

CABINET

Review of Council Housing Rent Increases 2009/10

02 June 2009

Report of Corporate Director (Community Services) and Head of Financial Services

PURPOSE OF REPORT			
To update Cabinet on the recent changes that Government introduced regarding the Housing Revenue Account (HRA) subsidy arrangements for 2009/10, and the associated implications and options for councils housing rents for the current year.			
Key Decision	X	Non-Key Decision	Referral from Cabinet Member
Date Included in Forward Plan	June 2009		
This report is public.			

RECOMMENDATIONS:

1. That the average annual council housing rent increase for 2009/10 be reduced from 5% to 3.05%, resulting in an average rent of £58.45 over the year.
2. That in line with the above, weekly average rents payable be reduced accordingly with effect from 03 August 2009, or as soon as possible thereafter, subject to any implications arising from receiving the final rent determination from Government.
3. That the 2009/10 revenue budgets for the Housing Revenue Account be updated accordingly, as set out in the report.

1 INTRODUCTION

- 1.1 The report sets out information regarding the Government's proposal for implementing reductions to the average guideline rent increases for council housing in 2009/10, announced by the Housing and Planning Minister on 06 March 2009. Details of the associated financial implications are also provided.

2 GOVERNMENT'S PROPOSALS FOR RENT LEVELS AND SUBSIDY

- 2.1 On 20 January 2009 Cabinet approved the 2009/10 average weekly council housing rent at £59.56, representing an annual average increase of £2.84 or 5.00%. In comparison, national average guideline rent increases were set by Government at approximately 6.20%, in accordance with the original rent restructuring guidelines.
- 2.2 The annual guideline rent increases are based, in part, on the preceding September Retail Price Index (RPI), published in October. In September 2008, the RPI year on year increase was 5.0%. The last five months have seen RPI drop dramatically, however, with the latest published figure (April 2009) being -0.4%.
- 2.3 After many representations to Government, on 06 March 2009 the Minister for Housing announced that the national average guideline rent increase for 2009/10 would be halved from 6.2% to 3.1%, to encourage local authorities to reduce their proposed actual rent increases. Unfortunately, by this time, the City Council had already set its housing rent levels for 2009/10, but that does not preclude the Council changing its rent levels during the course of the year.
- 2.4 A draft revised rent determination was subsequently issued by Government for consultation on 26 March 2009. These proposals raised difficulties for authorities (such as Lancaster) whose actual average rents were lower than their guideline rents. As a result, on 07 April the Government issued a further revision to its draft proposals.
- 2.5 The draft determination effectively reduces the RPI element of the rent formula to 1.9%, which equates to a national average rent increase of 3.10%. Individual authorities would be affected slightly differently by the proposals, however, depending on their own specific circumstances. For the City Council, the new average annual rent increase allowable under Government's latest proposals, whilst still obtaining compensatory subsidy entitlement, would be 3.05% of the actual average rent for 2008/09, i.e. an increase of £1.73, giving an average annual rent payable of £58.45. This is £1.11 lower than that approved by Cabinet in January.
- 2.6 The financial impact of applying such a new rent increase would result in a loss of rental income of approximately £218K, but this would be more than offset by an increase in subsidy of £346K, giving rise to an initial net gain of £128K before considering any other costs. Whilst this may seem strange, it is simply a reflection of how the subsidy system would affect this authority; different authorities would have different net implications arising. More information is included within the financial implications section of this report.
- 2.7 Councils wishing to take up the proposals had to notify Government by 24 April 2009. Given this timescale Council Officers responded by provisionally accepting the offer, subject to gaining formal Cabinet approval. It should be noted though that at the time of writing this report, the final version of Government's new rent determination had not yet been received, but it is expected to be published before the Cabinet meeting. Any updates will be fed into the meeting accordingly.

3 PRACTICAL CONSIDERATIONS

- 3.1 The draft determination does present practical difficulties for the Council. It is clear that the effective date of any revised rent must be 01 April 2009. With the requirement for rent changes to be approved by Cabinet and the need to give tenants 28 days notice of a change in rent, it would be the week commencing 03 August at the earliest before the tenants themselves actually see a reduction in their rents.
- 3.2 Should Cabinet wish to approve a change in rent levels for the current year in line with Government's proposals, then tenants would be advised that the reduction in average rent (i.e. from the current level of £59.56, down to £58.45) will be applied in full but spread over a shorter period, most likely from 03 August 2009 to 02 April 2010. This would further reduce the actual weekly rents payable just for that period (down to £57.90), and this may give rise to various potential or perceived difficulties, if the changes and their implications are not communicated clearly enough. As an example, for the following year, i.e. 2010/11, tenants may perceive that their subsequent rent increases for that year are much greater, comparatively. They would also need to be advised clearly that any reduction does not apply to service charges.
- 3.3 There are practical reasons why the approach of applying the value of the whole year reduction to a shorter period is being taken. The integrated housing management system cannot apply the rent reduction retrospectively in a format that is acceptable to the housing benefit system. Should Cabinet approve a change in rent levels, however, Officers would write to all tenants to explain the position and any implications for them.
- 3.4 Government also acknowledges that *"there may be an issue of additional one-off costs that fall to the General Fund, particularly in the administration of housing benefit...[Government] would appreciate an indication of the amount of such costs from responding authorities to help ascertain whether they are likely to have an unreasonable impact on finances or constitute a potential unreasonable additional burden."* There is no indication, however, that even if an unreasonable burden is proven, additional government funding would be forthcoming. The estimated cost of recalculating housing benefits (staff time and software reprogramming) is £1,500 and this has been duly reported to Government.

