

RE HOUSING REVENUE ACCOUNT RENT SETTING 2014/15
REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE
DIRECTION)



Hinckley & Bosworth
Borough Council

A Borough to be proud of

WARDS AFFECTED: ALL WARDS

1. **PURPOSE OF REPORT**

1.1 To inform Executive of the proposed rent levels for 2014/2015

2. **RECOMMENDATION**

2.1 That Executive approve the proposed rent increase of 4.99% for 2014/2015

3. **BACKGROUND TO THE REPORT**

3.1 The Council, as landlord to properties within the Housing Revenue Account is required to review rent levels and advise tenants of their rent for the forthcoming year ahead as part of the budget setting process.

3.2 As part of the previous Housing Subsidy regime, rents were calculated on the basis of an annual determination issued by the Department of Communities of Local Government. The methodology included in this determination was highly prescriptive and offered little flexibility for landlords in setting rent levels.

3.3 One of the key objectives of rent setting under the Housing Subsidy regime was to ensure that the rents payable by Council tenants were brought into line with those paid by tenants of other Social Landlords (target rent) by a set date. This concept is known as "convergence". Based on rental forecasts, this expected to be achieved by 2015/16.

3.4 Under self financing, Council landlords have been granted additional flexibility in setting rent levels and rent determinations are no longer published to prescribe the process. That said, the principle of rental convergence currently still applies under self financing and the Housing Revenue Account Business Plan for this Council continues to be based on a convergence date of 2015/16. Changes to this process for future years are detailed from 3.10

3.5 In order to achieve the objective of convergence, the proposed rent for 2014/2015 has been calculated using the same principles as previously adopted. In applying this, a blanket increase of RPI + ½% (Retail Price Index) has been calculated, where RPI is 3.2%. In addition, the proposed rent has been increased by a proportion of the difference between the inflated rent and the target rent for the property. This proportion is based on the number of years to convergence (2 years).

3.6 In order to ensure that rents are not increased excessively, the previous rental formula included rental constraint devices (known as caps and limits). The cap dictates the total amount that can be charged for each property based on the number of bedrooms. In addition, the limit states that no tenants' rent can be increased by more than RPI + 0.5% + £2 year on year. Whilst these limits are no longer mandated, the proposed rental calculation has retained these principles to prevent against disproportionate rental increases.

- 3.7 Based on this calculation, the average rental increase for this Council for 2014/2015 has been calculated at **4.99%**. After factoring in void losses of 2%, this increase will generate forecast rental income of £ 12,774,693 in 2014/2015 (4.45%).
- 3.8 The proposed rental increases will result in an average increase of £3.58 per week. Because of the nature of the average calculation, a number of properties (1,853 in total) will see rental increases of over 4.99%. The largest calculated rental increase is 7.68% which, for those properties impacted, equates to £3.51 per week.
- 3.9 Under self financing, Council landlords have the flexibility to set rent levels based on local needs. The following table details the forecast rent levels at various percentage changes. Based on the table below, if this Council was to increase rent by 3%, £177,175 less income would be available for the Housing Revenue Account. Likewise if rent was to increase by 6%, an additional £189,743 of rent would be generated.

	2013/2014	Formula	3% Increase	4% Increase	5% Increase	6% Increase
Total rent	12,480,204	13,035,401	12,854,610	12,979,412	13,104,214	13,229,016
Void Loss	249,604	260,708	257,092	259,588	262,084	264,580
Forecast rent	12,230,600	12,774,693	12,597,518	12,719,824	12,842,130	12,964,436
Average increase		4.99%				
Actual increase		4.45%	3.00%	4.00%	5.00%	6.00%
Additional surplus		0	-177,175	-54,869	67,437	189,743

- 3.10 Under the self financing regime, the sustainability of the Housing Revenue Account is imperative to ensure management of the buy out debt and also to ensure sufficient resources for investment in properties. The table below details how any increases/decreases in rent will impact on housing investment plans. If this Council was to limit rent increases to 3%, it would mean that investment would not be available (without borrowing) for 1-2 houses and 44 kitchens. If the rent increase was set at 6% however, the Council could fund 1 additional house and 47 new kitchens in 2014/2015.

	3% Increase	4% Increase	5% Increase	6% Increase
New Build House	-1.4	-0.4	0.5	1.5
New Kitchen (refurb)	-44.3	-13.7	16.9	47.4

- 3.11 The Government is currently considering changes for rent setting processes from 2015/16. Based on the draft consultation document issued, the preferred methodology proposes that from this year rent increases may be limited to a level of **CPI + 1%**. Given that CPI at September 2013 (the month used for budget setting purposes) was 2.7%, using this methodology for 2014/2015 as an example would reduce the budgeted rent levels by £91,561. Equally, under Universal Credit, the level of benefit awarded will be capped and therefore rental levels may be adversely impacted. There is therefore an argument that in preempting this change, landlords may wish to consider larger rent increases for 2014/2015 whilst this flexibility is still allowed.

4. FINANCIAL IMPLICATIONS [KP]

These are contained in the report

5. LEGAL IMPLICATIONS [AB]

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