

CABINET (HOUSING) COMMITTEE
6 DECEMBER 2011

CABINET
7 DECEMBER 2011

HOUSING REVENUE ACCOUNT – 2012/13 RENT SETTING AND BUDGET
PRINCIPLES

REPORT OF HEAD OF LANDLORD SERVICES

Contact Officer: Richard Botham Tel No: 01962 848421
rbotham@winchester.gov.uk

RECENT REFERENCES:

[CAB2116](#) – Housing Revenue Account Budget and Rent Setting 2011/12 - 9
February 2011

EXECUTIVE SUMMARY:

This report proposes dwelling rent increases for April 2012. It is proposed to increase rents in line with the Government's Guideline Rent increase which will result in an average increase for City Council tenants of 7.34%.

RECOMMENDATIONS:

That, subject to consideration of comments from TACT, the Committee recommend to Cabinet and to Council:

- 1 That the Head of Landlord Services be authorised to implement the housing rents increase for 2012/13 in line with the Government guideline, as set out in paragraph 2 of the report, resulting in an overall average increase of 7.34%.
- 2 That garage rents be increased by 5.6% in line with the inflation provision included in the increase for dwelling rents.
- 3 That all service charges continue to be based on actual costs incurred, but that combined increases for rent and service charges for existing tenants be subject to a maximum increase of 6.1% + £2.17 and the Head of Landlord Services be authorised to implement the changes.

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DETAIL:

1 Introduction

- 1.1 Government rent policy for local authority social housing is that rents should be set in accordance with a national formula introduced in 2004 which provides a “target rent” for all properties. To protect existing tenants from large increases, the Government have phased the move to target rents. Whilst they have moved the date for hitting target over the years, the current target is April 2016. Initially, it was planned that target rents should mirror housing association rents and this is still the case for some properties. However, the recent introduction of the 80% Affordable Rent model will distort this over time.
- 1.2 With most registered providers moving new stock to the 80% rent model as well as a proportion of their re-lets, it is likely that average rents for local authority housing will be substantially lower than averages for other social housing. This could potentially have an impact on demand for City Council housing within the current Hampshire Home Choice sub region.
- 1.3 The Council has in recent years approved rent increases in February as part of setting the Housing Revenue Account (HRA) Budget for the following year. This was due mainly to the timing of recent subsidy announcements. However, prior to this, rent had always been approved by Council in January to allow the detailed budget to be prepared in light of this decision. Whilst options for rent setting have been presented previously, the implications of anything other than increases in line with the Government’s suggested “guideline” rent increase have meant that the guideline increase has been supported.
- 1.4 With the introduction of HRA Reform with effect from April 2012, it should be noted that the Government’s debt calculation for Winchester has assumed a rent increase in line with the national formula (September retail price index + 0.5%) for the next 30 years. Whilst this will no doubt provide more resources to fund housing services, all councils and their tenants have long been arguing for this. Agreeing anything other than a rent increase in line with the Government guideline would be to ignore the potential benefits offered through the reform.

- 1.5 This report therefore recommends that rent continue to reflect the Government Guideline. It also recommends the key principles on which the 2012/13 budget should be based. The detailed budget will be brought to the February 2012 meeting of this committee, following consultation with TACT.
- 2 Rent Setting for 2012/13
- 2.1 The level of debt allocated to the City Council has been based on Government assumptions on what the Council will generate through its rent collection. This means an assumption has been made that rents will increase year on year in line with the existing national policy and national rents formula. No provision has been made for allowing councils to set rents at a different level and any attempts to do so would have an immediate impact on the business plan proposals included in CAB2260 (HSG).
- 2.2 The National rent policy for local authority social housing remains unchanged, with rent restructuring on course to move all rents to “target rent levels” by 2016. Rent increases are set at the September Retail Price Index (5.6%) + 0.5% plus a proportion towards the move to target rents. To protect tenants from significant increases, the Government has set a cap for increases at RPI+0.5%+£2 per week over a 52 week period. The City Council charges rent over a 48 week period and so the maximum cap for weekly rents is RPI+0.5%+£2.17 (i.e. £2x52 weeks/48 weeks)
- 2.3 Landlords are able to offer tenants choice over payment periods. Tenants were last consulted on this some years ago and opted for the 48 week payment period. The benefit of this is that it provides periods when no rent is due around both Christmas and the end of March. This provides some advantage to tenants who pay weekly and to the Council in managing arrears.
- 2.4 Following the national rent policy will mean that the “guideline” rent increase is 6.1%, with the average for City Council tenants rents increasing overall being 7.34%. No rent will increase by more than 6.1% + £2.17.
- 2.5 The current average weekly rent will increase from £91.94 to £98.69 (48 week basis). For next year for Winchester this means:

inflation increase	No. of tenants	% of tenants
6.10%	970	19.19%
up to 7%	1160	22.95%
up to 8%	1089	21.55%
up to 9%	1595	31.56%
up to 10%	238	4.71%
up to 11%	2	0.04%
	5054	

£ increases:	No. of tenants	% of tenants
below £3	8	0.16%
up to £4	6	0.12%
up to £5	233	4.61%
up to £6	1172	23.19%
up to £7	1445	28.59%
up to £8	1461	28.91%
up to £9	721	14.27%
up to £10	7	0.14%
up to £11	1	0.02%
	5054	

3 Other Charges

- 3.1 A number of other charges are raised on a regular basis to tenants and to other customers of Landlord Services including service charges, garage tenants and users of the lifeline service. It is proposed that increases for these services be based on the following:
- a) Service Charges – These charges should always reflect the cost of specific services to tenants, usually in communal housing schemes, such as communal heating and lighting, grounds maintenance, door entry systems and dedicated staffing such as caretakers. It is proposed that these charges continue to be set to reflect actual costs incurred. Any increases should be combined with rent increases and subject to the cap on rent increases of RPI+0.5%+£2. The £2 per week cap relates to a 52 week payment period and this equates to £2.17 for City Council tenants as they pay over 48 weeks.
 - b) Garage Rents – It is proposed to increase garage rents in line with the RPI figure included within the rent increase. There is the risk that any rent increase could result in reduced demand. However, waiting lists are held for most garage sites and occupancy rates are high.
 - c) Lifeline Service – It is proposed that charges be increased by 5.6%. Current charges vary in relation to services received, although they remain competitive against other providers. The lifeline service provides essential support to residents in all tenures and is a means of ensuring the Council's emergency cover to sheltered housing remains cost effective. It is a discretionary service which should in no way be subsidised by Council tenants and so an inflationary increase is considered to be unavoidable.

