



Committee and Date

Council

27 February 2014

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Item

10

Public

HOUSING REVENUE ACCOUNT RENT LEVEL 2014/15

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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 2014/15 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 social rents from April 2014. Following the successful bid to the Homes and Communities Agency for grant funding towards the cost of building new homes for rent, a number of properties have been converted to Affordable Rent since April 2013 and it is recommended that these rents are increased from April 2014 in line with Government guide lines.

2 Recommendations

It is recommended that :-

- 2.1 Social Housing rents for 2014/15 increase in line with the Government recommended formula rent which will result in an average increase of 5.4%
- 2.2 Affordable Rents increase by 3.7% in line with Government guidance.
- 2.3 Unpooled service charges are not increased in 2014/15.

REPORT

3 Risk Assessment and Opportunities Appraisal

- 3.1 Members may be aware that 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 social rent by £4.16. The recommend increase in affordable rent will result in an average weekly rise of £3.58.

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 In April 2013 the Council entered a Management Agreement with Shropshire Towns and Rural Housing Ltd (ST and R) for the management of the Council's retained housing stock. Under this agreement, ST and R Housing is responsible for the management and maintenance of the stock and collection of rent and other income due to the Council from tenants. Ownership of the stock remains with the Council and the Council retains responsibility for setting rent levels.
- 5.3 Since 2002 the Government has recommend that Council Housing rents are increased each year in line with the formula rent calculation. This approach was 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.
- 5.4 The Government is currently considering changing this methodology from with effect from April 2015 and further announcements are awaited at the time of writing this report. However, the formula rent calculation remains valid for the 2014/15 financial year and it is recommended that this basis is used.
- 5.5 At the meeting of full Council on 28th February 2013, Members approved the introduction of Affordable Rents on all new built homes for rent and a number of homes in existing stock upon change of tenancy. Affordable rents are initially set at 80% of the market rent for a similar property in the area and thereafter subject to an annual increase of the September Retail Price Index (RPI) plus ½%. The introduction of Affordable Rent was driven by the funding proposals for the current

new build programme that was approved by the Homes and Communities Agency (HCA) in the successful bid to secure £814,000 HCA grant toward the cost of the scheme to deliver 62 new affordable homes by March 2015. To the end of January 2014, 91 existing properties have been converted to Affordable Rent and further conversions will take place during 2014/15.

5.6 Since April 2012 charges for certain services such as grounds maintenance and cleaning of communal areas have been separated from main dwelling rent for around 1,000 properties. The cost of these “unpooled” service charges are then reviewed and revised annually independently of the rent calculation. These charges were not increased in 2013/14 and it is proposed that they remain unchanged for 2014/15.

6 Rent Setting Process and Impact for 2014/15

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 The September 2013 RPI figure was 3.2% and the convergence date currently remains unchanged at 2015/16. Application of these factors to the rent calculation gives an average increase of £4.16 taking the average weekly rent from £76.38 to £80.54 on a 52 week basis.

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