

LOCAL GOVERNMENT AND HOUSING COMMITTEE

SOCIAL HOUSING – CONSIDERATION OF RENT LEVELS, INCLUDING LINKS TO SOCIAL HOUSING GRANT AND HOUSING BENEFIT.

PURPOSE

1. To seek the committee's views on rent levels of social housing, including their links to Social Housing Grant (SHG) and Housing Benefit. This paper was commissioned following the Committee's consideration of the draft National Housing Strategy consultation paper on 15 November 2000, when it was noted that there was a proposal to compare the differences in rent levels between local authorities and Registered Social Landlords (RSLs), and to seek to address unjustifiable differences.

RECOMMENDATIONS

2. The Committee is invited to:

- (i) support the overriding principle that tenants should pay comparable rents for comparable dwellings and services;
- (ii) support research being undertaken to review rent and service charges to ensure that there is fairness and consistency (see paragraph 3);
- (iii) note that the disparity of rents for social housing in different sectors has been much less of a problem than in England;
- (iv) note that the Assembly has already recognised the interaction between Housing Benefit and social rent levels and the impact on those seeking employment, for example significant policy emphasis has been given to restraining RSL rent increases (see paragraphs 12 to 17);
- (v) note that the methodologies used for influencing rent increases in the local authority (see paragraphs 7 to 11) and RSL (see paragraphs 12 to 17) sectors are different.

TIMING

3. The National Housing Strategy proposes that from April of this year a project will be established to carry out research into actual social housing rent levels (and associated costs) in Wales and produce guidance on local rent policies. It would be helpful to have the Committee's views before the project is commissioned.

BACKGROUND

Fairness and consistency

4. Generally, local authority and RSL rent levels are significantly below market levels. Thus, there is little concern about social housing rents exceeding Housing Benefit rent thresholds. Because the stock profile of RSLs tends to be newer, the properties are often in better condition and have more modern amenities than their local authority counterparts. As a result of the operation of the benchmarking system, the disparity of rents for social housing in different sectors has been much less of a problem than in England.

5. There is concern that the broad pattern of rents across Wales' social housing sector is not always a coherent one. There is anecdotal evidence of inconsistent rents within individual authorities.

6. Currently, data collected on rents is different for the two sectors, making meaningful data comparison difficult. Furthermore, there are further inconsistencies in rent setting methodologies applied to local authorities and RSLs. This weakness has been identified, hence the research project proposed (see paragraph 3 above). This project will aim to provide consistency on data collection, and more importantly provide guidance on local rent policies.

Local Authority Rent Policy

7. The individual local authority sets actual rents charged. Local authorities have a legal requirement to charge consistent rents. In simple terms, councils must ensure a broadly consistent relationship between the rents of all the council's dwellings and market rents.

8. Following local government reorganisation in 1996 many new authorities inherited rent structures which, when considered as a whole, were inconsistent. Consequently, some authorities have begun long term programmes to reform their rent structures. This may take some years to finish, if 'low rent' tenants are not to be unduly penalised. The extent of such disparities is not known.

9. Where local authority properties incur service charges it has been practice to pool such charges and spread their recovery across the authority's total stock. This can mean that all 'rents' effectively include an element of service charge. RSLs levy service charges on an actual basis. The advent of the new Supporting People grant in 2003-04 to fund support costs such as warden charges for sheltered elderly projects, means that "rent pooling" is likely to diminish steeply.

10. By setting Housing Revenue Account Subsidy (HRAS) guideline rents, the Assembly exerts significant influence. Treasury advises on the guideline rent assumption to be used in the complex HRAS statistical model, which is agreed with Treasury annually. Guideline rents and management and maintenance allowances must be set at amounts to ensure that expenditure is kept within the overall limits agreed with Treasury. The Committee was

invited in November to give its views on the proposal to consult on an average HRAS guideline rent increase of 4.5% in 2001-02. The Committee concluded that priority should be given to maximising resources available to local authorities for management and maintenance rather than reducing the level of guideline rent increases. A copy of the November paper is attached at **Annex A**.

