

Report of Head of Finance Environments and Housing

Report to Housing Advisory Board

Date: 3rd February 2015

Subject: Proposed Rent and Service Charge Increases for 2015/16

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

1. Summary of main issues

This report not only details the options that are available to the Council to increase dwelling rents in 2015/16 and but it also sets the proposed increase of 2.88% in the context of current Government policy and the impact on the Council's Housing Revenue Account (HRA) Business Plan.

In addition, it sets the context for the proposed introduction of a nominal service charge for medium rise flats and increasing service charges for multi storey flats (MSFs).

2. Rents

2.1 Government rent policy

As part of the June 2013 spending review the Government announced a new rent setting formula, to be fixed for ten years from 2015/16. The formula of Consumer Price Index (CPI) (as at September) + 1% per year is a change from RPI +0.5%. The September CPI figure was recently announced at 1.2% and therefore this has been used as a basis to determine rent increase options for 2015/16.

2.2 Options for 2015/16 dwelling rent increases

Councils are free to depart from the formula detailed in 2.1 but must have a balanced and sustainable HRA. Rent increases continue to be subject to Government control through Limit Rents which are generally published for the financial year in January. Should an authority agree a rent increase which results in their average rent being higher than Limit Rent full housing benefit subsidy will not be paid with the authority carrying the additional cost of the reduction. The Council increased rents by 5.9% in 2013/14 and 2014/15, however, the average rent for 2014/15 of £72.30 is still £2.08 lower than the Limit Rent of £74.38.

It is within this context that for 2015/16 three rent increase options have been considered as follows:

- Increase rents by CPI +1%
- Increase rents to reflect the Council's Limit Rent for 2014/15
- Assume that the Council's 2015/16 Limit Rent will increase by CPI+1%

The table below shows the impact of each of these options.

Options	Increase		Average weekly rent	Average annual rent	Total income	Increase over 2014/15
	%	£.p	£.p	£	£000	£000
(a) Government formula (CPI +1%)	2.20%	1.59	73.89	3,842	216,784	(4,896)
(b) Match 2014/15 limit rent	2.88%	2.08	74.38	3,868.	218,219	(6,331)
(c) Assume Limit Rent 2015/16 increase of CPI +1%	5.14%	3.72	76.02	3,952	223,020	(11,132)

- (a) Increasing rents by CPI+1% (2.2%) would generate additional income of £4.9m which is £1.5m less than the current draft HRA Business Plan.
- (b) The Council's average rent for 2014/15 is £72.30 which is £2.08 (2.88%) less than the 2014/15 Limit Rent. Increasing rents by 2.88% in 2015/16 would generate additional income of £6.3m which is in line the current draft HRA Business Plan and there would be no risk of the Council breaching its Limit Rent for 2015/16 and being required to fund any shortfall in Housing Benefit subsidy payable. This is the preferred option which will be reflected in the 2015/16 budget which is to be received at Executive Board and Council in February. The proposal to increase rents by 2.88% for 2015/16 is less than half the level of the increase in previous years.

- (c) There is an option to mitigate the impact of the Government's revised rent policy upon rental income streams by increasing rents in 2015/6 to reflect the Limit Rent for 2015/16. The Council will not be advised of this until January 2015, but making the assumption that this will increase by 2.2% (CP+1%) would mean that the Council could consider increasing rents by 5.14%. This would generate an additional £11m of rental income (£4m more than assumed in the current draft HRA Business Plan) but given the uncertainty surrounding Government plans in respect of future Limit Rent levels carries a risk of the Council having to fund any shortfall in Housing Benefit subsidy.

3. Service Charges

3.1 Background

Tenants in MSFs and low/medium rise flats receive additional services e.g. cleaning of communal areas, staircase lighting and lifts. Tenants in MSFs currently pay a service charge in addition to their rent as a contribution towards the cost of these services. For 2014/15 this is 86p per week (generating approximately £334k pa) and has traditionally been increased each year in line with the rent increase. It should be noted that tenants of low/medium rise blocks do not currently pay service charges.

The impact of increasing service charges to recover the full cost of providing additional services has been considered in previous financial years. The analysis repeatedly showed that this would result in considerable increases in existing charges to tenants and even if phased in over a number of years would ultimately make the cost of living in a 2 bed flat higher than living in a 2 bed house.

The actual cost of providing communal cleaning and lighting and lifts during 2013/14 has been identified and used to calculate the average cost per flat per week which would become payable in order to recover 100% of costs. This is shown in the table below.

