

<b>CABINET</b>	<b>DATE</b> 22 July 2020	<b>ITEM NO</b> 5
<b>TITLE</b> Rent Standard – Reletting voids at Formula Rent +5%	<b>WARD (S)</b> ALL	
<b>CHIEF OFFICER</b> Director of Housing and Safer Communities	<b>CABINET MEMBER</b> Housing	
<b>DECISION CLASSIFICATION</b> Key Decision	<b>FINAL DECISION</b> To be made on the recommendations in this report.	

## **I. Decision required**

- 1.1 In line with the Rents Standard 2020, Cabinet to agree that all new relets of Royal Borough of Greenwich Housing have rents set at Formula Rent + 5% until April 2023.

## **2. Purpose of Report and Executive Summary**

- 2.1 This report explains the new regulatory standard for Housing Rents which came into force for Local Authorities from April 2020/21.
- 2.2 The Regulator for Social Housing produces various Regulatory Standards to regulate Registered Providers of Housing within the country.
- 2.3 Local Authorities have already had to comply with elements of the Consumer Standards but are now regulated under the Rents Standard from April 2020 by the Regulator for Social Housing.
- 2.4 The Rent Standard from April 2020 which Local Authorities will have to comply with, was published in February 2019 in the “Policy statements on rents for social housing” by the Ministry of Housing, Communities & Local Government.
- 2.5 This report recommends that re-letting of RBG social housing stock, which is currently calculated at using the formula rent standard minus service charges, is set at Formula Rent +5% for a period of 3 years using the allowance under Rent Flexibility, as per the Rent Standard. This report explains the justification for this.

2.6 This change is forecast to effect less than 5% of the RBG Housing Stock annually and will still mean that RBG has some of the lowest average rents in the London.

### 3. Current Situation

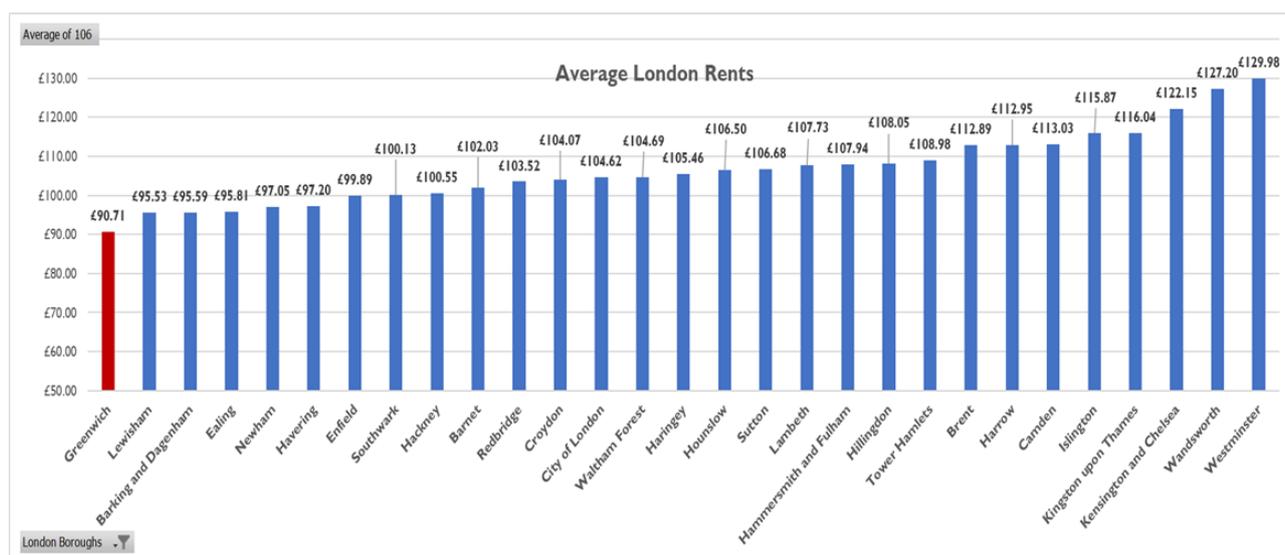
3.1 Currently all of RBGs social housing stock is calculated using the Formula Rent calculation for Social Housing minus the service charge. This creates a ‘formula rent’ for each property, which is calculated based on the relative value of the property, relative local income levels, and the size of the property. An aim of this formula-based approach is to ensure that similar rents are charged for similar social rent properties.

3.2 In 2016/17, to increase transparency and mitigate the effect of the rent losses, RBG, “de-pooled” service charges from rental charges for its social housing stock. This was due to the announced -1% rental decreases that were imposed by the government in 2015. By de-pooling the service charges it meant that although rents were decreased by -1% per year service charges could still be increased, therefore RBG would still be able to maximise income.

