

Report Reference Number: E/20/30

To:	Executive
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Status:	Key Decision
Ward(s) Affected:	All
Author:	Kevin Ross, Accountant
Lead Executive Member:	Cllr Cliff Lunn, Lead Executive Member for Finance & Resources
Lead Officer:	Karen Iveson, Chief Finance Officer

Title: Housing Rents 2021/22

Summary:

This report presents proposals for Housing Revenue Account rent levels which must be calculated in accordance with the Governments Policy Statement on Rents for Social Housing 2018. The new policy came into effect from 1 April 2020 and allows rents to rise by no more than CPI + 1% in any year for the following 5 years. This follows from 4 years of 1% annual rent reductions from April 2016 in accordance with the Welfare Reform and Work Act 2016.

2021/22 is the second year of this 5 year policy. The proposed increase for rents in 21/22 is based on the September CPI rate of 0.5% plus 1%, adjusted for sales, housing development, empty homes purchases & dwellings meeting target through relets. This will see rents increase on average from £84.98 in 2020/21 to £86.37 per week on a 48 week basis, an average increase of £1.39 (across both Social and Affordable rent properties).

Overall, this increase in rents is estimated to grow Housing Revenue Account rent yield by approximately £311k in 2021/22 to reinvest in our housing stock. Rent income is a key component of the HRA Budget and is vital that the recommended increase is approved to fund the ambitions of the HRA Business plan particularly for further investment in the capital programme to achieve a decent homes+ standard for our tenants going forward.

The impact of the Coronavirus pandemic on inflation has led to significant funding reductions in the HRA compared to the HRA Business Plan assumptions. In order to meet the objectives and aspirations of the plan, savings and efficiencies will be required to bridge the gap in funds available to invest in our homes.

Recommendations:

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It is recommended that:

- i) The Executive approve the proposed 1.5% rent increase for 2021/22.

Reasons for recommendation

To allow rent levels to be set in advance of the coming financial year following the government's policy on rents for social housing from 1 April 2020 onwards.

1. Introduction and background

- 1.1 Since 2001, rents for properties let at 'social rent' have been set based on a formula set by government. This creates a formula rent for each property, which is calculated based on the relative value of the property, relative local income levels and the size of the property. An aim of this formula based approach is to ensure that similar rents are charged for similar social rent properties.
- 1.2 In 2011, the government introduced affordable rent which permits rents to be set at up to 80% of market rent (including service charges). This is the amount a property could reasonably expect to receive if it was available on the open market. Landlords can only let new properties at affordable rent where certain conditions apply.
- 1.3 From April 2015 the government made it possible for social landlords to charge a full market rent where a social tenant household has an annual income of at least £60,000. This was designed to allow landlords to make better use of their social housing, rather than requiring them to provide sub-market rent properties to households with relatively high incomes.
- 1.4 Government policy previously limited maximum annual changes in social rent and affordable rent levels. From April, 2016 to end March 2020, the Welfare Reform and Work Act 2016 required social landlords to reduce their rents by 1% each year. This was designed to help put welfare spend on a more sustainable footing and to ensure that the social housing sector plays its part in helping to reduce the public spending deficit.
- 1.5 In October 2017, the government announced its intention to set a long term rent deal for both local authority landlords and housing associations. This would permit annual rent increases on both social and affordable rent properties of up to CPI + 1% (at September of the previous year) for a period of at least 5 years. This policy recognises the need for a stable financial environment to support the delivery of new homes. This new policy came into effect from 1 April 2020.

