

ABERDEEN CITY COUNCIL

COMMITTEE	Communities, Housing and Infrastructure
DATE	1 st November 2016
DIRECTOR	Pete Leonard
TITLE OF REPORT	New Rent Setting Policy
REPORT NUMBER	CHI/16/117
CHECKLIST COMPLETED	Yes

1. PURPOSE OF REPORT

Committee on 27th August 2015 approved a recommendation to enter into a consultation exercise with our tenants on a New Rent Setting Policy to be implemented from 2017 onwards. This report provides details of the outcomes of the tenant consultation exercise and options for a New Rent Setting Policy.

2. RECOMMENDATION(S)

That Committee –

- 1) Note the outcomes from the consultation exercise with our tenants; and
- 2) Approve a New Rent Setting Policy from the three options below to take effect from April 2017.

Option 1

The annual rent increase will be based on Retail Price Index +1% (RPI) for July of the preceding year with the policy applied to years 2017/18, 2018/19 and 2019/20. This option is based on the current Housing Revenue Account Business Plan model.

Option 2

The annual rent increase will be based on the Retail Price Index (RPI) for July of the preceding year with the policy applied to years 2017/18, 2018/19 and 2019/20.

Option 3

The annual rent increase will be based on Retail Price Index + 0.5% (RPI) for July of the preceding year with the policy applied to years 2017/18, 2018/19 and 2019/20.

3. FINANCIAL IMPLICATIONS

A sustainable rent policy must be adhered to in order to secure the long term financial position of this 30 year business plan. The model sets out the current and future financial position of the Council's Housing Revenue Account (HRA), the ability to maintain the Scottish Housing Quality Standard (SHQS) and manage, repair and invest in tenant's homes. If there were to be decreases in, for example, rental this would impact on the long term viability of the plan.

The Council policy for maintaining sustainable rents is for a rental increase of RPI (RPI assumed at 2%) plus 1%.

July 2016 RPI has been reported as 1.9%.

4. OTHER IMPLICATIONS

Failure to adequately maintain and improve the Council's housing stock may lead to the Council breaching health and safety regulations, with poorer housing conditions in Aberdeen and resulting in lower demand. The Council's Scottish Housing Quality Standard (SHQS) Standard Delivery Plan was approved by the former Communities Scotland in August 2006. This outlines the Council's strategy for meeting SHQS by 2015. If the Council cannot achieve the targets set within the Delivery Plan, within reasonable rent increases, then the Scottish Housing Regulator could intervene. The council will also need to comply with the Energy Efficiency Standard for Social Housing (ESSH) which aims to improve the energy efficiency of social housing in Scotland. It will help to reduce energy consumption, fuel poverty and the emission of greenhouse gases. It will contribute to reducing carbon emissions by 42 per cent by 2020 and 80 per cent by 2050 in line with the requirements set out in the Climate Change (Scotland) Act 2009. It is also important to note that we have a statutory duty to consult tenants. This duty is contained in Part 2, Chapter 1, Section 25 of the Housing (Scotland) Act 2001 which states:-

Where the landlord under a Scottish secure tenancy proposes to increase the rents or any other charges payable by all, or any class of, its tenants it must, before giving notice under subsection (1)—
(a) Consult those of its tenants who would be affected by the proposal

5. BACKGROUND/MAIN ISSUES

At a meeting of the Communities Housing and Infrastructure committee on 27th August 2015 members approved the following recommendations:-

- To instruct consultation with tenants on a new rent policy for 2017/18 onwards; and
- To instruct a report to a future committee on the views received from the consultation together with a proposal for a new rent increase policy.

The purpose of the Rent Setting Policy is to establish the basis for council house rent increases for 2017 onwards. Legislation dictates that we must consult our tenants on any proposed rent increase with the results presented to Council committee for a final decision to be made on the following years rent increase.

Officers entered into a consultation phase with our tenants on a New Rent Setting Policy early in 2016. The new rent setting policy which will ultimately be approved by council will take effect from April 2017 onwards. Since the subject of the consultation is of such importance it was decided to procure the services of an independent tenant focussed organisation to help and guide the tenants through the process.

The Tenant Participation Advisory Service (TPAS) were commissioned to undertake the initial consultation exercise. Following initial discussions with TPAS, a series of Focus Groups were held to discuss possible options and obtain tenants views on how a new rent policy should look. We wrote to over 3,000 tenants who had previously responded to questionnaires and received over 60 applications to be part of the focus group sessions, citywide tenant participation groups were also involved. Focus Group sessions were held on the 15th 16th and 17th of March and were facilitated by TPAS in order to provide independence and to ensure that tenants' views and opinions were noted. Participants were provided with information on how the Housing Revenue Account operates including income and expenditure together with broad investment programmes such as SHQS, repairs and modernisations.

Using the results of the focus groups a questionnaire was developed to gauge the tenants' views on the principles of a new policy. This questionnaire was posted to all our council tenants. In total 21,477 questionnaires were sent and we received a total of 1,911 responses, which represents an 8.9% return. Prepaid envelopes were provided to make returning the questionnaire easier for the tenants. There was also a prize draw and a dedicated tenant help line to endeavour to maximise the returns. The headline results of the survey are shown below (n.b. the total number of respondents are in brackets with the number in the majority in italics):-

- ✓ A majority of tenants who responded 51.3% = 968 wanted a rent policy set over a number of years (1887).
- ✓ Of those tenants voting for a fixed number of years, 62.9% = 649 wanted it set over a 3 year period (1032)
- ✓ A majority of tenants 63.5% = 1155 wanted it based on a rate of inflation (1819).
- ✓ With 78.1% = 1457 of tenants did not want an additional percentage on top of inflation (1866).
- ✓ 57.6% = 1060 of respondents voted for a straight percentage increase (1839).
- ✓ Of those stating a preference for a fixed percentage a majority of 41.7% = 424 said that the increase should be 1% (1016).