4 Conclusion

- 4.1 The Council's ability to agree rents locally has been very limited for many years. Despite the aim of self financing and HRA Reform to give greater powers locally, the fundamental issue of rent setting remains restricted as a result of the debt levels being set by Government. However, the changes do mean that some very positive and essential service improvements can be achieved as a result of HRA Reform.
- 4.2 Whilst the Council would normally organise a special meeting with TACT in January to discuss rent setting, it is proposed that rents be considered at the December meeting of the Cabinet (Housing) Committee, for recommendation to Council in January. This will allow the January meeting of TACT to concentrate on the detailed business plan proposals and final budget setting for 2012/13. The implications of the proposed increase have been discussed with TACT at its meeting in November.

OTHER CONSIDERATIONS:

5 SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS (RELEVANCE TO):

- 5.1 The proposals accord with the principles of making the best use of all available resources by continued clear financial planning.

6 RESOURCE IMPLICATIONS:

- 6.1 As discussed in the main body of the report. The Council's ability to resource a 30 year business plan after taking on £167m of HRA debt has been assessed on the principal of rents increasing in line with national policy. For every 1% less than the national guideline, the HRA would lose approximately £250,000 and whilst it should be possible to fund additional services through the Plan as a result of HRA Reform, a less than guideline increase would put bring forward immediate risks on the sustainability of the plan.

- 6.2 The revised rent projections for 2011/12 are £21,930,000 (CAB2161 (HSG) refers). A guideline rent increase will result in annual income of £23,540,000 for 2012/13.

- 6.3 In recent years, arrears have been maintained at a consistently low level with 99% of all rent due being collected within the year. The projections in 8.2 do make provision for 1.5% rent being lost due to properties being empty and 0.3% being written off as bad debts. Performance remains well within these targets are no change in provision is recommended for next year.

- 6.4 A rent increase in line with the proposal in this report would result in City Council rents still being below those charged by other social housing providers for similar properties in Winchester. Proposal for other registered providers to adopt the Government's "Affordable Rent" model will see a proportion of their rents moving to 80% of market rents. This is likely to have the impact of significantly increasing demand for City Council properties compared to other providers in the Hampshire Homechoice sub region.

7 RISK MANAGEMENT ISSUES

- 7.1 The key risks considered as part of these proposals included:

- a) A below guideline increase – This would have an immediate impact on the HRA Business Plan, particularly in the short term. For example, restricting the rent increase to the RPI level of 5.6% would result in the base business plan set out in CAB2260 (HSG) elsewhere on this agenda being underfunded by over £300,000 per annum and would effectively prevent the repayment of any debt for up to 7 years. Whilst it would be possible to maintain existing services, such a move would immediately restrict the Council's ability to commence a new build programme aimed at addressing the problem of increasing housing need. .

- b) The Impact on Benefits – The proposed increase is significant and will no doubt have an impact on some tenants having to place increasing reliance on housing benefit. The proposals for universal credits have been assessed and all council rents will continue to fall well within limits proposed. There is a risk that this could have a negative impact on arrears. The Council is currently reviewing options with the Citizens Advice Bureau for increasing support to vulnerable tenants.

8 TACT COMMENT

- 8.1 The proposals set out in this paper were presented to TACT at their monthly meeting held on 16 November 2012.
- 8.2 The introduction to this paper covers the Government's rent policy for local authority social housing that rents should be set in accordance with a national formula introduced in 2004 which provide a "target rent" for all properties. Or from the Government's point of view how to make money without having to do much for it and to top it all have the cheek to call housing affordable!
- 8.3 Again the Government holding the purse strings, will set the level of debt allocated to the City Council has been based on Government assumptions on what the Council will generate through its rent collection.
- 8.4 A fairly safe assumption for them knowing that rents will increase year on year in line with existing policy and the national rent formula, and that no change is planned to the National rent policy, and that moving all rents to "target rent levels" by 2016 has them rubbing their hands together all the way to the treasury vaults.
- 8.5 At the November TACT meeting it was asked why do we discuss rent setting. There is no choice apart from pay up or give up the tenancy, the Government has council tenants nicely stitched up, and would not have it any other way.
- 8.6 I am sure around the country many tenants will be facing real hardship, and some losing their homes, this has already started in some parts of the country. Heaven help us all if common sense is not brought into play soon.
- 8.7 So many council tenants are struggling just above the poverty line, with ever increasing rents over the coming years, the future is bleak.
- 8.8 Added to rent increases are further increases regarding service charges
- 8.9 When TACT agreed to increases in garage rents some while back, it was on the understanding it was a one off, it would seem this is not what the Council has in mind. TACT is strongly apposed to this, as they show a good profit each year already, or so we are led to believe.
- 8.10 Lifeline Service – Once again worrying as with warden services cut, the need for a lifeline service is becoming essential, rising costs will not encourage people to take it on.

BACKGROUND PAPERS

Working papers held in the Landlord Services

APPENDICES:

None