

**REPORT FOR: Tenants', Leaseholders'
& Residents'
Consultative Forum**

Date of Meeting:	7 October 2014
Subject:	Options for rent setting
Key Decision:	No
Responsible Officer:	Lynne Pennington, Divisional Director of Housing
Portfolio Holder:	Cllr Glen Hearnden, Portfolio Holder for Housing
Exempt:	No
Decision subject to Call-in:	No
Wards affected:	All
Enclosures:	None

Section 1 – Summary and Recommendations

This report sets out a range of possible options for rent setting for 2015-16 financial year.

Recommendations:

TLRCF is recommended to consider the options and express its opinion as to the preferred option for rent setting for 2015-16.

Reason: (For recommendation)

To consult on options for rent setting for 2015-16.

Section 2 – Report

2. Introductory paragraph

- 2.1 The Council's current rent-setting policy of continuing the Government's rent convergence process has been in place for some years. In the lead up to the 2014-15 budget, the government consulted on proposals to change national social housing rent policy, with proposals that would cease rent convergence before all properties have converged and change the basis on which future rent increases were to be calculated for years after 2014-15. The budget for 2014-15 and Medium Term Financial Strategy to 2017-18 were constructed on the basis of the government's proposals. Following confirmation of the proposed changes, this report considers possible options for rent setting going forward.

Consultation

- 2.2 Under s.105 of the Housing Act 1985, the Council is required to maintain arrangements as it considers appropriate to enable secure tenants to be informed and consulted about housing management matters which substantially affect them. However, rent and other charges for facilities are specifically excluded from the definition of housing management, therefore there is no statutory requirement to consult secure tenants on proposed rent changes. The Council has however, always consulted through the Tenants Leaseholders and Residents Consultative Forum (TLRCF).
- 2.3 The Tenants' Leaseholders and Residents Consultative Forum (TLRCF) have the remit to consider and submit observations to Cabinet on the annual HRA budget and in particular on the consequent rent implications.

3. Options for rent setting

- 3.1 **National social rent policy** – the Government has recently confirmed that it will no longer be possible to include a rent convergence element for rent increases after 2014-15, although properties may still be moved to target rent levels on re-let, as is the Council's current policy. In addition, future rent increases will be based on the Consumer Prices Index plus 1%, rather than the Retail Prices Index plus 0.5%. The combined impact of this, as set out in the 2014 budget report, is to reduce income within the HRA over the longer term.
- 3.2 Due to the decision to increase property values for rent setting purposes in February 2013, and the use of prudent assumptions regarding long-term rent increases in the last version of the business plan, the impact on HRA finances is not as severe as it could have been, and it is understood that there is less of an impact (proportionally) on HRA income than is being experienced by some other authorities.
- 3.3 As part of the process of changing national rent policy, following representation from the sector the Government decided to increase limit rents to the level of the target rent to avoid any issues arising as rents gradually moved to target levels over time. Limit rents are used to calculate rent rebate subsidy limitation, which can arise if a council's average rent is higher than the average limit rent, and the initial impact of this change was to benefit the Council as we would

otherwise have had to fund in the region of £70k of rent rebate subsidy in 2014-15.

- 3.4 It is not clear whether the Government will implement some form of rent-setting mechanism to prevent councils from increasing rents by more than CPI plus 1% as there is currently no such mechanism in place. What this means then, is that under the present regulations, the Government's action in setting limit rents at the level of target rents theoretically presents us with some possible options for rent increases for 2015-16, although it should be noted that the Government may well take action to close off any course of action other than a CPI plus 1% increase.

Options include:

- a. Continue with the existing policy in line with national policy, i.e. assume rents will increase by CPI plus 1%;
 - b. Move all rents to target rent levels for 2015-16;
 - c. Continue to assume a "rent convergence" policy, in which case many of the Council's rents would expect to converge anyway in 2015-16, but with a "cap" on the increase of the equivalent of RPI plus 0.5% plus £2;
 - d. An alternative strategy still to be determined.
- 3.5 For the purposes of comparing these options, CPI is assumed to be 1.7% in 2015-16, in line with current assumptions, for all models. The actual inflation figure to be used in the calculation of the 2015-16 rent increase is the September 2014 CPI figure, which will not be announced until October of this year. The projections are therefore likely to change from those shown within this report.

Continue existing policy

- 3.6 Existing Council rent policy is in line with the national policy, and assumes that rents will increase by CPI plus 1%, with rents for properties re-let during the year being set at target rent. This is the basis on which the budget was set, and on which the recent 30-year business plan update was constructed. On this basis, the average rent for 2015-16 is projected to be £115.62 per week.

