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| <b>Report Title</b>                               | <b>RENT AND SERVICE CHARGES REVIEW</b>   |
| <b>Purpose of Report</b>                          | To inform members of areas for potential improvement in the way we set and recover service charges and rents, changes which may have a beneficial impact on HRA finances and our ability to fund services.   |
| <b>Decision(s)</b>                                | <p><b>Housing Committee RESOLVES:</b></p> <ol style="list-style-type: none"> <li>1. To approve the increase in rent of all new lettings to that of the governments local formula rent level.</li> <li>2. To approve the commencement of a project to investigate further, the viability, benefit and regulatory requirement upon us to de-pool service charges from rents, and charge these separately and transparently.</li> <li>3. Following on from (2) above, to approve a review of rent setting options with a report on the findings, brought back to this committee for debate and direction in June 2017.</li> </ol>   |
| <b>Financial Implications and Risk Assessment</b> | <p>The HRA MTFP report highlights the significant financial pressure faced the HRA over the next 4 years. The HRA must take opportunities to increase income or reduce costs to ensure adequate resources are available to support the key priorities set out in the HRA Delivery Plan.</p> <p>This report outlines changes to the rent levels charged on properties for new lettings and proposes further work to review current rent and service charge levels. It is likely that both proposals will strengthen the financial resilience of the HRA as additional income can be generated from both measures. The current HRA MTFP does not include any income estimates from the proposals contained within this report.</p> <p>David Stanley, Accountancy Manager<br/>Tel: 01453 754344<br/>Email: <a href="mailto:david.stanley@stroud.gov.uk">david.stanley@stroud.gov.uk</a></p> |

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| <b>Legal Implications</b> | <p>With the exception of the recommendation that the rent of all “new” lettings (which term should be clarified for the avoidance of doubt) of Council owned social housing, be increased to a level which accords with the Government’s local formula rent level, no decision is proposed which will change the setting of rents for the coming year. The changes to which the Decision Box paragraphs 2 and 3 refer will be reported to committee once the investigatory work has been undertaken. It is also understood from the report that the latter work may potentially help meet the legal requirement within the Welfare Reform and Work Act 2016 for relevant social landlords (e.g. the Council) to reduce social housing rents payable by individual tenants by 1% each year from 2016 to 2019.</p> <p>Karen Trickey, Legal Services Manager<br/> Email: <a href="mailto:karen.trickey@stroud.gov.uk">karen.trickey@stroud.gov.uk</a></p> |
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## 1. Introduction

The setting of rents and service charges for our 5000+ tenancies, each of which was started at a different point in time and within a different policy period, is rather complex, it also presents significant issues relating to our income and ability to fund services to tenants and leaseholders.

This report identifies three areas to be considered and determined, these are: formula rents, service charges, rent setting. These are addressed in turn in the following report.

## 2. Formula Rent (aka Target Rent)

The setting of rents within Stroud did not reach the convergence level for social rents as part of the formula rent policy (also known as target rents), before moves towards convergence were ended nationally in 2015. The policy sought to bring housing association rents and council rents into parity using a target formula for rent setting based on a calculation which includes the following:

- 30% of a properties rent should be based on relative property values
- 70% should be based on relative local earnings
- A bedroom weighting applied so that smaller properties have lower rent

We can; however, as indeed have a majority of social landlords, set all re-lets to the formula level, which we believe we are expected to be doing. This would net an additional £23-£40,000 per year, depending on the difference in current and formula rent of each property re-let.

## **2.1 Recommendation**

It is proposed that we set the rent level of all new lettings to the formula target level with immediate effect. We believe that this is expected of social landlords by government as an issue we should already be doing in order to contribute to the financial sustainability of the HRA.

It should be noted that, at a later stage, were rent valuations to increase as part of 3.1.2, the relative value would change as would the formula rent, but in this case, only on re-let.

## **3. Service Charges**

Whilst we currently levy service charges to tenants of flats, sheltered schemes and leaseholders, there are a number of charges we incur in the delivery of our housing service which are funded not as a service charged but as part of our rental income. This has been the case for many decades, being very much a legacy of a common standard of practice.

