

Report for Resolution

Report to Executive

18 February 2009

Report of Director of Regeneration & Development and Chief Financial Officer

Subject Council Rents and Other Housing Charges for 2009/10

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Purpose

This report sets out recommendations for the changes to rents and other charges for the Council's housing and garage stock for the coming financial year.

Recommendations

That the Executive:

- (1) Recommend to Council an average rent increase of 6.41%, being £3.75 per week for Housing Revenue Account (HRA) dwellings, and a corresponding average rent increase of £4.34 for General Fund dwellings;
- (2) Agree to set service charges for district heating, premises management, sheltered housing and good neighbour services, at levels designed to recover costs;
- (3) Agree that the setting of the exact charges be delegated to the Director of Regeneration & Development, in conjunction with the Portfolio holder, when the budgets are finalised and consultation concluded;
- (4) Agree to implement an increase of 6.41% in respect of garage and parking bay rents in line with that recommended for dwelling rents

Financial Consequences

The level of rent increase is set by the Government and any variation from this guideline will adversely affect the Housing Revenue Account (HRA). If the level of increase applied is lower than that set by the Government, the authority will receive a reduced income. An increase that exceeds the level set by the Government will result in a loss of subsidy. Increases in other charges are required to recover costs. Failure to do this would again adversely affect the HRA. The report indicates the extent of the adverse affect of the options put forward.

Strategic Objective

The report helps to achieve the corporate objective to strive for sufficient, good-quality, affordable housing, providing choice and accessibility.

Risk Assessment

The risks are set out in “Financial Consequences” above. The report deals with the possible mitigation of these risks through the recommendations set out.

Executive Member: Councillor Brenda Arthur, Councillor Alan Waters

Ward: All

Contact Officers

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Background Papers

Report “Council Rents and Other Charges for 2009/10” to Executive on 18 February 2009

Report “Housing Revenue Account Budget 2009/10” to Executive on 18 February 2009

Briefing & Consultative papers to CityWide Board, Sheltered Tenants Federation, et al.

Report

Introduction

1. The Housing Revenue Account (HRA) has to be drawn up in a manner prescribed by the Government. Income for the HRA comes from:-
 - Rents and other charges
 - Housing Revenue Account subsidy, including the Major Repairs Allowance (MRA) which is Government support for expenditure on repairs.
2. This report informs members of the proposed changes to charges for 2009/10. Further information on the HRA out-turn for 2008/09 and projected budgets for 2009/10 are presented in a separate report.

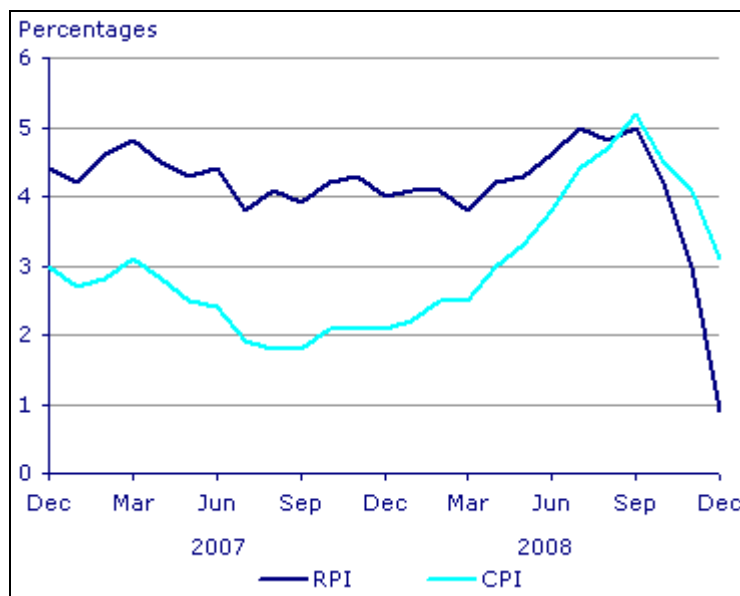
Government Rent Guidelines and HRA Subsidy

