Report to Policy Committee

Author/Lead Officer of Report: Janet Sharpe, Director of Housing

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Report of:	Executive Director, Operational Services
Report to:	Housing Policy Committee
Date of Decision:	10 November 2022
Subject:	Response to the Regulator of Social Housing on proposals to amend the Rent Standard

Has an Equality Impact Assessment (EIA) been undertaken?	Yes		No	X
Has appropriate consultation taken place?	Yes		No	X
Has a Climate Impact Assessment (CIA) been undertaken?	Yes		No	X
Does the report contain confidential or exempt information?	Yes		No	X

Purpose of Report:

This report provides the Housing Policy Committee with a copy of the response to the Secretary of State on changes to the Rent Standard. The response was approved in October by the Chair and Vice Chair of the Housing Policy Committee in conjunction with the Leader to meet the consultation deadline and submitted on behalf of Sheffield City Council.

Recommendations:

It is recommended that the Housing Policy Committee: -

1. Notes the response that was submitted and the implications on the Housing Revenue Account that were highlighted.

2. Notes that a further report will be submitted to the Housing Policy Committee once the outcomes of the consultation are known to inform a decision regarding council housing rents for 2023/24.

Background Papers:

None

<table>
<tr><th colspan="3">Lead Officer to complete: -</th></tr>
<tr><td rowspan="4">1</td><td rowspan="4">I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required.</td><td>Finance: Helen Damon</td></tr>
<tr><td>Legal: Stephen Tonge</td></tr>
<tr><td>Equalities & Consultation: n/a</td></tr>
<tr><td>Climate: n/a</td></tr>
<tr><td></td><td colspan="2">Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.</td></tr>
<tr><td>2</td><td>EMT member who approved submission:</td><td>Ajman Ali</td></tr>
<tr><td>3</td><td>Committee Chair consulted:</td><td>Cllr Douglas Johnson</td></tr>
<tr><td rowspan="3">4</td><td colspan="2">I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Committee by the EMT member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1.</td></tr>
<tr><td>Lead Officer Name:
Janet Sharpe</td><td>Job Title:
Director of Housing</td></tr>
<tr><td colspan="2">Date: 2nd November 2022</td></tr>
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1. Proposal

1.1	**This is a copy of the response to consultation from the government**	This report provides the Housing Policy Committee with a copy of the response to the Secretary of State on changes to the Rent Standard. The consultation was launched by the government to determine whether to impose a temporary amendment to the Rent Standard. This uncertainty over the outcome means that council housing rents in Sheffield cannot be finalised at this time.

2. Background

2.1	**The Rent Standard sets an upper limit on rent increases**	In 2019, the government set a rent policy that permitted rents for social housing to increase by up to CPI plus 1 percentage point (‘CPI+1%’) per annum. The intention was to leave this policy in place until 2025. When the current rent policy was set in 2019, inflation was forecast to be around 2% in 2022 and 2023. CPI was 10.1% in September 2022 so this would permit social housing rent increases from 1 April 2023 to 31 March 2024 of 11.1%. This much higher than expected rate of inflation is already placing considerable pressure on many households, including those living in social housing.
2.2	**The consultation proposed a temporary upper limit**	The consultation therefore sought views on a new Direction from the Secretary of State to the Regulator of Social Housing in relation to social housing rent policy. It focused on the introduction of a rent ceiling from 1 April 2023 to 31 March 2024, which would act as an upper limit on the maximum amount by which Registered Providers of social housing can increase rents in that year.
2.3	**A ceiling of 5% was proposed in the draft Direction**	This draft direction was based on setting the ceiling at 5%. This would act as an upper limit on the maximum permitted annual rent increase a Registered Provider is allowed to implement. Registered Providers would be permitted to increase rents by 5% or CPI+1%, whichever is the lower. However, within this consultation, the Regulator sought views on 3%, 5% and 7% as ceiling options.
2.4	**The impact of a lower ceiling has significant implications for the HRA**	There are significant financial pressures that the 2023/24 HRA Business Plan will have to address including rising cost inflation, materials and purchasing constraints and pressures on cost of living. If the rent is set at below the September CPI rate, this will have an impact on our planned activities and in some circumstances mean we are no longer able to deliver everything we have planned to do. A rent increase of below CPI+1% does have a significant impact on the business plan and on services to tenants, as the rent ‘lost’ is a permanent reduction to the rent base.
2.5	**The response to**	The response provided to the Secretary of State (attached) highlighted the significant financial and service delivery implications

