through the system the Government uses to reimburse councils for housing benefit payments. Setting rents lower than guideline would compound further the reductions in income into the HRA and therefore have implications for expenditure and the viability of the HRA Business Plan.

6. Garage Rents 2015/16

- 6.1 Prior to the rent restructuring reforms the annual increase applied to garages was the same percentage as used for housing. The standard garage rent charge in 2014/15 is £6.98 per week. Charges for garages can be varied entirely at the Council's discretion but a balance needs to be struck between what people will and are able to pay for the quality of the product being offered.
- 6.2 An increase in garage rents of 2.2% (i.e. in line with the housing rents) would bring the charge to £7.14 for 2015/16 (based on a 52 week collection period), an increase of £0.16 per week. Research has been undertaken to compare the garage rents with other urban local authorities of a similar size and this local authority was found to be mid-range in rent charged.

7. Strategic Priorities

(i) Reduce Poverty and Disadvantage

- 7.1 Amongst the Government's stated aims for its rent policy is to ensure that rents for social housing remain affordable in the long term whilst providing long-term certainty and stability to tenants and landlords to enable landlords to plan for future investment and have sufficient income to invest in the maintenance and improvement of existing homes, the provision of new affordable housing and in providing good services to tenants. The proposed rent increase of 2.2% is in line

with the Government's Social Rent Policy and the Council's HRA Business Plan and provides the City of Lincoln Council with the resources to adequately manage and maintain council housing in the city to the Decent Homes Standard. Many tenants will be protected from the full impact of the changes in rent as, at the middle of December 2014, 70% of council house tenants were entitled to receipt of Housing Benefit including 47% who were in receipt of full benefit entitlement.

- 7.2 Council house rents remain significantly lower than the rent levels in the private rented sector in the City.

(ii) Improve the Performance of the Council's Housing Landlord Function

- 7.3 Investment in the stock and service is closely aligned to the income being generated from rents. A rent rise policy that follows national guidance allows investment decisions to be taken on a medium and long term basis in line with the HRA Business Plan.

8. Organisational Impacts

(i) Finance

- 8.1 Calculating council housing rents for 2015/16 in accordance with the Government's current Social Housing Rent Policy will result in a projected overall average rent increase of 2.2% in 2015/16.
- 8.2 Attached, at Appendix 1 is a table showing the impact of the proposed increase on Council rents in 2015/16.
- 8.3 The implications on the overall levels of housing rent income as a result of an increase of 2.2%, as set out in paragraph 5.3 above, have been included in the Medium Term Financial Strategy 2015-20 which is due to be presented to Council on 3rd March 2015.

(ii) Legal

- 8.3 The tenancy agreement requires that tenants should be given at least 28 days notice of any variation in rent charges. Letters notifying details of the individual increases/decreases in rent will need to be posted by 3rd March 2015. This report, if approved, will need to be referred to Council on 24th February 2015 in order that these timescales are achieved.

9. Tenant Consultation

- 9.1 The Lincoln Tenants Panel (LTP) is due to consider this report on the proposed rent increase at its meeting on 18th February 2015. Their comments and observations will be reported verbally during the meeting.

10. Risk Implications

- 10.1 Self-financing transferred significant risks from Central Government to local authorities. The Council now bear the responsibility for the long term security and viability of Council housing in Lincoln. Apart from rent setting in accordance with national social rent policy, Council housing finances are free from Government control which meant that from April 2012 the Council has to fund all activity

related to Council housing from the income generated from rents, and other sources, through long term business planning. The Council is more exposed to changes in interest rates, high inflation and the financial impact of falling housing stock numbers and it needs to factor in the impact of changes in Government policy, e.g. on Right to Buy discounts, and their welfare reforms on rent collection and recovery.

- 10.2 A key element therefore of the self-financing system is a robust 30 year HRA Business Plan and we are currently working in adherence to the original plan approved in the summer of 2012.
- 10.3 The whole basis of the business planning process has been predicated on the assumption that the Council will continue to increase rents in line with the Government's self-financing determination. To not do so, at this stage, would mean rent increases, in 2015/16, potentially in excess of inflation, and against the Government's Social Rent Policy, or indeed at a level less than assumed in the Business Plan, potentially undermining the long-term sustainability.

11. Recommendation

Executive is recommended to:

- 11.1 Agree to the basis of rent calculation for changes to individual Council house rents as set out in paragraph 5 of this report, which represents an increase in the overall average 52 week rent in 2015/16 of 2.2% (£1.51 p/w) in line with Government Rent Guidelines.
- 11.2 Endorse the Increase of Council garage rents for 2015/16 in accordance with the proposal in paragraph 6.2 above i.e. by 2.2%.
- 11.3 Refer this report and recommendations to Council on 24th February 2015 for approval to ensure that rent increase notices can be sent to tenants prior to the start of the new year and providing them with the requisite 28 day notice period required under the conditions of tenancy.

Key Decision	No
Do the Exempt Information Categories Apply	No
Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
Does the report contain Appendices?	Yes - 1

**List of Background
Papers:**

None.

Lead Officer:

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APPENDIX 1

IMPACT ON INCREASES ON TENANTS – APRIL 2015 (Based on a 52 week rent year)

	Impact on Tenancies	
	No.	%
Rent increase between £0.01 and £1.00	0	0%
Rent increase between £1.01 and £1.50	4,014	51%
Rent increase between £1.51 and £2.00	3830	49%
Rent increase is greater than £2.00	5	0%
TOTAL	7849	100%