	Executive 15th February 2012	Agenda Item No. 7

Title	Housing Revenue Account Budget 2012/13 and Housing Rents
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Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No
Date and meeting when issue was last considered and relevant minute number	
Background Papers	Report to Executive 11th January, 2012: Approval of Housing Revenue Account Base Estimates Revised 2011/12 and Original 2012/13 2012/13 Housing Revenue Account Final Self-Financing Determinations

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes Ref 384
Equality & Sustainability Impact Assessment Undertaken	No

Officer/Councillor Approval

Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive		Bill Hunt
Head of Service		Finance Report
CMT		
Section 151 Officer		Mike Snow
Monitoring Officer		
Finance	n/a	Finance Report
Portfolio Holder(s)		Councillor Vincett

Consultation Undertaken

None

Final Decision?	No

Suggested next steps (if not final decision please set out below)

This will be a recommendation to Council on 22nd February 2012

1. SUMMARY

This report updates Members on the latest projections for the Housing Revenue Account revenue budgets in respect of 2011/12 and 2012/13. The information contained within this report supports the recommendations to Council in respect of setting next year's budgets and the proposed increases to council tenant rents, garage rents and supporting people charges for 2012/13.

2. RECOMMENDATIONS

2.1 To recommend to Council:

- That housing dwelling rents for 2012/13 be increased by an average of 8.39%.
- That garage rents for 2012/13 be increased by 5.6%.
- That Supporting People charges for Housing tenants remain the same as those charged in 2011/12 – no increase.
- That the 2012/13 Housing Revenue Account (HRA) budget, as set out in Appendix 5, be agreed. It should be noted that these figures are subject to change since the Final Determination figures are not expected until the end of January.
- That changes to the 2011/12 revised estimates considered in January, as st out in Appendix 5, be agreed.

3. REASONS FOR THE RECOMMENDATIONS

3.1 The Council is required to set a budget for the HRA each year, requiring agreement on the level of rents and other charges that are levied. The Executive is therefore required to make recommendations to Council that take into account the base budget revenue estimates for the HRA and the 2012/13 Self financing Subsidy Determinations which include current Government guidance on rent restructuring.

3.2 The proposed dwelling rent increase follows Government guidance which requires councils to increase their rents in accordance with a prescribed formula so as to meet the requirements of rent restructuring and rent convergence. This is described in more detail in section 8 and Appendix 1.

3.3 A separate report to Council on 7th March, 2012, details the new arrangements for the self financing of HRA's, which will enable them to exist outside of the current national Housing Subsidy System and explains the need for the Council to take on debt in order for its HRA to leave that system. It should be noted, therefore, that the figures contained within this report are subject to change. Firstly , because the report mentioned above on the Housing Self Financing Business Plan may result in amendments being required and secondly, because the Final Determination figures are not expected until the end of January, due to the complexity of changing the system of financing. Any alterations necessary as a result of changes in the Determinations will be reported to the Council meeting on 22nd February, 2012. Any changes due to the consideration of the Housing Self Financing Business Plan and the structure of the debt portfolio will be known to Members on 7th March, with the figures being amended as part of the Budget Monitoring reports during 2012/13.

3.5 The Government's calculation of the payment of £136.8m to enable the 'buy out' from the current housing subsidy system and allow the move to self financing from 1st April, 2012, has assumed rents will increase in line with its rent restructuring policy for the whole 30 year life of its 'notional' Self Financing Business Plan. To be consistent and to ensure the viability of the Council's own Housing Self Financing Business Plan, it has been necessary to adopt the same policy and basic assumptions. Consequently, this has led to the level of rent increase currently being proposed for 2012/13. A change from this policy at such an early stage in the life of the Plan could seriously jeopardize its future viability.

3.4 Whilst this means the increase is in accordance with the Council's financial strategy it also means that the level of the recommended rent increase is significantly higher than the Council would wish to make if there was no requirement to comply with the Government's rent restructuring guidance and the necessity to minimize any adverse impact on the sustainability of the Housing Business Plan.

3.5 Garage rent increases are not governed by the guidance for rent restructuring. However, part of the formula used by the Government to calculate dwelling rent increases uses the Retail Price Index, (RPI), for September 2011. It is this rate of inflation, 5.6%, which has been used to increase garage rents for 2012/13.

