REPORT FOR:	**TENANTS', LEASEHOLDERS' & RESIDENTS' CONSULTATIVE FORUM**
Date of Meeting:	26 September 2012
Subject:	**INFORMATION REPORT –** Housing Rent Options paper
Responsible Officer:	Lynne Pennington, Divisional Director of Housing Services
Exempt:	No
Enclosures:	None

Section 1 – Summary

The purpose of this report is to provide an outline of some of the options that may be available to the Council should it wish to re-visit its existing rent strategy.

FOR INFORMATION

Section 2 – Report

2. **Current Rent Policy**

2.1. The rental policy currently being employed by Harrow to set its housing rents was approved by Cabinet and Council in March 2011, and was based on a continuation of Government rent convergence policy, which assumed that rents would increase annually by not more than RPI + 0.5% real growth + £2 until such time as convergence with target rent had been achieved. At the time of setting this year's rent increase, this policy resulted in an average rent of £102.14, an increase of 6.72%, although it should be noted that the RPI figure specified for use in the calculation (September 2011 figure) was 5.6%, which made a significant contribution towards the size of the overall increase.

2.2. In addition to its compliance with the Government rent convergence policy for the purposes of calculating rent increases, the Council has also implemented a policy of charging new lettings at the target rent for the property being let, rather than continuing the rent convergence path that would otherwise have been followed if the property had not become vacant. This policy means that progress towards full rent convergence is being made slightly faster than would otherwise have been the case (during 2011/12 253 new lettings were made at target rent out of 293 lets overall).

2.3. In adopting this policy, the Council needs to have regard to the average level of actual rents compared with the average level of the Limit rent used in the rent rebate subsidy limitation calculation, which are assumed to converge with target rents by 2015/16. This comparison is necessary because if actual rents are higher on average than limit rents, then the Council may not obtain the full benefit of these rent increases as rent rebate subsidy received within the General Fund may be capped, and the excess chargeable to the Housing Revenue Account.

2.4. This paper aims to identify the options that may be available to Harrow Council should it wish to review its policy in respect of future rental income and consider alternative methodologies which may involve increasing rents above the levels currently projected so as to provide more resources within the HRA.

Future rent policy options

Status Quo

2.5. The first option available to the Council is, of course, to retain the status quo, i.e. not to take any action to increase its levels of rental income (other than that level of increase assumed by the current convergence process and inflationary increases thereafter).

2.6. Given that welfare reform and the introduction of the benefit cap and Universal Credit are imminent, which are expected to place a squeeze on tenants' incomes and potentially give rise to an increased likelihood of rent collection problems and rent losses through bad debts, the Council may decide that this is not an appropriate time to consider any approach that attempts to increase above the levels currently projected (and thus add to the burden of some of the 71% of tenants in receipt of full or partial housing benefit). The rent increase for 2013/14 will be dependent on the level of RPI in September, but if we assume for the moment that it may be the same as July's figure of 3.2% (the most recent one announced at the time of writing this paper), then based on the current rent convergence profile the increase for next year could be in the region of 4.4%. This would mean that the average rent for next year would be in excess of £106 per week (around £4 per week more than 2012/13), even without a change of rent policy.

2.7. An additional factor that may count against increasing rents at the moment is "the message" that this would give out: we have been saying that self financing is a good thing and will enable us to meet all of our investment requirements and generate significant surpluses in the HRA, but to then say that we still want to increase rents to generate yet more surpluses may be a message that would not prove to be politically acceptable, unless perhaps it was in the context of providing additional funds for new affordable housing.

Alternative Policies

2.8. One option for the Council could be to disregard rent convergence completely, as some other Councils, such as Wandsworth, have done, and implement a policy of the Council's rents being linked by some mechanism to private sector rent levels within Harrow, or to the level of the Local Housing Allowance. This would be a significant departure from the current policy, and would be likely to result in the Council incurring costs in the HRA as a result of Rent Rebate Subsidy Limitation. Whilst this would reduce the overall benefit of the additional rents raised, there could still be additional resources generated for use within the HRA, albeit that the cost to the tenants would be greater than the benefits derived. An example of this would be in the case of Wandsworth, whereby rental income increased by £6.3m between 2010/11 and 2011/12, but Rent Rebate subsidy limitation increased by £0.5m, meaning that nearly 8% of the additional rent was lost due to the subsidy limitation calculation.

