APPENDIX E

REVIEW INTO THE FAIRNESS OF RENTS AT CENTRAL BEDFORDSHIRE COUNCIL TENANCIES

Background

Prior to the rent increase in April 2014, an exercise was undertaken to compare the level of proposed rent for 2014-15 to comparable rents in the private rented sector (market rents). A briefing note was prepared that included a specific analysis of Sheltered tenant rents compared to average market rents. This analysis was presented to the meeting of the Corporate Resources Overview and Scrutiny Committee that took place in January 2014.

The Committee requested that further work be undertaken to address concerns over a perception of inequity in rents, to determine whether tenants – in particular Sheltered tenants – are being asked to pay an unfair level of rent.

Rent Restructuring

Current rent levels are entirely the result of the Council's adherence, and the legacy authority of South Bedfordshire District Council's adherence, to the Government policy of rent restructuring. Any consideration of fairness must therefore look carefully at the origins and aims of that policy.

By the end of the last century a significant gap had emerged between the rents being charged for social housing provided by Housing Associations and the rents being charged by Local Authorities. At the beginning of this century, proposals emerged for a change to the way that social rents were calculated.

The Government's policy was initially set out in the December 2000 policy statement, "Quality and Choice: A Decent Home for All - The Way Forward for Housing". This was followed in March 2001 by a publication called "Guide to Social Rent Reforms", which sets out the details underpinning the ministerial statement. This guide is available at:

www.gov.uk/government/uploads/system/uploads/attachment_data/file/7836/139187.pdf

The policy statement reiterated Ministers' objectives for social rent setting that were originally set out in the Housing Green Paper, published in April 2000. These included:

• that social rents should remain affordable in the long term;

• that social rents should be fairer and less confusing for tenants;

• that there should be a closer link between rents and the qualities which tenants value in properties; and

• that unjustifiable differences between the rents set by local authorities and by registered social landlords should be removed.

The main objectives of the new policy were to keep social rents at affordable levels without compromising the financial health of the providers of the social housing. Ministers concluded that rent setting should take the following variables into account: property values (relative to national average), local earnings (relative to national average) and the bedroom size of each property.

Property values provide a relatively simple, transparent way of reflecting the relative attractiveness of properties to tenants. Local earnings moderate the impact of property values on rent levels, ensuring that rents reflect local incomes and are affordable. Property size helps to ensure a sensible pattern of rent differentials between properties with different numbers of bedrooms.

The guide goes on to state that:

"Ministers believe that the approach which they are proposing strikes an appropriate balance between the different policy objectives and that, once fully implemented, it will provide a system of social rents that is both more coherent and fairer to tenants."

Under rent restructuring, for each and every property an individual formula rent is calculated, using the criteria above. Each year, rents are increased on the basis of the previous year's rent + Retail Prices Index (RPI) + 0.5%. Where properties are below the formula rent a maximum additional incremental rise of up to £2 per week is allowed, so that social rents become harmonised between Local Authorities and Housing Associations.

The government's aim in 2002 was for social rents to be harmonised by 2012, so that tenants would be paying the formula rent for their property, which would be identical for their type of property in their area regardless of whether they were the tenant of a Housing Association or Local Authority. In reality, due to the size of the average gap between Central Bedfordshire Council tenants' rent and the formula rent, and the £2 per week limit to the incremental rise, only 30% of the Council's homes have achieved this level.

This means that at the current time the rent at approximately 3,600 Council properties is lower than the appropriate social rent should be for their properties according to the Government formula, and they have benefitted from this situation for 12 years. The average difference between the formula rent and the current (transitional) rent is £3.10 (48 week charging basis), equating to a saving of approximately £150 per year.

In July 2013 the Department for Communities and Local Government (DCLG) announced that rent convergence will cease in 2015/16. Going forward, until 2024/25, all rents will increase by the Consumer Prices Index (CPI) + 1%. As a result of this change, the current tenancies identified above that have not

yet achieved the formula rent will no longer incur an incremental rise and will continue to pay a lower level of rent for at least 10 years.

Government guidelines advise authorities to relet properties (to non existing tenants) at the formula rent, and the Council has adopted this approach since 2011. However, where an existing tenant moves to another Council property they are charged the transitional, not formula rent. In this way existing tenants are not discouraged from moving to more appropriate accommodation (for example down sizing), whilst new tenants are aware of the rent they will be required to pay when the property is advertised.

