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29 January 2008

To: All Members of the Overview & Scrutiny Committee

Dear Member,

**Special Overview & Scrutiny Committee, Thursday 31st January 2008,
6pm (PLEASE NOTE START TIME)**

I attach a copy of the following reports for the above-mentioned meeting which were not available at the time of collation of the agenda:

4. HOUSING RENT INCREASE 2008/09 (PAGES 1 - 14)

(Report of the Chief Financial Officer & the Director of Urban Environment) To present details of the proposed increase in housing rents from April 2008 including details of the government's rent restructuring scheme and housing subsidy.

Yours sincerely

Jeremy Williams
Principal Committee Coordinator

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Haringey Council

Agenda Item:

Overview and Scrutiny Committee On 31 January 2008
Report Title: Housing Rent Increase 2008/09
Forward Plan reference number (if applicable):

Joint Report of: Niall Bolger, Director of Urban Environment and Gerald Almeroth, Chief Financial Officer

Wards(s) affected: All

Report for: **[Key / Non-Key Decision]**
1. Purpose

1.1 The report presents the process to the setting of housing rents for 2008/09. This covers the way rents are calculated under the Government's rent restructuring formula, housing subsidy entitlement and its link to rent setting.

1.2 The report also outlines procedures for assisting tenants experiencing difficulty in paying their rent.

2. Introduction by Cabinet Member (if necessary)

2.1

3. Recommendations

3.1 Members are asked to note the report and comment on the proposed rent increase for 2008/09.

Report Authorised by:

Niall Bolger, Director of Urban Environment and
Gerald Almeroth, Chief Financial Officer
Contact Officer: Gerald Almeroth, Chief Financial Officer 020 8489 5972

4. Chief Financial Officer Comments: N/A as joint report

5. Head of Legal Services Comments

- 5.1 The Head of Legal Services has been consulted in the preparation of this report, and makes the following comments.
- 5.2 The report contains a credible legal basis – central government’s rent restructuring formula - which supports the proposal to increase rents for 2008/09.
- 5.3 Members need to be aware of the fact that there is a statutory duty on the Council to operate the Housing Revenue Account in such a way that it remains in balance after the rent increase for 2008/09 is implemented – section 76 of the Local Government and Housing Act 1989. The report suggests that it would be difficult to fulfil this duty as part of the medium term financial strategy if the increase were less than 6.5%. The report further states that the reasoning for this is that the subsidy received from central government was set at a rate which assumed such a level of increase, and so any surplus accrued by an increase set at a lower figure would be clawed back, thereby having a knock on effect in terms of service delivery to tenants – see paragraphs 10.1 – 10.6 below.

6. Local Government (Access to Information) Act 1985

6.1 Report to Cabinet 22 January 2008

REPORT

7. SUMMARY

- 7.1 Haringey has adopted the government’s rent restructuring formula to calculate housing rents along with the majority of local authorities and social landlords.
- 7.2 The average rent increase for 2008/09 is 6.5% (£4.77) as calculated by this formula with maximum increases set at 4.4% + £2.
- 7.3 Housing subsidy has been provided at a level to the Council in 2008/09 on the basis of a 6.5% increase in rents and proposed actual rent increase has therefore been set at this same level.
- 7.4 Government had previously introduced funding to contain rent increases to 5% in 2006/07 and 2007/08 but this was withdrawn in 2008/09.
- 7.5 The actual loss of income from a reduction of the proposed rent increase from 6.5% to 5% would be £950,000. In terms of service reductions this is equivalent to 30 full posts or 6,900 responsive repairs. Efficiencies of £.3.3 million have already been identified in the 2008/09 Housing Revenue Account budget plans.

7.6 There are some 70% of tenants in receipt of housing benefit who will receive appropriate additional benefit to cover the rent increase.

8. RENT SETTING

8.1 In 2003/04 the government introduced a major change in the way rents are calculated for local authority and Registered Social Landlord tenants. The aim of this new scheme was to ensure that rents for comparable properties in the two sectors converged by 2012/13.

8.2 Although the scheme is voluntary, the local authority housing subsidy entitlement was linked to rent restructuring. Authorities who do not follow the scheme are therefore faced with potential shortfalls in funding. It has been adopted by the great majority of local authorities and social housing providers.