3.3 This “de-pooling” calculation however has led to any new properties and re-let properties having formula rents calculated with the service charged removed. The yearly increases or decreases in the formula are shown below. A two bedroom property has been used as an example to show this in real terms:

Year	Increase/Decrease		2 Bed Rent
2001	4.30%		£ 73.77
2002	2.20%		£ 75.39
2003	2.20%		£ 77.05
2004	3.30%		£ 79.59
2005	3.60%		£ 82.46
2006	3.20%		£ 85.10
2007	4.10%		£ 88.59
2008	4.40%		£ 92.49
2009	2.40%		£ 97.57
2010	-0.90%		£ 96.70
2011	5.10%		£ 101.63
2012	6.10%		£ 107.83
2013	3.10%		£ 111.17
2014	3.70%		£ 115.28
2015	2.20%		£ 117.82
2016	-1.00%		£ 116.64
Depooling		-£12.54	£ 104.10
2017	-1.00%		£ 103.06
2018	-1.00%		£ 102.03
2019	-1.00%		£ 101.01
2020	2.70%		£ 103.73

- 3.4 It should be noted that the service charge has continued to be collected separately so there was not a decrease in income but a separate income stream.
- 3.5 This “de-pooling” of the historic service charge has left the majority of RBGs stock not being at Formula Rent. This is due to the properties being occupied and only being able to raise those rents in line with the Rent Standard.
- 3.6 On benchmarking RBG currently have the lowest average Formula Rents across London:



#### 4. **Rent Regulatory Standard April 2020**

4.1 The new regulatory standard from April 2020 is quite clear that:

“From April 2020, registered providers may not increase rents by more than CPI (at September of the previous year) + 1 percentage point in any year”

RBG Council took the decision in February 2020 to increase rents in line with this by 2.7% from April 2020 (CPI 1.7% + 1%).

4.2 The regulatory standard goes on to say that:

“Registered Providers must adhere to this limit on rent increases even if a tenant’s rent is below formula rent, or they have previously applied a lower – or no- annual increase”

However, the standard goes on to say:

“Where this is the case, the provider may only move the rent up to formula rent when the property is re-let following a vacancy”.

4.3 In effect this means that when a property is re-let, RBG is, within the Standard, able to set the rent at formula rent separate to the service charge (which would be charged on top). This would mean that the tenant would be charged the formula rent plus the current years’ service charge. This is currently allowable within in the Standard.

4.4 In addition to this there is Rent Flexibility built into the new regulatory standard which states:

“The government’s policy recognises that registered providers should have some discretion over the rent set for individual properties, to take account of local factors and concerns, in consultation with tenant.

As a result, the policy contains flexibility for registered providers to set rents at up to 5% above formula rent....If applying this flexibility, providers should ensure there is a clear rationale for doing so which takes into account local circumstances and affordability”

Effectively, where there is justification to do so we are able, within the Standard, to raise rents on individual vacant properties to Formula +5%.

4.5 The recommendation is that for a period of three years RBG raise rents to Formula +5% for all new re-lets within their stock. The justification for doing so is:

- a) On benchmarking RBG currently have the lowest average rents across London. (Appendix 1)
- b) For the coming three years the Housing Revenue Account business plan shows a deficit, all other things being equal. This then goes into a balanced or surplus from year 4. RBG are legally required to ensure that the HRA balances every year and an increase to Formula +5% over the coming three years will help reduce this pressure. (Appendix 2)
- c) RBG has a significant requirement for capital investment over the coming 5 years in planned major works, new Health and Safety works to meet increased fire safety standards, and additional investment to reduce carbon emissions

Given these three points there is a strong case that for three years (until the HRA is in surplus) all new re-lets are let at Formula +5%

- 4.6 After reletting the rental income on that property will increase in line with the borough wide rent setting, usually CPI + 1%.
- 4.7 If a property is twice within this period this increase will not be cumulative, i.e. the increase would not become Formula Rent + 10% but would always stay at Formula + 5%.
- 4.8 Based on the number of voids for the previous three years, we are forecasting that less than a thousand properties will be affected by this change which is would be less than 5% of the stock each year.

## 5. **Financial impact**

- 5.1 The financial impact of these recommendations depends on how many re-lets RBG experience over the coming three years and the size and rental level of properties. Averages for 2019/20 have been used to give some sense of additional income that would be gained through these initiatives.
- 5.2 There will be an estimated 780 re-lets for RBG expected in 2020/21. Effectively if these properties were set at Formula Rents rather than using the current standard this would mean that the £12.54 historic service charge would be in addition to the rent. The result of this would be an additional £508,622 income per year (12.54 x 780 properties x 52 weeks). £1,525,867 over the three-year period. Residents would pay the service charge on top of this rent.
- 5.3 In addition to this if new lets were raised to Formula +5% then RBG would potentially see an increase in income of £203,099 per annum or £609,299 over the three-year period:

	<u>Average Rent</u>	<u>Service Charge</u>	<u>Number Let</u>	<u>Formula Rent</u>	<u>5%</u>
Bedsits	67.46	12.54	53	£ 222,370.91	£ 11,118.55
One Bed	75.46	12.54	285	£1,302,912.00	£ 65,145.60
Two Bed	89.96	12.54	243	£1,296,643.64	£ 64,832.18
Three Bed	103.5	12.54	149	£ 901,820.68	£ 45,091.03
Four Bed	117.99	12.54	39	£ 266,565.99	£ 13,328.30
Five Bed	127.87	12.54	10	£ 71,685.69	£ 3,584.28
					£203,099.95

- 5.4 The total increase in income would potentially be £711,721 per annum or £2,135,163 over three years.

