

CABINET

20 APRIL 2009

COUNCIL

22 APRIL 2009

HOUSING RENTS – LATEST GOVERNMENT PROPOSALS

REPORT OF HEAD OF LANDLORD SERVICES

Contact Officer: Richard Botham Tel No: 01962 848421

RECENT REFERENCES:

CAB1769 – HRA Budget and Rent Setting – 10 December 2009

EXECUTIVE SUMMARY:

Government has recently announced proposals to reduce the level of rent increases to be applied from April 2009 to reflect the fall in inflation levels since September 2008. The proposals, if adopted, would result in tenants rents increasing by an average of 3.2% from April 2009 rather than the 6.14% previously approved by Council in January. Whilst any changes will be backdated to April 2009, it will not be possible to implement changes fully until the first rent week of June 2009.

Under the Council Constitution Access to Information Procedure Rules (Rule 15.1 – General Exception), this is a key decision which has not been included in the Forward Plan as full details were not received from the Government until after the Plan had been published and a response is required within a short timescale. Under this procedure the Chairman of the Principal Scrutiny Committee has been informed.

RECOMMENDATIONS:

That Cabinet recommend to Council:

- 1 That the Head of Landlord Services be authorised to implement the Government's revised proposals for housing rents for 2009/10 with effect from April 2009, as set out in paragraph 5 of the report, resulting in an overall average increase of 3.2%.
- 2 That service charges continue to be based on actual costs incurred and that capping applied in line with government guidance be adjusted to reflect changes to rents agreed above, and the Head of Landlord Services be authorised to implement the changes.

CABINET20 APRIL 2009COUNCIL22 APRIL 2009HOUSING RENTS – LATEST GOVERNMENT PROPOSALSREPORT OF HEAD OF LANDLORD SERVICESDETAIL:1 Introduction

- 1.1 Council approved the annual rent increase in January of 6.14%, which was in line with the “guideline rent” set by Government and on which they based all housing subsidy calculations. This guideline rent was based on inflation as at September 2008 (over 5%) and a further allowance for rent convergence (the formula aiming to bring housing association and Council rents in line).
- 1.2 However, following the recent significant fall in inflation rates, landlord and tenant organisations had made representations for Government to review the guideline rent. As late as 4 March 2009, the Government stated they would not be changing guideline rents. However, on 6 March 2009, Margaret Beckett, the Minister for Housing, issued a press release announcing changes that would allow councils to half average rent increases. It was particularly unfortunate that this announcement came after all council’s statutory deadlines for notifying tenants for rent increases. Letters had already been sent to all Winchester tenants and the March edition of “On the House” had also been printed.
- 1.3 Full details of the Government’s proposals have now been received (by email on 26 March) and it is now clear that any rent reduction will be offset by the Government reducing negative subsidy by a similar amount. Councils have to notify the Government within the next 4 weeks.

2 Proposed Rent Changes

- 2.1 The revised “guideline rent” (the figure government use to calculate subsidy payments) for the City Council represents an increase over 2008-09 of 3.05%.
- 2.2 The proposed revised actual increase to March 2009 rents is based on an inflation increase of 2.4% plus one-fifteenth of the difference to Formula Rents, which still increase in line with Housing Association rents, (ie by 5.5%). This leads to an overall average increase for City Council tenants of 3.2%. The Government have confirmed that they will not penalise councils who follow this approach but still have average increases in excess of the increase in guideline rent (in our case 3.05%).

