

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	Meeting:	Cabinet
2.	Date:	Wednesday 15th January 2014
3.	Title:	Housing Rent Increase 2014/15
4.	Directorate:	Neighbourhoods and Adult Social Services

5. Summary

The purpose of this report is to seek agreement from Cabinet for the proposed housing rent, new build rents, garage rent and communal facilities increases for 2014/15 to go forward for consultation, and subject to the outcome of that consultation to be presented at Cabinet for decision.

This year it is proposed to implement an annual increase of 3.2% for non-housing rent issues and 6.57% for rent in accordance with the prescribed formula issued by Government. Members are asked to also note the draft Housing Revenue Account Budget for 2014/15. In anticipation of a scrutiny recommendation being accepted by Cabinet, the proposed charges for district heating are considered within a separate report, considered elsewhere on this agenda.

6.0 Recommendations

That the Cabinet be requested to recommend to Council:-

- **An average rent increase of 6.57% in accordance with Central Governments (DCLG) Rent Formula which results in an average increase of £4.54 per week collected over 52 weeks.**
- **An average rent of £94.47 for new build (energy efficient) council properties.**
- **An increase in line with the Retail Price Index of 3.2% for garage rents, communal facility charges including where applicable laundry charges and the cooking gas charge.**
- **Note the draft Housing Revenue Account Budget for 2014/15**

7.0 Proposals and Details

Council Rent Setting

- 7.1 Wherever possible this authority has sought to restrain annual charge increases, and it should be noted that Rotherham rents still rank as some of the lowest in the country. Since 2002/03 DCLG has, however, required all authorities to use a prescribed Formula to calculate each tenants rent and to apply annual increases to actual rents to achieve the Formula Rent (Formula Rent is the rent set under rent restructuring). Applying this formula for 2014/15 produces an average rent increase for Council tenants of 6.57%. There would be major financial implications for the Council of not following this formula and these are addressed below.
- 7.2 The Government expects that all similar properties in the same local area will have equitable rent levels, even if properties are owned by different social landlords. This process is known as 'rent convergence'. The Government set a target for Authorities to achieve rent convergence by 2015/16.
- 7.3 The average rent for 2013/14 was £68.24 over 52 weeks (2013/14 being a 53 week year). The proposed 2014/15 average weekly rent using the government formula, collected over 52 weeks would rise to £72.78, an average increase of £4.54 per week.
- 7.4 Total housing rent income generated through the proposed revised weekly rents is estimated to be £77.428m in 2014/15 assuming 100 Right to Buy sales, and voids and rent adjustments at 2%.
- 7.5 The Council completed the building of 132 new energy efficient properties in 2011/12. For these dwellings, the funding model assumed that rents would be aligned to the Councils existing rent structure based on these dwellings having a higher property value (than existing stock). These rents are assumed to be fully converged and are therefore set higher than those of the existing Council stock. Consequently the proposed average rent to be charged across these properties will be £94.47 over 52 weeks based on the rent formula of Retail Price Index (RPI) plus 0.5%, an increase of £3.52 per week.

Housing Self Financing Determination

- 7.6 The Government replaced the former Housing Revenue Account (HRA) subsidy system with a devolved system of council housing finance called self-financing in April 2012. The purpose of which was to give local authorities the resources, incentives and flexibility they need to manage their own housing stock for the long term and give tenants greater transparency and accountability as to how the rent collected is spent on the services provided.
- 7.7 A 30 year Business Plan has been developed to give indicative income and expenditure for the short, medium and long term. Key to this Business Plan is the requirement to ensure that rents converge by the government's target by 2015/16 and increase in line with national guidelines of RPI + 0.5% thereafter. If the council

does not meet this convergence process there would be significant reputational and financial implications for the council. In particular it may lead DCLG to conclude that Rotherham does not need the rental income at the higher level, and cause them to revisit the settlement arrived at in introducing HRA self financing.

- 7.8 DCLG is currently consulting on changes to the current rent policy for social housing. The main proposal is to change the current rent formula from RPI plus 0.5% (plus up to £2 for social rents) to a revised formula of CPI + 1% with effect from 2015/16. If agreed this means that 2014/15 will be the final year to achieve rent convergence across all Council properties. Because of historical decisions to limit rent increases, Rotherham's rents were not scheduled to reach full convergence until 2016/17 on the existing formula. If the new proposed formula is applied from 2015/16 at current inflation rates, Rotherham would receive approximately £608k less income than planned under the convergence process. This shortfall would obviously be compounded over future years within the 30 year Business Plan, and will have a significant effect on the previously predicted surpluses within the plan.
- 7.9 From a financial perspective even minor changes in percentage increases have a significant effect on the income level the council recovers and our ability to offer tenants a high quality service. Every 1% reduction below the proposed rent increase results in a loss of rent income to the Council of £720k (or for tenants an average reduction of 73p per week over 48 weeks). This obviously compounds over time and would further significantly erode the anticipated long term viability of the 30 year business plan. In addition, not following the convergence formula this year, in what could be the final year, would increase the gap in achieving rent convergence.
- 7.10 As a comparator, this year's proposed average rent increase is approximately in line with last year and considerably below 2012/13 which was 9.45%.