11. Authorities may increase their rents above the HRAS guideline, but if they do the system incorporates disincentives, primarily by removing entitlement for the local authority to receive rent rebates on any excess increase.

RSL Rent Policy

12. The Assembly, and before it, Tai Cymru has been proactive for a number of years in regulating rents and rent increases in the RSL sector. This is reflected in the Assembly's Regulatory Requirements for RSLs which require that: *RSLs should set rents and service charges which are as low as possible, whilst remaining financially viable and providing a good standard of service to their tenants*. RSLs will be deemed to be meeting this requirement if they comply with the *Benchmark system* and adopt a consistent treatment of rent levels across their stock.

13. The benchmark rent system utilised for rent setting purposes in RSLs requires RSLs to charge maximum rents for key property types which when averaged are no greater than the benchmark laid down by the National Assembly for Wales. Benchmarks are set by local authority area providing a spread of average rents across Wales of 10.4% in 2001-02, varying from areas such as Anglesey and Blaenau Gwent with a benchmark of £45.77 to Cardiff with a benchmark of £50.53 (**Annex B**).

14. The benchmark is reviewed annually and increased in line with inflation. The methodology replicates that utilised by the Government for determining the increases for state pensions and thus links rent increases to income increases for those not in paid employment. Recent increases have been at levels below those applied to local authority housing (2000–01, 1.1% and 2001–02, 3.3%).

15. In terms of service to tenants, RSLs are required to adopt a consistent treatment of rents across their entire stock through pooling rents and setting rents on individual properties that reflect size, amenity, location and condition. Additionally, RSLs are required to make information on rents available to public scrutiny.

16. The system of control has also sought to address the disproportionate impact of rent increases on the family returning to employment through restricting increases in the typical family housing unit. Research has shown that the interaction of housing benefit and family credit disproportionately affects families upon return to work, when compared with single persons. One of the most effective anti poverty strategies is to hold down the rents of family houses. The impact of this policy has been to reduce RSL rents in real terms by some 14% over the last 5 years and bring the distribution of rents more into line with those charged by local authorities.

17. Compliance with rent benchmarking is a qualification for the receipt of Social Housing Grant (SHG). All RSLs are required to make an annual submission of their rents for verification, prior to the announcement of the annual development programme.

18. Capital subsidy via the SHG programme is a significant contributor to producing affordable rents. In principle, the higher the level of capital subsidy the lower the required rent becomes. Potentially, increasing SHG could further reduce tenant dependence on Housing Benefit. However, this would reduce the level of new housing provision and could only be applied to housing stock acquired under the higher grant regime. It could not apply to existing housing built under lower grant rates thus producing a disparate rent structure in the sector which presently does not exist. Conversely, if the benefit were spread across the total RSL housing stock the effect on rents would be negligible.

CROSS CUTTING THEMES

19. There is an important connection between social housing rent levels and tackling social disadvantage. Where rent levels are fair and affordable, tenants will have a greater incentive to get off benefits and move into work.

CONTACT POINT

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March 2001

LOCAL GOVERNMENT AND HOUSING COMMITTEE

HOUSING REVENUE ACCOUNT SUBSIDY (HRAS) 2001-02

Purpose

1. This paper informs the Committee of the main decisions which need to be taken in respect of the Housing Revenue Account Subsidy (HRAS) for council housing for 2001-02.

Recommendation

2. The Committee is invited to note the key proposal to consult local authorities on a guideline rent increase of 4.5% for 2001-02 for HRA subsidy purposes.

Timing

3. There is a need to consult soon on how the Housing Revenue Account Subsidy will operate for 2001-02 in order that local authorities can take their budget and rent setting decisions within necessary timescales.

Background

4. The Housing Revenue Account (HRA) records income and expenditure on items such as rents, management and maintenance, loan charges etc in respect of a council's housing stock. Authorities operate on an actual basis whilst for Assembly's subsidy calculation purposes a "notional" account is used. Attached at Annex 1 is an example of an authority's "notional" account compared with its "actual" account.

