



**Haringey** Council \*

Agenda item:

**Council**

**On 18 May 2009**

Report Title: **Revised Housing Rent Increase 2009/10**

Report of: **Director of Urban Environment and Chief Financial Officer**

Authorised: **Niall Bolger**

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Wards(s) affected: **All**

Report for: **Key**

### **1. Purpose of the report**

- 1.1 This report considers the proposals announced by government on 7 April 2009 to give local authorities the option to reduce housing rents in 2009/10. This will be achieved by awarding additional housing subsidy to cover the loss of income from the rent reduction.
- 1.2 Where local authorities wish to accept this option of additional housing subsidy the average rent increase has to be contained at a specified level. For Haringey the average rent increase for 2009/10 must be no more than £2.34 (2.94%). The currently approved average rent increase which took effect from April 2009 is £4.86 (6.1%).
- 1.3 The report recommends acceptance of this offer and the setting of new rents from 6 July 2009 reflecting a revised average reduction of rents to achieve a 2.94% increase for 2009/10.

## **2. Introduction by Cabinet Member for Housing**

2.1 I am at last pleased to agree this proposal to implement the reduction in the rent increase for this year, the proposal chosen is the simplest to understand and to administer both for the council and tenants. I point out the implications for next year mentioned in paragraph 14 in respect of the impact in 2010/11 and later years.

## **3. State link(s) with Council Plan Priorities and actions and /or other Strategies:**

3.1 The report links with the Councils Priority 5 Delivering excellent, customer focused, cost effective services.

## **4. Recommendations**

4.1 To approve a revised housing rent increase for 2009/10 at an average of £2.34 per week (2.94% increase over 2008/09) and that housing rents are revised from 6 July 2009 in order to achieve this.

4.2 To agree a revised HRA budget as set out in appendix A with a revised cash limit surplus of £607,000.

## **5. Reason for recommendation**

5.1 The Department of Communities and Local Government (CLG) issued a draft amending housing subsidy determination for 2009/10 on 28 October 2009. This provides the Council with the option to reduce the presently approved rent increase of 6.1% in 2009/10 to an average of 2.94% with the substantial proportion of the rent loss being met from additional housing subsidy. In determining the original 6.1% increase the government used the inflation factor of 5% in their formula. This was the retail price index increase at September 2008. Added to this increase was an adjustment to move rent towards the 'Formula' rent under the rent restructuring arrangements over a 15 year period. Limits on individual increases were imposed to restrict them to no more than 5.5% plus £2 per week.

5.2 The Council responded to this consultation asking government to consider a lower increase as an increase substantially above the rate of inflation would erode the affordability of rents for Haringey tenants. The final subsidy determination was issued on 18<sup>th</sup> December 2008 confirming the rent increase previously proposed in the draft determination, i.e. 6.1%.

5.3 On the 26 March 2009 CLG issued a further draft amending subsidy determination for consultation. This proposed an average restriction of rent increases to 3.1% nationally. However, it is for each local authority to determine their own increase based upon local rents actually set. The maximum increase for Haringey is 2.94% (£2.34 per week).

5.4 The Council has been given the option of retaining the existing level of subsidy previously agreed which assumed a rent increase of 6.1%. Alternatively the Council could opt for additional subsidy of £2.051 million in 2009/10 if the average rent increase for that year is set at no more than 2.94% over the average rent for 2008/09. This additional housing subsidy will substantially cover the loss rent of actual rent income should the rent increase be reduced to 2.94%. However, there is an estimated rent loss in 2009/10 of £63,000 if the option is approved. This is set out in the table below.

	£000
Original Rent Income Forecast (6.1% Increase)	70,871
Less Revised Rent Income Forecast (2.94% Increase)	<u>68,757</u>
Loss from Reduction in Rent	2,114
Less additional housing subsidy if 2.94% Option is taken up	<u>2,051</u>
Rent loss net of Additional Housing Subsidy	<u>63</u>

5.5 The Council will be eligible for the additional subsidy because the 'guideline rent' assumed in the formula to calculate subsidy will be reduced. This 'guideline rent' is the average rent that government considers the council should set and is used to determine housing subsidy entitlement. The Council has generally set rent levels in line with this guideline rent although sales and disposals can influence the average rent throughout the year. In 2008/09 the average rent was £79.71 and the 'guideline rent' for the year was £79.40. The small difference between the actual and 'guideline' rent largely accounts for net rent loss of £63,000 set out above.