The approach to rent setting prior to 2002

Councils and other Registered Providers were given greater freedom to set rents in the period prior to rent restructuring, resulting in a widening disparity between rent levels, to the benefit of Council tenants but the detriment of those in Housing Association properties.

The Council's approach to rent setting involved a points system, where points were awarded dependent on the improvements that each individual property had recently received. For example, if a property received a new kitchen or bathroom it would accrue more points, and the higher the final point score the higher the rent would be.

Whilst this system attempted to be equitable to tenants, based on the relative standards of their properties, it could be argued that tenants were paying a surcharge for refurbishment work that their previous rent payments had financed. Meanwhile the improvements in question would not necessarily increase the property value, nor would earnings necessarily be rising sufficiently to enable tenants to finance the increase in rent.

Just as rents are inextricably linked to property values in the private rented sector, there is a good justification for this to form part of the calculation for rents in the social rented sector, alongside a weighting for relative earnings and property size. This provides a more balanced approach to the setting of a social rent, which together with the provision of an incremental increase, has enabled an element of harmonisation across the sector.

The previous approach still has a limited influence and impact on current rents. Properties that benefitted from a significant amount of improvement work just prior to the change in rent setting methodology would have been on a higher rent than neighbouring, identical properties that did not receive this work until after the new rent regime was introduced.

The initial calculation of their new rent in 2002 would have used their current rent as a starting point, before applying RPI + 0.5% + an increment no higher than £2. As neighbouring properties would have had a range of rents being charged at this point, minor disparities have continued since that date (until formula rents are achieved). In the majority of cases these properties are still

paying less than the formula rent, but potentially more than their neighbouring properties, even though they could be in identical condition.

Affordability relative to the private rented sector

The average monthly rent for tenants is £432.60 (£99.83 per week), for the 2014-15 rent year. A comparison of Council rents to private rented market rents is shown in table 1, broken down by bedroom size.

Table 1: Comparison of average CBC rents to current average market rents (all tenancy types) (analysis undertaken Dec 13)

Bed Size	Average Monthly Rent 14-15	Advertised market rents							
		Sandy/ Bedford BRMA		Dunstable/ Luton/ Houghton Regis BRMA		Leighton Buzzard/ Milton Keynes BRMA		Arlesey/ Stevenage &North Herts. BRMA	
	Rental	Rental	%	Rental	%	Rental	%	Rental	%
1 bed	£379	£540	70	£515	74	£520	73	£465	82
2 bed	£431	£605	71	£745	58	£695	62	£590	73
3 bed	£467	£825	57	£970	48	£945	49	£700	67
4 bed	£504	£1,300	39	£1,520	33	£1,615	31	£1,025	49
Weighted Average	£433			£778					

With one exception, the Council's properties are all located within the Dunstable/ Houghton Regis/Leighton Buzzard BRMAs (Broad Rental Market Areas), so rents lie in the region of 31-74% of current market rents.

In order to fine tune this analysis, a weighted average can be used to show how Council rents compare to market rents. In this method the average takes into account the proportion of tenancies at each bedroom size, so that a realistic comparison can be made with the BRMA data above. This reveals that the average Council rent is £433, whereas a current comparable market rent is £778. In percentage terms this means that the rent paid by our tenants is 56% of the equivalent market rent.

The average monthly rent for sheltered tenants is £383.07 (£88.40 per week), for the 2014-15 rent year. A comparison of Council rents for Sheltered tenants compared to private rented market rents is shown in table 2, broken down by bedroom size.

Table 2: Comparison of sheltered rents to current average market rents (all tenancy types) (analysis undertaken Dec 13)

Bed Size	Average Monthly Rent 14-15	Advertised market rents							
		Sandy/ Bedford BRMA		Dunstable/ Luton/ Houghton Regis BRMA		Leighton Buzzard/ Milton Keynes BRMA		Arlesey/ Stevenage &North Herts. BRMA	
	Rental	Rental	%	Rental	%	Rental	%	Rental	%
1 bed	£378	£540	70	£515	73	£520	73	£465	81
2 bed	£421	£605	70	£745	57	£695	61	£590	71
Weighted Average	£383			£540					

As the Council's Sheltered schemes are all located within the Dunstable/ Houghton Regis/Leighton Buzzard BRMAs, proposed rents would lie in the region of 57-73% of current market rents.