2.9. A second option could be for the Council to petition the Department for Communities and Local Government to be able to use target rent plus 5% as the convergence target for rents. At the time that rent reform was first introduced, this approach was outlined in the guidance, mainly for the purposes of ensuring that RSLs' (as they then were) business plans remained viable, as many had long term assumptions for higher rents. Whilst this provision was substantially aimed at the RSL sector, there was an acceptance that in specific circumstances, and provided a valid case could be made to DCLG (DETR at the time), then local authorities too may be able to adopt this strategy. What would be acknowledged as a valid case was subject to individual circumstances, but typically, being in a very high-value area, or consistency with the rent levels of other registered providers may be seen as valid reasons. It is not clear whether approval by DCLG would automatically trigger a commensurate recalculation of the limit rent, but if this were not the case, and rent rebate subsidy limitation therefore was projected to become a factor, then if the Council wanted to do something along these lines then it could always use the approach outlined above in 2.8, rather than petitioning DCLG. If the limit rent calculation was adjusted to take account of the revision to target rents, then this option could generate additional income for the HRA at no additional cost.

2.10. A third option could be for the Council to adopt a policy of re-valuing its properties for the purposes of rent setting following major investment programmes, i.e. significant investment would increase the value of a property, which in turn would increase the value-related element of the target rent calculation. This is an approach being adopted by a significant number of registered providers, who are seeing this as both a logical approach that reflects the increase in value of properties following significant investment, and thereby the increased amenity being provided to the tenants of those properties, and obviously a means by which income may be increased to help fund the additional ongoing investment in the stock. This option is now also starting to come under more scrutiny within local government as a possible means of increasing income under the self-financing regime, as it is one of the few ways available to increase rental income to any significant extent.

2.11. It remains to be seen to what extent investment programmes would increase the value of individual properties, and work is currently underway with the Council’s valuers to assess the value of one of each of the beacon properties used for valuation purposes, assuming the completion of a significant investment programme. These valuations will then be discounted back to January 1999 prices (the valuation base used for calculating formula (target) rents) and the revised valuations used to calculate revised target rents. We would then be able to calculate revised convergence profiles and ascertain the potential impact of this approach on income levels and the HRA business plan as a whole.

2.12. The options outlined above are set out below in the Rent Options Matrix:

Rent Option	Description	Advantages	Disadvantages/Risks	Recommendation
Status Quo	No action to increase levels of rental income (other than that level of increase assumed by the current convergence process and inflationary increases thereafter) RPI currently assumed to be 2.5% throughout model, convergence for most properties assumed to occur by 2015/16	Current policy agreed with members and tenants. "Safe" option, no controversy.	No increased income (over that previously projected) Low risk option The rent increase to be applied in 2013/14 will depend on the RPI figure for September 2012, but based on the published figure for July would be in the region of 4.36%	Could be seen as favoured option in short-term.
Disregard rent convergence	Disregard rent convergence completely, and implement a policy of the Council's rents being linked by some mechanism to private sector rent levels within Harrow, or to the level of the Local Housing Allowance.	"Scientific" basis for rent setting Rent differentials maintained between dwelling types Generate additional income for HRA – a 5% increase in average rents would generate additional rental income in the region of £60m over 30 years, although £38m of this would be lost in rent rebate subsidy limitation, giving a net benefit of £22m	High risk politically "Why do this now?" – cynical exercise to raise money. Rent rebate subsidy limitation would lessen benefit Affordability issues for tenants at same time as benefit changes hit Lose comparability with RSL (RP) rents	Risks may well outweigh potential benefits at this stage

Rent Option	Description	Advantages	Disadvantages/Risks	Recommendation
Target + 5%	Council could petition the DCLG to use target rent plus 5% as convergence target for rents. This provision substantially aimed at the RSL sector, but could apply to LAs provided a valid case could be made to DCLG (DETR at the time) Valid case typically included: being in a very high-value area, or consistency with the rent levels of other registered providers.	Consistent basis for rent setting Rent differentials maintained Generate additional income for HRA - an increase of 5% and convergence with this increased target would generate additional rental income in the region of £60m. The net benefit would depend on the extent to which DCLG permitted the increased target rents to be used in the limit rent calculation. Methodology not too far removed from current calculation	High risk politically May be seen as "Arbitrary" increases – again why do this now when HRA being broadcast as being in better position than ever? Rent rebate subsidy limitation could lessen benefits Affordability issues for tenants at same time as benefit changes hit No guarantee would be permitted	Risks may well outweigh potential benefits at this stage
Revalue properties	Re-value properties for the purposes of rent setting following major investment programmes	Logical and transparent Methodology unchanged Rational reason for increasing value element of rent calculation Generate additional income for HRA - preliminary estimates indicate property values used for rent calculation purposes could be	Medium risk option Why do this now when HRA being broadcast as being in better position than ever? Rent rebate subsidy limitation could lessen benefits	Less risky option, likely to be more acceptable, but would it be better to delay until impact of HRA reform and Housing changes more certain?

