

Report to the Cabinet

Report reference: C/108/2007-08.

Date of meeting: 4 February 2008.



**Epping Forest
District Council**

**Portfolios: Finance, Performance Management and Corporate Support Services.
Housing.**

Subject: Housing Rent Increase 2008/09.

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Recommendation:

That Cabinet recommend to Council that the average increase in housing rents for 2008/09 be 6.69%, in accordance with the Council's approved Rent Strategy.

Introduction:

1. The figures included for housing rents in the budget report to the 28 January meeting of the Finance & Performance Management Cabinet Committee were based on the anticipated outcome from a consultation exercise being undertaken by the Department for Communities and Local Government (DCLG). As part of this consultation the DCLG suggested that the process of rent restructuring would be extended from a 2011/12 end point to a 2016/17 end point. This consultation has now been concluded and as part of the notifications of housing subsidy for 2008/09 the Council was informed, on 15 January, that the option would remain to keep the end point of 2011/12.

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2. In 2001/02, central Government began a regime of rent restructuring, with the aim of equalizing rent levels for tenants of Council houses and of registered social landlords (RSL's). The original deadline for rent level equality, or rent convergence, was 2011/12, and rent rises were tightly controlled by a set formula that moved rents in equal steps towards convergence. The increases or decreases were further limited to RPI plus 0.5 % plus £2.00, effectively removing any choice on the amount of rent rise.

3. In 2006 the Government re-set the factors on which rent levels were originally based, and backvalued this change to take effect from the start of the restructuring process. This had the effect of intensifying the rent rises for the remaining five years of the scheme, and the Government attempted to soften the effect by setting a maximum 5% average rent rise and by paying an allowance to local authorities (the Rental Constraint Allowance, or RCA) to compensate them for the revenue lost by this cap.

4. The RCA was paid in 2006/07 (£199,000) and 2007/08 (£603,000). However, the final determination for the 2008/09 subsidy settlement has abolished this allowance completely. The 2008/09 subsidy determination was delayed to allow for consultation on how to continue with the restructuring process; however, although the consultation paper offered two clear options the final determination does not state which option has been chosen. The two options were:

- (i) to aim to converge rents by 2011/12, accepting the steeper rent rise, or

(ii) To delay the target date for convergence to 2016/17, with the warning that the expenditure elements of the subsidy settlement would be adversely affected in compensation.

5. The only mention of this choice is in the accompanying letter, which states that the subsidy settlement for 2008/09 has based its rent calculations on convergence in 2016/17, but it warns that this is “solely for the purpose of calculating guideline rents for 2008/09” i.e. for a single year, and relating only to housing subsidy determination, not rent-setting matters. This leaves local authorities with the choice of setting their own rent level rises for the first time in six years.

6. Following discussions with a housing finance expert, of Accra Consulting Ltd who is engaged to produce the financial aspects of the HRA Business Plan, the view of Council officers is that it would be beneficial to continue with the current rent setting policy; to aim for rent convergence in 2011/12. This requires an average rent rise of 6.69%, as opposed to an average rise of 5.82% to allow convergence in 2016/17. The effects of raising rents by 6.69% would be to increase the weekly average rent by £4.56 from £68.09 to £72.65. This compares to £72.05 based on a 5.82% increase. The additional increase as a result is therefore 60p per week.

7. In recommending adherence to the current Rent Strategy the following factors have been considered:

(a) to allow for rent convergence on most properties by 2011/12, should this be the stated requirement of the DCLG in next year’s subsidy settlement. around 800 properties would require further rises to bring their rents into line beyond this date;

(b) to provide approximately £386,000 in additional rental income, over the current estimate of £24.043m, the current estimate was based on an average rise of 5%, as no firm information was available at the time; and

(c) as roughly 55 to 60% of Council tenants receive housing benefit, they will be cushioned from the effects of the rent rise.

8. If the Council were to raise rents by 5.82%, aiming for convergence in 2016/17:

(i) it would be more difficult to achieve convergence if next year’s subsidy settlement gives a firm decision to return to a 2011/12 deadline, it has been estimated that around 1,100 properties would need more time to achieve convergence if this were to happen; and

(ii) the Council would receive approximately £187,000 in additional rental income, over the estimate of £24.043m originally stated to Finance and Scrutiny Panel (based on a 5% rise).

Statement in Support of Recommended Action:

9. The proposed rent increase is in line with the Council's existing Rent Strategy and achieves the long-term goal of rent restructuring more promptly.

Other Options for Action:

10. The Council could delay convergence until 2016/17, although for the reasons set out above this is not recommended.

Consultation Undertaken:

11. Accra Consulting Ltd.

Resource Implications:

Budget Provision: If the recommended course of action is followed rental income for 2008/09 will be £386,000 higher than previously estimated. This will allow additional Revenue Contributions to Capital Outlay to reduce the use of the Major Repairs Reserve in 2007/08. Revised HRA summaries are attached as annexes 1 a, b and c.

Personnel: N/A.

Land: N/A.

Council Plan/BVPP reference: Various.

Relevant statutory powers: Various.

Background papers: Housing Subsidy determination 2008/09.

Environmental/Human Rights Act/Crime and Disorder Act Implications: N/A.

Key Decision reference: Key Decision – Council Budgets 2008/09.