3. In December 2002 the Executive agreed to introduce the Government's Rent Restructuring from April 2003. Under this system a target rent for each property is calculated. Rents for individual properties are set to collect the general increase, and move rent levels towards the target rents. The Government initially intended that Council and Registered Social Landlord rents, for properties of similar sizes and locations, would converge by April 2011. This means that the amount of increase in rent can vary for properties depending on how near they are to the target rent as calculated by the Rent Restructuring Formula.
4. The rents charged by an authority are effectively controlled as each year the Government sets a guideline rent. Setting a rent increase above the government's expected level results in a loss of subsidy and setting a rent increase below the government's expected level results in a loss of income to the authority. Neither variation provides a proportionate financial advantage to the Council or tenants.
5. In 2005/06 the Government reviewed the rent restructuring policy. In April 2006 the formulae was revised and a new 5% cap introduced, for two years, on average rent increases. Where the average increase across the stock, under the revised formulae, was more than 5% the Government compensated authorities for the income they would have had were it not for the 5% cap by providing a Rental Constraint Allowance.
6. For 2008/09 the Government withdrew the 5% cap and the associated Rental Constraint Allowance. This allowed the average rent increase to exceed the 5% that has been applied in the past two years. However, in order to maintain rent affordability for tenants, for the purposes of calculating 2008/09 rents only, the Government allowed convergence to be extended to April 2016. It indicated that this convergence date will again be reviewed in future years. In order to compensate authorities for loss of income resulting from the caps and limits on rent increases in 2008/09, the Government is making an adjustment to the HRA Subsidy calculation in 2009/10.
7. The impact for Norwich tenants in 2008/09 was that the rent restructuring policy

8. For 2009/10, the government has set a national average rent increase of 6.2%, based on September RPI of 5% (see para 9) and convergence in 2024. Caps and limits will again apply to individual rents, with allowance made in 2010/11 guideline rent. The government has also announced that its intention is that the 2010/11 national average rent increase will be 6.1%.

National and local context

9. The national rent increase of 6.2% is based on September 2008 RPI of 5%. This was the month in which RPI peaked, having since declined to 0.9% in December, as illustrated in the diagram below, and being forecast to move towards or below zero in the year ahead. This would have called for a national average rent increase of about 9%, which the government mitigated by extension of the convergence date to 2024.



10. Council rents in Norwich are lower than the national average, and the application of the national average increase of 6.2% through the rent restructuring formula on our rents (a base further lowered by the effect of last year's reduced increase – see para 7) would require an increase of 6.46%.
11. Rent income is a critical factor in the Housing Revenue Account Business Plan, which has recently been updated. This update has confirmed the finding of the 2005 Stock Option Appraisal that although the Council is able to finance reaching the Decent Homes Standard, in the medium and long term there are inadequate resources to maintain service and investment standards.
12. If rent income (net of the guideline rent clawback) is less than the level anticipated in the Business Plan, the funding gap will grow and therefore the length of time that the stock can be properly maintained will shorten. Conversely, rent income in excess of Business Plan expectations will extend

the period over which the necessary investment in stock can be maintained.

13. Because of the impact of the factors set out above, rent increases of a similar size are being considered by both stock-retaining and ALMO authorities across the country. Many are considering to what extent their financial position allows them to mitigate the increases, with varying degrees of success.
14. 59% of tenants are in receipt of Housing Benefit, which will increase to cover the increased rent under all of the options set out above. The financial impact of the increases will fall hardest on those just above the benefit entitlement threshold, either impacting on their disposable income or forcing them into benefit.

Income for 2009/10

15. Rental income from dwellings before the rent increase is predicted to reduce only very marginally, as the rate of disposals and RTB sales has slumped owing to the “credit crunch” and the consequent fall in property values and the availability of credit.
16. In 2008/09 the HRA paid £5.98 million to the Government in what is called negative subsidy. It is calculated that the subsidy payment in respect of 2009/10 rents will increase by £2.93 million, incorporating the government's assumption of a 6.2% rent increase.

Rent Increase Considerations

17. For 2009/10 a number of options have been considered for the increase of dwelling rent charges:

Option	Increase %	Increase £	Description	Income £000s
1	6.09%	£3.56	Matches net loss of Housing Subsidy	£2,786k
2	6.37%	£3.72 + 16p	Matches gross loss of Housing Subsidy	£2,913k + £127k
3	6.41%	£3.75 + 19p	Matches Business Plan assumptions	£2,932k + £18k
4	6.46%	£3.78 + 22p	Strict application of Rent Formula	£2,958k + £26k

18. Tenants have been briefed on several occasions, giving the background to the options and analysis of the impact of options, both generally and the above specifically. The outcome of the discussions has been that tenants have expressed dissatisfaction at the magnitude of the increases, but recognition that the council is obliged to raise sufficient income to pay for investment and services.