3.6 Any Supporting People charge increase applied usually equates to the inflationary increase awarded by Warwickshire County Council for all Supporting People contracts, effective from April in the previous year. Normally the County Council's decision on this increase is received too late for it to be reflected in the current years charge levied to tenants, so this tends to be a retrospective inflationary charge applied one year in arrears. The Commissioning Body at the County Council decided not to apply an inflationary increase to Supporting People contracts for 2011/12. To reflect this decision, no increase has been applied to these charges for 2012/13.

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3.7 The recommendations will enable the proposed revised Housing Investment Programme for 2011/12 and initial 2012/13 to be carried out, partially funded by a revenue contribution to capital outlay (RCCO) payment from the HRA, whilst maintaining a minimum working balance on the HRA of at least £750,000, in line with Council policy. It will also provide a sound basis for the implementation of the new Housing Self Financing regime from 1st April, 2012.

4. ALTERNATIVE OPTION(S) CONSIDERED

4.1 Whist it is possible to implement an alternative option for the setting of housing dwelling rents rather than to comply with the Government's rent restructuring model, it would not be advisable to do so at this stage, especially with the proposed introduction of Self Financing of the HRA from 1st April, 2012. As the calculation of the 'buy out' figure has been made on the assumption that the Government's rent restructuring policy will be applied for the whole of the 30 year life of the new Business Plan, to apply a rent increase less than that indicated within the Housing Self Financing Subsidy Determination for 2012/13, could result in adverse consequences for the viability of the Plan, especially in the early years, though there may be some scope to consider adjusting the policy in future years, once the robustness of the Plan has been demonstrated. A table, showing a range of sensitivity analyses and the effects different rent strategies would have on the Business Plan if they were adopted in preference to the one being proposed, has been included at Appendix 2. As an example, it will be seen that under both the 'Pay Debt Off ASAP' strategy and the 'One 30 Year Loan' strategy, the debt would never be paid off if the Governments expectation that Rent Restructuring and the move to Target Rents were not adhered to and rent increases were restricted to increasing rents by RPI only. Several other scenarios have also been included with the forecast effects they are expected to have on the Plan.

4.2 There are alternative options in relation to garage rents as these are not subject to the Government's rent restructuring guidelines. Any percentage change could be applied, with each option realising a different amount of income to the HRA. Each 1% change in garage rents results in an increase or decrease of potential income of around £4,580, per annum.

4.3 The Supporting People charge is not subject to the rent restructuring criteria. However, it is subject to changes implemented by Warwickshire County Council, (WCC), on recommendation of its Commissioning Body. No increase has been set by Warwickshire County Council for either 2011/12 or 2012/13. In the interest of 'fairness', a differential charging system for 'self-payers' receiving the same service as those in receipt of Supporting People Grant, has not been adopted, consequently, no increase in charges for any users of these services is recommended.

5. POLICY FRAMEWORK

5.1 The Housing Revenue Account budget is a financial expression of the Council's housing policies, having regard to the resource availability and rent setting consequences. The Council's priorities have been reaffirmed within Fit for the Future. The Housing Revenue Account is subject to this same regime to ensure efficiency within the service. It is proposed that if there if any mismatch between the self financing strategy and action plans' officers bring forward proposals for managing these within the agreed budgets.

6. BUDGETARY FRAMEWORK

6.1 The HRA is a key component of the Council's budget framework and the budgets proposed are in accordance with Fit for the Future. The budgets have been revised in light of the proposed move to the new system of Housing Self Financing within the HRA and addressed any known issues anticipated to arise as a result of this change.

7. BACKGROUND

7.1 The Executive received a report on the background to setting the HRA budget and housing rents and charges for 2012/13 at its meeting on 11 January, 2012.

7.2 However, there are three elements that require consideration before the final 2012/13 rent increase can be agreed, which are set out in Sections 8 to10 below. The rent increase, in turn, impacts on the setting of the final HRA budget which is considered in Sections 11 and 12.

8. RENT RESTRUCTURING OF DWELLING RENTS

8.1 Rent Restructuring was introduced by the Government in 2002/03, with the intention of bringing all social housing rents into line with each other, so that a similar sized property within a particular area will cost the same regardless of who is the landlord. The aim of rent restructuring was, initially, to achieve this convergence by 2012. The latest determination assumes convergence in 4 years time, that is, by 2016. Since its introduction, rent setting for all social housing has been governed by the application of a prescribed national formula, designed to bring about this convergence. The application of the formula is described in detail in Appendix 1.

