Housing Revenue Account 2011/12

1.   Summary

1.1   This report sets out the Housing Revenue Account for 2011/12 and recommends the increase in rent from April 2011. In addition the report identifies the opportunity to "unpool" service charges from dwelling rents and recommends that this approach is implemented from April 2011.

2.   Recommendations

2.1   That housing rents for 2011/12 increase inline with the Government recommended formula rent which will result in an average increase of 6.9%.

2.2   Where appropriate costs can be identified, service charges will be "unpooled" from the total rent charge from April 2011.

3.   Background

3.1   The Housing Revenue Account (HRA) records the revenue transactions for income and expenditure in relation to retained Council Housing, and there is a statutory requirement to maintain the HRA ring-fenced from the General Fund to avoid any cross subsidy either to or from Council Tax. The net cost of the service is met by tenants' rents, and since the introduction of Rent Restructuring in April 2002, housing rents are determined by using the Government set formula rent calculation. Whilst compliance with formula rent is not mandatory, failure to comply in any year could result in the need for higher increases in future years and would have adverse consequences on subsidy payments and/or income to the HRA as payments required by the Government under "negative subsidy" are increased inline with this assumption regardless of the actual increase applied. The implication of this is that the introduction of rent restructuring has effectively removed local discretion to set the level of rent increase, and the policy has previously been followed by the former District and Borough Councils of Bridgnorth and Oswestry since 2002 and subsequently by Shropshire Council for 2009/10 and 2010/11.

3.2   The Government has announced that 2011/12 will be the last year of the housing subsidy system and that this will be replaced by self financing from April 2012. Whilst further details are still awaited it is anticipated that the Government will continue a regime of Rent Restructuring in the future.

3.3   A significant element of the transition to self financing will be the calculation of the size of the debt settlement figure, and whilst details of the precise methodology are yet to be announced, it is likely to be based on an evaluation of the net worth of the Landlord Services Business over a 30 year period. In making this calculation the Government will factor in projected income based on an assumption that the formula rent has been followed. If actual income is below this figure the Council could potentially receive a level of debt that cannot be supported from within the rent income stream.

4.   Process and Impact for 2011/12

4.1   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. In recent years the Government has revised the convergence date as a method of reducing or increasing the overall level of increase. 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.

4.2   The parameters for setting formula rent and calculating the level of Housing Subsidy payment are issued by Government in the annual Housing Revenue Account Determination notices. A draft determination for 2011/12 was issued on 5 November 2010 and final notices were released on 10 January 2011. The implication on subsidy payable to CLG is an increase of £581,783 from 2010/11 to £5.332m for 2011/12. To put this in context, this represents £24.18 per home per week. With regard to rent setting, the key figures in the Determination were the September 2010 RPI figure of 4.6% and rent convergence to be achieved by 2015/16. Application of these factors to the rent calculation gives rise to an average increase of 6.9% taking the average weekly rent from £63.13 to £67.50 on a 52 week basis.

4.3 In recent years Tenant representative groups in Bridgnorth and Oswestry have received presentations on the proposals for rent increases and been given the opportunity to express views and make comments. This gives the opportunity to explain the basis for the annual rent increase and receive feed back from tenants. It is proposed to undertake similar consultations early in 2011.

5. Unpooling Service Charges

5.1 Rents include all charges associated with the occupation of dwellings such as maintenance and general management. Service charges reflect additional services which may not be provided to every tenant. Examples of this would include ground maintenance cost to garden areas for flats and electricity costs and cleaning costs for communal areas in multi-occupancy buildings. Where these costs can be identified local authorities have discretion to separate these costs from the total rent charge and exclude this element from the calculation of future formula rent. This process is termed "unpooling" of service charges. In the first year of unpooling, the overall total rent for the properties affected remains unchanged from the basic formula rent calculation, but the rent statement identifies the 2 components, dwelling rent and service charge. In subsequent years, the net dwelling rent is increased in accordance with the formula rent calculation, and the service charge element is separately calculated but limited to an increase of RPI plus ½%. There is an overall control that the total rent cannot increase in any year by more than RPI plus ½% plus £2.

5.2 The main reasons to undertake this process are to give transparency in the level of service charges included in rent charges and ultimately meet the cost of this from outside the dwelling rent calculation resulting in additional income to the HRA.

5.3 Over recent months work has been undertaken to identify potential service charges that could be subject to unpooling. To date around 1,000 homes have been identified with an average weekly charge of £1.13. Potentially this could generate additional income of around £63,000, however due to the constraints of Rent Restructuring, the full benefit of this would not be realised until after rent convergence has been achieved (currently set for 2015/16).

5.4 Within the HRA approximately 42% of total rent income is paid by tenants with the remaining 58% paid though Housing Benefit funded by the Government. In total approximately 66% of tenants currently receive either full or partial Benefit. The service charges proposed for unpooling identified in paragraph 5.1 above are all eligible for Housing Benefit and as such the cost would be supported by benefit for those tenants who currently qualify.

6. Housing Revenue Account

6.1 Based on adoption of the recommendations made in this report the HRA can maintain a balanced budget for 2011/12. The Summary HRA is attached as Appendix 1.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) CLG Housing Revenue Account Determination 2011/12
Human Rights Act Appraisal The recommendations contained in this report are compatible with the provisions of the Human Rights act 1998.
Environmental Appraisal Not applicable.
Risk Management Appraisal Not applicable.
Community / Consultations Appraisal Not applicable
Cabinet Member: Cllr Malcolm Price
Local Member All Members
Appendices Appendix 1 – Summary HRA