CITY OF
YORK
COUNCIL

Executive **15th February 2011**

Report of the Director of Communities and Neighbourhoods

Housing Rent Increase 2011/12

Summary

1. This report asks the Executive to consider the rent guidelines issued by the Department for Communities and Local Government (CLG) for 2011/12.

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 Housing Revenue Account (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. The 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. The CLG have proposed in the subsidy determination a guideline rent increase of 6.5%. Taking into account the rent calculations on individual properties and the impact of moving all rents towards the target rent results in an actual average rent increase in council rents (on a 52 week basis) of 6.4%.

6. The HRA subsidy rules ensure there is a financial penalty if the guideline rent increase is not followed. Under the Government's rent restructuring policy there is an annual withdrawal of housing subsidy at least equal to the guideline rent increase which results in an increased HRA subsidy payment that is not matched by increased rental income should the guideline rent increase not be implemented.

7. These rules result in the additional income generated from the rent increase always being paid to the government in the form of negative subsidy and as such not being available for investment. Therefore, even if a lower increase was applied the council would still have to pay the Government the same amount as if the guideline rent increase had been applied resulting in an increased subsidy payment that is not matched by increased rental income.

8. It is important to note that major reform of HRA Finance from April 2012, including the establishment of a self-financing relationship between local government housing providers and central government, will lead to very substantial changes in the way in which the HRA is financed and implementation of the 2011/12 guideline rent increase is crucial to ensuring the long term viability of the HRA business plan.

9. However, for 2011/12 the current system of HRA subsidy continues and there is a net surplus on the notional HRA as the rent income exceeds the subsidy payable by the Government for HRA expenditure on management, maintenance, etc. This results in a “negative” subsidy payable by the authority to the Government of £7,746k for 2011/12. This compares to £6,145k for 2010/11 as set out in the table below.

	2010/11 Estimate £’000	2011/12 Estimate £’000
HRA subsidy payable (including MRA)	19,143	18,035
Less Notional Rent Income from council tenants	(25,288)	(26,837)
Equals Negative Subsidy payable	(6,145)	(7,746)

Consultation

10. None specifically required.

Options

11. Option 1 – RECOMMENDED OPTION

To continue rent restructuring and increase rents by an average of 6.4% in line with government guidance on rent restructuring.

12. Option 2

To implement a lower rent increase than the recommended government guidance.

Analysis

13. Option 1 – increase rents by 6.4% 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. For comparison, the table below shows the average rent increases being proposed in some of the other Yorkshire & Humber councils.

Authority	Average increase proposed
Rotherham	8.7%
Leeds	6.8%
Sheffield	6.8%

Barnsley	8.1%

15. Option 2 – implement a lower rent increase. 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 2015/16
    - or higher increases being needed in future years to compensate for a lower increase in 2011/12.

    This level of rent increase would generate less income than the level assumed in the Governments subsidy calculation and the HRA budget.

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

Corporate Priorities

17. Implementing the recommended option would ensure a balanced Housing Revenue Account (HRA) budget in 2011/12 thus allowing the work on improving the quality of the councils affordable housing to continue.

Implications

18.
- **Financial** - The financial implications of a 6.4% average rent increase have been included within the Housing Revenue Account 2011/12 budget. Implementing a lower increase would result in an annual ongoing loss of income to the HRA of £261k for every 1% below the recommended increase. 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.

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

- **Equalities** – An Equality Impact Assessment has been completed and the recommendation to increase rents in line with government guidance does not discriminate adversely against any group.

- There are no Human Resources, Crime and Disorder, Information Technology, Property or other implications arising from this report

Risk Management

19. 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.

20. 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).

21. 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.

22. Due to the significant financial cost of option 2 there are increased risks to the long term viability of the HRA business plan should this option be approved.

Recommendation

23. That option 1 is approved and the average rent increase in York of 6.4% 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 January 2011
OIC Housing December 2001 – Implications of Rent Restructuring