	the government highlighted the risks to the HRA	to the HRA from the imposition of a temporary 5% ceiling. It proposed that individual housing organisations should be left to determine the appropriate local rent levels, balancing affordability, and Housing Revenue Account viability. This preserves the principle of local democratic accountability. Local knowledge is important in understanding the balance between raising income and delivering services.
2.6	**Many providers have responded in a similar way**	Informal discussions with other providers and with representative bodies indicate that most organisations have responded along similar lines to Sheffield. They have highlighted the risks associated with a temporary ceiling but have suggested that a ceiling of 7% is the absolute minimum to achieve revenue viability.
2.7	**A new Direction won't be issued until January 2023**	The government has given an indicative timeline of 'the end of the year' for reporting back on the outcomes of the consultation. This means that the Committee cannot recommend an approach to council housing rents for 2023/24 at this point. A further report will be needed to Housing Policy Committee and/or Strategy and Resources Committee if a new Direction is issued. Full Council approval will be required in February 2023 to confirm any rent increase for 2023/24 to meet statutory notification timescales to tenants.

3. How does this decision contribute?

3.1	**The response recognises the difficult financial situation**	The response to the Secretary of State aimed to highlight the risks to the Housing Revenue Account in Sheffield through the proposals. The response was drafted to maximise financial resources to deliver housing outcomes to citizens in Sheffield considering developments in national policy, the current economic climate, and reductions in government funding.
3.2	**HRA services are part of the current One Year Plan**	The delivery of Housing Revenue Account services has made a significant contribution to the delivery of *'High quality, safe homes for all our citizens'* as part of the Council's One-year Plan.
3.2	**Services will reflect the Medium-Term Corporate Plan**	The Council have developed a new set of strategic priorities for 2023/24 (Our Sheffield – administration priorities) with the intention for these priorities to form the basis of the new medium term Corporate Plan which is currently in development. As the new Corporate Plan emerges from these administration priorities, we will continue to ensure that our own priorities link and feed into to broader corporate priorities where relevant.

4. Has there been any consultation?

4.1	**No consultation was undertaken on this report**	No consultation was required on this report although the response to the Secretary of State will be made public.

5. Risk analysis and implications of the decision

5.1	**There are no direct Equality implications arising from this report**	**Equality Implications** There are no direct equality implications arising from this report
5.2	**There are no direct financial implications arising from this report**	**Financial and Commercial Implications** There are no direct financial implications arising from this report.
5.3	**No new legal issues arise other than those ordinarily governing the HRA**	**Legal Implications** In February 2019 the Government published a policy statement on rents for social housing from 1 April 2020 onwards and, pursuant to powers under section 197 of the Housing and Regeneration Act 2008, issued the Direction on the Rent Standard 2019. This required the Regulator of Social Housing to set a new rent standard, consistent with the Rent Policy Statement, with effect from 1 April 2020. The Direction applies to the Regulator in relation to the rents of all registered providers of social housing, including local authorities, and replaces a 2014 Direction which applied only to the rents of private registered providers. The requirement that the Council's rent increases be in accordance with government rent policy is not itself new but with effect from 1 April 2020 this is secured through a regulatory standard. The Council must comply with the rent setting rules. If it fails to do so it may be made subject to regulatory action. .
5.4	**There are no direct climate implications arising from this report**	**Climate Implications** There are no direct climate implications arising from this report.

6. Alternative options considered

6.1	**No other options were considered**	The Secretary of State provided the opportunity for Registered Providers to respond to their consultation proposals. There are significant potential implications arising from the proposals, so it was important for the Council to respond to highlight these to the government in the required timescales.