Garage Rents

- 7.11 The Council has continued with its garage site improvement programme investing a further £500,000 in 2013/14. As with last year, for matters for which the council is not required to meet convergence it is proposed to increase the rents in line with RPI of 3.2%. This would increase garage rents from £4.87 to £5.03 per week in 2014/15 (an increase of 16p per week).

It is also proposed that garage plot sites are also increased by RPI, therefore for a surfaced site the charge would increase from £54.17 per annum to £55.90 in 2014/15 (an increase of £1.73 per annum) and for non-surfaced sites from £48.76 to £50.32 per annum (an increase of £1.56 per annum).

Cooking Gas

- 7.12 The Council also charges for cooking gas facility at 83p per week. It is proposed to increase the charge by RPI (3.2%), which in 2014/15 will increase to 86p per week (an additional 3p per week).

Communal Facilities

- 7.13 The Communal charge for Neighbourhood Centres was increased in 2013/14 by inflation to £4.62 (2.60%) per week to cover increased costs of the service. For 2014/15 it is proposed to increase the charge again by RPI (3.20%) taking the

standard charge to £4.77 (an increase of 15p per week). However, for centres with laundry facilities it is proposed to increase the laundry charge again by RPI (3.20%) from 82p to 85p (an increase of 3p per week), which will mean a total charge of £5.62 per week. It should be noted that a major review of neighbourhood centres is currently taking place with the aim of ensuring where possible that centres are retained where they are supported by the residents, well used and financially viable.

Housing Revenue Account Budget 2014/15

7.14 Appendix A of this report presents the 2014/15 detailed Draft Operating Statement which is effectively “The HRA Budget”.

The table below presents an overall summary position of the Income and expenditure budgets:-

	Proposed Budget 2014/15 £000
Expenditure	75,541
Income	-82,544
Net Cost of Service	-7,003
Interest Received	-70
Net Operating Expenditure	-7,073
Revenue Contribution to Capital Outlay	8,513
Transfer from Reserves	-1,440
Surplus for the Year	0

It can be seen that based on the proposals to increase the dwelling rent income and service charges outlined in this report the budgeted income of £82.544m is anticipated to be collected in 2014/15 and that this is offset by £75.541m of budgeted expenditure, which represents the net cost of delivering the service. As budgeted income is greater than the net cost of delivering the service, there is an overall net income of £7.003m to the service.

Once interest has been paid to the HRA, and a contribution of £8,513m has been made towards the Capital Programme, in accordance with the HRA Business Plan, there will be a requirement to use £1.440m of HRA reserves in order to set a balanced budget for 2014/15.

8.0 Risks and Uncertainties

The greatest risk and uncertainty surrounds the level of rent income received into the Housing Revenue Account. This is dependent upon the number of properties available to generate income.

The level of properties is directly affected by the level of sales and demolitions which may vary to those used in the budget assumptions. New rules regarding Right to Buy (RTB) receipts were implemented in April 2012 included increasing the discount cap to £75k. The new scheme assumes that the number of RTB sales will increase significantly as a result of the higher discount cap. Total sales in 2012/13 were 47, it is estimated that this will rise to 100 by the end of 2013/14 and the HRA Business Plan assumes 100 sales per annum over the next 5 years. However there is a risk that with the vigorous marketing campaign undertaken by central government which includes direct mail shots to Rotherham tenants, that this assumption will prove to be an under estimate, resulting in further lost income.

If the proposed changes to the current rent formula are agreed and implemented from 2015/16 the Council would receive less income than if rents were fully converged, therefore impacting on the 30 year business plan.

The Governments changes to welfare benefits from April 2013 may also impact on the level of rent income collected including the level of arrears and therefore be reflected in the Housing Revenue Account balances.

All budgets carry a certain level of risk in that unforeseen circumstances may arise, causing additional pressures on the level of resources applied.

DCLG have not issued any guidance at this stage to authorities on the level of limit rent for 2014/15. As Rotherham has not yet reached rent convergence we are assuming that the proposed rents for 2014/15 remain below the limit rent level.

9.0 Policy and Performance Agenda Implications

The proposals contained within this report are in line with Council priorities and policies, as established and set out in key planning documents. The aim is to deliver effective, value-for-money services for people within Rotherham.

10.0 Background Papers and Consultation

DCLG Guidance on Rents for Social Housing from 2015-16 – consultation – October 2013

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