



Epping Forest District Council

Impact of April 2014 Rent Increase and Consultation of Social Rents Policy

December 2013

Initial Update of the Plan

Following the publication of the September RPI of 3.2%, I have quickly updated your business plan model to reflect this. The last review of the plan demonstrated the funding availability for the following service enhancements:

Service Enhancements	Yrs 2-6 £m	Yrs 7-11 £m	Yrs 12-16 £m	Yrs 17-21 £m	Yrs 22-30 £m	Total £m
Base Forecast	1.1	4.0	7.0	8.0	9.0	181.5
Revised Forecast	1.35	4.0	7.0	8.0	9.0	182.75

This is based on rent convergence of April 2017 and the new social rent policy not being applied with the increase from the estimated 2.8% to 3.2% actual RPI results in the Yrs 2-6 enhancements potentially being increased to £1.35m per year with no impact on future years.

As per your requirements I have modelled the four options requested with the assumption of the new social rent policy, currently in consultation, being applied from April 2015.

Option 1

Rent Increase for April 2014 being based on rent convergence by 2014.15 (with individual increases limited to 3.7% plus £2). Any re-let properties are rented at the same out-going rent.

Average Rent Increase	5.74% £5.22
Maximum Rent Increase	6.80% £4.39
Estimated gain on Net Income from 2013.14	£1.577m
Impact to £1.35m service improvements 5 Yrs April 2014	£0.85m
Impact to £4.0m service improvements 5 Yrs April 2019	£3.3m

Notes:

The maximum rent increase (% based) has a lower cash value due to a lower rent than the average rent.

The estimated rent gain is based on rental income of 2 weeks.

Service enhancements are reduced due to the loss of future rent convergence.

Option 2

Rent Increase for April 2014 being based on rent convergence by 2014.15 (with individual increases limited to 3.7% plus £2). Any re-let properties are rented at the formula (or target rent). Based on the averages for the last 5 years we have projected re-lets at 8% - but will be on a reducing balance basis.

Average Rent Increase	5.74% £5.22 (as option1)
Maximum Rent Increase	6.80% £4.39 (as option 1)
Estimated gain on Net Income from 2013.14	£1.618m
Impact to £1.35m service improvements 5 Yrs April 2014	£1.05m
Impact to £4.0m service improvements 5 Yrs April 2019	£3.55m

Note:

The in-year increase in income assumes that 6% will only have a partial effect given that re-lets occur on an even basis throughout the year.

Option 3

Rent Increase for April 2014 being based on rent convergence by 2017.18 (with individual increases limited to 3.7% plus £2). Any re-let properties are rented at the same out-going rent.

Average Rent Increase	4.94% £4.49
Maximum Rent Increase	6.38% £4.76
Estimated gain on Net Income from 2013.14	£1.135m
Impact to £1.35m service improvements 5 Yrs April 2014	£0.6m
Impact to £4.0m service improvements 5 Yrs April 2019	£3.1m

Option 4

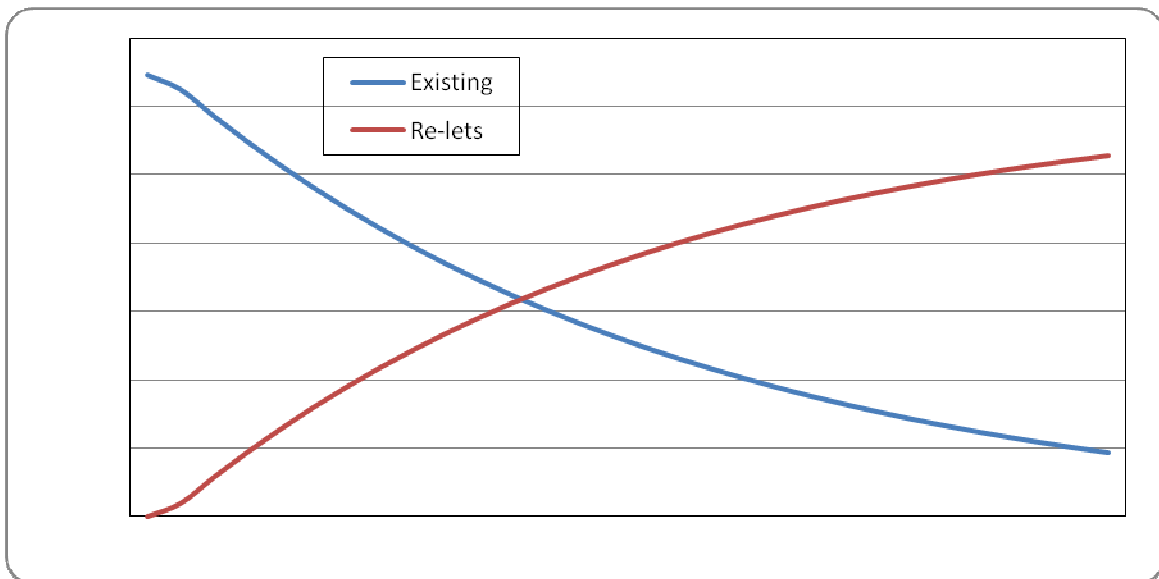
Rent Increase for April 2014 being based on rent convergence by 2017.18 (with individual increases limited to 3.7% plus £2). Any re-let properties are rented at the formula (or target rent). Based on the averages for the last 5 years we have projected re-lets at 8% - but will be on a reducing balance basis.

