<u>Rents for Social Housing from 2015/16 – TLC Briefing Note August 2014</u>

Background

1. In May 2014 Government issued new guidance setting out its policy on rents for social housing for April 2015 onwards. As expected, it contains no material differences from the proposals that were included within the preceding consultation document released in autumn 2013.

2. The Housing & Community OSC scrutinised the consultation document in December 2013, and their comments were incorporated into the DBC response. Minutes of the discussion can be found at the following link: http://www.dacorum.gov.uk/docs/default-source/council-democracy/housing-13-12-12-minutes.pdf?sfvrsn=0

3. The Council's TLC (Tenants & Leaseholder Committee) also held a one off meeting to consider the government consultation and potential impact on DBC's HRA Business Plan.

4. Appendix A shows a table summarising the financial impact of the options discussed in this paper for the Council's future rent policy.

How do the new guidelines affect DBC?

5. The most significant implication for DBC arises from the change to annual rent increases scheduled to take effect from 1 April 2015. The two key points for DBC, together with the financial impact on the 30-year business plan, are:

   - A change from 'RPI + 0.5%' to 'CPI + 1%' for the index linking of all rent increases. Historically CPI has been 0.7% lower than RPI and this change is projected to cost DBC £120m; and,

   - An end to convergence increases of up to £2 per week for those tenants currently below Target Rent – this is projected to cost DBC £260m.

6. In summary, switching from current rent policy to the new guidelines will cost the HRA £380m over the 30 years of the plan.

How is DBC affected relative to other social landlords?

7. The change from RPI to CPI as a means of calculating rent increases will negatively affect all Local Authority landlords.

8. DBC will be worse affected than most other LA landlords by Government's decision to end the convergence policy because it is further away from achieving convergence with Target Rent. While Government states that the majority of LAs have already achieved convergence, DBC is projected to have only 40% of its stock at Target Rent by the end of 2014/15, rising only to 70% by 2019/20.

9. Officers highlighted DBC's unusual situation in the response to the Government consultation. Whilst not referring directly to DBC, the new guidance states that rent increases for sitting tenants should always be limited to CPI + 1% and that landlords should pursue outstanding convergence by re-letting at Target Rent when properties become void. If the Council were to adopt this approach in tandem with the new guidelines, the loss to the business plan would be mitigated by £80m over 30 years, resulting in a net loss of £300m.

Is compliance with the new guidance compulsory?

10. Government has expressed an expectation that LAs will comply with the guidance but has not stated that it is compulsory.

What are the consequences for Local Authorities that choose not to comply?

11. In the view of the Chartered Institute of Housing (CIH), Government currently has no means of enforcing compliance.

12. Currently LAs face financial penalties only in those cases where they increase average weekly rent above a limit set by Government. In such cases the LA will only receive Housing Benefit on rents up to the limit and will have to fund the cost of additional Housing Benefit itself. This is known as the Rent Rebate Subsidy Limitation.

13. The current rent limit set by Government for DBC properties is £109.40 per week, and the actual average rent is £102. From 2015 onwards the rent limit will increase annually by CPI + 1%, which means that DBC is likely to be able to continue with its current rent policy in the short-term without being affected by Rent Rebate Subsidy Limitation.

14. Government retains the ability to implement policy in the future that will enable them to enforce compliance or even retrospectively to claw-back any gains made by those LAs that did not comply. However, the view of CIH, based on their work across the sector, is that this is low risk.

What are the arguments for DBC retaining its current rent policy?

15. Government has issued new rent policy *guidance* – DBC is under no statutory obligation to follow the guidance.

16. The new guidance does not indicate that Government believes that Target Rent is too high, or that the convergence policy was in any way wrong. Rather it is a one-size-fits-all attempt to limit future rent increases for landlords whom it assumes are *already* charging Target Rent. If DBC continued with its current policy it could argue that it was still operating within the spirit of Government guidance on the basis that it was continuing to try and reach the rent levels that Government states that it should be charging for its property.

17. Both the H&C OSC and the TLC have expressed a preference for the Council to continue with its current convergence policy as a means of bringing parity between tenants' rents. If the Council was to abandon its rent-setting discretion and adopt a policy based purely on Government guidance, it could be argued that it was reducing its accountability to tenants. This would be in direct contravention of a fundamental tenet of Government's Self Financing policy, which seeks to *increase* landlord accountability.

18. For the purpose of calculating the Self Financing Settlement, Government made an assumption that, nationally, Local Authorities would achieve convergence in 2015/16. This means that Government's assessment of DBC's capacity to repay its SF debt was predicated on the basis that it would continue with its policy of convergence until at least 2015/16. This is sound justification, if required, for maintaining convergence for at least one more year, whilst sounding-out Government response to non-compliance.

What are the arguments for adopting the new guidance?

19. Historic low borrowing rates at the inception of Self Financing meant that DBC and other LA landlords in a similar position enjoyed a financial benefit far in excess of what Government anticipated. Although the Council's business plan does not show excessive accumulating balances, there is an argument that we should do as little as possible to attract Government scrutiny of annual surpluses. To do so would be to risk Government implementation of a mechanism to recover some of DBC's surplus operating income for redistribution to those areas of the country where Self Financing has worked less well. However, officers have discussed this with CIH and believe that there is a low risk that this would happen.

20. It should be noted that if the RPI element of the current rent policy is retained, even those tenants *already at Target Rent* would face annual rental increases in excess of the CPI linked basis recommended in the new guidance. This could be addressed through a split rent-setting mechanism whereby those below Target Rent face increases calculated using RPI whereas those already at Target Rent face increases calculated using CPI.

Conclusion

21. The option that best optimises income whilst at the same time working towards achieving parity of rents is to retain the existing rent policy for those below Target Rent but to implement CPI-linked rental increases for those who have already achieved Target Rent.