8.3 The aims of the scheme are to:-

- Ensure social housing rents remain at affordable levels.
- Make rents fairer.
- Make a link between rents and the qualities that tenants value in properties e.g. location and size.

8.4 Under the scheme a 'Formula Rent' is set by the government at individual property level taking account of affordability and the capital value of the property. This is the target rent for the dwelling to move towards by 2012/13 and current rents are moved to this level progressively each year.

8.5 There are three stages in calculating rent under the government based formula. Stage one is to calculate the formula rent that should be progressed towards after it is adjusted annually for inflation. The two elements in the formula are :-

1. **Earnings Related Element** – 70% of the national average rent adjusted for relative county earnings and the number of bedrooms.
2. **Value Related Element** – 30% of the national average rent adjusted for relative property value

An example calculation is attached at **Appendix 1**.

8.6 There are also maximum rents (or 'caps') to offer some affordability protection. Should the calculated formula rent exceed these maximum rents then the formula rent will be set at the maximum rent. For 2008/09 these are as follows :-

Rent Caps 2008/09	£ p.
0 Beds	107.33
1 Bed	107.33
2 Beds	113.64
3 Beds	119.96
4+ Beds	126.27
5 Beds	132.58
6+ Beds	138.90

- 8.7 The second stage is to work out the current years rent taking account of inflation and an adjustment to move towards the formula rent by 2012/13. An example of this process is included in **Appendix 1**.
- 8.8 The third stage is to check if the increase is in excess of the maximum annual increase under the scheme. Maximum rent increases (limits) were introduced to protect tenants against exceptional increases. The annual increase is limited to Retail Price Index (RPI) + ½% + £2. For 2008/09 increases are limited to 4.4% + £2.
- 8.9 Social landlords have experienced difficulties in recent years with high rent increases because the Retail Price Index has remained relatively high and this is the main driver in the rent increase. Although there are non inflation based elements built into the formula which add to the increase, the use of alternative measures of inflation such as the Consumer Price Index could have led to lower rent increases. This issue was raised in the consultation response to government on the housing subsidy settlement. The full text of this response is attached at **Appendix 2**. Although there has been no formal response from the government, none of the issues which were highlighted in the response to the draft determination were amended in the final determination.
- 8.10 For years 2006/07 and 2007/08 government provided additional funding to enable authorities to contain rent increases at 5% although this has been withdrawn for 2008/09. Haringey along with the London Councils have lobbied government to re-introduce this additional funding although the final settlement of housing subsidy received on 16 January 2008 confirmed that this would not be made available.

9. HOUSING SUBSIDY 2008/09

- 9.1 Housing subsidy is the main source of government funding for the Housing Revenue Account (HRA). It is paid to meet the deficit between income and expenditure based upon a complex formula. The calculation makes assumptions about an authority's need to spend and the income that it is expected to collect. The elements of the housing subsidy calculation are set out below.

	Per Dwelling 2008/09 £. p.	Estimated 2008/09 £000
Assumed Expenditure Needs		
Management Allowance – is paid per dwelling to reflect the costs of managing the housing stock. It takes account of the mix of property types, the proportion of properties with common facilities, crime levels, and re-letting needs. There is a geographical cost factor adjustment.	768.53	12,764
Maintenance Allowance – is paid per dwelling to reflect the annual costs of repairing and maintaining the housing stock. It takes account of the mix of property types, crime levels, and re-letting needs. There is a geographical cost factor adjustment.	1,379.93	22,915
Major Repairs Allowance – is paid per dwelling to fund major works within the capital programme. It is based upon the mix of property types adjusted geographical	713.90	11,855

	Per Dwelling 2008/09 £. p.	Estimated 2008/09 £000
cost factors.		
Charges for Capital – to cover interest costs on borrowing.		35,662
Total Assumed Expenditure Needs		83,196
Less Assumed Income		
Guideline Rent Income – government assumptions as to the amount of rent income that should be raised.	(4,121.40)	(67,080)
Interest on Receipts – interest received on Right to Buy mortgages		(36)
Estimated Housing Subsidy Entitlement 2008/09		16,801

9.2 Government sets the level of subsidy on an annual basis and the settlement level has a significant impact on the rent increase. In particular the assumptions on the guideline rent increase will affect the actual rent increase proposed for tenants. As presented in the above table the government assumes that the actual rent will increase at the same rate as the guideline rent. Therefore if actual rents are not increased by a similar amount then there is a corresponding shortfall between what the government calls back in the subsidy calculation for assumed rent and what is actually charged.

