

## **HOUSING SERVICES RENT SETTING AND SERVICE CHARGE POLICY**

### **1. RECOMMENDATIONS**

- 1.1 That HHOSP: -
  - 1.1.1 Considers the proposed rent setting and service charge policy (Appendix 1) in the context of government rent setting policy, HRA housing revenue account budget and housing public sector capital expenditure programme 2023/24.
  - 1.1.2 Considers the proposed changes to current rent setting processes to apply formula rent to the reletting of social rent dwellings and rent flexibility where applicable.
  - 1.1.3 Considers the further proposed increase to domestic energy charges of up to 25%, and a 7% uplift of the charges for communal services received, to match the proposed increase in the basic rent for 23/24 from 3<sup>rd</sup> April 2023.
  - 1.1.4 Makes recommendations to Cabinet on the points of consideration above.

### **2. INTRODUCTION**

- 2.1 This report introduces a new rent setting and service charge policy for implementation from 2023/24 onwards at Appendix 1. The policy introduces additional measures to increase the rent of void social rent properties at a subsequent relet to the formula rent, plus the application of rent flexibility of 5% on top of formula rent for new build social rent properties, or where significant investment has been made.
- 2.2 A policy is required to ensure decision making in relation to rent and service charge setting is transparent and appropriately monitored. Further, a policy is required to align rent setting with the HRA Medium Term Plan and 30 Year Business Plan, to enable effective planning and assurances over rent income levels as far as can be practically forecast.
- 2.3 The Policy also details a revised approach to setting and recovering service charges.

### **3. BACKGROUND**

#### **3.1 Rent Setting**

- 3.2 Actual rents increase up to the maximum rate currently permitted by the rent standard using a standard formula. This is called the formula rent. Each property has a formula rent level. Under the current Government policy statement an increase of CPI +1% was permitted until 2024/25. The government plans to consult separately on rent increases from 2025/26. Due to the costs of living pressures and high inflation

the Government deviated from the settlement to set a maximum rent increase of 7% for existing tenants in 2023/24.

- 3.3 The formula rent represents the maximum rent level that the Council could have set for each of its properties. If the Council had set rents lower than the maximum permitted each year the actual rent would vary from the formula rent, in greater or lower values depending on how much the respective deviation was from the formula rent. NFDC has consistently agreed the annual increase at the formula rent. Therefore, by the end of 22/23 the average difference between actual rents and formula rents is £0.10.
- 3.4 However, whilst actual rents are capped at a maximum increase of 7%, the formula rent is not capped, resulting in a formula rent that increases by 11.1% in 23/24. National rent policy allows Local Authority Housing Landlords to increase the rent of social rent properties at their relet, following a void period, up to the formula rent.
- 3.5 National rent policy also provides the ability to introduce rent flexibility where it can be justified. This allows a further 5% increase on top of formula rent to recover additional income.
- 3.6 Service Charges**
- 3.7 Service Charges are currently used by NFDC as a method to recover domestic energy costs from tenants where their personal usage costs are charged directly to the Council by the respective Utility Company. Service Charges are also used to recover some aspects of communal heating and lighting costs from tenants, which are also incurred in their respective blocks.
- 3.8 Although there was an interim review of charges in January 2019, and each year charges are nominally increased in line with inflation, the type of services eligible to be charged to tenants have not been fundamentally reviewed for a number of years. The recent rise in energy costs has only stood to exacerbate the difference between the Council's actual costs and what it charges for energy use to tenants, through service charges.
- 3.9 This means the Council's landlord function is under recovering costs incurred in providing tenants with domestic energy, and/or communal heating and lighting. In this example the shortfall of costs incurred in this provision would effectively be borne by wider housing service budgets. In November 2022, Cabinet agreed to a 25% increase of domestic energy charges to be levied from 3<sup>rd</sup> January 2023. This report proposes a further uplift up to a maximum of 25%, with effect from April 2023, and a 7% uplift of the charges for communal services received, to match the proposed increase in the basic rent for 23/24 from 3<sup>rd</sup> April 2023. This will help to ensure that the gap between actual charges incurred by the Housing Revenue Account and that charged to tenants (relating to existing charges), is not too disproportionate.
- 3.10 A wider review will be undertaken during 2023/24 with a view to ensuring a fair and transparent charging mechanism is in place for all properties liable for a service charge.

#### **4. PROPOSED RENT SETTING AND SERVICE CHARGE POLICY**

- 4.1 The proposed policy explains how the council will calculate and charge rent for all the residential properties in its Housing Revenue Account (HRA) and the factors involved with this decision. The purpose of this policy is to:

- Ensure that the council adheres to government legislation and regulation when setting rents.
- Provide a clear and consistent framework for setting and reviewing the rents of all properties accounted for in the HRA.
- Provide as much financial certainty for the HRA as possible.
- Maximise the income available to maintain our existing housing stock and to construct or acquire new homes.
- Support the delivery of the HRA Business Plan.
- Ensure the Council meets its statutory obligations.