7. Reasons for recommendations

7.1	**Members are asked to note the response and the potential implications on the HRA**	Members are asked to note the response provided and the potential impacts on the Housing Revenue Account noted in the response. The Council are unable to set rents for council housing until the outcome of the consultation is known. A further report will be required to the Housing Policy Committee and/or to Strategy and Resources Committee to confirm council housing rents for 2022/23 depending on when the final determination is issued.

Rent Standard Consultation 23/24
Response from SCC (Sheffield City Council)

Question 1*: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?*

No, we do not agree that the 2023/24 rent increase should be subject to a ceiling. We feel that individual housing organisations should be left to determine the appropriate local rent levels which balance affordability and Housing Revenue Account viability. This preserves the principle of local democratic accountability.

As a responsible Local Authority, Sheffield understands the needs of its tenants. Many of our tenants are already experiencing financial hardship linked to the cost-of-living crisis. An increase in rents of over 10% would have a significant impact on many tenants – our Members understand this and would carefully consider the level of increase to reflect local circumstances. Local discretion is vital as we have the knowledge of our stock and our tenants. Any below inflation increase would however represent a real cut in services. We also know from our annual consultation process with our tenants that they value the services that we provide. They recognise that increases in rent levels are necessary to preserve as well as continually develop the services that they receive.

Sheffield has a long history of supporting our tenants with financial inclusion and hardship advice and intervention. We have well developed procedures for identifying households in need and providing that targeted intervention to support those most in need. We have scaled up that support as part of our Business Plan proposals. Our preferred approach is to be left to manage local tenants, locally.

Approximately 40% of our tenants are currently on Housing Benefit - these tenants would be covered for any rent increase through increased Housing Benefit payments. This factor we feel highlights that the main beneficiary of a rent ceiling would be the Treasury, through a reduction in the Housing Benefit bill, rather than existing social housing tenants. This policy approach may therefore function as a disbenefit for tenants. Although it may mitigate the short-term cost of living crisis for tenants not in receipt of benefit support – in Sheffield's case 26% of our 38,000 tenants – the long-term disbenefit in required service cuts and reductions far outweighs this immediate impact.

A further third of Sheffield tenants are now on Universal Credit. These tenants would receive an additional housing element to their Universal Credit payments although for many this would not come directly to the Council. This places an additional income risk on the Business Plan with households having to balance paying their rent with heating and general living costs.

The current debate around the potential increase in benefit payments (inflationary vs wages) adds further uncertainty to our projections. The presumption would be for those tenants on Housing Benefit then the full cost of the increase (ceiling or CPI+1%) would be covered. For tenants on Universal Credit, then the picture is less certain depending on which formula is applied. That may mean that the full cost of a rent increase would not be met by any increase in Universal Credit, increasing pressure and uncertainty on households in Sheffield even further.

Around a quarter of our tenants pay full rent so would be affected the most by an increase in rent. We are planning yet again to increase the level of our Hardship Fund budget to support tenants who are suffering a genuine hardship. We understand where this should be targeted and rent flexibility would allow us to do this in the most effective way.

If the Government's aim is to reduce the pressure on tenant households, then it may wish to consider supporting housing providers to do this locally. If a rent cap is imposed, then Government could mitigate the impact on housing providers through additional grant funding to support the delivery of services to tenants which would otherwise have to be cut. That would still reduce the impact on the welfare benefit bill but provide mitigation both to providers and tenants.

In addition, we feel that social rent levels in Sheffield already represent value for money, both for our tenants and the Treasury. Social rents in the city for an average 3-bed house are at 68% of Local Housing Allowance levels (£90.22 vs £132.33). Market rents in the Sheffield are continuing to rise. There is considerable geographical variation across the city, but social rents are between 36% and 58% of comparable market rents for a 3-bed house in social housing neighbourhoods. Social housing therefore provides a vital resource for households who would otherwise be priced out of renting in Sheffield.