9.3 In 2008/09 there was a 6.5% increase in guideline rent and therefore an average increase in actual rent in line with this is proposed.

9.4 Other allowances within the HRA have been increased at below the rate of inflation and have put pressure on budgets. In 2008/09 Management and Maintenance allowances increased by 1.59% and Major Repairs Allowance reduced by 0.5%. The disparity between increases in guideline rent of 6.5% and below inflation increases in allowances were incorporated within the consultation response to government (Appendix 2).

10. HRA MEDIUM TERM FINANCIAL STRATEGY

10.1 The Medium Term Financial Strategy (MTFS) for the HRA has been prepared on the basis of forecast income and expenditure between 2008/09 and 2011/12 taking account of the proposed increase of 6.5%.

10.2 If the proposed rent increase were not implemented the HRA as a whole would suffer as the subsidy system assumes that the formula is applied to each rent as part of rent restructuring and reduces the subsidy entitlement accordingly.

10.3 The actual loss of income from a reduction of the proposed rent increase from 6.5% to 5% for example would be £950,000. In terms of service reductions this is equivalent to 30 full posts or 6,900 responsive repairs. This would impact on the service delivered to tenants in that in order to make the saving in the next two months it is likely that a freeze on vacant posts would have to be implemented which could lead to uncontrolled impacts on service provision as the impact could not be planned. Reviews of tenancy management and resident involvement which are planned for 2008/09 will not contribute to the level of savings required until 2009/10. These unplanned impacts whether on staff or on the level and speed of repairs carried out

are likely to have a major impact on customer satisfaction and therefore increase the workload in respect of failure demand.

- 10.4 The proposed Medium Term Financial Strategy (MTFS) for the HRA already assumes £2.3 million of new efficiencies in addition to £1 million of existing efficiencies which were already built in to the base. This £3.3 million of efficiencies is above the 3% target set corporately for efficiency savings.
- 10.5 The proposed MTFS meets the council's objective of maintaining the HRA working balance at £5 million. If additional savings of £950,000 were not found the MTFS would not achieve this level of working balance during the five year planning period.
- 10.6 It should also be noted that the loss of income would be compounded in future years as the subsidy system would also assume that the formula had been applied meaning that the formula rent and the actual rent would get further apart in future years.

11 ANALYSIS OF THE IMPACT OF RENT INCREASE ON TENANTS

- 11.1 Although the average increase for tenants is 6.5% (£4.77), rents are calculated individually using the rent restructuring formula outlined previously. An analysis of the changes over the various sizes of dwelling are as follows.

Size	No, of Properties	Highest £. p	Lowest £. p	Highest %	Lowest %
Bedsit	169	5.95	-1.09	9.1	-1.3
1-bed	5,709	6.23	-1.05	9.2	-1.1
2-bed	5,515	6.49	1.16	8.4	1.4
3-bed	4,080	6.85	-1.7	8.7	-1.9
4+ bed	716	7.83	2.57	7.9	2.3

- 11.2 When estimating the impact of the increase on tenants we are aware that we have some 70% of tenants in receipt of housing benefit. This equates to some 11,332 tenants with 4,857 not in receipt of benefits. The proportion in receipt of housing benefit tends to be the same for all sizes of property occupied, so the distribution of the impact is broadly the same for the 30% of tenants not in receipt of housing benefit.
- 11.3 Some 995 out of the total 16,189 tenants will receive increases up to 4.5%. This is relatively low because the limit imposed on increases under the rent restructuring formula is 4.4% + £2 and this constraint is above the increase of 4.5%.
- 11.4 There are 8,157 (50%) in receipt of increases between 4.5% and 7%. The remaining 7,037 (44%) tenants will receive increases above 7%. There is a significant number in this range because a flat rate maximum increase of £3.60 was implemented in 2007/08 which tended to benefit properties on higher rents. It also dampened the progression towards formula rents which will tend to lead to higher increases in subsequent years. No flat rate maximum has been proposed for 2008/09.

