



REVIEW OF THE COUNCIL HOUSING FINANCE SYSTEM

Narrative No 3 RENTS AND SERVICE CHARGES

May 2008

Introduction

Communities and Local Government and HM Treasury are undertaking a fundamental review of the council housing finance system, reporting jointly to the Minister for Housing and Planning, Caroline Flint MP, and the Chief Secretary to the Treasury, Yvette Cooper MP.

The Chartered Institute of Housing has been commissioned to support the Review by facilitating expert and practitioner workshops and producing a series of narratives for the sector to keep people informed of progress.

The Review is wide ranging, as was described in Narrative 1. Although many of the issues are interlinked, the Review has been divided into four workstreams to make it manageable – Costs and Standards; Rents and Service Charges; Mechanisms for Delivering Funding; and HRA Rules. Narratives 2-5 identify and discuss issues emerging from each of the workstreams and the associated expert and practitioner workshop. Narrative 3 discusses some of the issues that will be addressed in the Rents and Service Charges workstream.

The overall objective of this workstream is to determine a long term policy for rents and service charges for council housing which is consistent with the Government's policy that tenants should pay a similar rent for a similar property irrespective of landlord, that rents should be fair to tenants and taxpayers, and help provide the funding needed to invest in existing and new homes.

Background

Current rent policy was largely set following the publication of the 2000 housing green paper, *Quality and Choice: A Decent Home for All*.

The green paper considered a range of options for setting social rents. Balancing the objectives, Ministers concluded that all social rents should be set on a common basis, taking account of relative property values, local earnings, and the size of individual properties. This was the basis for the 'rent restructuring' formula and the policy that RSL rents and LA rents should converge over a period of time.

The green paper considered the impact on work incentives, public expenditure and targeting support on those in most need. It concluded that there was no case for a substantial change in the average level of social rents and that the average should remain around a discount of 30% to 40% from average rents charged by private landlords. Now, in most regions rents are at about 50% of the level of private sector rents, 40% in London. In 2007/08 the average actual rent in the LA sector was about £61 while for London the figure was £77.

The policy of convergence required council rents to rise significantly faster than RSL rents up to 2012. Since the review of rent restructuring concluded in 2004, Ministers have moderated the formula-driven annual rise in council rents due to concerns about affordability. The rate of council rent increase has therefore been less rapid than the formula would indicate.

The Housing & Regeneration Bill, which sets out the legal and policy framework for the RSL sector, will establish a new regulator, OFTenant, which will have a role in implementing rents policy. OFTenant is intended to regulate across the whole domain of social housing by 2010. The Review will consider the way the Secretary of State might exercise the direction-setting powers in the Bill that relate to rent setting.

At present, rent levels in the council sector do not determine the resources available to councils to spend on council housing services: this is done through the system of allowances set by central Government. Different methodologies for determining rent increases and increases in allowances have led to rents increasing above inflation and significantly faster than spending on management, maintenance and repairs.

Rent setting

The rent restructuring policy is based on the premise of similar rents for similar properties regardless of social landlord, and this has been the driving principle of rent policy in social rented housing for the last 7 years. The policy has improved consistency and standardisation of approach and has begun to reduce some of the previous wide and often inexplicable variations in rents between landlords. Concerns about affordability and the use of caps, damping, and transitional arrangements have made the policy more complex and uncertain than planned.

RSL target rents tend to be higher than LA target rents for the same types of properties. This may be due to variations in valuation practice, for example council estates may be seen as intrinsically less valuable. LAs do not keep their rents to spend themselves as RSLs do; they are therefore less likely to seek higher values to achieve higher rents and less likely to move rapidly towards target rents on re-letting.

Rent setting used to be a major feature of the annual political process in local authorities. Now the rent decision is largely seen as the local implementation of national policy, reducing tenant involvement and interest in policies that affect them. There are few local freedoms and flexibilities in the system. The 5% flexibility in the original rent formula provided some scope but most landlords seem to have used this flexibility already and its value is restricted by the use of caps and limits.

Although not all LAs follow the guidelines slavishly, a common complaint is that rent restructuring has reduced the spread of rents, especially in relation to size/number of bedrooms. Prior to rent restructuring, many councils used a locally-determined points system to differentiate between different types of property. If the national rent formula were to be relaxed, the Government would wish to avoid a return to widely differing rents for similar properties between different landlords in same locality. The new Regulator could help to ensure a common approach in localities.