However as the majority of Sheltered tenants (610 out of 687) occupy 1 bedroom properties a weighted average reveals that on average they are paying £383 per month compared to a market rent of £540. In percentage terms this means that the rent paid by Sheltered tenants would be 71% of the equivalent market rent.

Rents at Sheltered properties are closer to market rents largely because they are predominantly for 1 bed properties at the lower end of the rent spectrum. 1 bed properties will always attract the lowest rents, particularly in the market rented sector. It is important to note that the comparison above is between Council Sheltered and all private rented tenancy types, the majority of which will not be Sheltered. Demand for 1 bedroom non Sheltered accommodation in the private rented sector will be low, as it will be unsuitable for families.

Element of rents funded by Housing Benefit

Out of approximately 5,100 current tenancies, the rent due at 37% was funded entirely by Housing Benefit, so the calculation of the rent has no impact on their financial wellbeing. At a further 29% the rent is partially funded by Housing Benefit, so only a proportion of the rent has to be met from the tenant's income. This leaves 34% of tenants who entirely fund their rent.

Local Housing Allowance (LHA) is used to put a maximum cap on the amount of Housing Benefit payable at private rented properties. Whilst it is not currently used to restrict Housing Benefit due on Council tenancies it is worth noting that rents at each property in the Council's stock are all significantly below the Local Housing Allowance (LHA) rates for the Council's BRMAs.

Table 3: Proportion of tenancies that are funded by Housing Benefit – all tenancy types

	Total	%	1 Bed	2 Bed	3 Bed	4 Bed+
All accounts	5105		1453	1509	2004	139
Full Self Financed	1755	**34.4**	295	494	905	61
Full HB	1864	**36.5**	729	587	515	33
Partial Payers	1486	**29.1**	429	428	584	45
Full & Partial Hb	3350	**65.6**	1158	1015	1099	78

When we consider Sheltered tenancies in isolation, the proportion who are funded entirely by Housing Benefit is similar (38%) but a significantly higher proportion are on partial benefit (42%), leaving only 20% who are required to self-fund the total amount of their rent.

Table 4: Proportion of tenancies that are funded by Housing Benefit – Sheltered tenancies

Sheltered	Total	**%**	1 Bed	2 Bed	3 Bed	4 Bed+
Sheltered Accounts	676		594	82		
Full Self Financed	134	**19.8**	112	22		
Full HB	259	**38.3**	227	32		
Partial Payers	283	**41.9**	255	28	0	0
Full & Partial Hb	542	**80.2**	482	60	0	0

2015/16 Proposed increase of 2.2% - the context for Sheltered tenants

There are nearly 700 Sheltered tenancies amongst the Council's stock of housing, the majority of whom will be entitled to a state pension. Many (38%) are protected from the rent increase as they are on full Housing Benefit.

For those Sheltered tenants who completely self-fund (20%) or partially fund (42%) their rent, the percentage rent increase will be lower than the increase to their state pension. This takes effect at the same time (April 2015) and will be 2.5% as a result of the Government's "triple lock" policy, which guarantees to raise pensions annually either in line with wages, inflation, or 2.5%.

Conclusions

Overall Council rents are affordable, being on average 56% of equivalent market rents and well within Housing Benefit limits. Indeed, the majority of Council properties are provided at rent levels that are below the formula rent level and provide better value for money than do most Housing Association properties.

Whilst affordability relative to the private rented sector represents an important benchmark, individual affordability will be dependent upon individual circumstances and income. Housing Benefit is available to assist those tenants who do not have sufficient resources to fully fund their rent payments.

The rent at over a third of all tenancies is fully funded by Housing Benefit, so these tenants are unaffected by the cost of their rent. A further proportion, just under a third, receives partial assistance with their rent payments from Housing Benefit, assisting vulnerable tenants on lower incomes

The current system for calculating rents is based on a national standard endorsed by Central Government and designed to be affordable whilst allowing social landlords to generate sufficient income to maintain and improve their stock of social housing. The movement away from rent convergence from 2015/16 will ensure that the majority of tenants continue to benefit from rents below this national standard, for at least the next 10 years.