5.6 In order to take advantage of the additional subsidy offered the actual rent increase in 2009/10 must be no more than 2.94% of the 2008/09 'guideline rent'. This equates to an average increase of £2.34 per week.

5.7 It is important to be aware that the condition restricting the rent increase to 2.94% is absolute. Should the average increase be even marginally above this constraint then none of the additional subsidy will be received.

## **6 Calculation of revised rents under the proposals**

6.1 In setting out the option for reducing rent the government has retained the rent restructuring formula whereby rents are moved to a 'Formula' or 'Target' rent over a period of time. This is part of the government's rent strategy whereby rents across the social housing sector are set according to a comparable formula regardless of the social housing provider.

6.2 In determining the reduced 'guideline rent' rent in the subsidy calculation an inflation factor of 2.4% has been assumed. Added to this is an adjustment to move rents towards the Formula rent over a period of 15 year. By applying this formula a restriction on the

increase in actual rents to 2.94% (£2.34) is derived. With this increase the average rent for 2009/10 will be £82.05. Previously the rent increase assumed an inflation factor of 5% with an adjustment to move to Formula rents over a 15 year period.

6.3 In order to implement the rent reduction it is necessary to set a new rent during 2009/10. This new rent needs to be set at a level that will ensure that tenant's average rent during 2009/10 is not more than 2.94% above the then average rent in 2008/09. The earliest date that the rent change can be effected is 6<sup>th</sup> July 2009. This date allows for the 4 week statutory notice of rent variations to be exercised and the appropriate calculations of housing benefit entitlement to be made. Although the review will represent a reduction in rent it is this necessary to provide tenant's with a legally valid notice of change.

6.4 The originally approved rent increase for 2009/10 of 6.1% would remain effective between April and June 2009. However, the increase over 2008/09 falls to 1.88% from July 2009. The overall impact during 2009/10 is a net increase of 2.94% which is required to qualify for the additional housing subsidy. This is in effect a reduction in the average rent of 3.97% for the rest of the financial year.

6.5 Should rents be amended from 6 July 2009 the average rent increases would be as follows.

	Average Rent 2009/10 £. p.	Variation over 2008/09	
		£. p.	%
Average Rent ( April to June 2009)	84.57	4.86	6.1%
Average Rent (July to March 2009)	81.21	1.50	1.88%
Average Rent (All Year 2009/10)	82.05	2.34	2.94%

6.6 Each individual rent will be calculated under the rent restructuring formula and the range of rent reductions and new rents to be applied from 6 July 2009 are set out in the tables below.

Table A - New Rent from 6 July 2009

No. of Bedrooms	HOUSE			FLAT			ALL		
	Min	Max	Average	Min	Max	Average	Min	Max	Average
	£	£	£	£	£	£	£	£	£
0				47.36	86.52	63.19	47.36	86.52	63.19
1	62.25	99.06	76.95	39.54	108.97	67.85	39.54	108.97	68.00
2	58.10	113.83	85.73	59.58	116.37	76.26	58.10	116.37	79.51
3	66.54	125.00	95.60	55.33	120.00	85.76	55.33	125.00	91.89
3+	70.42	149.49	109.93	65.13	123.30	93.45	65.13	149.49	107.11

Table B - Reductions to Rent from 6 July 2009

No. of Bedrooms	HOUSE			FLAT			ALL		
	Min	Max	Average	Min	Max	Average	Min	Max	Average
	£	£	£	£	£	£	£	£	£
0	-	-	-	1.30	3.60	2.61	1.30	3.60	2.61
1	2.45	4.11	3.04	0.20	4.58	2.82	0.20	4.58	2.82
2	1.09	4.75	3.53	2.46	4.87	3.17	1.09	4.87	3.29
3	1.23	5.22	3.94	0.20	5.00	3.56	0.20	5.22	3.80
3+	0.41	6.25	4.54	1.26	5.13	3.85	0.41	6.25	4.42

6.7 An alternative option for implementation would be to backdate the average rent increase to 1 April 2009. Under this arrangement tenants would receive refunds in respect of the higher rent paid since April 2009.