8.2 Appendix 3 sets out the application of the formula to existing rents. To achieve the required rent convergence the formula prescribes a method of increasing current rents and then applying a second uplift to narrow the gap between the newly increased rent and the Formula Rent as shown in the appendix. The effect of these two uplifts is to raise the average rent for 2012/13 by £6.36 to £82.15 per week, an increase of 8.39% on the previous year's average rent.

8.3 Applying all of the relevant 'caps and limits' to the calculations, which impose an increase on current rents of inflation, at 5.6%, plus 0.5% 'real', giving 6.1%, plus £2, the proposed increase of 8.39% is produced. Without these 'caps and limits', the average rent for 2012/12 would have been £84.23, an increase of £8.44 per week or 11.14%.

8.4 The only way the shortfall between the actual rents being charged and the levels required to achieve convergence by 2016 could be rectified in a single year would be by setting a rent increase that would be even more unaffordable for most tenants.

8.5 A comparison with market rents currently charged for properties with 1 to 4 bedrooms, in the WDC area, has been included at Appendix 4. This shows that the average market rent for a 3 bed house within the area is £210.58 compared to the proposed 2012/13 rent for WDC tenants of £90.92. This makes means the proposed rent is still just 43.18% of the market rent, a difference of £51.42.

9. GARAGE RENTS

9.1 The Council has total discretion over the setting of garage rents as these are unaffected by the rent restructuring guidelines described in Section 8. Therefore, any percentage increase could be considered. Whilst a substantial rent increase would maximise the potential to realise additional income, this could be offset if the new rent was higher than the local market was able to sustain and might result in higher void levels and consequent void rent loss.

9.2 The proposed increase of 5.6% for 2012/13 reflects the September RPI figures used in the Governments calculations for dwelling rent increases, contained in the Final Housing Subsidy Determination for 2012/13.

9.3 Garage rents will increase by an average 28p per week, from £4.92 to £5.20.

10. SUPPORTING PEOPLE CHARGES

10.1 Supporting People charges were introduced in April 2003 for tenants living in properties that receive a housing support service in addition to the normal tenancy management arrangements. Whilst the latter are financed from the rents that all tenants pay, the introduction of the Government's Supporting People initiative meant that the costs of the additional housing support, available only to particular groups of tenants, has to be separately funded to eliminate "rent pooling".

10.2 The Supporting People charge that is levied for this additional support is payable by the tenant unless they qualify for Supporting People Grant. Anyone eligible for Housing Benefit will automatically qualify for the Grant, which is administered by the County Council. However, any tenant who was resident at 1 April, 2003, when the scheme was introduced, and not in receipt of Housing Benefit, is classed as a "protected" tenant who does not have to pay the additional charge. When their tenancy ends the charge is registered against the property and the incoming tenant becomes liable to pay it in addition to the rent charged on the property.

10.3 The Council has four Supporting People contracts covering the support services offered to tenants living in sheltered housing, designated older persons dwellings or any other property with a community (Lifeline) alarm. The support is delivered by Housing and Property Services', 24 hour, Warwick Response team.

10.4 Decisions on the level of grant payable are made by the Supporting People Administrative Authority, in our case Warwickshire County Council. When the Commissioning Body decides to make an inflationary increase to the level of grant payable, it is necessary for the Council to increase its Supporting People charges by a corresponding amount. This is to ensure that the integrity of the Supporting People scheme is preserved and to prevent the potential for rent pooling to creep back into the HRA.

10.5 The notification of any award by the Commissioning Body, is normally received after the charges had been set, meaning they are usually applied retrospectively, in the following year. However, the decision of the Commissioning Body was not to increase the Supporting People Grant contribution for 2011/12. As a result, no retrospective increase has been applied to charges for 2012/13. Any further awards of this nature will continue to be introduced one year in arrears for future financial years.

10.6 The proposed charges for 2012/13 will be the same as those charged in 2011/12 and are as follows:

Supporting People Charges:	Proposed Weekly Charge 2012/13
Very Sheltered Housing properties	£ 28.26
Sheltered Housing properties	£ 11.17
Older Person Designated Dwellings	£ 6.34
Other properties with a Community Alarm	£ 2.80

11. HOUSING REVENUE ACCOUNT

11.1 Appendix 3 shows the proposed Housing Revenue Account for 2012/13.

11.2 The key assumptions contained within the November 2011 Draft Subsidy Determination for the Warwick District are:

	2011/12 Subsidy	2012/13 'Subsidy' base model	2012/13 Self Financing
No. of dwellings	5,621	5,612	5,611
Management allowance per dwelling	£523.95	£533.75	£583.13
Maintenance allowance per dwelling	£1,054.27	£1,094.03	£1,120.26
Major Repairs Allowance per dwelling	£670.86	£699.62	£903.82

11.3 The concept of the National Housing Rent Pool was introduced in 2004/05, when Housing Benefit rebates and their associated subsidy were removed from the HRA and placed in the General Fund. It is to be replaced from 2012/13 by a new Housing Self Financing regime.

