

To: City Executive Board
Date: 15 September 2016
Report of: Head of Housing and Property
Title of Report: Rent setting for a Housing Revenue Account (HRA) property leased to partner agency as supported accommodation

| Summary and recommendations | |
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| Purpose of report: | To set out the basis for the charging of rent for an externally leased HRA property to a partner organisation as supported housing |
| Key decision: | No |
| Executive Board Member: | Cllr Mike Rowley, Housing |
| Corporate Priority: | None |
| Policy Framework: | Housing Strategy 2015-18 |
| Recommendation: That the City Executive Board resolves to: | |
| 1. Agree rent setting on the basis set out in paragraphs 5, 6 and 7 of this report. | |

| Appendices | |
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| Appendix 1 | Risk Register |
| Appendix 2 | Property Address Confidential under Paragraph 2 of Schedule 12A to the Local Government Act 1972 as it is likely to reveal the identity of an individual |

Introduction and background

1. The Council leases a small amount of housing, which is held within the Housing Revenue Account (HRA), to partner organisations. This is to help support the objectives of the Housing Strategy, particularly by providing supported accommodation to vulnerable persons at affordable rents.
2. Rent setting for such leases is currently based on the “formula rent”, which provides the Council with the same rental return as it would receive for social rented housing. This allows partners to provide affordable accommodation for clients.

The City Executive Board (CEB) last gave approval for this approach, in relation to five properties in February 2009.

3. A report to CEB in February 2016 proposed a new approach with respect to the eight properties that were being leased in this way. Officers have since implemented the delegations in that report, and in doing so, have identified one further property that is also leased to a partner organisation, albeit, recorded in a slightly different way. This report seeks to duplicate the approach for the other eight, for this additional one property. This report therefore follows the same structure as the previous report.

Proposed Changes

4. In light of recent Government proposals in relation to social rents, it is timely to revisit the rent setting formula for these properties. This report also seeks to establish the rent setting approach for all the externally leased properties in the HRA. By renting at below market rent levels, the Council is providing a subsidy to these organisations. This report therefore proposes to improve transparency by setting out what this amounts to, in terms of the level of rent discounted from the market rate.
5. It is proposed that the Council leases these properties based broadly on the 15/16 “target rent”, under the old social rented housing formula. This would be applied for new leases from now on. This target rent formula has been applied to two units (a 4 bed and a 5 bed). The outcome is that it equates to between 45% and 50% of the estimated market rent. The target rent formula cannot be readily applied to large HMO type units, so 45% of the market rate is proposed as the rental value used.
6. From 16/17 on, rent increases would be based on “CPI plus 1%”, and this rental increase will also be applied within lease terms as an annual rent uplift.
7. The property concerned is listed in Confidential Appendix 2, but the anonymised details are provided below:

| Prop Ref | Description | Partner Agency | Market Rate (approx Nov 15) | Proposed Rent | Difference (Subsidy) |
|----------|--|----------------|-----------------------------|---------------|----------------------|
| 1 | 3 bed hostel for clients with mental health issues (Mental Health pathway) | Response | £13,200 | £6,000 | £7,200 |

Alternative Options Considered

8. It would be possible to charge market rates for these properties, but this would undermine the financial models of the organisation concerned and this would not support the provision of accommodation at affordable rent levels to these vulnerable clients.
9. Consideration has been given to charging market rates, but then reimbursing the organisation concerned by way of a grant. This gives full transparency to the ‘hidden subsidy’ that the Council provides, but is administratively difficult as the rent is collected into the HRA and grants would need to be paid from the General Fund. It is considered that this report provides good transparency, by setting out the

proposed rent levels and comparing these to the market, the difference amounting to the element by which the Council supports this work through a rent subsidy.

Legal Issues

10. The rent setting for this use falls outside of the provisions in the Welfare Reform and Work Bill which will require a 1% rent reduction from 16/17 as these rents relate to the amount paid by the organisations with the benefit of the lease not individuals.
11. Rent will be set out in new lease agreements as from October 2016 on.

Financial Implications

12. There are no financial issues arising from this report that are inconsistent with the approved medium term budget and projections contained within the Council's current HRA Business Plan.

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Background Papers: None

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