



To: Executive Councillor for Housing: Councillor Kevin Price

Report by: Julia Hovells, Business Manager / Principal Accountant

Relevant scrutiny committee: Housing Scrutiny Committee 14/1/2015

Wards affected: Abbey Arbury Castle Cherry Hinton Coleridge East Chesterton King's Hedges Market Newnham Petersfield Queen Edith's Romsey Trumpington West Chesterton

CAMBRIDGE CITY COUNCIL RENT SETTING POLICY

Key Decision

1. Executive Summary

- 1.1 Following a government consultation on the future rent policy for local authority landlords in late 2013, the government issued revised 'Guidance on Rents for Social Housing' in May 2014.
- 1.2 This report highlights the changes in rent setting guidance compared with previous government guidance and sets out the proposed approach to rent setting at a local level from April 2015, with an update to the local 'Rent Policy' at Appendix A.

2. Recommendations

The Executive Councillor is recommended:

- 2.1 To approve the revised 'Rent Policy' at Appendix A, to be effective from April 2015.

3. Background

- 3.1 Prior to the government consultation 'Rents for Social Housing from 2015/16', issued on 31st October 2013, local authorities were expected to increase social housing rents annually by inflation, using the measure of the retail price index (RPI) at the preceding September, plus 0.5%, plus up to an additional £2.00 per week, until target rents were achieved across the entire housing stock.

- 3.2 The comprehensive spending review in 2013 highlighted the government's intention review national rent guidance, providing some certainty over rent levels in the longer-term.
- 3.3 The outcome of the consultation resulted in revised guidance for setting rents in social housing, with a number of key changes incorporated. These changes include:
- A rent policy that is intended to apply for 10 years from April 2015.
 - A change in the inflation factor used for setting rents in social housing, to instead use the consumer price index (CPI) at the preceding September, plus 1%.
 - The cessation of the annual transition towards target rent for existing tenants, ie; removal of the £2.00 element of the rent setting formula.
 - The expectation that all properties will move directly to target rent at re-let.
 - The expectation that new homes will be let at affordable rent levels, of up to 80% of market rent, including service charges, being mindful, but not governed by, Local Housing Allowance (LHA) levels.
 - The expectation that any household with an annual income of at least £60,000 per annum (taking into account the two highest incomes in any one household), will be charged market rent levels.
- 3.3 The authority is not statutorily obliged to follow government guidance in setting rent levels, but to date the national policy has been adhered to locally. This was historically due to the penalties that used to exist in the HRA subsidy system for deviating from the policy and more recently was due to the level of debt that the authority was required to take on when the subsidy system was abolished. However, flexibility can and will be applied as to whether all government guidance should be adhered to in the context of Cambridge's uniquely pressured housing market.

Inflation factor of CPI plus 1%

- 3.4 The HRA Budget Setting Report, and subsequent Mid-Year Financial Review, incorporated the assumption that the authority would adopt the new inflationary measure of CPI plus 1% from April 2015, but left any other changes in policy to be considered as part of this review of the local 'Rent Policy' as part of the 2015/16 budget process.

Transition of void properties to target rent at re-let

- 3.5 The existing local 'Rent Policy' allows for the rent in void properties to be moved directly to target rent levels at re-let only if the property is assessed as having an above average energy efficiency rating when inspected during the void period.
- 3.6 In the 18 months since this policy was introduced, in April 2013, 362 properties have had rents increased at re-let to target rent levels, compared with the 658 properties that were re-let in total.
- 3.7 Given the authority's commitment to energy efficiency, no change to the rent policy is proposed and voids will continue to move to target rent only when assessed as having an above average energy rating.

Rents for new homes at up to 80% of market rent

- 3.8 The rent levels for new build housing schemes need to be driven by the financial viability of the scheme, recognising the impact upon viability of a number of different funding streams, including borrowing, right to buy receipts, other capital receipts and application of HRA revenue surpluses as direct revenue funding of capital.
- 3.9 The authority is primarily keen to deliver its Cambridge Social Rent Programme (CSRП) to ensure rents remain affordable, whilst recognising the constraints imposed in some of the funding mechanisms. The CSRП strives to deliver new social rented homes with rents up to the level of the LHA in Cambridge, which is currently estimated to be between 60 - 65% of market rents. It should be noted that social housing tenants are eligible for housing benefit at levels above Local Housing Allowance. However, Local Housing Allowance rates are used as a fair and equitable benchmark of what is 'affordable' for non-working or low income households.
- 3.10 It is also recognised that there are circumstances where an intermediate product may be required, to meet an identified need or to ensure financial viability of a particular site, where rents above Local

Housing Allowance levels may be adopted, using the measure of 80% of market rent as a maximum rent level.