6.8 However, the calculation and processing of some 16,000 refunds would represent a considerable administrative burden with a substantial number of housing benefit overpayments needing to be processed. Also the retrospective adjustment of rents after the statutory notices for the April 2009 increase have been served could invalidate these notices that include both variations to rent and service charges. This could result in all service charge increases which took effect from April 2009 being invalidated.

6.9 One drawback of setting a new rent from 6 July 2009 at a lower increase is that the full benefit of the reduction is phased in and will only be fully experienced by tenants who have maintained their tenancy throughout the entirety of 2009/10. However, the potential financial loss to a tenant terminating their tenancy during 2009/10 will not be significant. This will only affect at the most some 5% of tenants the majority of whom are in receipt of full or partial housing benefit and are therefore unlikely to experience a significant financial loss from this approach.

## 7. Equalities and Community Cohesion Comments

7.1 None for the purpose of this report

## 8. Consultation

8.1 In order to implement the reduction in rent as soon as possible there has not been a consultation process with tenants, however, the statutory notice of rent variation period of four weeks will allow any comments or objections to be made.

## **9. Financial Implications**

- 9.1 The major risk associated with accepting the offer of reducing rents is that the average rent increase between 2008/09 and 2009/10 is not contained at 2.94%. Although an average increase of 2.94% could be approved, the impact of the disposal and sale of dwellings during 2009/10 could marginally affect the calculation of the average rent in 2009/10.
- 9.2 The risk has a relatively low likelihood as right to buy sales during the year are not forecast to be more than 50 dwellings. Any sale or conversion of the hostel dwellings to permanent dwellings is likely to reduce the average rent as hostel rents are above the overall average rent for the dwelling stock. However, the impact of the risk is high because if the average rent increase for 2009/10 is even marginally above the threshold, the full subsidy gain of £2.051 million will be lost.
- 9.3 In order to mitigate this risk the average rent will be monitored monthly to ensure that it is contained within the necessary tolerances.
- 9.4 As part of the consultation on the amending housing subsidy consultation government has asked local authorities accepting the offer of a lower rent increase to estimate the additional expenses chargeable to the General Fund from the implementation of new rents. These are estimated at £10,000 mainly as a result of housing benefit changes. Government will consider providing additional funds to meet these costs. There are also estimated additional expenses of £20,000 chargeable to the Housing Revenue Account although government does not intend to make funds available to cover these costs.

## **10 Impact in 2010/11 and later years**

- 10.1 The option of a 2.94% rent increase is only offered for one year. The government had previously stated that the increase for 2010/11 would be 6.1% on the 2009/10 'guideline rent' before the offer of a reduced increase in 2009/10 was announced. This increase in 2010/11 was to be implemented regardless of the prevailing rate of inflation. However, the Government has now agreed to review this position and will consult on the rent increase for 2010/11 in the autumn.
- 10.2 Nevertheless the increase in 2010/11 may be higher as a result of the reduced rent increase for 2009/10. As the increase is intended to be a 'one-off' adjustment, the rent for 2010/11 could revert to the previous year's method of calculation. This could lead to a significant increase as the change would be made from a lower starting point.
- 10.3 In the past rent increases have been linked to the Retail Price Index increase in the September prior to the start of the financial year. Assuming that the retail price index remains at its present historically low level then a probable forecast of the 2010/11 increase is 3% (£2.47). However, with the phased introduction of the rent reduction

during 2009/10 as proposed in this report the increase between the last rent payment of 2009/10 and first payment in 2010/11 could be some 4.1% (£3.31). Should government decide to retain the presently announced rent increase for 2010/11 of 6.1% this increase would be 7.2% (£5.85).

10.4 The potentially adverse impact on rent increases for 2010/11 and later years will be contained within the response to the government's consultation on rents in the autumn.

### **11 Comments of the Head of Legal Services**

11.1 The legal implications are contained in the body of the report. The action recommended is within the Council's legal powers.