Selby District Council

REPORT

Reference: E/17/39

Item 4 - Public

To:	**The Executive**
Date:	**4 January 2018**
Status:	**Key Decision**
Report Published:	**21 December 2017**
Author:	**Kevin Ross, Accountant**
Executive Member:	**Councillor C Lunn, Executive Lead Member for Finance and Resources**
Lead Officer:	**Karen Iveson, Chief Finance Officer**

Title: Housing Rents 2018/19

Summary:

This report presents proposals for Housing Revenue Account rent levels in accordance with Central Government's current policy on rent setting. Registered providers are required to reduce rents by 1% per year for 4 years from April 2016. This action is intended to help protect taxpayers from the rising costs of subsidising rents through housing benefit, and protect tenants from rising housing costs.

This method replaced a revised model introduced from 1 April 2015 to replace rent restructuring. This method was planned to run for 10 years to 2024/25 and linked to CPI increases.

Year 3 of this 4 year policy will see rents decrease on average from £83.77 in 2017/18 to £83.26 (adjusted for sales, housing development & dwellings meeting target through relets) per week on a 48 week basis, an average decrease of £0.51.

Overall this decrease in rents is estimated to reduce Housing Revenue Account rent yield by £130k in 2018/19.

Recommendation:

i. The Executive approve the proposed 1.0% rent decrease for 2018/19.

Reasons for recommendation:

To allow rent levels to be set in advance of the coming financial year within the constraints of Government rent setting policy.

1. Introduction and background

1.1 Social housing rents are set according to the Governments rent policy. Following the Chancellor of the Exchequer's budget on 8 July 2015, the Welfare Reform and Work Act 2016 requires registered providers to reduce rents by 1% per year for 4 years from April 2016. 2018/19 rents will be the third year of rents set following this act. This move is intended to help protect taxpayers from the rising costs of subsidising rents through housing benefit, and protect tenants from rising housing costs.

1.2 To mitigate the impact on the HRA business plan (where larger rent increases had been anticipated) as part of self-financing, any new tenancies that had not converged with target (formula) rent are let at target. This means that in these circumstances rents do not remain below target rent permanently. Target (formula) rents also reduce by 1% per year for the four years from April 2016. At this point in time 955 properties have not yet converged with target rent.

2. The Report

2.1 The 2017/18 weekly average rent, set on a 48 week basis is £83.77 (per Housing Rents report to Executive; 5 January 2017).

2.2 Actual and Formula rents are calculated using the previous year's rent, except those properties that relet at formula less 1%.

2.3 **Average Rent Charges on a 48 week basis**

Year	**2018/19 Proposed decrease**	**2019/20**	**2020/21**
Actual Rent £	83.26	82.43	84.05
% (Decrease) / Increase	(1.0)	(1.0)	2.0
Formula Rent £	84.83	83.98	85.63
% (Decrease) / Increase	(1.0)	(1.0)	2.0
Difference Actual vs. Formula £	1.57	1.55	1.58

2.4 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.

2.5 Formula rents on average for 2018/19 are £1.57 per week higher than actual rents on a 48 week basis.

3. Legal/Financial Controls and other Policy matters

3.1 Legal Issues

The 1% rent reduction was enacted as part of the Welfare Reform and Work Act 2016.

3.2 Financial Issues

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

	2017/18 (£000)	2018/19 (£000)	2019/20 (£000)	2020/21 (£000)
Budgeted Rent (£k)	12,070	11,940	11,840	12,037
Annual (Decrease) / Increase (£k)		(130)	(100)	197

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. The HRA Revenue Budget has been drafted taking into account the reduction in rental income and our immediate investment needs can be covered although it will impact in the longer term.

On 4 October 2017, DCLG announced that “increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020”, this is likely to be consulted on during 2018. Whilst there is no certainty that this will happen, a prudent estimate of an overall 2% increase was applied for 2020/21. For rent increases from 2025/26 there is likely to be a further consultation process.

3.3 Impact Assessment

The rent reduction has a negative impact on the overall funding of the HRA, meaning that in the longer term there will be less resource for re-investment in our housing stock. This is lost funding which will never be recovered to invest in the housing stock and development. In the shorter term, the HRA can meet its current revenue and capital commitments but capacity to invest in new stock is inevitably limited and will require careful management of the HRA Capital Programme.

4. Conclusion

Although rents generated cover the immediate commitments of the HRA including the capital programme, the rent reduction has an impact on the longer term by reducing the amount built up in reserves to reinvest in our current stock, build houses and the opportunity to repay debt earlier if required.

5. **Background Documents**

None.

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