11.5 The impact of the various increases is summarised in the table below.

Range of Increases	Number of Tenants	Estimated Number NOT in receipt of HB	Proportion in Range
<4.5%	995	299	6%
>4.5% and less than 7%	8,157	2,447	50%
Above 7%	7,037	2,111	44%
Total	16,189	4,857	100%

11.6 In comparison to other boroughs the 2007/08 Average Rent for Haringey is 2% below the London average. The 2007/08 average dwelling rent in Haringey is £73.65 against a London average of £75.09. The average RSL rent in London is estimated at £85.68 for 2007/08, with private sector rents estimated at over £250.00 for the same period.

12 MEASURES TO ASSIST TENANTS TO PAY RENT

12.1 As with previous rent increases, there are a number of measures in place to help tenants on the margins of affordability:-

- The first arrears letter is sent to tenants when rent arrears reach 2 x the net weekly charge or £25 (whichever is the greater) - the letter invites the tenant to contact the Income Collection Officer.
- Subsequent arrears letters further encourage the tenant to establish contact with the Income Collection Officer
- On contacting the Income Collection Officer, Housing Benefit as well as welfare benefit advice is provided to tenants in rent arrears.
- Tenants in rent arrears/other debts are routinely referred to one of three specialist Citizens Advice caseworkers who provide help with managing debt and maximising income (this service is publicised within each Customer Services Centre).
- The rent arrears recovery procedure focuses on the prevention of debt with the emphasis on helping tenants to remain in their homes - legal action/eviction is only taken as a last resort

12.2 Over the coming months, there will be a number of initiatives designed to further increase the rent collection rate and to help tenants in financial hardship - these include:-

1. reviewing our rent arrears recovery procedure and standard letters to ensure that they are clear/easy to understand
2. embarking on a campaign to increase the uptake of Direct Debit
3. a drive to increase the number of referrals made to the Citizens Advice Bureaux

4. concerted rent recovery action to encourage tenants in arrears/financial hardship to make early contact with the Income Collection Officer
5. a Housing Benefit take up campaign

12.3 In addition to the above, the Income Collection Team have and will continue to undertake specific rent exercises/mailshots to tenants in arrears to urge early contact and to offer help to prevent and minimise debt.

13 CONSULTATION

13.1 A consultation exercise has been carried out with tenants. The general response to the increase is that it is considerably in excess of the rate of inflation and therefore erodes the affordability of rents.

13.2 Details of the consultation exercise and response are set out in **Appendix 3**.

13.3 LEGAL IMPLICATIONS

14.1 In addition to the comments at paragraph 5 above, Members should be aware that any decision to implement the proposed increase would be susceptible to challenge by tenants by way of judicial review. However, in view of the clear basis used to derive the figure, it is unlikely that any such challenge would be successful.

14. Use of Appendices / Tables / Photographs

14.1 Appendix 1: Example Calculation of Rent under the Rent Restructuring Formula

14.2 Appendix 2: Council Response to the Housing Subsidy Determination 2008/09

14.3 Appendix 3: Rent Increase 2008/09 Consultation - Responses

APPENDIX 1 - Example Calculation of Rent under the Rent Restructuring Formula

Stage 1 Calculation of Formula Rent

	£. p.
Earnings Related Element	
70% of National Average Rent (£54.62)	
Divided by National Earnings (£316.40)	
Multiplied by London Earnings (£354.10)	
Multiplied by Bedroom Weight (1 for a 3 Bed)	42.79
plus	
Value Related Element	
30% of National Average Rent (£54.62)	
Divided by National Average Capital Value 1999 (£49,750)	
Multiplied by 1999 Value (£62,000)	20.42
= Formula Rent 2000/01	<u>63.21</u>
Formula Rent 2008/09 updated for Retail Price Index + 0.5% each year	<u><u>82.65</u></u>

