



Committee and Date

Council

28 February 2013

Item

**12**

Public

## HOUSING REVENUE ACCOUNT RENT LEVEL 2013/14

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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 2013/14 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 continues to be applied for existing tenancies. Following the successful bid to the Homes and Communities Agency for grant funding towards the cost of building new homes for rent, affordable rents can be offered on all new homes and selected re-let properties. The increase in rent for 2013/14 requires approval of Full Council and the recommendation agreed by Cabinet will be presented in the Budget report scheduled for 28 February 2013.

### 2 Recommendations

It is recommended that :

- 2.1 Housing rents for 2013/14 increase in line with the Government recommended formula rent which will result in an average increase of 4.88%
- 2.2 Affordable rents based on 80% of the local market rent are introduced to appropriate re-let properties and all new homes built for rent.

## REPORT

### 3 Risk Assessment and Opportunities Appraisal

- 3.1 As previously reported to Cabinet the Housing Subsidy system ended in March 2012 and the Housing Revenue Account (HRA) is now operating under self-financing. Under this transition the Government calculated a settlement figure of £83.3m should be paid by Shropshire Council based on a 30 year projection of HRA expenditure and income. The dwelling rent income projection was made on the assumption that the Council will continue to set rents in accordance with the Government's formula rent calculation. 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 support the revenue cost to finance the debt and remain viable.

- 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. However 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 £3.55.

#### **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 and the primary source of income comes from tenants rent.
- 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 Oswesty 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 future rent income assumed in the debt settlement payment, it complies with Government policy on national rent restructuring for social housing rents and gives a consistent and justifiable approach to annual rent increases.
- 5.3 In October 2010 the Government announced its intention to introduce a new affordable rent based on 80% of market rent for a similar property in the local area. The additional finance raised should be available for reinvestment in the development of new social housing. On 11 May 2011 Cabinet gave approval for the submission of a bid to the Homes and Communities Agency (HCA) for grant funding towards the cost of developing 62 new affordable homes for sale and rent. The bid proposed a total of 204 affordable rent tenancies in the stock as a whole, including all new build, and the additional yield from these tenancies would be utilised to contribute towards the development cost of the new homes. The subsequent success of that application generated an £814,000 contribution from the HCA towards the new build programme. The new build works are included in the current Capital Programme and it is planned to complete the schemes by March 2015 with the delivery of 25 low cost homes for sale on a shared ownership basis and 37 homes for rent. Valuations for market rents should be made in accordance with RICS recognised methods and once set are subject to an annual increase of RPI plus ½% (as with formula rent) for the duration of the tenancy. However, the affordable rent can be rebased on the issue of a new tenancy in order to ensure general compliance with 80% of market rent requirement. A comparison of current Shropshire Council rents shows that on average they are around £15 per week below average affordable rents. Affordable rents will only be applied to appropriate new tenancies with the decision based on local need, availability and condition of the property. It is intended that affordable rent tenancies are limited to houses and will not be offered on supported housing. It will be necessary to monitor the performance

of these tenancies to ensure that they remain affordable and sustainable. Such monitoring will include but is not limited to the level of rent arrears, proportion of failed tenancies and the level of demand for affordable rent properties. The Council will have the discretion to convert affordable rent properties (unless specifically developed for affordable rent) back to social rent where a property cannot be let at an affordable rent level. Affordable rents are eligible for housing benefit.

## 6 Rent Setting Process and Impact for 2013/14

- 6.1 The formula rent calculation makes provision for an annual inflationary increase based on the preceding September 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. As Shropshire Council rents are generally below the target rent, the average increase will be above the September RPI plus ½%. 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 At the time of writing this report the Government has not issued any specific parameters for the 2013/14 rent increase. On the assumption that there has been no change to the methodology applied for the self-financing settlement in 2012/13, rent convergence remains targeted for 2015/16. The September 2012 RPI figure was 2.6%. Application of these factors to the rent calculation gives rise to an average increase of £3.55 taking the average weekly rent from £72.75 to £76.30 on a 52 week basis.

<b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b>
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<b>Cabinet Member (Portfolio Holder)</b>
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Mal Price
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<b>Local Member.</b>
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Members who cover wards with Council housing (principally in the Oswestry and Bridgnorth areas)
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<b>Appendices - None</b>
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