

MUNICIPAL YEAR 2015/2016 REPORT NO. 84

MEETING TITLE AND DATE:

Cabinet
21st October 2015

REPORT OF:
Director of Regeneration
and Environment

Agenda Part: 1

Item: 12

**Subject: Housing Revenue Account (HRA)
Tenancy Policy and HRA Rent Setting
Policy**

Key Decision: KD4126

Wards: All Wards

Cabinet Members consulted:
Cllr Oykenner

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1. EXECUTIVE SUMMARY

- 1.1 This report presents an updated HRA Tenancy Policy and HRA Rent Setting Policy for the Council.
- 1.2 The HRA Tenancy Policy will remain as published in December 2013 with minor amendments to bring it up to date. This policy is attached as Appendix A.
- 1.3 The updated HRA Rent Setting Policy attached at Appendix B clarifies the direction that the Council will take in setting its HRA rents with effect from 1st April 2016.
- 1.4 It should be noted that the Council will have to comply with the Government's new Welfare Reform and Work Bill 2015 in setting its rents with effect from that date. This Bill requires rents for social housing to be reduced by 1% a year for four years. It will have a significant impact on the HRA 30-Year Business Plan - in 2016/17 alone, Enfield will lose £2.2m of rental income. A comprehensive review of the Business Plan is therefore currently being undertaken.
- 1.5 The Government also announced in its July budget that "tenants on higher incomes (over £40,000 in London and over £30,000 outside London) will be required to pay market rate, or near market rate, rents". It has not yet been clarified how this policy will operate in practice, although it is understood that the additional income received will be payable to Central Government.

2. RECOMMENDATIONS

- 2.1 That Cabinet agrees the attached HRA Tenancy Policy and HRA Rent Setting Policy.
- 2.2 That Cabinet notes the proposal to review these policies on an annual basis.
- 2.3 That Cabinet notes that the Government's new rent proposals (about to become legislation) create large shortfalls in the Council's HRA 30-Year Business Plan which will need to be addressed.
- 2.4 That the Council seeks clarification from Central Government as to how the proposal to charge higher rents to tenants on higher incomes will work in practice.

3. BACKGROUND

- 3.1 Cabinet agreed Enfield's HRA Tenancy Policy and HRA Rent-Setting Policy at its meeting of 13th November 2013.
- 3.2 At that time, the HRA Tenancy Policy was consistent with Enfield's Tenancy Strategy and the HRA Rent Setting Policy consistent with the HRA Business Plan.

Enfield's HRA Tenancy Policy

- 3.3 The HRA Tenancy Policy has been reviewed and remains consistent with Enfield's Tenancy Strategy. Therefore, no significant amendment to this policy is proposed at this time. Enfield's HRA Tenancy Policy states that tenancies will be offered as follows:
 - all current Council tenants with a secure tenancy will remain secure tenants for as long as they remain Council tenants. This will only change if a tenant opts for a different type of tenancy - a dwelling offered by a Registered Social Landlord on a fixed term basis, for example
 - all new Enfield HRA tenants will be introductory tenants unless they were already a secure tenant of a local authority or an assured tenant of a registered provider at a previous property. Introductory tenancies last for a 12 month trial period after which they automatically become secure tenancies if the tenant does not break any of the tenancy conditions during this time

- The Council does not currently propose to offer fixed term tenancies to its HRA tenants

3.4 The HRA Tenancy Policy is attached as Appendix A.
Enfield's HRA Rent Setting Policy

3.5 The current (2013) HRA Rent Setting Policy states that:

- all current tenants of HRA properties will continue to be charged rents in line with National Social Rent Policy as long as they remain in a HRA tenancy. This would only change if a tenant opted for a different type of tenancy - a dwelling offered by a Registered Social Landlord at a higher rent level, for example
- the majority of future tenants will be charged rents in line with National Social Rent Policy
- the only circumstances in which Enfield will vary from applying National Social Rent Policy will be where there is an opportunity to provide **additional** housing in the HRA at affordable rent levels. For example, Enfield has recently been successful in securing Greater London Authority (GLA) funding to provide additional affordable units alongside its current regeneration projects. The funding is provided on the understanding that these units, where rented, are let at affordable rent levels. Enfield has also signed the Government's Right to Buy "one for one replacement" agreement. Again, this levers in additional funds to the HRA on the understanding that the new units are let at affordable rent levels

3.6 This year, in its summer budget, the Government announced that:

"rents for social housing will be reduced by 1% a year for four years, and tenants on higher incomes (over £40,000 in London and over £30,000 outside London) will be required to pay market rate, or near market rate, rents"

The requirement to reduce social housing rents by 1% per year with effect from 2016/17 for a four year period has now been included in the Welfare Reform and Work Bill 2015. This will become a legislative requirement when the Bill becomes law, so the Council has no option but to comply, even though it has a severe negative impact on the HRA 30-Year Business Plan.

