



RE HOUSING REVENUE ACCOUNT RENT SETTING 2015/2016
REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)

WARDS AFFECTED: ALL WARDS

1. PURPOSE OF REPORT

- 1.1 To inform Executive of revised Government guidance for rent setting and to obtain approval of rent levels for 2015/2016.

2. RECOMMENDATION

- 2.1 That Executive note the revised Government guidance on rent setting and the average formula rent increase of **9.76%** arising from this calculation.
- 2.2 That Executive approve a rent increase for 2015/2016 of 6.5% in line with the recommendations from consulted tenants.
- 2.3 That Executive acknowledge the negative impact on the HRA Business Plan by approving a rent increase that is below that recommended by Government.
- 2.2 That Executive approve that all void properties are re-let at formula rent from 1st April 2015.
- 2.3 That Executive note the comments in section 3.17 onwards regarding the introduction of a rent policy for higher income tenants and approve the recommendation that such a policy is not introduced.

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.

Policy to 2014/2015

- 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 (DCLG). 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”.
- 3.4 Under self financing, Council landlords were granted additional flexibility in setting rent levels and rent determinations were no longer published to prescribe the process. That said, the principle of rental convergence currently still applied and Councils were encouraged to implement formula which was broadly based an increase of RPI + ½% plus a proportion of the difference between inflated and target rent for the property. In order to ensure that rents were not increased excessively, the previous rental formula included rental constraint devices (known as caps and limits). The cap dictated the total amount that can be charged for each property based on

the number of bedrooms. In addition, the limit stated that no tenants' rent could be increased by more than RPI + 0.5% + £2 year on year.

Policy from 2015/2016

3.5 In May 2014, the Government announced a revised rent policy which would apply for ten years from 2015/16. The objectives of this policy was "in recognition of the benefit of long-term certainty to landlords, in helping them to plan for future investment – and so provide more new affordable homes, improve existing affordable homes, and provide good services to their tenants."¹

3.5 The revised policy outlines that a "formula" rent as at 2000/01 should be calculated using the formula below. This calculation incorporates a number of local factors deemed to impact the rental market rather than blanket increases that have previously been used:

$$(70\% \text{ of national average rent } \times \text{ relative county earnings } \times \text{ bedroom weight}) + (30\% \text{ of national average rent } \times \text{ relative property value})^2$$

3.6 Once the 2000/01 formula rent is calculated, it is then uplifted annually to 2014/2015 by Retail Price Index (RPI) at September of the previous year plus an additional amount. In 2001/02, that additional amount is 1.0%; for all other years, it is 0.5%.

3.7 The revised rent policy then changes the uplift from 2015/2016 to Consumer Price Index (CPI) at September of the previous year plus 1.0%. The move from RPI to CPI follows the Office for National Statistics' announcement in January 2013 that the formula used to produce the RPI does not meet international standards. As a result, the Government is looking to move to the CPI, where possible, where an inflation-index is currently being used in policy.

3.8 CPI at September 2014 was 1.2%.

3.9 Whilst use of this formula is not mandated, the DCLG states that it **expected** that Councils will set rents in this manner.

Hinckley and Bosworth Rents

3.10 Based on this calculation, the average rental increase for this Council for 2015/2016 has been calculated at **9.76%**. This increase is due to historical decisions made by members to not increase rents in line with formula. As a comparison, the actual rent charged in 2014/2015 is on average £5.64 (6.69%) less than the recommended formula rent.

3.11 The calculated rental increases will result in an average increase of £7.38 per week. Because of the nature of the average calculation, a number of properties will see rental increases over this amount.

3.12 After factoring in void losses of 2%, this increase will generate forecast rental income of £ 13,704,664 in 2015/2016 (8.40% increase in cash terms from 2014/2015 budget).

¹ Guidance on Rents for Social Housing – DCLG October 2014

² *National average rent* is average rent in April 2000

Relative county earnings is the average manual earnings for the county in which property is located divided by the national average manual earnings – both at 1999

Relative property value – individual property value divided by national average property value – both at 1999

- 3.13 Following consultation with Tenants Together, a rent increase of 6.5% has been endorsed by the group and Executive and has been put forward for approval. After factoring in void losses of 2%, this increase will generate forecast rental income of £13,262,955 in 2015/2016 (4.91% increase in cash terms from 2014/2015 budget).
- 3.14 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 this information, if this Council was to increase rent by 6.5%, £441,709 less income would be available for the Housing Revenue Account than if rent was set in line with the formula. For reference, the original Housing Revenue Account Business Plan was based on an average increase of 5.5%, however this was calculated using the previous method of rent calculation.

