

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). The formula rent from April 2015 has been revised and will now be linked to Consumer Price Index (CPI) which is consistent with other inflation measures used in policy by the Government including benefits and pensions. Applying this new formula for 2015/16 produces an average rent increase for Council tenants of 2.2%. 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. However, changes to the rent formula has removed the flexibility to increase rents by an additional £2 above the increase in formula rent where rent is below convergence, therefore 2014/15 was the final year to achieve full convergence. Rents in Rotherham will not have reached full convergence.

7.3 The average rent for 2014/15 was £72.79 over 52 weeks. The proposed 2015/16 average weekly rent using the new government formula, collected over 52 weeks would rise to £74.39, an average increase of £1.60 per week.

7.4 Total housing rent income generated through the proposed revised weekly rents is estimated to be £79.558m in 2015/16 assuming 120 Right to Buy sales, and voids and rent adjustments at 1.8%.

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 £96.40 over 52 weeks based on the new rent formula an increase of £1.93 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 refreshed to take into account the changes to the rent formula and investment plans to give indicative income and expenditure for the short, medium and long term. Key to the original Business Plan was the requirement to ensure that rents converge by the government's target by 2015/16 and increase in line with national guidelines. Changes to the formula rent from April 2015 will mean that the council will now not meet rent convergence which will result in lower levels of income and therefore impact on the investment plans within the HRA Business Plan. The updated HRA Business Plan will be shown in a separate report.

7.8 Due to historical decisions to limit rent increases, Rotherham's rents were not scheduled to reach full convergence until 2016/17 on the existing formula. Under the new formula, Rotherham will receive approximately £4m 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. Government guidance states that where properties have not reached formula rent by April 2015 it is expected that the rent is moved up to formula rent when the property is re-let following vacancy. On average 1800 properties are re-let each year, adopting this policy would generate additional income of approximately £172k in 2015/16.

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 £778k (or for tenants an average reduction of 74p per week over 52 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 to follow the new formula rent when rents have not reached full convergence would impact on investment plans within the HRA Business Plan.

7.10 As a comparator, this year's proposed average rent increase is significantly below previous increases. Over the last three years rents have increased by 6.57%, 6.19% and 9.45% respectively.

Garage Rents

7.11 The Council has continued with its garage site improvement programme investing a further £250,000 in 2014/15. In line with changes to the rent formula and a move from the use of RPI to CPI it is proposed to increase the rents in line with CPI by 1.2%. This would increase garage rents from £5.03 to £5.09 per week in 2015/16 (an increase of 6p per week).

It is also proposed that garage plot sites are also increased by CPI, therefore for a surfaced site the charge would increase from £55.90 per annum to £56.57 in 2015/16 (an increase of £0.67 per annum) and for non-surfaced sites from £50.32 to £50.92 per annum (an increase of £0.60 per annum).

Cooking Gas

7.12 The Council also charges for cooking gas facility at 86p per week. It is proposed to increase the charge by CPI (1.2%), which in 2015/16 will increase to 87p per week (an additional 1p per week).

Communal Facilities

7.13 The Communal charge for Neighbourhood Centres was increased in 2014/15 by inflation to £4.77 (3.2%) per week to cover increased costs of the service. For 2015/16 it is proposed to increase the charge by CPI (1.2%) taking the standard charge to £4.83 (an increase of 6p per week).
A review of the usage of the Neighbourhoods Centres has been undertaken together with tenant consultation and the findings and recommendations are subject to a separate report. This review included the use of the laundry facilities that are situated in some of the centres and the report proposes an increase in charge to enable the facilities to become more financially sustainable.

Housing Revenue Account Budget 2015/16

7.14 Appendix A of this report presents the 2015/16 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 2015/16 £000
Expenditure	75,776
Income	-84,810
Net Cost of Service	-9,034
Interest Received	-70
Net Operating Expenditure	-9,104
Revenue Contribution to Capital Outlay	9,104
Transfer to Reserves	0
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 £84.810m is anticipated to be collected in 2015/16 and that this is offset by £75.776m 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 £9.034m to the service.

Once capital financing interest has been charged to the HRA, and a Revenue Contribution to Capital of £9.104m has been made towards the HRA Capital

Programme, in accordance with the HRA Business Plan, there will be an overall balanced budget for 2015/16.

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. This has seen the number of RTB sales increase significantly as a result of the higher discount cap. Total sales in 2013/14 were 99, it is estimated that there will be 100 RTB by the end of 2014/15 and the HRA Business Plan assumes a further increase to 120 sales in 2015/16.

The changes to the current rent formula from 2015/16 will result in the Council receiving less income than if rents were fully converged, therefore impacting on the 30 year business plan.

The Government's changes to welfare benefits and the introduction of Universal Credit will 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.

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 ensuring people are able to live in decent affordable homes.

10.0 Background Papers and Consultation

DCLG Guidance on Rents for Social Housing from 2015-16 – May 2014

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