The requirement for tenants on higher incomes to pay higher rents is not included within the Bill, and the Council is yet to be informed as to how the Government intends to implement this policy. However, it is understood that the Government will recoup the difference between the higher rent and the rent that would otherwise apply, so the Council will not gain from the setting of these higher rents. The Council is also likely to incur additional collection and other administrative costs as a result of this requirement, and it is unclear as to whether all or any of these costs will be reimbursed.

- 3.7 Enfield's updated HRA Rent Setting Policy (attached at Appendix B) therefore confirms that the Council will comply with the Government's new Welfare Reform and Work Bill 2015, except that, where the Council builds or acquires new or additional properties, then consideration will be given to letting these properties at a higher rent level ("affordable rent"). Additional properties funded by the GLA or through the Government's Right to Buy "one for one replacement" scheme will continue to be offered at affordable rent levels.
- 3.8 The Council can determine what it means by affordable rent levels and it is intended that rents will be set at a level that local people can afford, ie not necessarily as high as 80% of market rent.
- 3.9 Setting affordable rent on newly built or acquired properties will allow the Council to provide more housing and assist with Business Plan viability.
- 3.10 The Customer Voice (the nominated representatives of the Council's HRA tenants and leaseholders) considered the draft Rent Setting Policy at its meeting of 2nd September 2015, and was in agreement with the proposals. The Council's Housing Board will consider the draft Rent Setting Policy at its meeting of 14th October 2015. Its views will be verbally reported to Cabinet.

Review Period

- 3.11 It is proposed to continue to review these two policies annually. This is because national housing policy and the national financial position continue to change at a pace. Issues and opportunities are regularly emerging as the Government makes new announcements, estate renewal schemes develop and investment proposals are presented. The Council wishes to explore any new or alternative ways of providing housing in the Borough in order to alleviate the demand pressures where possible, and this may require amending or expanding either one or both of these policies.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The Council is required by its own Tenancy Strategy, and by law, to publish a Tenancy Policy. It is also good practice to publish a Rent Setting Policy.
- 4.2 Enfield has some options to expand or tighten the proposals in these documents and that is why it has consulted on them. The direction proposed is considered to be the best approach for the Council.
- 4.3 The use of fixed term tenancies continues to be discounted at this stage because it would conflict with Enfield's Tenancy Strategy, would lead to more churn in the stock and therefore not fulfil the aim of creating strong

and sustainable communities, and would lead to greater costs associated with higher void rates and higher management costs.

- 4.4 Adhering rigidly to setting all HRA rents in compliance with the proposed Welfare Reform and Work Bill 2015 and with National Social Rent Policy is discounted, partly because this may compromise Enfield's ability to lever in Government funding, but mainly because it gives no flexibility to consider a number of options to move to affordable rent balanced against aspirations to manage, improve and renew stock to a higher standard.

5. REASONS FOR RECOMMENDATIONS

- 5.1 No major amendment is proposed to the HRA Tenancy Policy, since the letting of HRA properties on a secure tenancy basis continues to support the Council's Tenancy Strategy and its overarching priorities.
- 5.2 The amendments to the HRA Rent Setting Policy are proposed firstly because of the Government's new legislative requirements, but also so that the Council has some flexibility to consider affordable rent options on new or additional properties.
- 5.3 It is proposed that the two policies will be reviewed annually so that they remain current and continue to reflect the Council's ambitions around maximising the delivery of affordable housing.
- 5.4 The Council needs to plan for the implementation of the requirement to collect higher rental income from tenants on higher incomes and it is therefore recommended that the Council seeks clarification from Central Government as to how this scheme will work, who will benefit from the additional income and how any additional costs associated with the new requirement will be apportioned.

6. COMMENTS OF THE DIRECTOR OF FINANCE, RESOURCES AND CUSTOMER SERVICES AND OTHER DEPARTMENTS

6.1 Financial Implications

- 6.1.1 Rent increases are currently reviewed on an annual basis as part of the budget and rent setting process and are considered in the context of the HRA 30-Year Business Plan. It is a requirement that the Business Plan remains in balance.
- 6.1.2 It is assumed in the current Business Plan that annual rent increases will be based on National Social Rent Policy (Consumer Prices Index (CPI) + 1%). CPI inflation is assumed to be 2% each year. The announcement in the Government's summer budget that rents will instead reduce by 1% per year over the next four years has had a significant impact on Enfield's Business Plan. The revenue balance will be reduced by £325m over the 30 years

and there are capital shortfalls of £81.7m. A major review of the Business Plan is therefore currently being undertaken, the outcome of which will be reported to Cabinet in November.