11.4 Rent pooling is a redistributive system with authorities either paying into, or receiving additional subsidy payments from the pool. The Government uses a 'notional HRA' budget calculation for each local authority with a housing stock, to determine whether their assumed rental income will be above or below the assumed management and maintenance costs for their stock. This notional HRA determines whether or not Authorities will be net contributors to, or net beneficiaries from the national rent pool.

11.4 Under the rent pooling system the Government's subsidy assessment for WDC assumed that our rental income would exceed our housing costs. This gave a 'negative subsidy requirement' for WDC which made us a net contributor to the national rent pool. Payments to the national rent pool represent a considerable loss of resources to the "real" HRA as they entail resources being directed elsewhere in the country, rather than being made available locally to fund stock or service improvements for WDC tenants.

11.5 Under the new Housing Self Financing system, using a 30 year 'notional' model Business Plan for each stock retaining Authority within the current system, the Government has calculated a settlement amount, to be transacted on 28th March, 2012, in preparation for implementation of Self Financing from 1st April, 2012. For WDC this is currently expected to be in the region of £136.8 million.

11.6 As can be seen in the Table at 11.2, the allowances for management, maintenance and major repairs have been considerably increased, following the recognition that these have been seriously undervalued in recent years.

11.7 As the following table shows, in year one (2012/13) of the notional HRA calculations used to calculate self financing payment, our income will exceed our expenditure by £8.1m:

	2011/12 Subsidy £m	2012/13 Self Financing £m
Management & Maintenance Allowances	8.9	9.6

Major Repairs Allowance	3.8	5.4
Charges for Capital	0.6	0.4
Total Assumed Housing Costs	**13.3**	**15.4**
Rental Income	(21.7)	(23.5)
Difference (Payment to Rent Pool)	**(8.4)**	**(8.1)**

NB Figures rounded up or down

11.6 In 2011/12 the (£8.4M) payment will have been made to the national rent pool and would be shown under 'Transfer Payments' within the HRA.

11.7 Under Self Financing from 2012/13,the (£8.1M) which would have been seen as 'surplus' income under the old system can now be retained by WDC to be spent on it's own stock, as it sees fit, but after allowances have been made to service the debt settlement payment. Currently, but subject to change once the final debt repayment structure has been decided upon, interest payments of (£4.6M) and principal 'set aside' of (£2.7M), totalling (£7.3M), have been allowed for within the 2012/13 accounts, as set out in Appendix 3.

11.8 The revised 2011/12 estimates considered in January 2012, showed an increase in net expenditure of £3.55m, a deficit of £5.91m compared to £2.36m in the Original Estimates. The main item accounting for this variance was the inclusion of a proposed plan for solar panel installation to Council properties to the value of £3.38m.

11.9 Further adjustments have since been proposed, which will resulted in a reduction in net expenditure of £3.10m, a deficit now of £2.81m, which is £0.45m above the Original Estimate. The main reason for the reduction is the change to the proposed programme of solar panel installation to Council properties. Following changes to Government policy on Feed in Tariffs for electricity generated, which made the scheme less viable, it was decided at January Executive to reduce the programme from £3.38m to £0.85, a reduction of £2.53m. The remainder is due to capitalization of £150,000 of kitchen and bathroom replacements carried out as part of the void works programme and savings of £412,100 on capital works within the HIP, resulting in a corresponding reduction in the Revenue Contribution to Capital Outlay (RCCO), being necessary from the HRA.

11.10 The base budget for 2012/13 was reported to the 11th January, 2012, Executive. Paragraph 11.9 sets out the main changes in the base budget that arise from the scrutiny of the 2011/12 original estimates. In addition to these sums, there are some significant changes between the proposed 2012/13 budget and the base figures presented in January 2011. These are:

- A £364,900 decrease in contribution to the Repairs Fund. This is due to a £550,000 reduction in the budget for planned electrical works included in error in the January report adjusted for a 5% inflationary increase in repairs expenditure, to correspond to the figures contained within the Housing Business Plan.
- A £581,300 decrease in the Revenue Contributions to Capital Outlay, (RCCO). Again, this is to bring the figures in line those contained in the Housing Business Plan.

