

## **Housing Dwelling Rent Options for 2012/13 – Additional Information for Council**

### **1. Purpose of Report**

At its meeting on 15 February 2012 the Executive agreed to recommend that Council accept the recommendations set out in the report entitled, **Housing Revenue Account Budget 2012/13 and Housing Rents.**

The Executive also agreed for reasons of transparency, that the data requested by Overview and Scrutiny at its meeting on 14 February 2012 would be provided for the Council meeting on 22 February 2012.

The Overview and Scrutiny Committee at its meeting on 14 February 2012 under the aforementioned Executive report discussed concerns at the rent increase for dwellings in the next financial year and recommended details on other scenarios to mitigate the impact of this increase, should be provided. This included investigating the impact of smoothing the level of the rent increase over a few years, and background information, especially in light of the fact that inflation was predicted to fall. This report has therefore been prepared to provide this data to assist the Council in making its decision.

The Executive recommended a rent increase of 8.39% as per Central Government's rent restructuring policy and its assumptions when calculating the self financing debt settlement for Warwick District Council of £136.2m. This recommended increase has also been factored into the draft Housing Business Plan which will be considered by Council on 7<sup>th</sup> March 2012.

## 2. The Base Case

Table 1 below shows the 'Base Case' which Executive has agreed to recommend to Council - for dwelling rents increase by an average of 8.39% for 2012/13.

Rental Options	If there are no New Build Homes built			No. of New Build homes possible		
	Year could fully provide for all debt	Notional Balances at Year 50	Balances reduction vs. 'Base'	in 10 years	in 50 years	
'Base Case' - 8.39% increase 2012/13	21 years	2032/33	£415.6m	£0.0m	302	1,441

*Table 1: The Base Case*

The Base Case assumes a rent increase of 8.39%. If the Housing Business Plan does not deliver any new build homes during its (50 year) life then the initial debt of £136.2m can be fully provided for, after existing commitments by year 21 (2032/33). Having provided for the debt, notional balances could accumulate to £415.6m by year 50.

Under the Base Case, if the Business Plan was to use its resources to build homes then it could deliver 1,441 homes over 50 years, with 302 homes in the first 10 years.

*If the Executive recommended 'Base Case' was not agreed by Council and future rents were to increase in line with the Government's rent restructuring policy then what impact would this have on the draft Housing Revenue Account Business Plan?*

## 3. Housing Rental Options – No Catch Up

Table 2 below shows a number of potential options if the Council decides to increase rents by less than the Base Case increase of 8.39%, and their impact on the Housing Business Plan. This assumes that percentage rent

increases for subsequent years would be the same as those in the Base Case with no attempt to catch-up any reduced increase which might be applied in 2012/13.

Rental Options	If there are no New Build Homes built			No. of New Build homes possible		
	Year could fully provide for all debt	Notional Balances at Year 50	Balances reduction vs. 'Base'	in 10 years	in 50 years	
<b>No Attempt to 'catch up' from a lower than rent restructuring increase to 2012/13 rents</b>						
1a no increase 2012/13	47 years	2058/59	£35.9m	-£379.8m	190	335
2a 3.39% increase 2012/13	36 years	2047/48	£189.2m	-£226.4m	236	799
3a 4.39% increase 2012/13	34 years	2045/46	£234.5m	-£181.1m	249	928
4a 5.39% increase 2012/13	32 years	2043/44	£279.8m	-£135.9m	262	1,058
5a 6.39% increase 2012/13	23 years	2034/35	£325.1m	-£90.6m	276	1,186
6a 7.39% increase 2012/13	22 years	2033/34	£370.3m	-£45.3m	289	1,314
7 'Base Case' - 8.39% increase 2012/13	21 years	2032/33	£415.6m	£0.0m	302	1,441

Table 2: No attempt to 'catch up'

As an example Option 1a shows that if Council decided not to increase rents then without any new build the initial debt of £136.2m can be fully provided for by year 47 (2058/59). After providing for the debt, notional balances could accumulate to £35.9m by year 50. This would be £379.8m less than the Base Case. However under the Business Plan preferred debt strategy Option 1a could deliver 335 homes by yr 50, 1,106 less than the Base Case.

#### 4. Housing Rental Options – With Catch Up

Table 3 below sets out potential options if rents were reduced in 2012/13, and normal rent restructuring formulae applied each subsequent year, to ultimately catch up where rents would have been (had no reduction been made) over a number of years, within the annual rent increase limits.

Central Government rent policy imposes a limit on the annual increase of a tenant's rent to ensure rent increases are not unaffordable. The maximum amount (limit) by which rents can increase is RPI + 0.5% + £2. In effect this will result in tenants having to pay RPI + 0.5% + £2 for longer than under the Base Case.

This means in effect a reduction in the 2012/13 rent increase will reduce the rent received every year for every home until that rent finally reaches rent convergence.

As shown in Table 3, under Option 1b if Council decided not to increase rents in 2012/13 then without any new build, notional balances would be £44.6m less than the Base Case.

Rental Options	If there are no New Build Homes built			No. of New Build homes possible		
	Year could fully provide for all debt	Notional Balances at Year 50	Balances reduction vs. 'Base'	in 10 years	in 50 years	
<b>Attempt to 'catch up' to what rents would be if there were no adjustment in 2012/13, within increase limits</b>						
1b no increase 2012/13	23 years	2034/35	£371.0m	-£44.6m	234	1,253
2b 3.39% increase 2012/13	22 years	2033/34	£392.7m	-£22.9m	267	1,344
3b 4.39% increase 2012/13	22 years	2033/34	£398.2m	-£17.5m	275	1,367
4b 5.39% increase 2012/13	22 years	2033/34	£403.2m	-£12.5m	283	1,388
5b 6.39% increase 2012/13	22 years	2033/34	£407.8m	-£7.9m	290	1,408
6b 7.39% increase 2012/13	22 years	2033/34	£411.9m	-£3.7m	296	1,425
7 'Base Case' - 8.39% increase 2012/13	21 years	2032/33	£415.6m	£0.0m	302	1,441

Table 3: Attempt to 'catch up' within increase limits

## 5. Other Considerations

The Executive report **Housing Revenue Account Budget 2012/13 and Housing Rents** contains further information (at paragraph 8.5) and a comparison with market rents, showing for a 2 bedroom home the Executive's recommended rent increase is half of market rents.

The Council has not started to implement the proposed draft Housing Business Plan and any change in rents away from the Government's rent policy and assumptions in the debt settlement would increase risk of non-delivery.

At this point and in the absence of disposable income data it is not possible to accurately calculate the impact of a proposed rent increase on tenants who are not reliant on Housing Benefit (approximately 40%).

