

CYNGOR SIR POWYS COUNTY COUNCIL

CABINET 7th February 2017

REPORT AUTHOR: County Councillor Rosemary Harris
Portfolio Holder for Property, Buildings and Housing

SUBJECT: Housing Revenue Account Rent Setting Policy

REPORT FOR: Decision

1. Summary

1.1. This report sets out proposals for a new Rent Setting Policy for Housing Revenue Account (HRA) dwellings from April 2017.

2. Background

2.1. The current rent setting policy dates from 2001 and requires review. There are a number of factors that influence the need for a review over and above the general need to review all policies over time to ensure they remain fit for purpose. The factors influencing this policy review are:

- Welsh Government requirements under the Housing Act 2014 and subsequent guidance.
- The changing profile of our rented accommodation
- The changing housing market
- Benefit Changes
- The introduction of Service Charges for HRA properties
- Maintaining rental income

2.2. **Welsh Government requirements under the Housing Act 2014 and subsequent guidance.** The Act allows for Welsh Government to determine rent setting policy guidelines for Authorities and Registered Social Landlords across Wales. The current guidelines are that rents should be set in regard to three main criteria:

- Property Type (House, flat etc)
- Property size, determined by the number of bedrooms
- SAP rating (Standard Assessment Procedure a measure of a properties thermal efficiency)

2.3. **The changing profile of our rented accommodation:** Since 2001 the Housing properties have enjoyed a large amount of investment under the Welsh Housing Quality Standard programme. This has ensured that our properties are now modern homes. The previous rent setting policy relied a great deal on modernisation criteria for rent setting. Many of the criteria used in the policy are no longer relevant and new criteria should be considered. A copy of the existing rent setting policy is attached at appendix 1.

- 2.4. **The changing housing market:** Since 2001 there have been numerous changes in the housing market with house prices and market rents changing. It is important that HRA rents, whilst below a market rent have some comparison to it. This can be achieved with reference to the Local Housing Allowance (LHA) rate. This is the rate the 30th percentile of rents in the Broad Rental Market Area calculated by the Rent Officer Service, at which the maximum housing benefit payable for different sized accommodation is payable. The current LHA rates for Powys are as per the table below:

Size of Accommodation	Broad Rental Market Area	
	LHA Rates Brecon & Radnor 2015/16	LHA Rates North Powys 2015/16
Shared Accommodation	£45.90	£50
1 Bed	£69.04	£65.92
2 Bed	£92.05	£86.00
3 Bed	£109.32	£101.11
4 Bed	£126.58	£129.47

- 2.5. **Benefit Changes:** Under changes announced in the December 2015 Spending Review, people taking up new social housing tenancies from April 2016 will see help with housing costs capped at the rate for private tenants (LHA) from April 2018. For instance, young single people (under 35s) will have Housing Benefit capped to the shared accommodation rate from 2018. In addition LHA rates will be frozen for four years at the 2015/16 rates. It is essential that the rent setting policy is revised to ensure that HRA rents remain affordable to people who rely on benefits.
- 2.6. **The introduction of Service Charges for HRA properties:** the Housing (Wales) Act 2014, required local authority landlords to introduce service charges, rather than pool all charges within HRA rents, which was common practice until the start of 2016-17. Service charges are generally applied to flats rather than houses because flats receive services to communal areas. One effect of our previous rent setting policy was to create only very narrow differential rents between flats and houses. The service charge policy has further closed this differential, bringing the costs of renting houses and flats closer together. These low differentials are at odds with the LHA rates and with market rates. The objective of the new rent setting policy will be to introduce wider differential rental charges and to address this issue.
- 2.7. **Maintaining Rental Income:** The rent changes will not see either an increase or decrease in the overall projected rental income. The rent roll remains unaffected. This means that were the rent for some types of property go up the rent for other types of property will go down.
- 2.8. In developing a rent setting policy the Housing Service looked at the three criteria set down by Welsh Government: Property Type (House, flat etc); Property size, determined by the number of bedrooms and SAP rating (Standard Assessment Procedure). Whilst Housing have data on the size and type of accommodation we do not have a complete record of the SAP rating for all of our properties. SAP rating is a function of the type and fuel source of the heating, the type of construction and the level of thermal insulation in the property. Due to the significant improvements made to the housing stock over recent years, the SAP ratings held on many of our homes are not reliable and the Housing Service is

currently investing in a programme to have a complete record of SAP ratings by the end of 2019/20.

- 2.9. Prior to having this data Housing need to use a close proxy for SAP rating. Housing have good data on the heating/fuel type for our properties based on our servicing records and so it is proposed to use this criteria to help set a rent. We are doing this because it is a good fit to Welsh Government guidelines and does affect the overall affordability of a home. However, the formula we propose to use allows fuel type to only have a marginal effect on the overall rent figure. So, a property with the least efficient heating/fuel type (an electric boiler) will have a rent of around £4 a week less than a property with the most efficient heating/fuel type (gas central heating for instance). This proxy will remain in situ until 2020/21 when the proxy will be replaced by the SAP rating of the individual property, as one of the three key elements upon which rents are calculated for individual properties.
- 2.10. In determining property types, through the consultation process views were expressed that it would be appropriate for properties that have an additional living room downstairs “parlour type houses” to be subject to an additional charge. The additional charge for these types of properties will be rolled in during 2017/18.
- 2.11. The Housing Service developed three models of rent charges based on the principles set out above, these are shown at appendix 2. The rent is calculated based on a formula. First a base rate applied to all properties of £41.80, The base rate is 50% of the mid-point guideline rent for Powys as set by Welsh Government. We used this figure to have a starting point that was within the guideline rent and that differential factors could then be added. This is then topped up with points based on the three factors discussed above:
- for size, (based on the number of bedrooms);
 - for type of property
 - for heating/fuel type.

