

Part 2 - Housing Dwelling Rent Options for 2012/13 – Additional Information for Council

1. Purpose of Report

This report has been prepared in response to Cllr Boad's email of 22 February 2012 08.23:

Copy of the email:

Hi all,

I don't know if this report is being particularly obscure, but the expectation was that the rent increase would be reduced in this year, when a high inflation figure was part of the calculation, and caught back over the next 2 years when inflation was predicted to be considerably lower, thus smoothing the rent increase. It was never intended to have a prolonged catch up period, this does not appear to have been reflected in any of the calculations!

I note that the department also continues to compare with open market rent! The convergence is with Social housing sector, i.e. Housing Association rent levels, affordable rental levels will never achieve market rent, if they did we would have more people under stress as the benefits system cap would have cut in.

The self financing regime gives power to set our own rent levels within nationally set guidelines, no mention has been made of this power and what the new freedoms and flexibilities are.

The structure of the debt which we are still awaiting, and not just the rent levels, also has a significant impact on the resources available to build new, or to maintain existing stock, again no mention of this. We have been given a very one sided picture which does not take into account the new regime that commences in April.

Regards

Alan Boad

2. Background

The Council's policy to date has been to set rents for HRA properties in accordance with the national rent restructuring formula¹ which formed part of central Government Housing Policy².

The national social rent policy is still that rents in the council housing sector should converge with those charged by housing associations by 2015-16, followed by rent rises at RPI + 0.5% per year after this, in line with housing associations. In valuing each local authority's Housing Business Plan for Self Financing, Department of Communities and Local Government (CLG) have assumed adherence to this rent policy.

Government does not have any plans (as far as we know) to change the national rent policy set out above, however, CLG retains the power to direct the regulator to set a rent standard, but in the council sector, unlike the housing association sector, it currently has no plans to do so.

Individual tenants' rents are protected by a formula that only allows rent to rise by up to RPI + 0.5% + £2.00 per week.

Can Warwick District Council set higher rents and what power does it have to set its own rent levels?

The Council currently has the legal power to set its rents at **any** level it may determine, subject to a requirement to act reasonably.

However, if the Council were to determine its rent increases for the next year or so without reference to RPI and the Government's guideline rent formula, there is a risk that such rent increases could exceed:³

- (i) the level of rent increase permitted under any future Secretary of State direction and subsequent rent standard applicable to local authorities (which would be a breach of statutory law); and/or

1 "A Guide to Social Rent Reforms in the Local Authority Sector", ODPM, [February 2003]

2 Quality and Choice: A decent home for all - The way forward for housing, Department of the Environment, Transport and the Regions, [Dec 2000]

3 As per Legal Advice Note from Trowers and Hamblins Solicitors [February 2012]

(ii) the weekly limit rent for Housing Benefit subsidy purposes (which could lead to the Council having to partially fund the Housing Benefit bill itself).

The financial implications on the HRA business plan of both of these risks would need to be given due consideration before the Council could reasonably determine any rent increases.

The Chartered Institute of Housing has also advised⁴ against rent increases which are not in keeping with the Government's guidance.

Notwithstanding the above what is the impact of catching up over the 2 years post 2012/13?

3. Catch Up to “Weekly Rent” over 2 years

Table 1 below sets out potential options if rents were reduced in 2012/13, to ultimately catch up where rents would have been (had no reduction been made) within two years, ignoring Rent Restructuring limits to annual rent increase.

As shown in Option 1a if Council decided not to increase rents in 2012/13 then without any new build, it could catch up to its weekly rents (as in the Base Case) by rent increases of 9.79% and 9.05% in 2013/14 and 2014/15 respectively. In other words this would result in rents for 2013/14 increasing by RPI + 0.5% + £5.15 and for 2014/15 by RPI + 0.5% + £5.03. The Business Plan projects RPI to be 2.5% in the period after 2012/13.

Even after this rent increase under Option 1a, notional balances would be £11.2m less than the Base Case.

⁴ As per advice from Steve Partridge, Director - CIH [February 2012]

Table 1 also shows that the above levels of rent increase for 2013/14 to 2014/15 would not exceed the weekly limit rent for Housing Benefit subsidy purposes.

4. Catch Up to “Recover Loss” over 2 years

Table 2 below sets out potential options if rents were reduced in 2012/13, to ultimately catch up to “recover loss” within two years, ignoring Rent Restructuring limits for the aforementioned period. This will ensure that any rent increase below the Executive recommended Base Case is financially neutral for the Business Plan by charging higher rents in the following 2 years.

As shown in Option 1b if Council decided not to increase rents in 2012/13 then without any new build, it could catch up to recover loss by rent increases of 15.97% and 15.23% in 2013/14 and 2014/15 respectively. In other words this would result in average rents for 2013/14 increasing by RPI + 0.5% + £9.83 and for 2014/15 by RPI + 0.5% + £10.75. As mentioned in Section 3, this assumes RPI to be 2.5% in the period after 2012/13.

This scenario forecasts the level of rent increases for 2013/14 to 2014/15 to exceed the weekly limit rent for Housing Benefit subsidy purposes. Option 1b thus assumes that £1,478,000 (included in the 15.97% and 15.23% increase noted above) of Housing Benefit will not be paid and effectively recovered from tenants not on Housing Benefit through the aforementioned rent increase.

