

## Report for Resolution

<b>Report to</b>	Executive 18 March 2009
<b>Report of</b>	Director of Regeneration & Development and Head of Finance
<b>Subject</b>	Council Housing Rent Increases 2009/10 – Revised

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### Purpose

To propose a revision to the Housing Rent Increases for 2009/10 as previously recommended by Executive to the Council, following the announcement by the government of support for reduced increases.

### Recommendations

- (1) That the decision of the Council on 24 February 2009 to set an average rent increase of 6.41% (to include garages and parking spaces) be rescinded;
- (2) That a revised Housing Rent Increase of an annual average of 3.13% be set and brought into effect from Monday 4 May 2009;
- (3) To note that this will mean a real increase of 3.40% in weekly rents, to recover the full year increase in income over the shorter period;
- (4) That increased rents for garages and parking spaces be set at the annual rate of 3.13% in line with that recommended for dwelling rents.

### Financial Consequences

The financial consequences of this report are that the reduced rent income flowing from the reduced rate of increase recommended will be offset by reduced negative Housing Subsidy, so that the financial impact on the Housing Revenue Account will be neutral, other than in the administrative costs of applying the amended increase.

### Risk Assessment

The principal risk to the Council is that the reduced rent increase would provide insufficient funds to resource the service and investment costs underlying the revenue and capital budgets. This risk has been minimised through analysis of Communities & Local Government's proposals for offsetting the costs, and by ensuring that the recommended increase falls within the published criteria for offsetting through Housing Subsidy.

### Strategic Priority and Outcome/Service Priorities

The report helps to meet the strategic priority "Safe and healthy neighbourhoods – working in partnership with residents to create neighbourhoods where people feel secure, where the streets are clean and well maintained, where there is good quality housing and local amenities and where there are active local communities".

**Executive Member:** Councillor Arthur - Housing and Adult Services

**Ward:** All

**Contact Officers**

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**Background Documents**

None

## Report

### Introduction

1. Council, at its meeting of 24 February 2009, approved the recommendation of the Executive meeting on 18 February that the annual average council housing rent increase for the year 2009/10 be set at 6.41%.
2. Council, and the Executive, expressed that they had made this decision reluctantly since the increase was a high one, especially in times of economic uncertainty. However, the approved increase was based on the Department for Communities & Local Government (CLG) having set out in its Final Determination of Housing Subsidy that the Guideline Rent which the Council pays over to government would increase by 6.2%.
3. Council was advised at its meeting that representations had been made, and would continue to be made, with the government concerning the high rate of increase, in view of the economy being in recession and the likely impact on tenants' resources, and the surplus being generated within the national Housing Subsidy system.

### Changes in Government policy

4. On 6 March, the Minister for Housing announced:

*"... in the context of the present unprecedented global downturn, it is right that the Government offer real help to council tenants. I am therefore quite exceptionally prepared to offer authorities the opportunity to bid for additional subsidy, if, and only if they are preparing to revisit the level of rents set and reduce them by that amount ... We are therefore halving the national average guideline increase from 6.2 per cent. to 3.1 per cent. This will require the Department to issue new 2009-10 guideline rents for all local authorities. I am prepared to change the subsidy position of those authorities who reduce their actual average increase in rents in 2009-10 in line with the new national average ..."*

5. On 11 March, Communities and Local Government followed this statement up with additional guidance on how the reduction will be funded for local authorities:

*"The original average increase in guideline rent published for December 2009-10 was 6.2%. This comprised a general increase in guideline for all councils and an element due to convergence to formula rents. The new guideline rent increase for 2009-10 is 3.1%. This has been calculated by changing only the element of general increase in guideline rents originally proposed. Details of changes to the formula used for calculating guideline rents will be included in a draft amending determination and accompanying explanatory material. It is intended that those councils that accept our offer and reduce their actual rent increases will be compensated on the following basis:-*

*if the Council's 2009-10 average actual rent increase is less than or equal to the lower of 3.1% of:-*

- *average guideline rent in 2008-09; or*
- *actual average rent in 2008-09*

*then we will give each council the increase in subsidy that a change in the national average guideline increase of 3.1% would result in for that council..."*

6. Councils are, therefore, able to apply a considerably lower increase than was previously the case, and will be able to recoup the loss of income involved from lower Guideline Rent deductions within the Housing Subsidy system.
7. On the basis of this announcement, it was necessary for Officers to consider (in consultation with the Portfolio Holder) the options open to the Council, which were:
  1. Not to amend the original increase of an average of 6.41% with effect from 6 April, and therefore not to claim any reduction in negative Housing Subsidy.
  2. To implement the original increase of an average of 6.41% with effect from 6 April, to be followed by a rent decrease once the government's proposals on compensating through the Subsidy system were published and analysed.
  3. To stay the increase with effect from 6 April, to be followed by a rent increase effective from a later date once the government's proposals on compensating through the Subsidy system were published and analysed.
8. The first option was considered unacceptable, and it was considered that the complexity of the second and the adverse impacts outweighed the certainty over compensation that would be gained. The third option was therefore preferred, and the work necessary to implement the 6 April increase stopped.