Some landlords favour setting rents to cover the costs of running the business, to ensure viability and provide a local link between rent rises and money to spend on services. To establish a national system for LAs on this basis would involve taking a clear view of what constituted reasonable costs (the workstream on costs and standards is looking at this) and would have to meet the needs of LAs faced with the high costs but low rents. Relating rents to costs risks placing too great a burden on the poorest areas with the greatest needs, and the impact would need to be offset by a redistributive mechanism.

Rent-setting for individual properties based on costs would also be problematic. Properties tend to be high cost/low rent or low cost/high rent: flats in tower blocks are less attractive, more expensive to maintain, and have lower rents. A cost based system would make these more expensive to rent than street properties – a perverse, if accurate, outcome.

Affordability

Securing affordability was always a key aim of the rent policy and safeguards were built into the rent restructuring system. Affordability constraints have taken precedence over the rent rises associated with rent restructuring more often than expected, and LAs have been compensated by CLG for adhering to these constraints. However the system has been made more complex and uncertain.

Concerns arise from annual rent increases above the rate of inflation. These are high in proportionate terms, but starting from a very low base. The affordability of average rents is not generally seen as a major problem in the LA sector, especially when compared to the housing costs of other tenures. Council housing is invariably the most affordable accommodation in a locality.

The gap between market and social rents was growing but private rents have stabilised or even fallen recently. Market rents are driven by supply and demand and factors other than management costs. Tenants understand that rents are a lot cheaper in social rented sector and this is one reason for strong demand from private tenants to obtain a social tenancy. Tenants are often willing to pay a reasonable rent in return for a good service, but rent increases and allowances increases have been diverging in recent times. Tenants, including those on benefit, note that rents are rising faster than incomes, for example pensions.

Implication of rent policy for other objectives

In practice, rent restructuring seems to have had little impact on improving worklessness, encouraging mobility, enabling choice and tackling under-occupation. The rent differential between small and large homes may be insufficient to encourage under-occupiers to move to smaller accommodation. Local authorities have had more success

with an approach based on detailed casework with individual householders, understanding their preferences, providing incentives, helping with moves, etc.

Rent has not been a major factor in the operation of Choice Based Lettings. CBL has had a positive effect, especially by improving efficiency in allocating properties, engendering realism amongst applicants, and helping to fill hard to let properties. It seems unlikely that rent policy can provide a strong impetus for mobility unless accompanied by stronger differentials, supporting reforms to Housing Benefit, greater supply, and improved visibility and management of mobility schemes.

Service charges

Introducing service charges for tenants by de-pooling some costs is increasingly popular with landlords. Guideline rents under rent restructuring assume that service charges are de-pooled and will be additional to the rent set.

Tenants seem content with the extension of de-pooling as it increases local choice about what services are provided and they can have some influence over what is charged and how it is charged. It is also seen to be fairer and more transparent – paying for services you get. It increases engagement of tenants in the cost of providing services, introducing an additional driver to obtain value for money. It can help prioritise spending – as with leaseholders, tenant priorities can change when a cost is attached to some options.

One danger with de-pooling is that the least attractive properties often have the highest costs. It could be a perverse outcome if tenants in high cost blocks end up paying considerably more than tenants in street properties, although those higher costs ought to be reflected in a lower property value, thus generating a lower rent.

Landlords introducing services charges have taken account of what is 'benefitable' to avoid poorer tenants receiving bills they cannot pay. However the housing benefit rules are not always clear in relation to costs such as wardens and grounds maintenance.

Some key questions

- 1. What do we mean by "affordable" and how do council rents compare? Would it be acceptable over time for social rents to become increasingly more or less affordable, or should they be pegged? What would this mean for the relationship between social and market rents?*
- 2. What is the right balance between retaining affordability for council tenants and delivering more resources for housing through annual rent increases above inflation - as implied by rent restructuring? What parameters should there be for setting guideline rents for the subsidy determination in 2009/10 and 2010/11?*
- 3. Should all councils be encouraged to introduce service charges and to de-pool more of their costs, to what extent should they do so, and what constraints should be applied?*
- 4. Is rent restructuring achieving its objective of delivering rent convergence between LAs and RSLs?*

5. *Looking beyond rent restructuring, what principles should a future rents policy be based on?*
6. *How can rent policy better support other objectives in council housing such as tackling worklessness, encouraging mobility and tackling under-occupation?*

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This narrative is based on a range of views, including those expressed during the workshop, and is published to encourage wider debate. It does not necessarily reflect the view or imply the agreement of CLG, HMT, CIH, or any individual participant.