- 6.1.3 In 2016/17, rental income to the HRA will be reduced by £2.2m. This shortfall will be addressed by identifying ongoing revenue savings within the HRA of £1.5m per year with effect from this financial year. Steps have already been taken to identify savings and reduce budgets to meet this target.
- 6.1.4 The rents assumed for the estate renewal schemes within the current business plan are based on national social rent policy using estimated new build valuations. In order to achieve viability on some of the estate renewal schemes and also to increase the resources within the HRA, in future, charging rents of up to 80% on affordable units will now be considered.

6.2 Legal Implications

- 6.2.1 The recommendations in the report are in line with current legislation and the Government's agenda. Tenancy policies were introduced by the Localism Act 2012 and all social landlords are required to publish one. The policy should be clear and accessible and outline the approach to tenancy management, including methods of sustaining tenancies and preventing unnecessary evictions and tackling housing fraud.
- 6.2.2 Government policy guides how rents should be set by local authorities and registered social landlords. The main objectives of the policy are that rents should remain affordable in the long term; they should be fairer and less confusing for tenants and there should be a closer link between rents and the quality of the properties.
- 6.2.3 Social housing rents are set according to Government's rent policy. Rents set based on a formula are known as "social rent" (also known as "formula rent" or "target rent"), which was increased annually at a rate of RPI + 0.5%.
- 6.2.4 In the Welfare Reform and Work Bill 2015, the Government intends to reduce rents in social housing in England by 1% a year for 4 years from April 2016. These reductions will reset the levels of rents in the social housing sector, which over recent years have become disproportionate with private rents. The aim is to help protect taxpayers from the rising costs of subsidising rents through housing benefit, and protect tenants from rising housing costs. This will reduce average rents for households in the social housing sector by around 12% by 2020 compared to current forecasts.

6.3 Property Implications

- 6.3.1 Introductory tenancies do not have the Right to Buy, but as most will convert within a year to secure tenancies, then there will be no change to the amount of stock that will be lost through Right to Buy.

- 6.3.2 Retaining investor partner status and other approvals which allow the Council to develop its own new affordable housing is likely to result in the best use of residential development land on existing estates.
- 6.3.3 Where the Council builds or acquires new or additional properties, then consideration may need to be given to letting these properties at higher rent levels (affordable rents where levels may be as high as up to 80% of market rents).
- 6.3.4 The new legislative requirements will have a property management resourcing issue to undertake additional tenant profiling activities.

7. KEY RISKS

- 7.1 Any change to the level of rental income assumed in the Council's HRA 30-Year Business Plan has the biggest impact on its viability, both in the short to medium term, and in the longer term. As described above, the Government's new rent legislation creates a significant shortfall in the current Business Plan, and the Council is currently in the process of seeking to address this.
- 7.2 The Council will reduce its ability to provide new homes, could lose its Investment Partner status with the GLA and could compromise its ability to obtain Government funding if it does not charge affordable rent on some of its HRA properties.

8. IMPACT ON COUNCIL PRIORITIES

8.1 Fairness for All

The policies are designed to provide security of tenure and to ensure that the residents of Enfield can afford to live in the Borough.

8.2 Growth and Sustainability

The Council has ambitions to keep its HRA stock numbers at current levels throughout the life of its Business Plan and to improve the condition of its assets. Charging slightly higher, affordable rents on some units and leveraging in additional funding will assist in achieving these ambitions.

8.3 Strong Communities

Longer term, secure tenancies and rents set at a level that local people can afford will contribute greatly to building stronger communities.

9. EQUALITIES IMPACT IMPLICATIONS

The policies are designed to be fair and transparent and will assist those least able to afford to secure accommodation in Enfield.

10. PERFORMANCE MANAGEMENT IMPLICATIONS

The review of Enfield's 30-Year HRA Business Plan currently being undertaken to address the financial shortfalls will also cover the performance levels underpinning the budgets. Proposed adjustments to performance arising out of this review will be reported to November Cabinet along with the financial recovery plan.

11. PUBLIC HEALTH IMPLICATIONS

The residents of Enfield will have increased access to better housing and environments. This directly links to improved public health and wellbeing.

Background Papers

None.