### **Recommended Lower Increase**

9. Analysis of the CLG letter of 11 March indicates that the adjustment is to be made through the rate of increase assumed in Guideline Rent only, with no change to the rate of increase in Formula Rent or the convergence period.
10. Effectively, to reduce the national increase from 6.2% to 3.1% would mean a reduction in the "RPI + 0.5%" element of the rent restructuring formula from 5.5% to 2.2%. Applying this rate of 2.2% to the existing Guideline Rent for Norwich's stock would give an increase in Guideline Rent of 2.96% (down from 6.06%).
11. The total Guideline rent payable to the government through Housing Subsidy would thereby decrease from £51.941m to £50.427m, a saving to the HRA of £1.514m.
12. The rent increases based on the reduced Guideline Rent costs, equivalent to the four options previously considered, would be:

Option	Increase %		Increase £		Description	Income £000s	
	Previous	Reduced	Previous	Reduced		Previous	Reduced
1	6.09%	2.81%	£3.56	£1.64	Matches net loss of Housing Subsidy	£2,786k	£1,286k
2	6.37%	3.09%	£3.72	£1.80	Matches gross loss of Housing Subsidy	£2,913k	£1,412k
3	6.41%	3.13%	£3.75	£1.83	Matches Business Plan assumptions	£2,932k	£1,431k
4	6.46%	3.16%	£3.78	£1.85	Strict application of Rent Formula	£2,958k	£1,447k

13. In line with the Executive's previous recommendation to Council and Council's approval, it is recommended that the annual average rate of increase is set in accordance with Option 3, at **3.13%**. This will, however, need to be enhanced to recover the full increase in income over a shorter period, as set out below.

14. A rent increase of an amount other than the 6.41% already notified to tenants as their statutory 28-days notice will require a further S.103 notice. Since the 6 April increase will not be implemented, the earliest feasible date to implement an increase would be with effect from Monday 4 May. Four weeks' additional income will not be received during April, which will need to be recovered over the remaining 46 weeks of the rent year (which allows for two weeks' "holiday" over Christmas). The enhanced rates needing to be charged would be:

	Option 1	Option 2	Option 3	Option 4
Annual Rent increase %	2.81%	3.09%	3.13%	3.16%
Average 50 Week Rent	£ 58.47	£ 58.47	£ 58.47	£ 58.47
Weekly Rent Increase Product	£ 1.64	£ 1.80	£ 1.83	£ 1.85
Annual Rent Increase Product	£ 82.18	£ 90.23	£ 91.42	£ 92.45
Over 46 weeks = Weekly Rent Increase	£ 1.79	£ 1.96	£ 1.99	£ 2.01
<b>Rent Increase % (to 46 week base)</b>	<b>3.06%</b>	<b>3.35%</b>	<b>3.40%</b>	<b>3.44%</b>

15. Executive should note that as a result tenants' actual rent increase from 4 May would be an average of **3.40%** if Option 3 is agreed by Council.

16. Future years' rent calculations will be based on the average annual rent, discounting the effect of this enhanced rate, so that there will be no ongoing cost to tenants.

17. In line with previous decisions that these should reflect dwelling rent increases, it is recommended that Executive agree that rents for garages and parking spaces are set at the same annual average of 3.13%. Since there is no 28-day notice required, this reduced increase can be applied with effect from 6 April.

## Consultation

18. Owing to the late announcement of the reduced Guideline Rent by the government, and the constrained timescale within which the options have had to be assessed to inform a recommendation to the Executive and Council, no significant consultation with tenants and/or their representatives has been possible.

19. Previous discussions with CityWide Board and with tenant representatives, while falling short of best practice in consultative terms, have indicated that tenants' views are that rent increases on the basis of maintaining planned levels of expenditure on services and capital investment are preferable to reduced spending in order marginally to mitigate rent increases. The recommendation of Option 3, as in the previously agreed increase, fits in with these views.
20. Any feedback obtained from informal consultation will be reported orally at the meeting.

### **Implementation**

21. A press release has already been issued to announce that rent increases will not be going ahead as 6.41% in April, and that tenants should disregard the statutory notice already despatched.
22. Following the approval by Council of a new rent increase, a further press release will be issued to publicise the Council's decision. A new statutory notice will be issued giving 28 days notice of the reduced increase to tenants individually.
23. Rents and Benefits staff will prepare the respective IT systems and paperwork for the reduced increase.

### **Budget Impact**

24. Any change in the rent increase will need to be reflected in a lower rent income budget. This is expected to be offset through a matching reduction in the budget for negative Housing Subsidy as a result of the reduced Guideline Rent.
25. The recommended annual average increase of £1.83 is within the first of CLG's criteria (lower than 3.1% of average guideline rent = £1.84) and so should attract full offsetting through Subsidy.
26. CLG will be issuing a consultative draft Amended Determination of Housing Subsidy in the next week. After the four week consultative period, they will confirm the exact changes to Subsidy through the issue of an Amended Determination.
27. The Amended Determination will confirm whether the impact on Subsidy has been adequately anticipated to offset the reduction in increased rent income.
28. It is proposed therefore that the necessary adjustments to the budget are submitted for the Executive's approval after the Amended Determination has been received and analysed.

### **Long Term Consequences**

29. The long term effects of this change will not be quantifiable for some time. The government is currently reviewing the future of the Housing Revenue Account and Housing Subsidy systems, and has announced (with this reduction) a review of the assumption of the 6.1% increase in Guideline Rent formerly planned for 2010/11.