- 3.11 It is therefore proposed that the local rent policy indicates that rents for new build homes will be delivered at rents of between 60% and 80% of market rent levels, dependent upon scheme mix and scheme viability, thus allowing for rents to be set at as low as 60% where viable, but still complying with the government guideline that rents should be set at up to 80%.
- 3.12 In practice, any new build social homes let at LHA rates at any time in a financial year will be set at the prevailing Local Housing Allowance at 1 April at the start of that financial year. The rents will be assessed against the latest available market data at that time as a check how they compare with the 60% target level, bearing in mind that market rents can vary significantly over time and depending on the area of the city analysed.

Market rents for households with incomes of at least £60,000

- 3.13 In the guidance provided by Communities and Local Government for 'Rents for Social Housing', it is expected that local authorities will charge market rent levels for properties where the house hold income is at least £60,000, taking into consideration the incomes of the two highest earners in the household.
- 3.14 The consultation indicated that government would expect the process for identification of those households meeting this criterion to be self-disclosure in the first instance, with earnings in the previous financial year dictating rent levels for the coming financial year. The guidance does indicate, however, that local authorities should take into account any material change in a household's financial circumstances, amending rent levels accordingly.
- 3.15 For existing tenants, there are currently no legal grounds under which the local authority can demand this level of financial information, making self-disclosure the only option in the short term. This constraint is being explored at a national level.
- 3.16 Collection of the financial information required to make appropriate judgements about rent levels would be expected to be relatively labour intensive, and the authority would also need to identify an appropriate ongoing source of market rent level data.
- 3.17 At this time it is not proposed to incorporate the ability to charge market rent levels for households with an income of £60,000,

recognising that self-disclosure by tenants is likely to be ineffective. This will be reviewed should any legislative changes occur to facilitate collection of the necessary financial information.

4. Implications

(a) Financial Implications

The financial implications of the revised 'Rent Policy' have been incorporated into the financial assumptions made as part of the 2015/16 HRA Budget Setting Report.

(b) Staffing Implications

There are no direct staffing implications associated with this report at this stage, although consideration will need to be given to staffing levels as and when the ability to expand the data collection exercise for higher income households, when there will be an increased administrative burden and a cost to obtaining ongoing up to date market rent data.

(c) Equal Opportunities Implications

An Equalities Impact Assessment will be undertaken as part of the preparation of this report and proposed amended rent setting policy. The assessment will be found as part of the background papers associated with this report.

(d) Environmental Implications

There are no direct environmental implications identified as part of this report or proposed revised policy.

(e) Procurement

There are no initial procurement implications identified as part of this report or proposed revised policy. Any future decision to procure services to provide market rent level data will be subject to the Council's Contract Procedure Rules.

(f) Consultation and communication

Consultation with the tenant and leaseholder representatives on Housing Scrutiny Committee is undertaken as part of this report being presented to the Housing Scrutiny Committee.

(g) **Community Safety**

There are no direct community safety implications identified as part of this report or proposed revised policy.

5. Background Papers

These background papers were used in the preparation of this report:

- Rents for Social Housing from 2015/16 – Consultation: Summary of Responses
- Guidance on Rents for Social Housing
- Equalities Impact Assessment

6. Appendices

- Appendix A - Rent Policy (from April 2015)

7. Inspection of Papers

To inspect the background papers or if you have a query on the report please contact:

Author's Name: Julia Hovells
Author's Phone Number: 01223 – 457822
Author's Email: julia.hovells@cambridge.gov.uk

Housing Revenue Account

Rent Setting Policy

1 Introduction

The purpose of this policy is to explain how Cambridge City Council will set rent levels for its properties.

2 Policy Statement

Cambridge City Council's Rent Setting Policy focuses around the following statements of principle:

The Council will set rents following consideration of the Government's 'Guidance on Rents for Social Housing', in the context of both local housing demand and Cambridge's pressured housing market.

Rents are set at a level that ensures that the Council can meet its landlord obligations to tenants and maintain stock to a minimum of the Decent Homes Standard, whilst also delivering a financially viable Housing Revenue Account over the longer term, facilitating investment in the delivery of new Social Housing provision.