In an inflationary and high-demand private rental market in Sheffield we feel it is important for social rents, which already provide value for money, to at least maintain the differential with the private rented sector. If they do not, then our tenants will miss much needed investment in their homes.

Finally, it is important to understand the pressures that Local Authority Business Plans are already having to absorb, even without a rent cap:

- Significant backlogs from COVID
- £600k in additional fire and building safety management costs and a £5m capital investment programme for fire, building and environmental safety
- Increases of around £30k per unit for new build
- Over £2m increase in gas and electricity price rises for our buildings and our community heating schemes
- Increasing interest rates on borrowing to fund debt
- Local Government pay offer affecting Sheffield of at least 6.8%

- Our projections for 2023/24 show a £21m pressure on our Housing Revenue Account Business plan.

The indicative timescales for the consultation are a concern for all Local Authorities. In Sheffield, we are already involved in financial planning for 2023/24. Proper decision making, consultation and governance means that discussions with Members are already taking place and need to be concluded by the end of the calendar year 2022. This is to allow proper consultation with tenants and the timely issue of the statutory notification of a rent increase. Uncertainty caused by this proposal affects the decision-making process as to cuts in services and jobs, as well as appropriate governance of the Council. A prompt decision and determination on the outcomes of the consultation is vital to allow us to plan effectively.

Question 2: *Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?*

We do not agree that a ceiling should be imposed on rent increases for 2023/24. However, our modelling suggests that a 7% ceiling would create the least detriment on Housing Revenue Account viability and the least impact on tenants in terms of potential service reductions.

A 5% ceiling will mean a one-year loss of £9.5 million income for Sheffield. That equates to £285.5 million income that will be lost over the 30 years of the current Business Plan for Sheffield.

A 7% ceiling would reduce this loss by an additional £3.1m of income (23/24) into the Housing Revenue Account over and above a 5% ceiling - £93 million over 30 years. Our projections indicate that a 7% rent increase would still put undue pressure on our Housing Revenue Account viability:

- The average pay increase for Housing staff in Sheffield, under the current pay offer being considered by the Trade Unions (although not yet agreed), is a minimum of 6.8%. Anything less than a 7% ceiling would necessarily result in service and staff reductions.

- We are already having to manage construction inflation and constructor contract costs over 7%, so anything below that puts further pressure on our maintenance and reduces our investment budgets and future investment in Decent Homes and assets.

- We would potentially have to increase our borrowing or re-finance our existing loans portfolio to balance the Housing Revenue Account over 30 years. This will add additional costs to our Business Plan which will need to be funded from a reduced rental base. It also increases our exposure to risk in an uncertain financial market, taking on new borrowing when interest rates are significantly fluctuating. This may mean committing to long-term debt in a rising rates market.

- We are still dealing with COVID-19 backlogs. If we reduce income, then it will take longer to get our services back to pre-COVID levels – particularly regarding responsive repairs. We estimate that this has cost Sheffield an additional £30m in dealing with repair costs alone.

The imposition of a 7% ceiling would mean us having to make £6.4m in service reductions over the next 12 months – that equates to around 4% reduction of our annual forecast income. The likely casualties of this reduction in spending are some of the long-term investment plans, including new homes for homeless households and insulation schemes to keep people safe and warm, which we had hoped to develop.

- Our stock increase programme would need to be scaled back. The current estimated cost for delivering our 3,100-unit programme in Sheffield is £558m. We are planning to scale back our programme by £200m - a reduction of 800 units - due both to rising inflation and additional programme costs (contractor and legislative including fire and energy). We are reviewing our programme costs, particularly those for more expensive provision of specialist and supported accommodation, including homelessness (see below) and smaller units for older people to support the release of family accommodation. We would welcome further consideration from Government on increasing the flexibilities to Local Authorities to mitigate this delivery risk. Sheffield worked with Government to explore options for removing the debt cap and increasing borrowing flexibilities – this is something that we would like to reconsider. We would also welcome further discussions about Right to Buy receipt flexibility which would again mitigate the reduction in our planned stock increase programme.

