

**EXECUTIVE– 30 JANUARY 2013**

**REPORT OF THE DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)**

**RE HOUSING REVENUE ACCOUNT RENT SETTING 2013/14**

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**1. PURPOSE OF REPORT**

- 1.1 To inform Executive of the proposed rent levels for 2013/14 .

**2. RECOMMENDATIONS**

- 2.1 That Executive endorse the proposed rent increase of 5.49% for 2013/14.

**3. BACKGROUND**

- 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 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.
- 3.5 In order to achieve the objective of convergence, the proposed rent for 2013/14 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 2.6%. 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 (3 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 2013/14 has been calculated at **5.49%**. This is materially in line with the Councils Housing Revenue Account 30 year Business Plan prepared by the Chartered Institute of Housing which forecast a rental increase of 5.5% for the forthcoming year. After factoring in void losses of 2%, this increase will generate forecast rental income of £ 12,230,635 in 2013/14 (5.36%).
- 3.8 The proposed rental increases will result in an average increase of £3.69 per week. Because of the nature of the average calculation, a number of properties (2,428 in total) will see rental increases of over 5.49%. The largest calculated rental increase is 7.82% which, for those properties impacted, equates to £3.32 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:

	<b>2012/13 Rent (£)</b>	<b>Proposed rent (£)</b>	<b>3.40% Increase (£)</b>	<b>4.40% Increase (£)</b>	<b>6.40% Increase (£)</b>
Total rent	11,845,153	12,480,240	12,247,888	12,366,340	12,603,243
Void Loss	236,903	249,605	244,958	247,327	252,065
Forecast rent	11,608,250	12,230,635	12,002,931	12,119,013	12,351,178
Increase (after void loss)		5.36%	3.40%	4.40%	6.40%
Additional income		0	-227,704	-111,622	120,543

- 3.10 Based on the table above, if this Council was to increase rent by 3.4%, £227,704 less income would be available for the Housing Revenue Account. Likewise if rent was to increase by 6.4%, an additional £120,543 of rent would be generated. 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. If this Council was to opt for a lower rent than that proposed, rental convergence will not be achieved by the desired timescale.

### **3 FINANCIAL IMPLICATIONS (KB)**

These are contained in the report

### **4 LEGAL IMPLICATIONS (AB)**

The Housing Act 1985 s103 provides that when varying the terms of a periodic tenancy notice must be served on the tenants at least four weeks prior to implementing the change.

### **5 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

