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JOINT REPORT OF THE STRATEGIC DIRECTOR OF SERVICE REFORM AND  
THE STRATEGIC DIRECTOR PLACE

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TO CITY ISSUES  
ON 20 FEBRUARY 2019

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TITLE: Pendleton Together Rent and Service Charges 2019/20

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Recommendations are:-

That the City Mayor, following consultation with Cabinet, approves:

1. An increase of 3.4% for rents in 2019/20
  2. Adjustments to service charges in line with the costs of providing those services.
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EXECUTIVE SUMMARY:

This report sets out the factors to be considered in setting rent and service charges and seeks approval for the proposed rent and service charges for 2019/20.

BACKGROUND DOCUMENTS:

Various budgetary control and budget files

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KEY DECISION: Yes

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ON THE FORWARD LOOK: Yes

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DETAILS:

## 1. Background

- 1.1 Prior to 2015/16, Government policy for rent setting for social housing was based on a formula rent for each property linked to the relative value and size of the property and local income levels. An annual rent increase was assumed based on the Retail Price Index (RPI) plus 0.5%. As there was a difference between the formula rent and the actual rent charged, the Council was required to develop a convergence plan with an additional increase being made each year until the formula rent was achieved subject to a maximum rent increase of RPI plus 0.5% plus £2. The Government's target date for convergence was 2015/16.
- 1.2 During the 2013/14 budget planning process the Government indicated that a new rent policy was to be introduced for a ten year period from 2015/16 recognising 'the benefit of long term certainty to landlords, in helping them to plan for future investment . . . and to provide good services to their tenants'. The final year of the convergence policy was withdrawn and replaced by a policy of annual increases of no more than the Consumer Price Index (CPI) as of the previous September plus 1%. Where properties had not reached the formula rent by April 2015, the Government expected authorities to adhere to the limit of CPI plus 1% but to move the rent up to formula rent where the property is re-let.
- 1.3 In the Welfare Reform and Work Act 2016 registered providers of social housing in England are to reduce social housing rents by 1% a year for 4 years from a frozen 2015/16 baseline and to comply with maximum rent requirements for new tenancies. 2019/20 is the final year that the 1% rent reduction applies. The Act included a number of exceptions including all PFI-funded housing, both HRA and non-HRA and specialised supported housing fitting certain criteria. Consequently, our entire stock is exempt from the rent reduction. The recommended rental increase included within this report is CPI (September 2018) plus 1% which would equate to an overall increase of 3.4%.
- 1.4 The Government has reaffirmed that authorities are expected to set reasonable and transparent service charges which reflect the cost of services being provided to tenants.
- 1.5 The income relating to both rents and service charges will be included within the revised HRA estimates to be included within the overall budget setting report.
- 1.6 It must be noted that 2019/20 is a 53 week year for the purposes of rent payments. This occurs every 6 or 7 years and is due to the number of Mondays in the calendar year. This could impact upon the rent setting process and potentially significantly impact those in receipt of Universal Credit.
- 1.7 The impact on Universal Credit recipients is a potentially significant issue for which a resolution has yet to be identified. Universal Credit legislation does not allow for 53 Monday years and therefore claimants would potentially find themselves a week in arrears if charged 53 week's rent.

1.8 It has been suggested that this could be amended through a statutory instrument, which specifically references 53 weeks where applicable. However, the Department for Work and Pensions are not supportive of this approach. Another potential solution would be for the Government temporarily resolve this through topping up rents for 2019/20, while working to find a sustainable long-term solution. The local government and housing sectors have raised the issue with government and any further development will be reported to the meeting.

## 2. Detail

### Rent Charges

2.1 It is proposed to increase rent by CPI (September 2018) plus 1%, meaning a 3.4% rent increase. The projected impact of this is:-

- Rent would increase from its current average level of £77.29 per week on a 52 week basis to £79.92. Tenants currently pay rent on a 48 week basis giving a weekly increase of £2.85 from £83.73 to £86.58.
- Additional annual rental income to the HRA of £0.166m (covered in section 4 below).