19. The system of caps and limits means that the maximum increase any individual tenant would receive is 5.5% plus £2.00. The 59% of tenants in receipt of housing benefit will have the increases covered by increased benefit.

Relationship with Investment Strategy & Housing Revenue Account budgets

20. The relationship of rents with the Investment Strategy and the HRA revenue budgets in is incorporated in detail within the HRA Business Plan.
21. The impact of the level of rent increases on the Investment Strategy, in general, is in the long term. Low rent income reduces the resources available for investment, so that non-essential works will need to be curtailed earlier, while high rent income would postpone the need for curtailing non-essential works.
22. The impact of the rent increase on the HRA revenue budgets will be in the Rent Income budget (reflecting the gross amount chargeable) and the Provision for Bad Debt budgets (reflecting the amounts collected and the arrears considered to be collectable).

Recommended Rent Increase

23. The following table sets out the range of increases tenants would receive in April 2008 if the recommendations of this report are agreed.

Table 2 – Range of rent increases (excluding Caring Agency leased properties)

Increase from £	Increase to £	Number tenants receiving increase in each range	% of tenants receiving increase in each range
1.00	1.49	1	Less than 1%
1.50	1.99	0	None
2.00	2.49	0	None
2.50	2.99	78	Less than 1%
3.00	3.49	4155	26.26%
3.50	3.99	7012	44.32%
4.00	4.49	4360	27.55%
4.50	4.99	190	1.20%
5.00	5.49	13	Less than 1%
5.50	5.99	11	Less than 1%

Future Rent Levels

24. As set out in para 8, the government anticipates a national average increase of 6.1% in 2010/11. The impact in Norwich is again likely to be slightly higher, owing to the low base rent.
25. The government's rent policy for 2011/12 and thereafter is likely to remain based on rent restructuring. However, the implementation of this policy and its

effects on annual rent increases will not be clear for some time. The financial consequences are likely to be incorporated into the government's next Comprehensive Spending Review covering the period from 2011, and this should give some certainty around future trends in rents.

Service Charges Increases

26. Members are asked to agree the following increase of garage and parking bay rents in line with the recommendation for dwelling rents set out above:

Increase:	6.41%
Additional Income to be Generated	£69,880

27. The increase to Premises Manager and Window Cleaning service charges should be set to recover the cost of the services. Costs and charges are currently under review, and consultation will follow. Members are asked that the approval of the exact charges be delegated to the Director of Regeneration & Development in line with the principle of recovering costs.
28. The increase to Sheltered Housing and Good Neighbour service charges should be set to recover the cost of the service. Increases are also linked to Supporting People funding, determined by the County Council. Costs and charges are currently under review, and consultation will follow. Members are asked that the approval of the exact charges be delegated to the Director of Regeneration & Development in line with the principle of recovering costs.
29. The increase to District Heating charges should be set to recover the cost of the service. However, charges paid by district heating scheme users currently vary, in part depending on when the schemes were built and the fuel used. A percentage increase would widen the difference paid for basically the same service. It is therefore proposed that a review of both the amount and distribution of costs is undertaken, together with a review of the bases of charge, and consultation will follow. Members are asked that the approval of the exact charges be delegated to the Director of Regeneration & Development in line principle of recovering costs.

General Fund Dwellings

30. General Fund dwellings are rented to tenants on the same basis as HRA properties but as values are significantly higher (average value is £63,245 as opposed to £35,547 for HRA properties at January 1999 values), formula rents are correspondingly higher (£84.77 per week as opposed to £70.38 for HRA properties). Therefore, when applying the Government's guidelines for the calculation of HRA dwelling rents, moderated to the same extent as HRA rents, the percentage by which the resulting rents increase is higher for General Fund dwellings (6.55%) than HRA dwellings (6.41%).

31. In line with the recommendation for HRA dwelling and garage and parking bay rent, the recommended increase in General Fund dwelling rents, is as detailed in the table below.

Increase:	6.55%
Weekly Rent Increase	£4.34
Additional Income to be Generated	£27,966

Consultation with Tenants and Leaseholders

32. Tenant and Leaseholder representatives have been briefed on the proposed rent and other charge increases on 29 January 2009, following discussion at CityWide Board and the Sheltered Tenants Federation in December 2008. Comments are to be reported to the Executive at the meeting.