3 Policy Objectives

The objectives of the rent setting policy are:

- To consider, and respond locally, to Government guidance on setting rents for social housing
- To identify how Cambridge City Council will set rents for general stock properties
- To identify how Cambridge City Council will set rents for shared ownership properties
- To identify how Cambridge City Council will set rents for new build properties
- To identify how Cambridge City Council will set rents for garages and parking spaces
- To identify the process for providing statutory notice to tenants of proposed changes in rent levels

4 Background

Rent restructuring was introduced with effect from April 2002, with the aim of introducing consistency in the calculation of rent across local authorities and other Registered Providers (RP's), ensuring that social rents were more affordable, fairer and less confusing for all tenants.

The Government rent restructuring policy requires rents to be set based upon formula driven by a combination of relative county earnings and relative property values, weighted for the number of bedrooms that a property has.

The latest Government 'Guidance on Rents for Social Housing' document sets out the anticipated approach to setting rents in the social sector over the coming ten years.

5 Detailed Implementation

In line with the rent restructuring policy, Cambridge City Council calculates a 'target' rent for all existing, and any new socially rented properties, based on the Government's 'target' rent formula as set out below:

- 70% based on the average county-level manual earnings compared with the national average manual earnings;
- 30% based on the January 1999 property valuation of an individual property, compared with the national average value of a social housing property;
- An additional 'weighting' based on the number bedrooms in the property.
- A weekly rent cap for properties based upon the number of bedrooms in the property.

Actual rents currently charged below target rents will move towards target rents only when an existing property becomes void and can be assessed as having an above average energy efficient rating. This is a deviation from the Government guidance to move all void properties directly to target rent, recognising the authority's commitment to introducing energy efficiency measures and reducing fuel poverty.

6 Annual Rent Review

In line with the Council's tenancy conditions, tenants will be given 4 weeks written notice of any change in rent, which will usually be effective from the annual date for rent changes, currently being the first Monday in April of each calendar year.

Annual rent increases (or decreases) will comprise, in line with the guidelines, an adjustment to reflect the change in prices between one year and the next, with inflation plus 1.0% applied across all properties (based on the consumer price index (CPI) inflation rate for the preceding September).

Where the rent charged for a property is below the target rent for the dwelling, no additional increase will be applied to move towards rent convergence whilst the property is occupied by the existing tenant.

Rent will be due on each Monday during the rent year 52 (or 53) weeks, but will be raised on rent accounts across 48 (or 49) chargeable weeks for collection purposes.

7 General Needs, Sheltered and Supported Housing

Cambridge City Council does not currently apply the 5% flexibility in formula rents (10% for sheltered / supported housing), but will review this practice on an annual basis, with any change proposed only after consultation.

Rents in respect of void properties will be set at target rent levels before the property is re-let, where the property is assessed as being above average in energy efficiency terms. This will not apply in the case of mutual exchanges, where there is no formal void period and therefore rents will remain as they do in respect of existing tenants.

Rents for properties which have undergone a material change, full refurbishment or rebuild, (i.e.; sheltered scheme refurbishment, property extension or conversion) will be set immediately at target social rents, reflecting the increased investment and condition of the property.

8 Shared Ownership Housing

Rents for shared ownership properties will be amended in line with the requirements of the lease.

For existing shared ownership properties, target rents will be reduced by 20%, in line with the terms of the shared ownership lease, to reflect the tenant's liability for repairs to the property.

Rents will be increased (or decreased) in line with government guidelines for rent restructuring as far as possible within the terms of the lease, with a maximum increase of inflation (CPI at the preceding September) plus 1.0%

Rents in respect of void properties will be set at target rent levels before the property is re-let.

9 New Build Housing

In respect of new build housing, consideration will be given to rent levels in the context of the financial viability of the initial investment, with rents considered at up to 80% of market rent levels.

There is a local commitment to deliver a Cambridge Social Rent Programme, with rent levels no higher than the Local Housing Allowance, currently considered to be between 60% and 65% of market rent levels in the city.

Where Local Housing Allowance is used as the measure for rents to be set, the level at the preceding April will be used for all properties completed during each financial year. Rent levels will be assessed against the latest available market data at that time as a check how they compare with the 60% target level, bearing in mind that market rents can vary significantly over time.

This policy allows for new build homes to be delivered with rents of between 60% and 80% of market rent levels, dependent upon scheme mix and scheme viability, thus allowing for rents to be set at as low as 60% where viable, but at up to 80%, in line with government guideline, should the investment dictate this.

10 Rents for Social Tenants with High Incomes

Rent levels for tenants with a taxable household income of at least £60,000 per annum can be set at market rent levels, within the national guidance.

The income received in a household in one year, ie 2014/15, is used as the driver for the rent to be set for the household in the coming year, ie; 2016/17. Any significant change in circumstances is expected to be taken into consideration, and may prompt a reduction back to target social rent level for the property. When re-let, any

