SELBY DISTRICT COUNCIL

TO ACT FOR OTHERS

Report Reference Number: E/18/39

To:	Executive
Date:	10 January 2018
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 2019/20

Summary:

This report presents proposals for Housing Revenue Account rent levels which have been set 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. The Government's policy aim was to help protect taxpayers from the rising costs of subsidising rents through housing benefit, and protect tenants from rising housing costs.

2019/20 is the final year of this 4 year policy which will see rents decrease on average from £83.26 in 2018/19 to £82.48 (adjusted for sales, housing development & dwellings meeting target through relets) per week on a 48 week basis, an average decrease of £0.78.

Overall this decrease in rents is estimated to reduce Housing Revenue Account rent yield by £100k in 2019/20.

Recommendations:

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It is recommended that:

i) The Executive approve the proposed 1.0% rent decrease for 2019/20.

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 Government's 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. 2019/20 rents will be the final year of rents set following this act. This move was 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 877 properties have not yet converged with target rent.

1.3 During September 2018 the government ran a consultation on a proposed new direction to the Regulator of Social Housing on social housing rents from 1 April 2020, the details of which are outlined below. The results of the consultation are not yet available.

1.4 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 will come into effect from 1 April 2020.

2. Main Report

2.1 The 2018/19 weekly average rent, set on a 48 week basis is £83.26 (per Housing Rents report to Executive; 4 January 2018).

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

2.3 **<u>Average Rent Charges on a 48 week basis</u>**

Year	**2019/20 Proposed decrease**	**2020/21 (increase)**	**2021/22 (increase)**
Actual Rent £	82.48	84.95*	87.50*
% (Decrease) / Increase	(1.0)	3.0	3.0
Formula Rent £	83.90	86.42*	89.01*
% (Decrease) / Increase	(1.0)	3.0	3.0
Difference Actual vs. Formula £	1.42	1.47	1.51

**CPI assumed to be 2% for this exercise*

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 2019/20 are £1.42 per week higher than actual rents on a 48 week basis.

3. Alternative Options Considered

Not applicable.

4. Implications

Not applicable

4.1 Legal Implications

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

4.2 Financial Implications

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

	2018/19 (£000)	2019/20 (£000)	2020/21 (£000)	2021/22 (£000)
Budgeted Rent (£k)	11,940	11,840	12,143	12,452
Annual (Decrease) / Increase (£k)		(100)	303	309

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.

4.3 Policy and Risk Implications

Not applicable

4.4 Corporate Plan Implications

Not applicable

4.5 Resource Implications

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. The HRA continues and will be able to meet its current revenue and capital commitments although capacity to invest in new stock has inevitably been reduced.

4.6 Other Implications

Not applicable.

4.7 Equalities Impact Assessment

Not applicable.

5. Conclusion

2019/20 will be 4th and final year of the 1% rent reduction policy. This will see rents decrease on average from £83.26 in 2018/19 to £82.48. This reduction combined with sales, housing development, relets at target and provisions for bad debts and void losses is expected to have the impact of reducing rent income by £100k compared to the 2018/19 budget.

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. From April 2020, the government is committed to increases of up to CPI + 1% for a period of at least 5 years which will provide some stability in relation to financial decision making within the HRA, and will increase the ability to build reserves to reinvest in the housing stock.

6. Background Documents

Not applicable.

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