4 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

- 4.1 The Council has two options:
1. Do nothing; i.e. leave council housing rent levels as they are.
 2. Reduce the average annual council housing rent increase for 2009/10 from 5% to 3.05%, resulting in an average rent of £58.45 over the year, and implement as set out in the report, with the associated updates to the revenue budget.
- 4.2 The advantages of the 'do nothing' option are that there would be no additional administrative burden to either Council Housing (new rent letters and additional IT system changes) or the Housing Benefits section (retrospective benefit entitlement changes). The main disadvantages are that tenants have been asked to pay rent increases substantially higher than the level of inflation and there is a

general expectancy, after the Government's recent announcements, that rent increases will be lowered; 'doing nothing' would not meet these expectations. Also, under this option the Council would lose the opportunity to benefit from the associated increase in subsidy. In the circumstances, it would be difficult to justify keeping the rent increase at 5%.

- 4.3 In terms of the option for changing rent levels, whilst there would be additional administrative work generated as a result and potential difficulties in communicating effectively the associated implications for tenants, overall, financially, both tenants and the City Council would gain from the proposals in the current year. As the whole year reduction will be condensed and applied in total to the remaining 32 weeks of the year, the advantage to the tenant is in the real reduction of rent by an average £1.66 per week. This amounts to a 2.79% reduction in average rent (from £59.56 to £57.90) for the 32-week period.

That said, it is not known whether there would be any implications for future years – this would be dependent on Government's future proposals and the outcome of its much wider review of the housing subsidy system. It should be noted, however, that for 2010/11, it would be expected that any rent increase would be calculated on the revised year average rent of £58.45, and not the condensed average of £57.90. This could create difficulties in tenants' future perceptions.

There is, therefore, some risk attached regarding future years, but any financial implications cannot really be measured as yet. Cabinet should note that this proposal focuses only on rents for 2009/10 – future years' prospects and targets would be picked up as part of the next budget process.

5 OFFICER PREFERRED OPTION AND COMMENTS

Option 2 – to reduce the average annual council housing rent increase for 2009/10 from 5% to 3.05%, resulting in an average rent of £58.45 over the year, and implement as set out in the report, with the associated updates to the revenue budget.

RELATIONSHIP TO POLICY FRAMEWORK

The proposal would be in line with Objective 6 of the Corporate Plan – in particular, to improve the affordability of housing.

CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc)

No significant implications directly arising – all tenants would be similarly affected.

FINANCIAL IMPLICATIONS

Option 1 – Do Nothing

Should Cabinet approve this option, then there will be no change to the HRA budget and therefore no immediate financial impact on the HRA.

Option 2 - Reduce the average annual council housing rent increase for 2009/10 from 5% to 3.05%

This option has a positive net impact on HRA subsidy of approximately £128K.

The reason for this is that the Council's existing average rent increase of 5% was not in line with rent restructuring – it was lower. However, the average guideline rent increase (the basis on which subsidy payable over to Government is calculated) was higher, in line with rent restructuring. Therefore the income recovered by the Council through actual rents charged is currently less than the 'assumed' rent income paid over to Government.

Option 2 would bring the Council's actual average rent in line with the guideline rent increase, meaning that the Council's position is immediately improved as the assumed rental income payable to Government would be fully offset by the actual rents charged to tenants. This would also bring the Council in line with the Government's rent restructuring plans – at least for 2009/10.

However, there would also be other additional costs to the HRA, such as tenant notifications and IT software changes - including the communication to tenants referred to in section 3.3. Government has made it clear that it expects councils to have sufficient resources within the HRA to cover these. The additional costs to the HRA are estimated to be £6,200; these would be funded from the additional subsidy thereby reducing the net surplus for the HRA to around £122K.

In addition, there would also be some additional work generated in the housing benefits section and some fairly minor costs to General Fund may arise. These are expected to be manageable within existing budgets, but the position would need to be monitored accordingly.

DEPUTY SECTION 151 OFFICER'S COMMENTS

The deputy S151 Officer has been consulted and has no further comments.

LEGAL IMPLICATIONS

The guidance provided by the Government would appear to be discretionary therefore the Council is at liberty to determine the appropriate option to achieve its Corporate objectives.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS
HRA Subsidy Draft Determinations

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