| | 2014/2015 | Formula | Agreed increase (6.50%) | 3% Increase | 5% Increase | 7% Increase |
|----------------------|------------|------------|-------------------------|-------------|-------------|-------------|
| Total rent (£) | 12,900,789 | 13,984,351 | 13,533,628 | 13,287,812 | 13,545,828 | 13,803,844 |
| Void Loss (2%) (£) | 258,016 | 279,687 | 270,673 | 265,756 | 270,917 | 276,077 |
| Forecast rent (£) | 12,642,773 | 13,704,664 | 13,262,955 | 13,022,056 | 13,274,912 | 13,527,767 |
| Average increase(%) | | 9.76% | 6.50% | | | |
| Actual increase (%) | | 8.40% | 4.91% | 3.00% | 5.00% | 7.00% |
| Opportunity cost (£) | | 0 | -441,709 | -682,608 | -429,752 | -176,897 |

- 3.15 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 increase/decrease in rent will impact on housing investment plans. If this Council was to increase rent in line with the formula it would fund 8.50 new build houses or 265 new kitchens in 2015/2016. Correspondingly this opportunity would be reduced by 3.5 houses or 110 kitchens if rent was increased by only 6.5%.

| | Formula | Agreed 6.5% Increase | 3% Increase | 5% Increase | 7% Increase |
|--------------------------|---------|----------------------|-------------|-------------|-------------|
| New Build House (#) | 8.50 | -3.5 | -5.5 | -3.4 | -1.4 |
| New Kitchen (refurb) (#) | 265.47 | -110.43 | -170.65 | -107.44 | -44.22 |

- 3.16 The revised guidance also reiterates the recommendation that where a property is not let at formula rent it should be re-let at that level. This has been common practice nationally under self-financing and housing subsidy but has not been followed by Hinckley and Bosworth Borough Council. If members decide not to increase all rents in line with formula it is recommended that this practice is introduced to compensate for some loss of income.

High Income Households

- 3.17 The revised guidance also outlines the Governments' recommendations in respect of high income households i.e. those households (and therefore including any individuals living in a property who are not named on the tenancy agreement) who have annual taxable income of at least £60,000.

- 3.18 As outlined in the guidance, the Government “believes that local authorities should be able to charge those in social housing with high incomes a fairer level of rent to stay in their homes” and therefore encourages that a separate rent policy should be in place for high income households which incorporates higher rent levels. Rent received through this charge should be invested into new affordable housing.
- 3.19 In order to execute such a policy, the Council would be required to administer an additional process to request income information from all tenants not currently on housing benefit. Correct implementation of the policy would rely on tenants declaring their income and any changes that may occur. It is envisaged that this process would be administratively complex and expensive and therefore it is recommended that such a policy is not introduced. This is consistent with a number of other Leicestershire housing authorities who have been consulted on their plans.

4. FINANCIAL IMPLICATIONS [KP]

These are contained in the report

5. LEGAL IMPLICATIONS [EH]

Under section 24 of the Housing Act 1985 the council has power to make reasonable charges for the tenancy or occupation of its houses. It also requires the Council to review the rents charged from time to time.

The Council may increase the rent for its tenants by giving a minimum of four weeks’ (28 days) prior notice of any increase in rent, as required under section 103(4) of the Housing Act 1985 and the terms of the Council’s standard tenancy agreement.

Please also note the additional comments under the Consultation section of the report.

6. CORPORATE PLAN IMPLICATIONS

This report contributes to the achievement of the following Corporate Plan Priorities:

- Improve the quality of residents’ homes
- Provide accommodation which is affordable in the Borough

7. CONSULTATION

Though there is no statutory obligation to consult on rent increases, it is a term of our tenancy agreement WHICH states that:

“Before making any changes in the Conditions of Tenancy the Council will consult tenants either by writing to all tenants outlining the proposed amendments or, where amendments specifically apply to a group of tenants, by writing individually to those tenants or in appropriate cases calling a Public Meeting. The Council will fully consider any comments received. The Borough Council will then give at least four weeks notice of any changes before bringing them into effect.”

Proper consultation should therefore be undertaken prior to implementation of any changes. For the purpose of consultation for previous rent increases a meeting has taken place with the formal tenants board, now Together for Tenants. Whilst not the full consultation outlined above, it is proposed that this method of consultation is continued for this rent increase.