4.2 It is proposed to apply the following principles:

- Actual Rents and Affordable Rents will increase by an amount recommended by New Forest District Council's Cabinet, to be approved by Full Council, up to CPI + 1% each April from 2020/21 for a period of five years, except for the financial year 2023/24 where the maximum increase is capped at 7%.
- CPI will be taken as at September of the previous year.
- All newly built dwellings that are not let at Affordable Rent, or Shared Ownership, will be let at Formula Rent, plus 5% rent flexibility, unless it has been otherwise agreed with Homes England. The option to apply rent flexibility to this category of property is to recognise the additional quality and high energy efficiency standards (EPC A or B) that each of these properties delivers to our tenants. In having a high energy performance rating of A or B the resulting energy costs will be lower and more affordable to the occupying tenants, reducing any impact of a higher rent.
- Properties purchased under the 'Buyback' scheme will be let at formula rent.
- All dwellings, including age restricted and extra care properties, that become vacant and available for re-let, and that are not let at Affordable Rent or Shared Ownership, will be let at the Formula Rent, to be applied from 2023/24 onwards to ensure the Council has the necessary funds to achieve planned maintenance and energy efficiency targets on the existing stock, and to contribute towards a programme to build and/or acquire new council homes.
- Rent Flexibility of 5% will be applied to the weekly rent of empty social rent properties upon reletting, in addition to the uplift to formula rent, where the empty property:
  - Is part of an energy efficiency improvement programme
  - Receives significant expenditure, over £40,000, to remedy substantial property faults
- On each occasion that an Affordable Rent tenancy is granted, including the granting of a further flexible tenancy term to the same tenant, the rent is re-set based on a new market rental valuation. The rent of an existing Affordable Rent tenant (including where they have a new tenancy) may not be increased by more than CPI+1% in any year, subject to specified limits.

4.3 It is further proposed to increase the service charges to those tenants currently charged for domestic energy, up to a maximum of 25% on top of charges levied on 3<sup>rd</sup> January 2023.

4.4 Tenants, who are part of the current service charge regime also pay for communal charges such as communal heating and lighting and cleaning services. It is proposed to increase these charges by 7%, in line with the annual rent increase, ahead of a wider review and consultation later in the year.

4.5 During 2023 it is proposed to launch a fundamental review of service charging, looking across the board, to consider how many tenants are benefitting from communal services provided and paid for by the HRA, with a view to better recovering the actual costs of services provided, to aid fairness and transparency.

Consultation with relevant tenants will take place, which will feed into the Council's decision-making processes in the autumn of 2023 in respect of the wider review.

## **5. FINANCIAL IMPLICATIONS**

- 5.1 Both the addition of formula rent at relet and applying rent flexibility where applicable have a positive impact on the health of the HRA over the 30-year business planning period. If either of these policy tools were not applied the Council is projecting a £5m HRA deficit after 30 years.
- 5.2 Reletting vacant dwellings at the formula rent (Scenario 1) improves the operating surplus and allows the authority to maintain a minimum balance on its HRA for the duration of the 30-year projections. If we add rent flexibility (Scenario 2), the authority uses the additional income generated to repay debt and continues to maintain balances at the minimum level.
- 5.3 Both scenarios increase the rental income available to the HRA, which improves the ability to repay debt. As a result, the authority has more revenue resource available, which means it is better able to part-finance the capital programme using revenue contributions. When borrowing is required to finance the capital programme, the HRA will need to borrow less, and the additional revenue resource available means that it can repay the debt more quickly.
- 5.4 If the authority adopts a policy of re-letting units at the formula rent (Scenario 1), the debt after 30 years drops to £114.146m, which is £31.780m lower than the baseline position. If 5% rent flexibility is also added to applicable re-let rents (Scenario 2), the authority can repay more of its external HRA debt within 30 years and is left with HRA related debt of £108.039m.
- 5.5 The increase in service charges to match expenditure, and the introduction of additional Service Charges not currently recovered, will recoup additional annual income of circa £103,000. The range of service charge increases will be from £0.27 to £5.15 for domestic energy and £0.22 to £1.49 for communal charges.
- 5.6 There is some likelihood that tenants will be impacted financially. Tenants new to social housing, or who transfer to another Council property, will be impacted by an additional 5% increase in rent at the relet of the new property. However, NFDC social rents remain well below private rent levels in the district and 73% of current tenants receive some form of financial assistance toward their rent. Therefore, most tenants will be shielded, to some degree, from these increases.
- 5.7 Where rent flexibility is concerned the properties affected will benefit from investment and energy efficiency measures, resulting in lower running costs. Therefore, whilst the weekly rent is increased the properties will be more affordable to run.

## **6. EQUALITY AND DIVERSITY IMPLICATIONS**

- 6.1 The current situation with regard to service charging requires overhaul but will be reviewed in phases to lessen the impact on vulnerable people. 693 Tenants who live in flats receive services under the current charging regime. A situation has arisen which means the HRA is offsetting its budgets to cover the shortfall in income, which is not sustainable in the future.
- 6.2 The proposed rent policy aims to redress this situation and ensure equity amongst tenants who do, and do not receive services in a phased approach, beginning with

tenants who are part of the current regime later in 23/24. In addition, the new policy will increase transparency and demonstrate to those tenants who are charged, what they are paying for and for what service.

- 6.3 As per para. 5.6 there is likely to be an impact on Tenants, particularly by the proposed changes to service charges. In particular those living in flats will be affected. This will include those living in Extra Care, age restricted flats and single person flats. This will include a number of vulnerable, elderly, disabled people, and/or those on low incomes.
- 6.4 In mitigation, all communal charges are eligible for benefits. The majority of tenants in these flats will be in receipt of financial assistance so will be largely protected.
- 6.5 In addition, the Council has a well-established approach to local support and assistance with cost-of-living pressures, with a Council Steering Group linking in with local voluntary groups providing practical support to residents. The Housing Services' Tenancy Support Worker will be made available to support vulnerable tenants where necessary, whilst the Council's team of Tenancy Account Officers are now regularly attending community drop-in sessions around the district; ready to provide support and signposting where necessary.

## **7. TENANT INVOLVEMENT GROUP COMMENTS**

- 7.1 These will be reported at the meeting.

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### **Background Papers:**

None