5. The objective of the subsidy is to meet any shortfall between income and expenditure on an authority's "notional" HRA. In estimating the annual amount of subsidy certain assumptions have to be made. The key ones are guideline rent levels and management and maintenance allowances. In respect of the former, Treasury advise that the assumption should be based on a guideline rent increase of 4.5% for the coming financial year. The assumption for management and maintenance is founded on a complex statistical model which is agreed with Treasury annually.

6. A decision needs to be made on whether priority should be given to maximising resources available to local authorities for management and maintenance rather than reducing the level of guideline rent increases. It is intended to keep the guideline rents at the 4.5% indicated by Treasury thereby maximising authorities' ability to spend on repairs and improvements to their housing stock. This decision is being made in the knowledge of the poor condition of local authority housing stock in Wales and the significant investment needed to bring it up to acceptable modern day standards.

7. There is an expectation that rents will be increasing next year by about 4.5%. The Assembly nevertheless, has the option of imposing a guideline rent level above or below 4.5%. If the guideline rent is increased by less than 4.5% authorities will have less money available for management and maintenance as the overall subsidy budget must be agreed by Treasury and cannot be exceeded. If the guideline rent is increased above 4.5%, the Assembly will have to find the resultant costs of rent rebates from its own resources.

Compliance

8. The relevant powers to set the rules for calculating entitlement to HRA subsidy and the framework for making determinations and directions have been transferred to the Assembly and are set out in the Local Government and Housing Act 1989:

Section 80 deals with the calculation of HRA subsidy

Section 87 covers the framework for making determinations and directions

9. These powers have been delegated to the Assembly Minister. There are no issues of regularity or propriety. The Assembly Compliance Office is content.

Financial Implications

10. HRAS is Annually Managed Expenditure. Any unspent resources cannot be used to increase the Assembly's Departmental Expenditure Limit. Guideline rents and management and maintenance allowances will be set at amounts to ensure that expenditure is kept within the overall limits agreed with Treasury. Financial Planning and Local Government Finance Divisions have been consulted about this submission and noted that there are no additional financial implications for the Assembly.

**Contact point: Housing Performance and Finance Division
October 2000**

HRA: COMPARISON OF “NOTIONAL” AND ACTUAL ACCOUNTExample:

| | LA | Assembly |
|-------------------------------------|----------------|-----------------|
| | <u>Actual</u> | <u>Notional</u> |
| | £m | £m |
| <u>Income:</u> | | |
| Rents | 8.3 | 8.4 |
| Service Charges | 0.4 | 0 |
| Total Income: | (A) <u>8.7</u> | <u>8.4</u> |
| <u>Expenditure:</u> | | |
| Management & Maintenance | 3.8 | 4.2 |
| Service Charges | 0.4 | |
| Loan Charges | 1.8 | 1.7 |
| Total Expenditure | (B) <u>6.0</u> | <u>5.9</u> |
| Surplus before rent rebates (A - B) | 2.7 | 2.5 |
| Rent rebates (Housing Benefit) | -4.6 | -4.6 |
| Sub-total | <u>-1.9</u> | <u>-2.1</u> |
| HRAS entitlement | 2.1 | 2.1 |
| Overall surplus | <u>0.2</u> | <u>0</u> |

Note: Notional HRA always comes to nil, because HRAS entitlement is the balancing figure

ANNEX B

Registered Social Landlord benchmark rents

| | 2001-02 Benchmark | Maximum 3b5P Rent |
|--|----------------------|----------------------|
| Band A | | |
| Isle of Anglesey Blaenau Gwent Carmarthenshire Ceredigion Gwynedd Merthyr Tydfil Pembrokeshire Powys Rhondda Cynon Taf | £45.77 | £50.85 |
| Band B | | |
| Conwy Denbighshire Flintshire Neath Port Talbot | £47.01 | £52.18 |
| Band C | | |
| Bridgend Caerphilly Torfaen Wrexham | £48.46 | £53.50 |
| Band D | | |
| Newport Monmouthshire Swansea Vale of Glamorgan | £49.16 | £54.83 |
| Band E | | |
| Cardiff | £50.53 | £56.13 |

Note: 3b5p – 3 bedroom, 5 person property