2. Proposed Rent Increases

- 2.0 From 1 April 2020, registered providers may not increase by more than CPI (at September of the previous year) + 1% in any year. Providers must adhere to this limit on rent increases even if a tenants rent is below formula. Providers also have the discretion to apply a lower increase, or to freeze or reduce rents.
- 2.1 The latest Housing Revenue Account Business Plan was approved by the Executive on 5 December 2019. The modelling within the plan, sets out ambitions to improve current stock and build new affordable homes and has assumed rent increases of CPI + 1% and an anticipated increase of 3% for 21/22. This has led to estimated rent income being lower in the proposed budget by £220k compared to the Business plan after taking in to account the impact of Covid-19 on rents and the subsequent reduction in inflation. Therefore, it is essential that the maximum increase of 1.5% is applied to maximise the ambitions of the Housing Revenue Business Plan 2020-2025. This will ensure as much as possible that the needs of our residents are met now and in the future. This includes significant capital investment in meeting the decent homes+ standard.
- 2.2 The 2020/21 weekly average rent, set on a 48 week basis is £84.98 (per Housing Rents report to Executive; 10 January 2020).
- 2.3 Formula rents will increase by CPI + 1% each year from 20/21 onwards, but is subject to a rent cap. Rent caps apply as a maximum ceiling on the formula rent and depend on the size of the property (the number of bedrooms it contains). Where the formula rent would be higher than the rent cap for a particular size of property the rent cap must be used instead. Selby District Councils housing stock does not have any property that exceeds this cap.
- 2.4 Where a property is below formula rent, the provider may only move the rent up to formula when the property is re-let following vacancy.
- 2.5 **Social Rents - Average Rent Charges on a 48 week basis**

Year	2021/22 Proposed increase	2022/23 (increase)	2023/24 (increase)
Actual Rent £	85.90	87.62*	89.81*
% (Decrease) / Increase	1.5	2.0	2.5
Formula Rent £	87.26	89.00*	91.23*
% (Decrease) / Increase	1.5	2.0	2.5
Difference Actual vs. Formula £	1.36	1.38	1.42

**CPI assumed to be 1% and 1.5% based on HRA MTFS assumptions*

- 2.6 The above table shows the formula rent against the actual rent to be charged to tenants. Formula rent is the rent target for our dwellings to be comparable with Registered Social Landlords.

- 2.7 Formula rents on average for 2021/22 are £1.36 per week higher than actual rents on a 48 week basis.
- 2.8 Affordable rents are typically higher than social rents; the intention behind this flexibility is to enable properties let on this basis to generate additional capacity for investment in new affordable housing. Providers must not increase rents for properties let on affordable rent terms by more than CPI + 1% each year.
- 2.9 Affordable housing rent (inclusive of service charges) must not exceed 80% of gross market rent, and there must be an agreement in place between the provider and Homes England to permit that property to be let at affordable rent. These rents are applicable on our new homes built to date and the on-going programme for empty property purchases. It is a condition of the grant funding from Homes England, which has supported the Council's new build programme that the rents charged are affordable. Through these agreements to date 35 properties have been built or purchased.

2.10 **Affordable Rents - Average Rent Charges on a 48 week basis**

Year	2021/22 Proposed increase	2022/23 (increase)	2023/24 (increase)
Actual Rent £	126.27	128.80*	132.02*
% (Decrease) / Increase	1.5	2.0	2.5

**CPI assumed to be 1% and 1.5% based on HRA MTFS assumptions*

3. **Alternative Options Considered**

- 3.1 No alternative options have been considered. The rent increase proposal is linked to delivering the ambitions of the HRA Business Plan, any lower than proposed increase will be of detriment to the delivery of the plan. A 0.5% reduction in the rent increase proposed would have an impact of approximately £62k and a recurring loss of income across the 30 year business plan. Covid 19 during 2020/21 has had a negative impact on the level of rent expected for the year seeing the budget revised down by £166k for potential rent losses and the corresponding impact on inflation giving lower than expected increases going forward. Therefore, it is imperative that the proposed increase of 1.5% is approved in line with Government policy to maximise investment in our houses as anything lower will have further detriment to investment.

4. Implications

4.1 Legal Implications

To set rents in accordance with the government's policy statement on rents for social housing.

4.2 Financial Implications

4.2.1 The rent yield from the proposals in this report are summarised as follows:

	2020/21 Original (£000)	2020/21 Revised (£000)	2021/22 (£000)	2022/23 (£000)	2023/24 (£000)
Budgeted Rent (£k)	12,157	11,991	12,302	12,548	12,862
Annual (Decrease) / Increase (£k)		(166)	311	246	314
Business Plan Assumptions	12,157		12,522	12,897	13,284
Impact of Inflation reduction			(220)	(349)	(422)

4.2.2 Under the HRA self-financing regime, the Council keeps all of the rent collected and no longer has to pay subsidy. The amount of debt the Council took on as part of this change was influenced by rent income projections based on formula rent convergence. Rent generated is utilised to service the debt incurred, invest in maintaining our housing stock and new build opportunities as well as cover the running costs of our Housing Revenue Account service.