- Our business plan modelling at present allows for achievement of EPC (Energy Performance Certificate) C on the 6,900 social housing properties that do not yet meet that standard by 2030 but not achievement of any further progress towards Net Zero. Any ceiling below CPI+1% will mean that we must reduce our current plans. Our estimates point to additional investment of at least £380m to get from EPC C to Net Zero by 2030. More flexibility on capital grants would help mitigate against this risk.

- We will have to review our capital investment programme and potentially delay some of the planned improvements. We will need to smooth the delivery of our programme so that borrowing becomes more affordable and balances against our income profile. This will mean that tenants must wait longer for much needed improvements. It also means that the cost of our investment programme increases reducing the level of investment that we can deliver. All this puts pressure on our day-to-day responsive repairs budget and may impact on the delivery of any new Decent Homes Standard set out by the Government.

- We have already seen a significant increase in homelessness in the city because of the affordability crisis. We are having to use our own temporary accommodation along with bed and breakfast as an emergency measure to support families in need. We have 1,000 households in need of priority housing and our existing accommodation is at capacity. Our temporary accommodation requires investment and was a part of our stock increase programme which is now under review. Without direct provision, then we will increase our use of more expensive private-rented accommodation placing further pressure on the benefit system and a wider range of Council services.

- A reduction in income will require Sheffield to focus on delivering essential services only to our tenants. We have worked with our tenants to determine their priorities – our Landlord Commitments – and these along with our regulatory and statutory obligations will have to become the focus for our service delivery.

- We would inevitably have to make staffing reductions under all rent cap scenarios. The scale of those cuts would be determined by the level of rental income and the changes in service delivery outlined above. We are already planning for reductions through voluntary schemes where possible but if a cap is imposed then we may have to consider compulsory options. Our job role profile means that the impact on this would be proportionately greater on our lowest paid staff.

Question 3: *Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e., up to 31 March 2025)?*

Yes, we agree that if any ceiling limit is imposed through a revised Rent Standard, then this should be for just one year. A 7% cap means that we would lose £6.4m income in one year, £192m over 30 years. A two-year cap reduces our baseline for 2024/25 even further compounding these issues.

Any further extension of the Rent Standard cap should be undertaken through a more extensive consultation linked to the Rent Standard post-2025 and with clear compensatory support for the social housing sector. The issues highlighted here are compounded by the lack of freedom to plan beyond the current Rent Standard. Increased certainty around that would allow us to develop a more considered Business Plan for tenants in Sheffield.

Question 4: *Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?*

Yes, we agree that the ceiling should not apply to properties on their first let or subsequent re-let. The cost/benefit appraisals for our new build and acquisition programmes are sometimes undertaken well in advance of development and purchase decisions. These programmes are based on forecast rental returns which will suffer a detriment if any ceiling is imposed by changes to the Rent Standard – in effective retrospectively. This will affect the payback period on schemes and may necessitate additional borrowing which could exacerbate the pressure on the Housing Revenue Account.

Government may want to consider allowing housing providers to bring all properties up to Formula Rent as part of the mitigation for directing the Regulator to impose a ceiling as part of the Rent Standard. In Sheffield we currently have approximately one quarter of our stock (10,000 properties) at rent levels below Formula Rent. We estimate that equates to an annual loss of around £1.2m in rental income. Bringing all these to Formula Rent as part of any proposals would offset in a small way the loss of income from a below CPI+1% increase. A 7% ceiling would equate to £6.4million in lost income, so the additional income from increasing to Formula (£1.2 million) only takes us so far. But it does mean that rents are on a clearer and more consistent footing for tenants in Sheffield going forward.

Question 5: *We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?*

We do not directly provide any non-standard social rented housing in Sheffield now, so it is difficult for us to comment on this point. However, we do recognise the pressures that are being experienced by Registered Providers in Sheffield in providing supported accommodation for citizens. We would not wish to see any additional impact on this provision through restrictions in rent levels.