Average Rent Increase	4.94% £4.49 (as option 3)
Maximum Rent Increase	6.38% £4.76 (as option 3)
Estimated gain on Net Income from 2013.14	£1.384m
Impact to £1.35m service improvements 5 Yrs April 2014	£0.85m
Impact to £4.0m service improvements 5 Yrs April 2019	£3.45m

Re-lets Basis

The information provided is that over a 5 year period the average in-year re-lets is 388 properties, excluding mutual exchanges. If we used an average stock level of 6,500 for that period this results in a percentage of 5.97% which we have rounded up to a flat 6%.

The following graph shows the average number of tenancies for existing and re-lets:

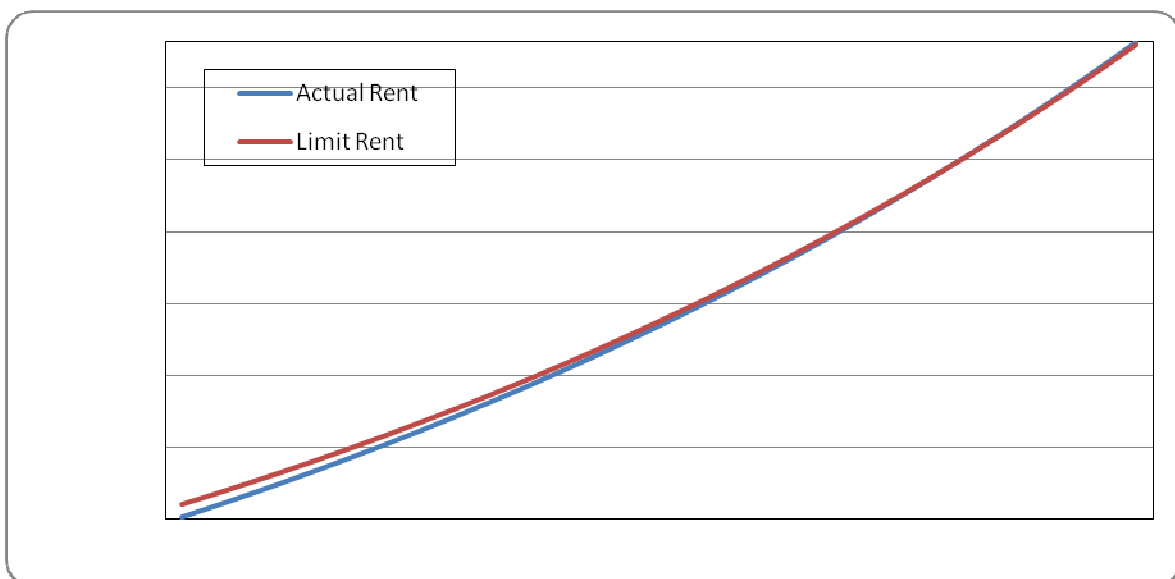


The 6% is applied on the basis of a reducing stock number for existing tenancies hence the steep increase in re-lets to formula rent in the early years of the plan.

Limit Rent

It is difficult to predict the impact of rent rebate subsidy limitation given that Government will issue the 2014.15 limit rents in the early part of the 2014. We can only assume that they will follow the path of convergence for 2014.15 and then apply CPI +1% for April 2015 beyond.

In the graph below the actual rents are on the basis of option 4 with an estimated limit rent for 2014.15 of £99.33 (but our estimates could be as high as £100.28) depending on the formula rent used.



In this scenario the average rent does not exceed limit rent until year 25 by which time both the social rent policy may well have changed again but also Universal

Credit will be fully implemented which may see the demise of rent rebate subsidy limitation.

General Notes:

The calculations within this note are based on the rent and stock data currently held by us (provided at the beginning of this year) and the averages used may fluctuate due to the continuation of sales through right to buy which will affect these values.

Simon Smith
December 2013