- 2.3 Actual rent increases for individual tenants (excluding any service charges) are summarised in the table below:

% increase for dwellings and hostels	Number affected	% affected
Decreases	8	0.16%
Increases up to 1.0%	6	0.12%
Increases more than 1.0, up to 1.5%	1	0.02%
Increases more than 1.5, up to 2%	0	0.00%
Increases more than 2.0, up to 2.5%	3	0.06%
Increases more than 2.5, up to 3.0%	1672	32.79%
Increases more than 3.0, up to 3.5%	1779	34.89%
Increases more than 3.5, up to 4.0%	975	19.12%
Increases more than 4.0, up to 4.5%	388	7.61%
Increases more than 4.5, up to 5.0%	175	3.43%
Increases more than 5.0, up to 5.5%	51	1.00%
Increases more than 5.5, up to 6.0%	23	0.45%
Increases more than 6.0, up to 6.6%	18	0.35%
	5099	100.00%

£ increase for dwellings and hostels	Number affected	% affected
decrease	8	0.16%
increase up to £1	7	0.14%
increase more than £1 up to £2	483	9.47%
increase more than £2 up to £3	3511	68.86%
increase more than £3 up to £4	1077	21.12%
increase more than £4 up to £5	13	0.25%
increase more than £5	0	0.00%
	5099	100.00%

- 2.4 The Government do expect councils to backdate any decrease (compared with the original figures for 2009-10) to 6th April, in spite of any administrative difficulties. At present they do not envisage larger increases being allowed later without backdating (this could change after the consultation period, although if adopted by the City Council, would result in rents being too low at April 2010 compared to negative subsidy calculations and therefore cannot be recommended).
- 2.5 It should still be possible to charge new tenants after 6 April the Formula Rent for their property, which will have risen by 5.5%, and this will not reduce with any later change. However, rents for existing tenants in occupation on 5th April will benefit from a reduction and will pay a lower rent than the 2009-10 Formula Rent, even if they were paying the Formula Rent in 2008-09. By widening the gap between actual and Formula Rents for most tenants the process of convergence between Council and Housing Association rents is weakened in the short term.

3 Impact on the HRA

- 3.1 The latest guidance has confirmed that the revised guideline rents will result in a reduction in “negative subsidy” of £605,000 for 2009-10. Expected dwelling rent income, using the same assumption for property sales, voids and write-offs as previously would be £19,990,000, compared with £20,550,000 from the original budget and average 6.1% increases, i.e. a difference of £560,000.
- 3.2 Lower rent increases will enable a reduction in the amount of capping required where service charges have increased as a result of new cleaning arrangements and higher electricity costs. Therefore net income from service charges should increase substantially and this is not removed through Subsidy. The change should increase net service charge income by around £28,000.
- 3.3 Backdated reductions will result in Housing Benefit overpayments which will not be reclaimable. The Council’s system should claw back the overpayments immediately in the week in which the revised rents are introduced and there should be no net cost to the General Fund, nor to tenants. The systems do however need to be tested to confirm that overpayments can be administered in this way.
- 3.4 The overall financial impact for 2009-10 is as follows:

Subsidy saving	605,000 (draft figure- to be confirmed)
Lost Income through Lower rents	(560,000) (see above)
Increased service charge income	28,000
Printing and postage	(10,000) See below

Net gain **£63,000**

- 3.6 Printing and postage is an estimate for revised Rent notices, Housing Benefit, and Direct Debits and excludes staff time. Part of this cost will be chargeable to the General Fund.

4 Conclusions

- 4.1 Whilst the late announcement by the Government is unfortunate and has resulted in all councils incurring thousands in unnecessary administrative and postage costs (the Government have confirmed these will not be refunded), the decision to reflect recent reductions in inflation in tenants rents has to be applauded. It will go no way towards helping the Council meet its much publicised £2.7 million shortfall in its repairs programme, but will certainly help those tenants struggling to meet household bills, many of which remain high after last years increases.
- 4.2 Whilst the revised rent levels, if implemented, will be effective from April 2009, actual implementation will be made by the first rent week of June 2009.

OTHER CONSIDERATIONS:

5 CORPORATE STRATEGY (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 detailed in the body of the report.

7 TACT COMMENT:

- 7.1 TACT organised a special meeting in December to consider the 6.14% rent increase in some detail. The short notice of the announcement made by Government has not allowed any group consultation, although TACT can confirm support for the Government proposal and trust that the Council will implement the proposal allowing all tenants to benefit from the changes.

BACKGROUND DOCUMENTS:

Working papers held in the Landlord Services and Finance Divisions.