The results show a slight preference for a New Rent Setting Policy fixed for a period of 3 years and linked to an inflation figure only. A copy of the full and final report prepared by TPAS on the consultation exercise can be found in the committee bulletin.

All council tenants will be consulted on the potential rent increase for 2017/18 following approval by committee of the new Rent Setting policy. The results of this consultation will be presented to council in February 2017.

In considering all options for the New Rent Setting Policy it is worth looking at the future projections for inflation:

FORECAST								
End period %	May 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
RPI inflation	1.4	1.3	1.4	1.5	2.0	2.4	2.5	2.9
CPI inflation	0.3	0.2	0.4	0.5	0.9	1.3	1.4	1.7

Source – Capital Economics – Forecasts (June 2016)

The above table indicates that inflation is expected to reduce to 1.3% in Q2 of 2016 and increase to 2.0% by Q1 2017, in line with the Bank of England's target of 2%.

The Office of National Statistics state that historically RPI is the inflation measure used for the setting of rents.

The current Housing Revenue Account Business Plan is based on annual rent increases of RPI+1%. The current HRA Business Plan assumes this to be 3% (i.e. 2% RPI + 1%). Should option 2 or 3 be chosen income will be reduced therefore savings will need to be found after three years which may adversely affect the delivery of services.

The Retail Price Index for July for 2016 was 1.9%

Option 1

The annual rent increase will be based on Retail Price Index +1% (RPI) for July of the preceding year with the policy applied to years 2017/18, 2018/19 and 2019/20. This option is based on the current Housing Revenue Account Business Plan model.

Pros:

- Provides a level of certainty for tenants of the likely rent increase.
- The 30 year business plan is sustainable therefore unlikely that savings would have to be found.

Cons:

- Higher increase than other inflationary increases.

Option 2

The annual rent increase will be based on the Retail Price Index (RPI) for July of the preceding year with the policy applied to years 2017/18, 2018/19 and 2019/20.

Pros:

- Provides a level of certainty for tenants of the likely rent increase.
- Closer link to other inflationary increases.

Cons:

- Policy not affordable over the 30 years of the business plan.
- After the three years rent would need to increase to RPI + 1% or implement savings of approximately £2 million per annum.
- The savings required could impact on service delivery.

Option 3

The annual rent increase will be based on the Retail Price Index (RPI) + 0.5% for July of the preceding year with the policy applied to years 2017/18, 2018/19 and 2019/20.

Pros:

- Provides a level of certainty for tenants of the likely rent increase.
- Compared to option 2 a lower level of savings would have to be achieved after three years.

Cons:

- Policy not affordable over the 30 years of the business plan.
- After the three years rent would need to increase to RPI + 1% or implement savings.

- The savings required could impact on service delivery.

6. IMPACT

Improving Customer Experience –

The consultation provides our tenants with an opportunity to take part in the decision making process and to have their views made known and considered. Accurate budget monitoring and forecasting assists the Council to plan and design our services around current and future customer needs as much as possible.

Improving Staff Experience –

Good financial information improves good financial management and helps to track how successful management initiatives, such as service redesign, have been.

Improving our use of Resources –

As a public sector organisation, the Council has a legal duty to be open, transparent and accountable for spending public funds.

Corporate –

The report relates to the Single Outcome Agreement and the Council vision of Aberdeen – the Smarter City, in particular the strategic priority ‘Smarter living (Quality of Life)’ where we will provide quality services to our council tenants to enable them to have a dry, warm home in a safe and enjoyable environment.

The community plan sets out our vision for the future of the City – an Even better place to live and work, where people can expect high Quality services to meet their needs.

This report meets the following objectives:

- Homes challenge – improve the quality of Housing and Environment for individuals and the community.
- Adopt and implement strategies to support independent living for people with special needs.

It also meets the objectives in the policy document “Aberdeen – the Smarter City”:

- Smarter living – we will enhance the physical and emotional wellbeing of all our citizens by offering support and activities which promote independence, resilience, confidence and self-esteem.

Public –

The Council has a duty to ensure that best value is considered in all of its operations and this report helps to inform that process, and as such this report will be of interest to all current and potential council tenants.

7. MANAGEMENT OF RISK

It is imperative to establish a rent formula which will sustain the HRA business plans over the coming years which includes meeting the new SHQS guidelines on Energy Efficiency, Repairs, Modernisations and any New Build programmes. Maximising the income streams of the service whilst taking account of tenants' views and balancing this against making rents affordable for our tenants.

The recommendations seek a rent policy set for three years as preferred by the tenants through the consultation process. This timescale may pose a risk if extra funding is required to support unforeseen Housing Revenue Account activity which is not supported by the current rent setting policy. If such a scenario emerged then it will be necessary to consult tenants in seeking greater rent increases than already planned for.

All rent policy options are fundable in the first three years, however the assumption is that rents will go back to RPI (assumed at 2%) +1% rent increases or thereabouts thereafter. If this did not occur there is a risk that the 30 years plan will require savings to be identified to remain fundable.

8. BACKGROUND PAPERS

Communities Housing and Infrastructure 27th August 2015

9. REPORT AUTHOR DETAILS

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