

Report of the Director of Housing and Adult Social Services

## **Housing Rent Increase 2009/10**

### **Summary**

1. This report asks the Executive Member to consider the rent guidelines issued by the Department for Communities and Local Government (CLG) for 2009/10.

### **Background**

2. In 2000 the Government announced that from April 2002 all councils and housing associations had to set their rents on a new, fair and consistent basis. This involved a phased change in rents over 10 years beginning in April 2002 based on a formula for rent setting created by Central Government. This is known as rent restructuring and means that actual rents are currently in the process of moving towards a Government set target rent. Under the original proposals announced in 2000, similar properties should be charged similar rents by 2012 regardless of who owns the property. This is known as rent convergence.
3. The actual rent is the rent charged to the tenant. The guideline rent is a notional rent and a feature of the HRA subsidy system. This is the level of rent the HRA subsidy system assumes an authority is receiving for the purpose of calculating its HRA subsidy entitlement.
4. This Government formula rent takes account of various factors including the number of bedrooms a property has, property valuation, average earnings and the date at which all rents are expected to converge.
5. Continuing to implement rent restructuring to achieve convergence for the majority of properties in 2011/12 would result in an average increase in council rents (on a 52 week basis) of 7.7%.
6. However, the CLG have proposed in the draft subsidy determination that the convergence deadline is extended to 2023/24. This revised timescale applies for 2009/10 only and is subject to review in future years. The effect of the extension is to reduce potential rent increases for tenants. If the rent calculations are altered to take account of this extension the average 2009/10 rent increase would be 6%.

### **Implementation Timetable**

7. It is necessary to serve notices on tenants to vary their current rent and a minimum of four weeks notice is required.

## **Consultation**

8. None specifically required.

## **Options**

9. Option 1 - To continue rent restructuring with convergence in 2011/12 and increase rents by 7.7%.
10. Option 2 - To continue rent restructuring with convergence in 2023/24 and increase rents by 6%. RECOMMENDED OPTION
11. Option 3 - To implement a rent increase of 2.5% in line with other fees and charges.

## **Analysis**

12. Option 1 – increase rents by 7.7% in line with the council’s policy on rent restructuring. This would be against the Government guidance on rent restructuring which has indicated that the date for rent convergence should be extended to 2023/24 pending a further review of rent restructuring and HRA subsidy during 2009/10. This level of rent increase would generate additional income over and above the level assumed in the Governments subsidy calculation and the HRA budget.
13. Option 2 – increase rents by 6% in line with Government guidance. This is in line with the recommendation from CLG and matches the assumed level of income in the HRA subsidy calculation and HRA budget.
14. Option 3 – increase rents by 2.5% in line with other housing fees and charges. This would again be against the Government guidance on rent restructuring and would have the effect of either:
  - extending the date for rent convergence beyond the recommended date of 2023/24; or
  - higher increases being needed in future years to compensate for a lower increase in 2009/10 at a time when inflation may be lower than it currently is; or
  - if rent were not increased to recover the funding, it would result in reducing the working balance on the HRA which would in turn affect our ability to continue to provide capital improvements in future years to the same level that is currently provided. Over the last 3 years, on average, a revenue contribution to capital has been made to support the Decent Homes programme of approximately £1.1m per year. Without this revenue contribution, the council would not be in a position where it could meet the Decent Homes standard.
15. This level of rent increase would generate less income than the level assumed in the Governments subsidy calculation and the HRA budget.
16. Money collected through rents is used for direct service provision to tenants, such as repairs and maintenance, highlighted by the recent Annual Housing Service Monitor as tenants highest priority.

17. The rent increase will apply to all council properties including hostels and travellers sites.

### **Corporate Priorities**

18. Implementing the recommended option would ensure a balanced Housing Revenue Account (HRA) budget in 2009/10 thus allowing the work on improving the quality of the councils affordable housing to continue.

### **Implications**

19. The implications arising from this report are:

- **Financial** - The financial implications of a 6% average rent increase have been included within the Housing & Adult Social Services 2009/10 budget. Implementing the higher increase of 7.7% (option 1) would generate a further £425k income over the amount included in the budget report. Implementing the lower increase (option 3) would result in an annual ongoing loss of income to the HRA of £875k. This loss of income would need to be met from the balance currently held on the HRA and the full impact of this option on the long term viability of the HRA business plan would need to be evaluated in light of the government ongoing review of the HRA subsidy system. However, the outcomes of subsidy review are unlikely to be implemented before 2011/12, and implementing option 3 would result in the HRA going into in year deficit during 2009/10.
- **Human Resources (HR)** – none arising from this report
- **Equalities** – none arising from this report
- **Legal** – It is necessary to serve notices on tenants to vary their current rent and a minimum of four weeks notice is required.
- **Crime and Disorder** – none arising from this report
- **Information Technology (IT)** – none arising from this report
- **Property** – none arising from this report

### **Risk Management**

20. There is a risk to the long term viability of the HRA should the rent increase not be agreed, as income will be lower than accounted for in the HRA business plan which could in turn effect future planned expenditure.
21. In compliance with the Councils risk management strategy the main risks that have been identified in this report are therefore those leading to financial loss (Financial).
22. Measured in terms of impact and likelihood, the risk score all risks has been assessed at less than 16, This means that at this point the risks need only to be monitored as they do not provide a real threat to the achievement of the objectives of this report.
23. Due to the significant financial cost of option 3 there are increased risks to the long term viability of the HRA business plan and as has been outlined in the financial

implications, should this option be approved the HRA will go into in year deficit during 2009/10 as the government will expect the Council to increase rents in accordance with the guideline rent and will therefore assume within its subsidy calculation that we will collect rent up to the guideline rent.

### Recommendation

24. That option 2 is approved and the average rent increase in York of 6% be agreed.

Reason: To ensure a balanced HRA.

### Contact Details

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Report Approved  Date

**Specialist Implications Officer(s)** *None*

**Wards Affected:**

All

**For further information please contact the author of the report**

**Background Papers:**

CLG Housing Revenue Account Subsidy Determinations November 2008  
OIC Housing December 2001 – Implications of Rent Restructuring