2.2 It should be noted that when analysed against the Local Housing Allowance (LHA) rates for 2018/19, the proposed maximum rental charge per property type will remain within the LHA rate. The table below sets out the comparison of the proposed rent per property alongside the LHA room rates.

Property Type	LHA Rate 2018/19	Proposed average Rent per property	Proposed maximum rent per property
1 bed flat	£101.98	£78.17	£79.63
2 bed flat	£119.98	£85.71	£86.78
3 bed flat	£133.32	£95.44	£95.44
2 bed house	£119.98	£93.33	£93.96
3 bed house	£133.32	£100.95	£101.98
4 bed house	£186.47	£109.50	£110.28

2.3 For information, the recent trend of rent changes, based upon the rent policies in operation at that time, are set out in the table below

Year	Average increase/(decrease)	Policy in operation
2012/13	7.62%	Convergence based on formula rent
2013/14	4.55%	Convergence based on formula rent
2014/15	5.13%	Convergence based on formula rent
2015/16	2.20%	CPI plus 1%
2016/17	0.00%	Rent freeze awaiting the implications

		of the Welfare and Reform Bill
2017/18	2.00%	CPI plus 1%
2018/19	3.80%	CPI plus 1%

2.4 It is proposed that rent charges for garages and the Duchy caravan site will also increase by 3.4%.

### 3 Service Charges

3.1 Good practice requires a comparison of the costs of service provision with the income generated from service charges with the aim of ensuring that the charging policy is fair and equitable and that general rental income is not subsidising the cost of services to individual tenants. During 2018/19, Pendleton Together have reviewed the current charges and have proposed revised charges based upon actual costs.

3.2 In summary, the revised weekly service charges are set out in the table below with the detail of average rents and service charges being available in Appendix 1.

	Average Charge 2018/19 £	Average Charge 2019/20 £	Variation £	Variation %
High Rise	21.31	22.37	1.06	4.97
Low Rise	4.20	4.25	0.05	1.20
Sheltered	21.84	23.10	1.26	5.77

3.4 Pendleton Together have flagged the following issues which affect these charges:-

- The concierge and remote access element of the security service is provided for the high rise stock and Lombardy Court by Salix Homes. A restructure to the way Salix deliver the remote access service across all their stock has resulted in a reduced service charge to most residents, with the exception of Thorn and Spruce whom benefit from a staffed concierge service. The charges per property for Thorn and Spruce have increased owing to an increase in the Living Wage and supervision costs. The other element of the security charge reflects the actual costs of repairing security equipment per block, which has benefited from investment and upgrades during the PFI refurbishment period. Thorn and Spruce residents have requested the staffed service is reviewed to providing 24/7 cover, which would if accepted increase the cost of this service further.

- During 2018/19 consultation took place with Lombardy residents on the provision of warden and out of hour's services. The outcome from the consultation was a preference by residents for a mobile support service. Pendleton Together are currently considering options for how this service could be delivered, but this would not be covered by rent or service charges.

#### 4 HRA 2018/19 Outturn and 2019/20 Estimate

4.1 The HRA outturn for 2018/19 and budget estimate for 2019/20 is included at Appendix 2. Within these figures it is assumed that there will be an increase in rents of 3.4% in 2019/20. Comparative figures are included for 2018/19 (original and revised estimates). The main changes when compared to 2018/19 revised estimates are:-

- Increased PFI costs in line with the agreed contract.
- Income assumptions included are as set out within this report.
- Increased income from Salix VAT shelter

The impact of these is that a contribution to general balances of £1.105m is anticipated in 2018/19 compared to a contribution to balances of £0.264m in 2017/18. It must be noted that the deficit position on the HRA business plan includes the assumption of increased contributions this year and the current reserves position.

