

Proposals for rent reduction Information for Let's talk Newcastle Online – December 2015



Background

On 8 July 2015 the Government introduced a new Budget. Announcements in the Summer Budget include plans for all social and affordable housing providers to reduce rents from April 2016, by 1% per year, for the next four years. Under the terms of the government's rent reduction proposals, tenants of social and affordable rented homes will see a 1% reduction in their weekly rent compared to the previous 12 months.

Newcastle City Council currently owns over 26,000 council homes, which are managed by Your Homes Newcastle (YHN). Previous legislation allowed us to raise rents at a level above inflation each year. Following the recent Summer Budget proposals, tenants of these properties will receive a 1% rent cut each year for the next four years.

We expect that the 1% rent cut will start from April 2016. Should the government change its proposals, however, then a rent rise based on previous years may still apply.

What this proposal will mean for tenants

If you are a tenant of social and affordable rented housing and you currently pay full rent, then you will receive a modest reduction in the amount of weekly rent you pay. There is no impact on the amount tenants are required to pay, if their rent is covered partially or fully by Housing Benefit. If any support you receive towards housing costs is reduced because of the spare room subsidy ("bedroom tax") or benefit cap, then the reduction in rent charged will reduce the amount you are required to pay.

What is and is not included in the reduction

Please be aware that the 1% reduction relates to the rent element of your weekly payment only. The weekly amount you pay may also contain a service charge which is not subject to the government's 1% reduction. Service charges include things such as:

- Concierge service
- Furniture
- TV aerial
- Garden service
- Security alarms
- Communal heating

Government guidelines issued for all providers of social housing state that service charges can increase each year. The amount they are allowed to increase to each year is: "up to a maximum value of the **Consumer Price Index (CPI) plus 1%**".

(The Consumer Price Index (CPI) is the official measure of inflation of consumer prices of the United Kingdom. It is calculated by the Office for National Statistics (ONS) around the middle of each month by collecting information on prices of around 700 different goods

and services from 120 thousand different retailers. This can be compared to previous CPI figures to provide a value for whether prices are rising or falling and, if so, by how much.

As a guideline, the September Consumer Price Index value of -0.1% suggests a service charge increase of 0.9% in 2016/17. Rents will also rise, unless the government's proposed 1% rent cut is brought in.

Example

The following example is provided to show the average weekly rent in Newcastle upon Tyne, and how, when the 1% rent reduction is factored in against the 0.9% service charge increase, this gives a modest reduction in the weekly rental amount of £0.68:

Example: Average weekly rent & service charge	2015/16 rent and service charge	Amendment	2016/17 rent and service charge
Rent (week)	£79.97	-1%	£79.17
Service charge	£14.32	+0.9%	£14.44
Total	£94.29	-	£93.61

Please note that the example above is only for illustration, and your actual weekly rent and service charge may be different. Any decrease in your overall rent and service charge may be higher or lower than the example given.

Every tenant will receive a letter in early 2016 outlining their weekly rent, and where necessary, their service charge level following these changes.

What this means for Your Homes Newcastle and Newcastle City Council

The money we receive from rents makes up the Housing Revenue Account (HRA). All councils are required to spend all money received from rents on certain activities only, including:

- the cost of carrying out tenancy and estate management,
- tenant engagement,
- collecting rent,
- debt servicing,
- capital improvements, and
- spending on repairs & planned maintenance.

Income from this account cannot be used for spending related to other services, such as social care or libraries. The impact of the 1% rent reduction from April 2016 is likely to lead to a drop in rental income, which will reduce the resources available from the Housing Revenue Account by £40million between 2016 to 2020. Due to this reduction, Newcastle City Council and Your Homes Newcastle will need work together to look at how we use our resources to achieve savings so that we can minimise the impact of this reduction on tenants.

We can assure you that there remains sufficient funding to ensure that all Council homes will remain decent, that we will meet our health and safety obligations, and core services will continue.