11.11 The sum of these changes will increase the anticipated balance on the HRA by £4.04m, from £5.09m shown in the Estimates Report considered by Executive in January, 2012, to £9.13m for 2012/13.

12. RISK MANAGEMENT AND SENSITIVITY ANALYSIS

12.1 The risks, and appropriate control mechanisms, for the 2012/13 HRA and the rent increase process are considered to be:

Self Financing

- When calculating the debt 'take on' for each stock owning Authority, it has been assumed that the current Rent Restructuring policy will continue, so the level of income this will generate over the 30 years assumed within the calculations. However, as can be seen in Table 11.2, more generous allowances for management, maintenance and major repairs have been included in the 'notional' calculations and this, together with the preferential rates being made available at which to borrow the debt, should help ensure each Authority's ability to finance the debt and thus the viability of their Business Plans.
- As will be seen in the separate report to this Committee on the on the Housing Business Plan, a document covering assumed income and expenditure for the next 30 years of the business plus any future aspirations, of growth and expectations, considerable attention has been given to sensitivity analysis.
- Prudent assumptions have been made regarding management and maintenance costs with Government guidelines on depreciation and the Major Repairs Reserve being followed, plus the Governments expectations regarding rent setting policy for the 30 year life of the plan have been to adhered to.
- One of the major risks of being self financing is interest rate exposure. Under the old Housing Subsidy System, any interest changes were absorbed by the Government within its 'notional' calculations. Depending on the final debt repayment strategy adopted for the £136.8 million WDC is having to borrow to 'buy' itself out of the current Housing Subsidy System, it is anticipated that the majority of the debt will be taken at 'fixed' rates, so that future payments are guaranteed and that there will be enough flexibility built into the system to absorb any unforeseen changes.

Revenue

- The County Council completed the reviews of all the current Supporting People contracts in 2009 and extensions were granted to vary these contracts until the end of 2012. The extensions were necessary as the County Council is still in the process of undertaking a Strategic Review of all of its support services and this has continued throughout 2011/12. The main risk relating to the extension of the contracts is the introduction of a 3 month termination clause. This could have an adverse impact on income if the terminated clause is implemented before the end of the extension period originally granted by the County. The Supporting People Commissioning Body is likely to use this programme to change existing patterns of expenditure and introduce a new mix of schemes that will receive funding in the future. This can only be achieved through decommissioning existing schemes and it is known that those schemes providing support for older people will come under particular scrutiny as these currently take up the majority of the available funding. This could mean that proposals are brought forward that impact on the funding of our contracts.

- Changes to void levels or lengthening re-let times, for either dwellings or garages, would affect income receipt. Effective management of void rent loss is critical to efficient service delivery, recognised by its inclusion as one of the proposed top 21 corporate performance indicators and scrutinised regularly by the service area's management team.
- Similarly, close monitoring of the rent arrears situation is being undertaken with every effort being made to contain any increase in current arrears. However, if the situation should deteriorate, due to the current economic situation, it is not expected to have to increase the level of Bad Debt Provision as this will be contained by controlling the amounts written-off to the account.

<u>Capital</u>

- The position regarding 'Right to Buy' (RTB), sales of council homes is changing. There have only been 2 sales to date in 2011/12. Receipts from these 2 sales have been included in the HIP estimates. However, in the interest of prudence, the 2012/13 budget currently has no sales included.
- Currently there is a Government Consultation out on the future of RTB sales, following the Government's announcement of its intentions to try to stimulate sales by increasing the discount available to tenants.
- Depending on the outcome, it is believed a 'tiered' approach to the use of the much reduced receipt will be implemented. First call will be to repay the outstanding debt raised to buy the property from the subsidy system. Then any remainder should be used to finance the building of new homes, which essentially will account for all of the receipt.
- At WDC the capital receipts from RTB sales have traditionally been used to support General Fund housing initiatives, particularly grant provision for private sector housing. The Council's own housing stock having 'second call', on any available receipts.
- Members may wish to consider these potential new proposals when considering the policy concerning funding of privates sector housing in the future.

12.2 These key risks have been considered when setting the HRA budget for 2012/13. A sensitivity analysis of assumptions relating to these risks and their potential impact on the budget is as follows:-

- 20% reduction in Supporting People income = £99,800

- Currently no anticipated receipts from RTB sales have been included for future years. Each sale currently generates an average 'usable capital receipt' of around £27,000 for house sales, at 2011/12 prices. This equates to 25% of the capital receipt, which the Council is allowed to retain.