This is a far simpler way of calculating rent for individual properties than the current system which contains many criteria. The simplicity of the calculation should be easily explained the tenants and gain acceptance.

- 2.12. The table at appendix 3 shows the average rent for various property types and sizes under the current rent setting regime and three options for new rent setting policies. Each property will have a new rent and few will sit on the average figure for each option. The table also shows, in the “**High/Low Diff**” columns, the highest and lowest amounts by which the rent will differ for specific properties under the new policy from the current rent. Each option has a number of properties where there are large variations for some specific properties, transitional measures for these are discussed below (2.16).
- 2.13. The effect of all three options is to, in general terms, decrease the rent for smaller accommodation and for flats and to increase the rent on larger properties and houses. In all options the total rent roll is unaffected with the same total rental income is generated within the HRA. The preferred option is option 1.
- 2.14. Option 1 is preferred because, it balances the differentials between property type (flat, house, bungalow etc) with property size (how many bedrooms it has). Option 2 gives greater weighing to the property size and option 3 gives greater weighting to property type.

- 2.15. It is planned to bring these changes into effect from the first week in April 2017 along with the annual rent increase. That means that the figures in appendix 3 will be subject to the rent increase for 2017. This figure has yet to be agreed but will be based on the Welsh Government guidance figure of inflation (as measured by CPI) plus 1.5%.
- 2.16. Some rents (ie in smaller flats) will decrease and others will increase. When increasing rents for existing tenants the maximum permitted increase is the annual increase plus £2. Where the proposed rental increases exceed this permitted amount, the rent will be increased at the maximum annual rate until it reaches the new rate. This transitional approach to increasing the rent will only apply to existing tenants. Where a property becomes empty the new rent will be charged in full to the next tenant.
- 2.17. The transitional approach to applying some increases risks lowering total income. To avoid this eventuality the Housing Service will also phase the lowering of rents over this period of transition. This effect will work out of the system as the highest rents reach their new rents.
- 2.18. The type of point system we propose to use is simple and robust and flexible. Additional property types and sizes can be added with ease as we grow and develop our stock. For instance where we occasionally merge two properties together to make a larger dwelling we can add a property type for this.

3. One Powys Plan

- 3.1. The new rent setting model will enable the Housing Service to continue to be viable and the Housing Service through its wide reach across all areas supports all aspects of the Powys One Plan.

4. Options Considered/Available

- 4.1. The Cabinet could consider adopting the other models set out in appendix 1 as Options 2 and 3.

5. Preferred Choice and Reasons

- 5.1. It is recommended that Cabinet support option 1.
- 5.2. This Option provides the best balance between assessing rent on size and type of accommodation.

6. Sustainability and Environmental Issues/Equalities/Crime and Disorder,/Welsh Language/Other Policies etc

- 6.1. A properly financed Housing Service is better able to support these policies.

7. Children and Young People's Impact Statement - Safeguarding and Wellbeing

7.1. A properly financed Housing Service is better able to support these policies.

8. Local Member(s)

8.1. This matter has equal effect across the Council

9. Other Front Line Services

9.1. A properly financed Housing Service is better able to support these services.

10. Support Services (Legal, Finance, HR, ICT, BPU)

10.1. The Finance Business Partner notes the comments in the report and can confirm that if the new rental model set out in Option 1 of appendix 2 is adopted it will provide for a more rational rent setting policy for the HRA because it balances the differentials between property type (flat, house, bungalow etc.) with property size (how many bedrooms it has).

10.2. The Professional Lead-Legal has no comment on the preferred option recommended in this report save that an appropriate method is required to be adopted by council as set out in statute.

11. Local Service Board/Partnerships/Stakeholders etc

11.1. This is a specific Housing Management matter, however, a properly financed Housing Service is better able to support partnerships

12. Communications

12.1. The Housing Service raised this matter at the Tenant Liaison Forum on 9th December where it met approval.

12.2. All tenants have been written to and invited to comment on the proposal. The results of the consultation are in appendix 4. Comments were only received from 16 tenants. Issues included a view that a differential for urban and rural housing should be considered, that SAP rating should be considered and that Housing should use this as a money making exercise. Responses to all the comments are included in the appendix.

13. Statutory Officers

13.1 The Solicitor to the Council (Monitoring Officer) has commented as follows: "I note the legal comment and have nothing to add to the report

13.2 The Strategic Director Resources (S151 Officer) notes the comment made by finance.

Recommendation:	Reason for Recommendation:
The new rental model set out in Option 1 of Appendix 2 is adopted as the HRA rent setting policy with effect from 1 st April 2017	To provide for a more rational rent setting policy

Relevant Policy (ies):	
Within Policy:	Y
Within Budget:	Y

Relevant Local Member(s):	All Members
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Person(s) To Implement Decision:	David Roffey
Date By When Decision To Be Implemented:	April 2017

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