Move all rents to target rent levels for 2015-16

- 3.7 For this option, all rents are assumed to be set at the level of the target rent, which given the increase in limit rent to target level should not result in a penalty to the HRA arising from Rent rebate Subsidy Limitation. This is not in line with national rent policy.
- 3.8 On this basis, the average rent for 2015-16 is projected to be £117.55 per week, nearly £2 per week more than if national rent policy was followed. This would increase balances over the term of the business plan as set out in the table below.
- 3.9 This option needs to be caveated, in that there are a small number of properties (in the region of 75), typically larger houses, where the gap between actual rent and target rent is so large that, ordinarily, rents could never reach

target levels through a convergence process. Any decision to increase rents for these properties could potentially result in significant increases for the tenants.

Continue to assume a “rent convergence” policy

3.10 Under this scenario, all rents that have not already achieved convergence with target rents (the vast majority of existing rents) would continue on the convergence profile assumed prior to the change in national rent policy. This would see rents increased by the equivalent of a maximum RPI plus 0.5% plus £2 each year until such time as convergence is reached. This would see over 97% of properties achieving convergence by 2017-18, with a maximum 98.4% of all properties being able to ultimately achieve convergence. As above, a number of properties will never achieve rent convergence until they are re-let.

3.11 On this basis, the average rent for 2015-16 is projected to be £117.05 per week, and the resulting increased balances over the life of the business plan are set out below.

Alternative rent increase strategy

3.12 This would be some other form of rent increase strategy than those set out above and would need to be the subject of discussion and consultation. At present the suggestion would be to consider the above options, but always bearing in mind that the Government could close off any option other than following national rent policy.

Key business plan outputs

Table 1.

	Current Rent Policy	All rents set to Target	Continue convergence
Average rent in 2015-16	£115.63	£117.55	£117.05
HRA cumulative revenue balances			
Year 5	£7.664m	£10.038m	£9.835m
Year 10	£13.970m	£18.786m	£18.497m
Year 20	£58.650m	£68.530m	£68.071m
Year 30	£165.174m	£180.418m	£179.783m

3.13 The figures shown in Table 1 above illustrate the potential impact of differential rent increase strategies on the level of balances generated within the Housing Revenue Account. It can be seen that the difference between a continuation of the existing policy, which assumes that rents are set to target level when a property is re-let and the policy of setting all rents to target levels could be in worth in excess of £15m over the life of the business plan. It can also be seen that a policy of “rent convergence” would enable the majority of this additional income to be delivered. This is because under the previous policy, rent convergence was assumed to have been achieved for the majority of properties by 2015-16 anyway.

3.14 One notable area where additional resources could be used is in the delivery of new housing, where the lack of borrowing capacity as a result of the borrowing cap imposed by the government as part of the self-financing settlement is a restriction on the ability to deliver new housing as quickly as desired. This could be seen as a window of opportunity, in that the government has increased limit rents to the level of target rents, and in doing so seemingly presented to

councils the opportunity to generate additional income by setting actual rents to target levels without incurring financial penalty.

- 3.15 It must be stressed, however, that whilst the options set out above may be technically feasible at this point, the government may well decide to take action to close the door on anything other than a policy-compliant rent increase, making reliance on the ability to increase rents by more than CPI + 1% a risky strategy.
- 3.16 It is clear from the HRA budget approved in February and the Business Plan update approved in July 2014 that at this point that there is no overriding need to deviate from existing policy, which is in line with national rent policy; the HRA is in a healthy position and is able to meet its management, maintenance and investment obligations as they fall due. Whilst increased income could potentially assist in delivering more affordable housing within the HRA, the higher rents required to generate this income would place an additional burden on tenants at a time when the economy is still not entirely stable and welfare reform continues to impact on families, in many instances significantly.
- 3.17 This, associated with the potential risks of deviating from national rent policy, suggest that it would be appropriate to continue the Council's existing rent-setting policy and increase rents by CPI plus 1% for 2015-16, unless the recommendation of TLRCF is to consider an alternative strategy.

4.0 Financial Implications

Set out above

5.0 Risk Management Implications

Set out above

6.0 Equalities Implications

No equalities impact assessment has been carried out at this stage as it is not clear whether the council would be allowed to implement a rent increase above the level set out in national social rent policy, i.e. CPI + 1% for tenanted properties.

7.0 Council Priorities

7.1 The Council's vision:

Working Together to Make a Difference for Harrow

7.2 This report relates to the availability of resources which enables the Housing Department to support the administration's priorities as follows.

- a. Making a difference for the vulnerable - a number of initiatives within the Asset Management and Resident Services service plans and capital programme are specifically targeted to assist the most

vulnerable households living in the Council's housing stock to sustain their tenancies, reduce health and safety risks and live independently.

- b. Making a difference for communities - the Asset Management and Resident Services service plans include a commitment to improve the external environment, providing communities with better places to live and improve the appearance of our estates. The green deal communities project is specifically targeted to improve energy efficiency and reduce fuel bills of those residents experiencing fuel poverty.

Section 3 - Statutory Officer Clearance

Name: ...Dave Roberts.....	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date:18 September 2014		

Ward Councillors notified:	NO
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Section 4 - Contact Details and Background Papers

Contact:

Dave Roberts, Housing Finance Business Partner
Direct 0208 420 9678
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Background Papers:

None