- 0.5% change in void rent loss = £119,800 increase or decrease to rental income.

- Loss of rental income due to RTB sales = £4,272 per property for a full year, half of this, £2,136 if taken as an average.

12.3 Were any, or all, of these possibilities to arise the impact could be accommodated within the proposed HRA budget for 2012/13.

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Appendix 1

Application of the Government's Rent Restructuring Guidelines

1.1 The rent restructuring formula is designed to bring all social housing rents into line so that a similar sized property within a particular area will cost the same regardless of its landlord. All social housing rents are now set using a prescribed national formula designed to bring about this realignment.

1.2 The formula uses a 'National Average Rent' which is then varied to account for regional rent variations. In each locality the first component of the formula is to take 70% of the National Average Rent and adjust this figure by the average level of manual earnings in the area, with a further adjustment for a set 'bedroom weighting' factor. The second component is to take the remaining 30% and adjust this to take account of relative property values within the area compared to a set national average value. This enables a 'Formula Rent' to be calculated for each individual property.

1.3 The Formula Rent is integral to the Rent Restructuring process as the guidelines are designed to ensure actual rents converge with the Formula Rent, eliminating the current differences between them. Initially convergence was planned for 2011/12 but the revised guidelines now envisage convergence in 4 years time at around 2015/16. If rent restructuring had already been completed and we were charging our tenants at Formula Rent levels, the average rent for 2011/12 would have been £83.49, as shown at Column 2 of Appendix 2, compared to the actual average rent charge of £75.79, as shown at Column 4.

1.4 Rent restructuring is deliberately designed to be a gradual process preventing the possibility of the desired parity in rents only being achievable through a single or series of unaffordable rent increases. Actual average rent levels will therefore be below the Formula Rents in any given year until at least the projected convergence in 2015/16. The policy also provides for a system of 'caps & limits', designed to ensure that individual property rents do not rise at a rate significantly above the average, minimising the risk of rents becoming unaffordable for individual tenants. The application of these caps and limits further depresses the actual average rents charged. Had 'caps and limits' not been applied up to 2011/12, the actual average rent charged in this year would have been £79.39 rather than £75.79. This higher figure is classed as the 'unconstrained rent' and is shown at Column 3 of Appendix 2.

1.5 When calculating the 2012/13 rents, the rent restructuring Guidelines have to be applied. Firstly, the Formula Rents are increased by the inflation rate prescribed in the guidance. This is a set percentage, which this year is 5.6%. This has increased the average Formula Rent to £88.58, as shown in Column 5.

1.6 The next stage is to apply the same percentage increase, to the Unconstrained Rent, the rent which would be charged if no constraining 'caps or limits' were applied. As the purpose of rent restructuring is, of course, to narrow the gap between Actual Rents and Formula Rents a second uplift is also applied to this part of the calculation. This uplift is calculated by dividing the difference between the Unconstrained Rent and the Formula Rent for each property by the number of years left until the target date for convergence. This means the uplift for the current year's rents will be 1/4th of the difference between the Unconstrained Rent and the Formula Rent.

1.7 Column 6 shows the impact of these uplifts on 'Unconstrained' Rents'. The average Unconstrained Rent payable will increase by £4.84 to £84.23.

1.8 The final stage is to compare the Unconstrained Rent with the Actual Rent charged in the previous year. The purpose of this part of the calculation is to ensure that the rent increase charged for each individual property does not exceed the prescribed guideline increase of 6.1%, (inflation 5.6% + 0.5% 'real', to enable the move to convergence), plus £2. This limiting factor is calculated for each property and compared with the Unconstrained Rent. The lower of the two amounts is charged as the Actual Rent. Currently, 98% of our rents are constrained by this limit and have an Actual Rent that is below the Unconstrained Rent.

1.9 The actual average rent to be charged in 2012/13 will be £82.15, as shown in Column 7. This calculation has resulted in an increase of £6.36 or 8.39% on the actual average rent of £75.79, charged in 2011/12, (Column 4).

1.10 The total 8.39% increase comprises, 5.6%, September RPI, 0.5% 'real' increase and 2.29% 'convergence' towards the Target rent.

1.11 In monetary terms the increase of £6.36 comprises, £4.24 for inflation, £0.38 'real' increase and £1.74 'convergence' towards the Target rent.