



Committee and Date

Council

23 February 2012

Item

14

Public

HOUSING REVENUE ACCOUNT RENT LEVEL 2012/13

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1 Summary

- 1.1 The report recommends the approach to be followed to calculate rent levels for the Council's retained housing stock for the 2012/13 financial year. Since 2002 rent increases have been made in accordance with the Government's recommended formula rent calculation and it is recommended that this approach is applied for 2012/13.

2 Recommendations

It is recommended that:

- 2.1 Housing rents for 2012/13 increase in line with the Government recommended formula rent which will result in an average increase of 7.9%.

REPORT

3 Risk Assessment and Opportunities Appraisal

- 3.1 Council Housing finance is subject to significant change from April 2012 when the current Housing Subsidy System is to be abolished and replaced with Self Financing. This transition will result in a debt allocation from the Government to this Council currently anticipated at £83.35m. The settlement figure has been calculated by DCLG on the assumed value of the Landlord Service Business over a 30 year period based on their estimates income and expenditure to Housing Revenue Account (HRA). Significantly the estimated income is based on the assumption that the formula rent calculation is applied for 2012/13 and the resulting rent increase has been built into the 30 year projection. If actual rents are not increased by an equivalent amount, the real rental income stream to the HRA will be less than the amount assumed in the settlement sum creating the risk that the HRA will have insufficient funding to maintain the stock support the revenue cost to finance the debt.

- 3.2 Conversely if rents are increased above the recommended amount, the HRA will gain income above the level assumed by the Government which could create headroom to enable service improvement. Whilst approximately 60% of rent income is paid by through Housing Benefit there would be an increased risk of rising levels of rent arrears if rent payers face financial difficulties in the current economic climate.

4 Financial Implications

- 4.1 Application of the formula rent calculation will increase average weekly rent by £5.34.

5 Background

- 5.1 The HRA is a ring fenced account separate from the General Fund that records the financial transactions relating to the management and maintenance of the Council's retained housing stock. The primary source of income to the HRA comes from tenants rent and from April 2012 all rental income will be retained by the Council under the self financing reform of council housing finance.

- 5.2 Since 2002 the Government has recommend that Council Housing rents are increased each year in line with the formula rent calculation. This approach has been followed by the former District and Borough Councils in Bridgnorth and Oswestry and by subsequently Shropshire Council since 2009. The main reasons for adherence to this approach is that it reflects the assumptions made by the Government in determining Housing Subsidy Payments (up to 2011/12) and the debt settlement payment due in March 2012, it complies with Government policy on national rent restructuring for social housing rents and is generally understood by tenants.

6 Rent Setting Process and Impact for 2012/13

- 6.1 The formula rent calculation makes provision for an annual inflationary increase based on the preceding September retail price index (RPI) plus ½%, plus an incremental step towards achieving the recommended Target Rent for each property by a specified convergence date. The implication of this latter factor means that all rents will not increase by a consistent amount, as the net change for an individual property in any year is influenced by the movement that is needed to achieve convergence. It should be noted that as all Shropshire Council rents are below the target rent, all increases will be above the September RPI. It is important to note that Target Rents will increase each year in accordance with the formula and if actual rents are increased at a lower rate in any year, increases in subsequent years will need to be correspondingly greater due to the need to "catch up" to achieve the convergence date.

- 6.2 The parameters for setting formula rent were issued by Government on 21 November 2011 in the “draft housing revenue account self financing determination 2012”. Final determination notices were issued on 1 February 2012 and resulted in no change to these parameters. Key figures in the determination were the September 2011 RPI figure of 5.6% and rent convergence to be achieved by 2015/16. Application of these factors to the rent calculation gives rise to an average increase of £5.34 taking the average weekly rent from £67.50 to £72.84 on a 52 week basis.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Cabinet Member (Portfolio Holder)

Mal Price

Local Member.

Members who cover wards with Council housing (principally in the Oswestry and Bridgnorth areas)

Appendices

None