4.2 As reported last year, as part of the HRA self-financing changes, depreciation charges were to be introduced into the HRA. However, the government deferred implementation until 2017/18. A draft Item 8 determination was issued by DCLG setting out the requirement to charge depreciation to the HRA. During 2017/18 we sought clarification from DCLG that depreciation should not be charged to the HRA as the costs of capital investment are included within our PFI charge. Our interpretation of the guidance DCLG provided is that our treatment is correct and that depreciation should not be charged to the HRA. The HRA was audited as part of the final accounts process in May 2018 and the accounts were recognised as a true and fair view. With this in mind, we continue to assume that no depreciation charge will be made in 2018/19 or in future years.

4.3 When the budget was set in February 2018, it was anticipated that the general HRA reserve would be £5.104m at 31/03/2018. The outturn position on the HRA reserve worsened to £4.697m due to a re-profiling of income in relation to the Salix VAT shelter. Taking into account the 2018/19 budget requirement as reported above, it is anticipated that general balances will be £5.802m at 31/03/2019.

	£m
<b>Reserves as at 31 March 2017</b>	<b>(4.433)</b>
Contribution to balances 2017/18	(0.264)
<b>Reserves as at 31 March 2018</b>	<b>(4.697)</b>
Estimated contribution to balances 2018/19	(1.105)
<b>Estimated reserves as at 31 March 2019</b>	<b>(5.802)</b>

4.4 In addition to the general reserve three other reserves are currently held for HRA purposes:-

- PFI reserve, the main function of which is to smooth out the timing of PFI contractual costs and credits. This reserve built up at the start of the PFI scheme and will gradually reduce in later years. It is anticipated that the full balance will be used by the end of the scheme.
- Stock transfer reserve. This provision was established to meet costs associated with the stock transfer. The current balance of £0.664m has been maintained to cover potential costs such as insurance claims.
- Major Repairs Allowance. Due to profiling of capital expenditure and funding, an element of the Major Repairs Allowance was carried forward into 2017/18.

The long term HRA business plan faces a number of pressures which must be addressed to ensure that the account remains sustainable. Given the pressures facing the HRA in future years it is anticipated that any funds released from these reserves will be transferred to the general HRA reserve.

KEY COUNCIL POLICIES: Housing Strategy  
Revenue Budget

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EQUALITY IMPACT ASSESSMENT AND IMPLICATIONS:-

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ASSESSMENT OF RISK: Low

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SOURCE OF FUNDING: The HRA is a ring fenced self financing account.

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LEGAL IMPLICATIONS: The Council is required to set a balanced HRA budget.

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FINANCIAL IMPLICATIONS:

The rents and service charges proposed within this report would be a source of income for the HRA.

OTHER DIRECTORATES CONSULTED: N/A

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WARD(S) TO WHICH REPORT RELATE(S): Langworthy

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## Appendix 2 – HRA 2018/19 Outturn and 2019/20 Estimate

<b><u>HRA</u></b>	2018/19 Original Budget £000	2018/19 Outturn Forecast £000	2019/20 Estimated Budget £000
<b>Expenditure</b>			
Recharge to HRA including strategy	284	287	290
Private Finance Initiative - implementation	284	224	286
Central Internal Recharges	219	219	219
Contribution to capital programme	150	150	150
Provision for bad debts	171	171	184
Other costs including SLAs	87	86	86
Loan charges/interest	415	49	49
PFI	13,672	13,538	13,836
Contribution to balances	148	1,105	749
<b>Expenditure - total</b>	<b>15,430</b>	<b>15,829</b>	<b>15,849</b>
<b>Income</b>			
Rental income	(4,884)	(5,019)	(5,229)
Other income	(877)	(899)	(950)
PFI credits	(7,511)	(7,511)	(7,511)
Proceeds from Salix transfer	(1,789)	(2,400)	(1,789)
Contribution from PFI reserves	(369)	0	(369)
<b>Income - total</b>	<b>(15,430)</b>	<b>(15,829)</b>	<b>(15,849)</b>
<b>Net budget</b>	<b>0</b>	<b>0</b>	<b>0</b>