Rent Option	Description	Advantages	Disadvantages/Risks	Recommendation
		increased by around 7.5% as a result of investment, which would translate to an increase in average target rents in the region of 2.85% (property values only impact on 30% of the initial target rent calculation). Further work is being undertaken to assess the potential impact of planned investment on property values in more detail. An increase at this level would generate additional rental income in the region of £34m over 30 years. The net impact would depend on whether DCLG would permit any increase in target rents to be reflected in the limit rent calculation. If it was not permitted, in the region of £21.5m would be lost through rent rebate subsidy limitation resulting in a net benefit to the HRA of £12.5m. Could be considered as part of the future asset management strategy and relate to regeneration or new affordable housing proposals	Affordability issues for tenants at same time as benefit changes hit	

Conclusions

2.13. The Council has a range of options available to it, should it wish to review the rent policy adopted in March 2011. In reviewing the policy, the Council does not have to actually amend it if it feels that the current policy is working satisfactorily and has proven acceptable to tenants, albeit with some reservations regarding affordability and tenants' ability to pay following benefit reform, particularly in periods of high inflation, as was the case for this year's increase.

2.14. We have outlined above some options that the Council could investigate further should it wish to consider changing rental policy to generate additional income going forward. One of the options (Target rent + 5%) could potentially be viewed as creating "arbitrary" increases, but the other two have a more scientific basis of calculation. In terms of acceptability, however, for the Council to now decide to disregard rent convergence , having followed it for so many years (unlike authorities such as Wandsworth), may be seen as a cynical means of generating additional income, whereas a methodology based on actual improvements may be seen as more palatable, the improvements being indisputable.

2.15. As already indicated above, all options that would involve increasing rents would need to be considered against the possibility of actual rents being in excess of limit rents. In practice this could mean that tenants would not see the full benefit of the increased rents, in terms of improved services or additional investment, due to additional costs being generated in the HRA as a result of Rent Rebate subsidy Limitation.

2.16. In considering any of these options, it will be necessary to undertake a full Equalities Impact Assessment to ensure that the effect of any of them would not be disproportionate to any particular sector of our current or future tenants. The aim would be to undertake this once the information for modelling becomes available, although an initial assessment suggests that most of the options likely to be available to the Council would not involve a change in the underlying methodology of the rent calculation, and would not therefore be expected to have a disproportionate impact on any particular group. Disregarding rent convergence completely appears to present the most potential for a disproportionate impact, but this would necessarily depend on the new methodology for rent-setting, which we are not in a position to assess at present.

2.17. We are obviously at a stage now where we are starting to develop the HRA and we know that some of the areas we are seeking to develop will mean additional ongoing costs within the HRA and so reduce the long-term balances. Some of the areas that will impact on the HRA may not be known in time for the 2013/14 budget, or potentially even a year or two beyond that, so we may not have a firm long-term forecast for several years.

2.18. It may be the case that the Council may decide not to change its rent policy at this stage, but to reserve the right to re-visit this issue at a later stage when we know what the impact of welfare reform is and have the currently-desired levels of service in place, as at that stage we may be able to better "sell" the need to increase rents to top up the resources projected to be available at the time.

Section 3 – Further Information

3. All relevant information is contained within the report.

Section 4 – Financial Implications

4. Financial matters are integral to the report.

Section 5 – Corporate Priorities

5. The content in this report informs tenants, leaseholders and residents of some of the options that may be available to the Council should it wish to change the way in which it sets rents in the future, and supports the corporate priority of 'united and involved communities' by engaging more effectively with residents.

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Date: ……13/09/2012………..		

Section 6 - Contact Details and Background Papers

Contact: Dave Roberts, Housing Finance Business Partner
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Background Papers:
None