5. Data on open market rents

This data is given for comparable purposes only to assist Members in their deliberations and is not intended to be the reasons for the recommendation of rent increase in 2012/13.

Table 1: Catch up' to Weekly Rent over 2 years by ignoring Rent Restructuring limits to annual rent increases

Assumption	If there are no New Build Homes built				Existing Average Rent	Projected Average £ Weekly Rent For Each Year						Overall Projected Average % Rent Increase For Each Year			Benefits Limit	
	Year could fully provide for all debt	Notional Balances at Year 50	Balances reduction vs. 'Base'						3.0%	3.0%				Av. Rent £ above Limit	Benefits Not Paid £'000	
				2011/12		2012/13	2013/14	2014/15	2015/16	2013/14	2014/15	2012/13	2013/14			2014/15
'Catch up' to Weekly Rent over 2 years by ignoring Rent Restructuring limits to annual rent increases																
1a no increase 2012/13	22 years	2033/34	£404.5m	-£11.2m	75.79	75.79	83.22	90.74	95.27	5.15	5.03	0.00%	9.79%	9.05%	0.00	£0k
2a 3.39% increase 2012/13	22 years	2033/34	£409.0m	-£6.6m	75.79	78.36	84.53	90.74	95.27	3.82	3.68	3.39%	7.88%	7.35%	0.00	£0k
3a 4.39% increase 2012/13	22 years	2033/34	£410.4m	-£5.3m	75.79	79.12	84.91	90.74	95.27	3.42	3.28	4.39%	7.33%	6.87%	0.00	£0k
4a 5.39% increase 2012/13	22 years	2033/34	£411.7m	-£3.9m	75.79	79.88	85.29	90.74	95.27	3.02	2.89	5.39%	6.78%	6.39%	0.00	£0k
5a 6.39% increase 2012/13	22 years	2033/34	£413.0m	-£2.6m	75.79	80.63	85.67	90.74	95.27	2.61	2.51	6.39%	6.24%	5.93%	0.00	£0k
6a 7.39% increase 2012/13	22 years	2033/34	£414.3m	-£1.3m	75.79	81.39	86.03	90.74	95.27	2.20	2.13	7.39%	5.70%	5.48%	0.00	£0k
'Base Case' - 8.39% increase 2012/13	21 years	2032/33	£415.6m	£0.0m	75.79	82.15	86.37	90.74	95.27	1.76	1.78	8.39%	5.14%	5.06%	0.00	£0k

Table 2: Catch up' Recovering Loss over 2 years by ignoring Rent Restructuring limits to annual rent increases and charging higher rents than the 'base case'.

Assumption	If there are no New Build Homes built				Existing Average Rent	Projected Average £ Weekly Rent						Overall Projected Average % Rent Increase			Benefits Limit	
	Year could fully provide for all debt	Notional Balances at Year 50	Balances reduction vs. 'Base'	For Each Year					3.0%		For Each Year			Av. Rent £ above Limit	Benefits Not Paid £'000	
				2011/12		2012/13	2013/14	2014/15	2015/16	2013/14	2014/15	2012/13	2013/14			2014/15
'Catch up' Recovering Loss over 2 years by ignoring Rent Restructuring limits to annual rent increases and charging higher rents than the 'base case'.																
<i>Note that where rents exceed Benefits Limit, Tenants who pay their own rent are paying extra to make up the shortfall from Benefits, i.e. They are subsidising tenants who receive Housing Benefit.</i>																
1b no increase 2012/13	21 years	2032/33	£415.6m	£0.0m	75.79	75.79	87.90	101.28	95.27	9.83	10.75	0.00%	15.97%	15.23%	8.62	£1,478k
2b 3.39% increase 2012/13	21 years	2032/33	£415.6m	£0.0m	75.79	78.36	87.08	96.31	95.27	6.37	6.62	3.39%	11.13%	10.60%	3.64	£625k
3b 4.39% increase 2012/13	21 years	2032/33	£415.6m	£0.0m	75.79	79.12	86.83	94.89	95.27	5.34	5.46	4.39%	9.75%	9.29%	2.23	£382k
4b 5.39% increase 2012/13	21 years	2032/33	£415.6m	£0.0m	75.79	79.88	86.56	93.47	95.27	4.29	4.31	5.39%	8.37%	7.98%	0.81	£138k
5b 6.39% increase 2012/13	21 years	2032/33	£415.6m	£0.0m	75.79	80.63	86.41	92.33	95.27	3.35	3.33	6.39%	7.16%	6.85%	0.00	£0k
6b 7.39% increase 2012/13	21 years	2032/33	£415.6m	£0.0m	75.79	81.39	86.40	91.54	95.27	2.57	2.54	7.39%	6.16%	5.94%	0.00	£0k
'Base Case' - 8.39% increase 2012/13	21 years	2032/33	£415.6m	£0.0m	75.79	82.15	86.37	90.74	95.27	1.76	1.78	8.39%	5.14%	5.06%	0.00	£0k