Stage 2 Calculation of Annual Increase

	£ p.	£ p.
Rent for 2007/08	73.00	
Inflation (Retail Price Index 3.9%) + 0.5%	<u>3.21</u>	
Updated Rent		76.21
Adjustment to Converge with Formula Rent		
Formula Rent	82.65	
Updated Rent	<u>76.21</u>	
Difference	6.44	
Adjustment to converge by 2012/13		<u>1.61</u>
Rent for 2008/09 before adjustment for limit adjustment		<u><u>77.82</u></u>
Increase		4.82
		6.6%

Stage 3 Check if Increase is not greater than maximum limit Increase

Rent Increases are limited to 4.4% (RPI +0.5%) + £2

The maximum increase is therefore 5.21

The increase is below the maximum limit so the limit has no effect

Appendix 2: Council response to the Housing Subsidy Determination 2008/09

Victoria Akeredolu,
Department for Communities and Local Government,
Zone 1/A3,
Eland House,
Bressenden Place,
London
SW1E 5DU

9th January 2008

Dear Ms Akeredolu,

Consultation on the Draft HRA (Item 8) and HRA Subsidy Determinations 2008-09

In response to the consultation letter issued on the 23rd November 2007 I would like to make the following points:

The proposal represent a disappointing subsidy determination for Haringey. The proposed increase in guideline rents of 6.5%, the withdrawal of the Rental Constraint Allowance and the below inflation increase of 1.59% in management and maintenance costs will put increased pressure on the council to set affordable rents, maintain services and improve the condition of the housing stock.

I appreciate that the late announcement of the Comprehensive Spending Review contributed to the delay in producing the draft determination. However, the late publication of the draft has led to considerable uncertainty in the Council's budget planning processes and it has been necessary to curtail our consultation arrangements in order to meet key decision making deadlines.

I have remarked in the past that the continuing restriction on management and maintenance allowances to below inflation puts added pressure on maintaining services and improving the repair condition of the housing stock. For Haringey the proposed increase in overall management and maintenance allowances per dwelling is 1.59% whereas the Retail Price Index is 3.9% and building costs inflation is forecast to be some 4.5%. In a period of relatively high inflation I believe that the DCLG should recognise this issue and relax the transitional arrangement by which management and maintenance allowances are adjusted to the target level.

I have noted the new calculations of Major Repairs Allowance published after the issue of the consultation documents. However, the allowance per dwelling in 2008/09 of £713.90 is lower than the corresponding figure for 2007/08. This reduction will affect the resources available for the decent homes programme and cast some doubt on the certainty of the future funding stream. Given these circumstances it would be reasonable to provide some transitional arrangements to at least protect the Major Repairs Allowance at the cash level for

the previous year. Capital programming is performed well in advance of the start of 2008/09 and late changes have a significant impact on the ability to plan ahead with any certainty.

Taking account of the termination of the Rental Constraint Allowance and the relatively high level of inflation the estimated increase in subsidy loss from the guideline rent increase is equivalent to 6.5%. Increases in rent at this level put substantial pressure on the affordability of rents. Haringey has followed the rent restructuring guidance and used the Rental Constraint Allowance to restrict annual increases to 5% in 2006/07 and 2007/08. Without the Rental Constraint Allowance some other arrangements are therefore necessary to smooth rent increases in periods of relatively high inflation.

The extension of the convergence period within the calculation of the guideline rent is welcome. However, extending the convergence period within the calculation of actual rents has limited impact when applied with the existing caps and limits. If the convergence period is extended a further 4 years there is only a marginal reduction in the annual increase from 6.5% to 6.13%. This has not provided an adequate safety net against high rent increases.

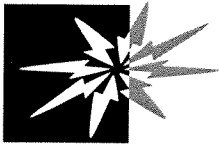
The consultation paper is unclear on how the extension of the convergence period should affect the actual rent calculation. It states that the extension of the convergence period relates to the 2008/09 guideline only. It should be made clear on how convergence will be achieved if the same converge policy is not adapted for by guideline and actual rents.