4.2.3 The latest HRA Business Plan Refresh was presented to the Executive on 5 December 2019. Housing Rents have a significant role in ensuring that the Council has a financially viable Housing Revenue Account Business Plan, to manage its objectives, to both invest in its current stock, as well as increase overall housing supply in the district.

4.2.4 The business plan assumed 3% (CPI @ 2% + 1%) for the years 2021/22 onwards. The impact of Coronavirus has impacted for 2020/21 both on our tenant's ability to pay which resulted in the revised budget approved by Council on 22 September 2020 and reductions in inflation rates. This inflation reduction has a significant and compounding impact on financing the capital programme with an estimated cumulative rent loss of approximately £4.3m over the next 10 years comparing the business plan to the HRA MTFS. Careful consideration will be required to establish how this shortfall can be bridged while managing the aspirations of the capital programme and maintaining a financially viable HRA.

4.3 Policy and Risk Implications

- 4.3.1 Rents have been calculated in accordance with MHCLC's 'Policy Statement on rents for Social Housing' of which the SDC rent policy document provides further detail.

4.4 Corporate Plan Implications

- 4.4.1 Implementation of the rent increase proposal links directly to that of the HRA Business Plan 2020-2025 which meets the Council Plan's aim to ensure resident 'enjoy life' by increasing the overall condition and supply of housing in the district.

- 4.4.2 Ultimately, the Council's aim is to drive the development of more new homes and for all housing in the district to be of a quality, type and size which meets the needs of local communities. The HRA Business Plan's approved objectives are:

Objective 1: To ensure good quality housing within the district which helps meet the needs of our local community.

Objective 2: To provide a first rate housing management service which makes the best use of our existing stock.

Objective 3: To deliver a financially sustainable service which demonstrates value for money and ensures that investment is targeted to council priorities.

4.5 Resource Implications

- 4.5.1 The proposed rent increase is lower than that estimated in the HRA Business Plan by 1.5%. This has a significant impact on the resources available for investment in our housing stock. The cumulative impact of this reduction in rents creates a longer term funding gap. Going forward, consideration will be required as how to address these funding pressures through savings and efficiencies to meet the ambitions and objectives of the latest HRA Business Plan.

4.6 Other Implications

- 4.6.1 No further implications.

4.7 Equalities Impact Assessment

- 4.7.1 Rents have been calculated in line with government rent setting policy and are applied across all the council's social and affordable housing and as such are not to the detriment of any particular group.

5. Conclusion

- 5.1 2021/22 will see rents increase on average from £84.98 in 2020/21 to £86.37. These rents have been calculated in line with the government's policy statement on rents for social housing. This increase combined with sales, housing development, relets at target, provisions for bad debts and void losses is expected to have the impact of increasing rent income by £311k compared to the 2020/21 revised budget which has allowed for £166k of rent loss due to the impact of Covid 19.
- 5.2 The impact of the Coronavirus pandemic on inflation has led to significant funding reductions in the HRA compared to the HRA Business Plan assumptions of approximately £4.3m over the next 10 years. In order to meet the objectives and aspirations of the plan savings and efficiencies will be required to bridge the gap in funds available to invest in our homes.
- 5.3 From April 2020, the government committed to increases of up to CPI + 1% for a period of at least 5 years which provides some stability in relation to financial decision making within the HRA, 2021/22 will be the second year of this commitment. The rent rise will increase the ability to reinvest in the housing stock and meet the objectives of the HRA Business Plan which provides tenants, the Council, and its members with priorities and direction as to how it will manage Council owned social housing in the Selby district.

6. Background Documents

MHCLC's 'Policy Statement on rents for Social Housing'
Rent Standard – April 2020

Contact Officer:

Kevin Ross
Accountant
Selby District Council
kross@selby.gov.uk