## 6. **What this means for our residents?**

- 6.1 We want to consider how the recommendation will impact residents impact to consider with regards to affordability and consultation.
- 6.2 If this recommendation is accepted, this approach would take the average rent to £100.15 per week for Formula Rent and £105.16 for Formula Rent + 5%.
- 6.3 From the Benchmarking £100.15 per week it would still mean the re-let properties are in the lower third of London Social Rents and £105.16 would be mid table.
- 6.4 The Local Housing Allowance rates (LHA) will also cover these new rental charges. The LHA rates for Royal Borough of Greenwich being:

	<u>Inner SE London</u>		<u>Outer SE London</u>	
Shared	£	98.04	£	86.80
1 Bed	£	216.51	£	170.83
2 Bed	£	281.45	£	210.17
3 Bed	£	340.64	£	257.16
4 Bed	£	429.53	£	322.15

- 6.5 Royal Borough of Greenwich has carried out consultation with residents when implementing in the service charge and sent out annual rent statements as required. No specific consultation will be required for this change as current tenant charges will not be affected.

## 7. **Available Options**

- 7.1 Option 1: Continue with the current rental calculations being used.
- 7.2 Option 2: Increase all re-lets to formula rent, with an additional income of £508,622 per year.
- 7.3 Option 3: Increase all re-lets to formula rents plus 5% using the Rent Flexibility Level, with an additional income potential of £711,721 per year.

## 8. **Preferred Option**

- 8.1 **Option 3 is the preferred option**

## 9. Reasons for Recommendations

- 9.1 The justification for the changes is set out in Paragraph 4.5. The effect annually is predicted to affect less than 5% of the RBG Housing Stock across the borough and will still leave RBG with relatively low rents when compared with other boroughs in London.
- 9.2 This recommendation will continue to support significant investment in RBGs Housing Stock over the coming three years whilst ensuring services continue to be viable and funded.

## 10. Cross-Cutting Issues and Implications

- 10.1 The recommendation in this document have the potential to have a significant effect on the General Fund budget and staffing in other teams.

Issue	Implications	Sign-off
<b>Legal</b> including Human Rights Act	<p>From 1 April 2020 the council has been obliged to set its rents in accordance with the Rent Standard 2020 (“the 2020 Standard”). The Standard is issued by the Regulator of Social Housing by direction (the Rent Standard Direction 2019) issued by the Secretary of State for Housing, Communities and Local Government.</p> <p>The 2020 Standard sets out the formula to be applied to social and affordable rents for existing tenants, to fair rents and for tenants moving between different types of rent. On 26<sup>th</sup> February 2020 the Council agreed to set the rent formula for all properties at CPI+1% up to 2025 commencing April 2020.</p> <p>The current proposals is to increase rent on new lettings(only) by CPI+5%. This decision is consistent with the decision made by Council in February 2020 and the discretions</p>	Azuka Onuorah Head of Legal Services 29 April 2020

	allowed to the Council under the Rent Standard 2020. The rationale is set out at paragraph 4.5 of the report.	
<b>Finance</b> and other resources including procurement implications	<p>The decision maker is recommended to agree that the re-letting of RBG social housing stock, which is currently calculated using the formula rent standard minus service charges, is set at Formula rent plus 5% for a period of 3 years using the allowance under Rent Flexibility. The financial impact of the above recommendations depends on how many re-lets RBG experienced over the coming years and the size and rental levels of properties.</p> <p>However, the total increase in income, if the recommendation is accepted, could potentially be £711,721 per annum or £2,135,163 over three years. This is a key decision and does not impact on any other budgets or resources.</p>	<p>Akosua Boachie</p> <p>Accountancy Business Change Manage</p> <p>29 April 2020</p>
<b>Equalities</b>	There are no equalities impact for this report	<p>Richard Parkin</p> <p>AD Housing Services</p> <p>15/06/2020</p>
<b>Risk management</b>	There are no identified risk from this report	<p>Richard Parkin</p> <p>AD Housing Services</p> <p>15/06/2020</p>

## 11. Report Appendices

### 11.1 Appendix 1: London Benchmarked Rents

#### Appendix 2: 10 year HRA business plan deficit/surplus - modelling

## 12. **Background Papers**

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