Average Cost per Week for Services*	
High rise flats	£8.74
Low/Medium rise flats	£5.70

* based on actual costs for 2013/14

3.2 Cost recovery

In order to fully recover costs in 2015/16 would mean tenants in MSFs paying an additional £7.88 per week and tenants in low/medium rise flats paying an additional £5.70 per week. Without factoring in any rent increase for 2015/16 this equates to increases of 10.2% and 7.5% respectively.

Recovering the full cost of providing services via service charges has the advantage of being more transparent and would eliminate the subsidisation of those tenants receiving these services. It would also eliminate the existing discrepancy whereby services charges are currently only levied for tenants of MSFs but not for tenants of low/medium rise flats where services are provided. In addition, the proposal would

generate additional income for the HRA which could be used for a variety of purposes such as increased capital investment or improvements to the area where it is generated e.g. environmental works.

As stated in 3.1 above, analysis has shown that fully recovering costs through service charges will lead to the cost of living in a 2 bed flat higher than living in a 2 bed house. This is in conflict with Government advice to avoid situations/decisions which create such anomalies. In addition, it could be argued that tenants would be penalised financially for living/being allocated a property which attracts service charges, as the services provided are not through tenant choice but part of the nature of the accommodation. This may lead to a situation where flats will become increasingly unpopular and very difficult to let. This could increase the volume and duration of voids, leading to an increase in associated costs, and loss of rent. It could also increase the number of tenants seeking transfers or an increase in the waiting list.

3.3 Options for service charges

Given the above, implementing a service charge increase which fully recovers costs is not considered viable. However, increasing charges by more than the rent increase is an option, together with extending the charge to cover low/medium rise properties in receipt of additional services. This would reduce the subsidisation of those tenants receiving additional services and eliminate the existing discrepancy whereby services charges are only levied for tenants of MSFs. The table below shows the impact of

- Increasing charges in line with a rent increase of 2.88% for MSFs only.
- Introducing a service charge for low/medium rise flats in line with MSFs
- Introducing a service charge for low/medium rise flats of £1 per week and applying a £1 increase per week to MSFs.

Options for service charge increase – 2015/16	MSFs £000	Low/Medium rise £000	Total £000	Additional income to HRA £000
MEMO				
Income from MSFs service charges 2014/15	334	0	334	0
(a) Increasing charges to MSF in line with rent increase*	344	0	344	(10)
(b) Applying the current charge (86p per week) to low/medium rise properties	334	133	467	(133)
(c) Introducing £1 per week charge to medium/low rise flats and increasing the charge to MSFs by £1 per week	705	154	859	(525)

* assumed at 2.88% in line with the preferred option

- Increasing charges for MSFs only in line with rents will increase charges by 2p per week to 88p per week and will have minimal impact on the HRA income streams.
- The introduction of a charge for the 3,000 tenants in low/medium rise properties which are in receipt of services would generate an additional £133k income. It is estimated that 65% of this would be met through housing benefit.

- (c) Introducing a service charge for low/medium rise flats of £1 per week and applying a £1 increase per week to MSFs would generate additional income of £525k per year for the HRA. Again it is estimated that 65% of this would be met through housing benefit. This is the preferred option, which is supported by the relevant Executive Board member, as it eliminates the existing discrepancy whereby services charges are only levied for tenants of MSFs and moves the charges closer to recovering the cost of services provided.

4. Conclusions

- 4.1** A rent increase of 2.88% for 2015/16 would have the advantage of generating additional income of £6.3m which is in line the current draft HRA Business Plan. In addition, there would be no risk of the Council breaching its Limit Rent for 2015/16 and being required to fund any shortfall in Housing Benefit subsidy payable.
- 4.2** Introducing a service charge to cover the costs of providing additional services to low/medium rise properties would reduce subsidisation and eliminate the existing discrepancy whereby services charges are only levied for tenants of MSFs. Increasing charges which fully recover costs is not considered as an option for reasons outlined in 3.2. However, increasing charges by more than the rent increase is an option. An increase of £1 per week equates to an increase of 1.3% in relation to the average rent for 2014/15. This would be in addition to any the rent increase introduced for 2015/16.

5. Recommendations

- 5.1** Housing Advisory Board are asked to note
- (a) the proposed 2.88% increase in rents for 2015/16 and;
 - (b) the proposal to introduce a £1 per week service charges at low/medium rise flats and increase service charges by £1 at Multi Storey flats.