

Report for Resolution

Report to Cabinet
16 February 2011

Report of Director of Regeneration & Development and Head of Finance

Subject Council Rents and Service Charges for 2011/12

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Purpose

This report sets out recommendations for the changes to rents and service charges for the Council's housing stock for the financial year 2011/12.

Recommendations

That Cabinet recommend to Council that they approve:

- (1) Implementation of an average rent increase of 7.58%, being £4.70 per week for Housing Revenue Account dwellings, and a corresponding average rent increase of 7.66% (£5.35) for General Fund dwellings;
- (2) maintaining service charges for district heating, premises management, sheltered housing and good neighbour services, at current levels as set out in paragraph 30;

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.

Executive Member: Councillor Brenda Arthur - deputy leader & housing

Ward:

Contact Officers

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Background Papers

Briefing & Consultative papers to CityWide Board and consultative meetings.

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 2011/12.

Rent policy context

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 formula 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 formula, 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 had 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 adjusted the HRA Subsidy calculation in 2009/10.
7. The impact for Norwich tenants in 2008/09 was that the rent restructuring policy required an increase of 6.14%. This council, after considering the financial implications and consulting tenants, determined that the average increase should be limited to 5.5%, with the loss of income being recouped through the future application of rent convergence from the lower base.
8. For 2009/10, the government initially set a national average rent increase of 6.2%, based on September RPI of 5% and convergence in 2024. Caps and limits were again to apply to individual rents, with allowance made in 2010/11 guideline rent. The government also announced that its intention was that the 2010/11 national average

rent increase would be 6.1%.

9. This initially proposed 2009/10 increase was, at a very late stage following lobbying from this Council amongst others, ameliorated so that the increase to be applied was at a national rate of 3.1%. Owing to the timing of this announcement, this was implemented as an increase of 3.40% with effect from 4 May 2009.
10. For 2010/11, the national average increase was set at 3.1%, based upon the September 2009 inflation rate of -1.4% and a convergence date of 2012/13.
11. For 2011/12, the government set the national average increase at 6.8%, based upon the September 2010 inflation rate of 4.6% and an extended convergence date of 2015/16. For Norwich tenants, this would result in an average increase of 7.58%.
12. Rent income is a critical factor in the Housing Revenue Account Business Plan which is periodically updated. Recent updates have continued to confirm 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, the existing subsidy system provides inadequate resources to maintain service and investment standards.
13. 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.
14. The implementation of a 7.58% increase will be consistent with the assumptions in the Business Plan.
15. 62% of tenants are in receipt of Housing Benefit, which will increase to cover the increased rent 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.

Consultation with tenants

16. Tenants have been consulted over the proposed increase, through meetings with the Finance Sub-Group of the CityWide Board and a briefing session with tenants invited from the focus groups pool.
17. Feedback from these consultation meetings has demonstrated that whilst tenants are generally unsatisfied with the current subsidy system, they accept that the proposed increase is necessary to fund management and maintenance costs and maintain the long term viability of the council's Housing Revenue Account.

Relationship with Investment Strategy & Housing Revenue Account budgets

18. The relationship of rents with the Investment Strategy and the HRA revenue budgets is incorporated in detail within the HRA Business Plan.
19. 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 less work can be afforded, while higher rent income means more work can be carried out.

20. 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

21. The following table sets out the range of increases tenants would receive in April 2011 if the recommendations of this report are agreed.

Table 1 – Range of proposed rent increases

Increase	Number of tenants	Percentage of tenants
£1.50 to £1.99	2	< 1%
£2.00 to £2.49	-	0%
£2.50 to £2.99	4	< 1%
£3.00 to £3.49	56	< 1%
£3.50 to £3.99	904	6%
£4.00 to £4.49	4,920	31%
£4.50 to £4.99	4,648	30%
£5.00 to £5.49	4,442	28%
£5.50 to £5.99	721	5%
£6.00 to £6.49	13	< 1%
£6.50 to £6.99	5	< 1%
£7.00 to £7.49	1	< 1%

Future Rent Levels

22. Future rent levels are difficult to predict with any certainty, owing to the proposed changes in government policy and unpredictable inflation rates.
23. The government has announced its intention to abolish the Housing Subsidy system through which compliance with rent policy is encouraged. The responsibility for monitoring compliance will be transferred to the Homes and Communities Agency. The extent to which this will affect the Council's flexibility to set future rents is not yet clear.
24. Current Government policy, the Rent Restructuring regime, is also expected to change (either to the advantage or disadvantage of the Council and tenants) and it is anticipated will become the subject of future guidance from the Homes and Communities Agency.

Service Charges Increases

25. Service charges are applied for services provided to groups of tenants, rather than services provided to all tenants. This is in line with the Government's expectation that the costs of such services are met by those benefiting from them, rather than by tenants as a whole.
26. In recent years, service charge increases have been based on affordability issues rather than on the costs of the services provided. A review, prompted by Audit Commission recommendations, has revealed that there are substantial costs not currently being met by service charge income.

27. The scale of increases that would be required to cover the current levels of costs of some services would be significant and pose considerable affordability issues for tenants.
28. Charges for District Heating and Premises Management services were reviewed from January 2011 to begin to address the shortfall between costs and income, pending further consultation during 2011.
29. Sheltered Housing and Good Neighbour service charges remain at 2009/10 levels, pending the outcome of further consultation and the currently ongoing service review.
30. It is proposed that the level of service charges be re-considered in September 2011, following the outcome of further consultation and the Sheltered Housing service review, with a view towards further revising the level of charges with effect from the first rent week in October 2011 and annually thereafter.

General Fund Dwellings

31. General Fund dwellings are rented to tenants on the same basis as HRA properties but as values are significantly higher (average value is £63,623 as opposed to £35,471 for HRA properties at January 1999 values), rents are correspondingly higher.
32. The range of recommended increases in General Fund dwelling rents is as detailed in the table below.

Table 3 – Range of proposed General Fund rent increases

Increase	Number of tenants	Percentage of tenants
£3.50 to £3.99	5	4%
£4.00 to £4.49	14	11%
£4.50 to £4.99	18	14%
£5.00 to £5.49	42	33%
£5.50 to £5.99	26	21%
£6.00 to £6.49	14	11%
£6.50 to £6.99	8	6%

33. It is proposed to appropriate the General Fund dwelling properties to the Housing Revenue Account from April 2011, but this will form the basis of a further report.