This; however, is not an ideal situation, indeed rent is expected by government to cover a charge for the occupation of a home including its management and in many cases, its repair, whilst charges for services, such as: communal facilities, car parking, grounds maintenance, communal area heating, cleaning, communal area fire detection and many other costs being regarded as a service charge.

This presents problems to social landlords in terms of how these charges are apportioned, for example, how do you charge for the maintenance of an un-adopted road or a grassed area on an estate, when use is not clearly identified for any specific tenants, what do we do for those tenant who do not own a car or use the road? As a result, for these and many other reasons, many such charges have been pooled and funded via rental income.

There is a strong argument that this situation should change, the issues associated with this being:

- We should be charging them separately anyway
- We will be charging more specifically for services people receive, avoiding cross subsidy where others pay through a pooled system for services they do not receive
- By separating them, we are being transparent about what people are paying for

- The above transparency enables challenge and will create greater levels of efficiency as we either: stop delivering services people no longer wish to fund, or through challenge, find better ways to deliver those services

### **3.1 Initial findings relating to service charge recovery**

In October 2016, working with the CIH, we undertook an overview of our HRA costs, service charges and rental income, and conclude that there was the potential for up to £1 million of services which appear to currently be funded through rents, to be recoverable as a separate service charge instead of being funded through rent. It is important to note that were these to be removed from rents and charged separately, that rents would fall in response.

As a result of the above, the HRA is unlikely to be any better off financially in the first year of any de-pooling exercise. However, not only would our charges, budgets, cost data be more accurate and transparent but it would also be fairer and compliant with government expectations. As time moves on; however, in subsequent years our financial position would alter, not least because the rent reduction resulting from de-pooling, would contribute to the 1% annual reduction expected of social landlords until 2020, and costing the HRA £9 million, but over a longer period, regulated rent increased would no longer need to absorb service costs, many of which increase by far more than the rate of inflation, and which, swallow resources disproportionately. These would be able to increase instead, at the rate of their true cost.

### **3.2 Recommendation relating to service charges**

Further work is needed to look in greater detail at precisely what can be reasonably de-pooled, the costs of this, impact on the HRA, and impact on tenants in terms of revised charges and rents.

It is proposed that we undertake this review during 2017, with a report brought back to this committee on findings, with recommendation by June 2017.

There is a potential for a de-pooled service charge policy to have a beneficial or strongly beneficial impact on the HRA. This would be a key project therefore and one which, given its implication, we would want to resource effectively. We would therefore wish to employ the services of a financial consultancy, in order to support part of this project.

## **4. Rents**

### **4.1 Introduction**

#### **4.1.1 Current position in terms of rent setting**

As stated in part 2 of this report, the setting of rents within Stroud did not reach the convergence level for social rents.

#### **4.1.2 Our current rent valuation**

Our current rents are based on valuation of our stock undertaken in 2001, and reverse calculated to 1999 to be in line with a national ratings and valuation review. These are then increased by inflation year on year, to give a current valuation, on which our rents are based. It is important to note here, that as we have tenancies which date back, decades, we have rents which relate to different historical rent policies. We therefore also need to review exactly what the full picture is and develop a new long term and sustainable policy to rent setting.

In the meantime; however, it is worth noting that since 2012 we have modernised and invested in the improvement of our stock, which means that its value has been increased and a revaluation is possible. This does not mean that we can increase the rent to existing tenants upon revaluation, but we can do so on re-let.

The above activity has not been taken but remains an option which would create a fairer and more transparent rent policy, whereby modernised homes attract a higher rent than those less modernised. It would also have a beneficial impact on the HRA in terms of income and thus, resources to fund service delivery, stock investment, etc.

#### **4.1.3 Recommendation**

As with service charges further work is needed here to look in greater detail at precisely how this would work and the impact on the HRA and our tenants.

It is proposed that we undertake this review during 2017, with a report brought back to this committee on findings and recommendation by June 2017.

Again, there is a potential for this to have a beneficial or strongly beneficial impact on the HRA. This would be a key project therefore and one which, given its implication, we would want to resource effectively. We would therefore wish to employ the services of a financial consultancy to support this project in tandem with the service charge de-pooling one.