The exercise in rebasing the guideline rent means that the income forgone by constraining rents through caps and limits is not reflected in the guideline rent. Compensation was received through the Rental Constraint Allowance in 2006/07 and 2007/08 but has been removed from 2008/09. Generally there is a lack of detail regarding the adjustments to guideline rent in respect of caps and limits applied. The previous consultation on the changes to guideline rent indicated that there would be an adjustment in subsequent years to reflect the difference between constrained and unconstrained rent. In 2008/09 it is estimated that this will leave a shortfall of £123,000 to be funded by the HRA. It would be helpful if details of how caps and limits affect guideline rents are included in the final determination so as to assist with financial planning in future years.

If you wish to discuss any of the issues raised in this response further, please contact Peter Willett on 0208 489 3989.

Yours sincerely,

Kevin Bartle
Head of Corporate Finance



BRIEFING NOTE

Rent Increase 2008/09 Consultation – Responses

Introduction

On behalf of the Council, Homes for Haringey has carried out a consultation exercise over the period 10 December 2007 to 11 January 2008.

Consultation sought views on the proposed average increase in rents of 6.5% (£4.77). The text of the consultation asked for views on the following statement.

This year the government wants to do two things:

- Reduce the amount of money they give to Haringey Council.

and to make up for this

- Set the annual rent increase for council tenants in Haringey at 6.5% or an average of £4.77 per week.

This keeps the amount of money that we have to spend the same and we can continue to deliver the services we do now.

What are your views on this proposal?

Consultation

The consultation was targeted at those tenants considered most likely to respond, through:

- Letters to all tenants who have previously attended consultation events (c250);
- Letters to contacts of all recognised Residents' Associations (c50);
- Letters/emails to previous respondents to rent increase consultations (c20);
- Letters to members of the Residents Finance Panels (c12).

To ensure that this was not an exclusive process, the consultation was also publicised through:

- Posters in Customer Services Centres, Concierge stations, Estate Notice boards
- Leaflets made available through the same channels
- Advertisement in local newspapers referring interested tenants to the above.
- An online web based survey

A meeting of the Residents Finance Panel has been held at which the context and options were presented in details in order to obtain fully informed feedback.

Responses

There were only 6 valid replies. This may be because the consultation sought views on the increase rather than simply indicating a preferred option.

Comments received from individual tenant respondents are detailed as follows.

Comments made by individual respondents to the Rent Increase 2008 consultation
<p>"NO TO THE INCREASE.</p> <p>This is over 3 times the rate of inflation. The level of service (i.e. repairs) is maladroit. Perhaps you should work on being more efficient with the funds you have. For too long you have had over inflation increases it is time to stop - perhaps if you did not do tricks such as wasting money on planting before the audit commission came round and you would not need to have such an inflation busting increase.</p> <p>The Prime Minister who is leader of the controlling party of Haringey Council (i.e. labour) is trying to stop inflation busting wage increases and most people will only get less than 2%. It is not like these flats are luxury they are sub standard and you do not do repairs. Work on being more efficient and having a higher standard of repairs. Make cutbacks elsewhere. Stop wasting money."</p>
<p>Disappointed - towards a steep rent increase, many tenants have expressed similar concerns on the rent increase due to poor quality of the housing stocks, suggested Council contest the rent increase with DCLG</p>
<p>Hope the increase is for the best.</p>
<p>No matter the tenants opinion, once again, rent increase is to be imposed</p>
<p>No consideration for old people</p>
<p>Not happy for another rent increase; house cold, old heater, need general improvement</p>

The meeting of the Residents Finance Panel resolved to respond as follows:

- the large increases through the government's policy to increase rents to the levels charged by housing associations were putting an unfair burden on tenants. This burden was particularly hard for tenants on pensions and fixed incomes.
- such increases in rent along with other rises in the cost of living such as council tax eroding tenant's standard of living.

- the government should use the Consumer Price Index as a basis for setting rent increases as this index is used to assess pension increases. The use of the Retail Price Index (which is generally higher than the Consumer Price Index) was an inequitable basis for setting rents.
- Improvements in income collection performance should be sought as this would help to keep rents down.

Conclusion

The general response to the increase is that it is considerably in excess of the rate of inflation and therefore erodes the affordability of rents. Similar views have been presented to the government as part of Haringey's response to the 2008/09 housing subsidy consultation.