

## BABERGH DISTRICT COUNCIL

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| <b>From: Housing Panel</b>    | <b>Report Number: L124</b>              |
| <b>To: STRATEGY COMMITTEE</b> | <b>Date of meeting: 12 January 2012</b> |

### COUNCIL HOUSE RENTS AND CHARGES FOR 2012/13

#### 1. Purpose of Report

- 1.1 To advise Strategy Committee on the Housing Panel's views and their recommendation on rent increases for 2012/13 to enable officers to produce an HRA Budget for 2012/13, which will be considered by the Committee in February alongside the 30 year HRA Business Plan that is required under the new self-financing regime for Council Housing that starts in April 2012.
- 1.2 To provide some preliminary information on heating/lighting charges for those in sheltered and homeless accommodation. A detailed report on supporting people costs and charges will be presented to the Committee on the 9 February, including any cost implications for the HRA.

#### 2. Recommendations

- 2.1 That the Housing Panel's recommendation of a 5% rent increase for 2012/13 is endorsed, subject to consideration of the HRA Business Plan by the Committee in February.
- 2.2 That the Committee notes the potential increase in heating/lighting charges for those in sheltered and homeless accommodation and that further details will be reported to the February meeting.

The Committee will recommend the rent increase as part of the final Budget proposals that are submitted to Council in February.

#### 3. Financial Implications

- 3.1 These are set out in the report. The decision for Members is whether HRA income should be maximised by applying the Government's rent convergence increases between next year and 2015 or whether lower increases and foregoing the income is appropriate to lessen the financial burden on tenants.
- 3.2 As will be seen from the report, the potential loss of income to the HRA through having lower rent increases is very significant.

#### 4. Risk Management

- 4.1 This report and the rent increase is most closely linked with the Council's Corporate / Significant Business Risk No. 6 – Performance and Cost Management. Key risks relating to the overall HRA Business Plan are set out below :

| <b>Risk Description</b>   | <b>Likelihood</b> | <b>Impact</b> | <b>Mitigation Measures</b>   |
|---|-------------------|---------------|--|
| Higher than expected borrowing costs  | Low               | Critical      | Borrowing will be from the PWLB at discounted rates available for the HRA Self Financing Settlement Loan.  |
| Insufficient funds available to meet improvement and repair standards and aims/priorities | Low               | Critical      | Stock condition survey undertaken. Spending plans can be adapted/tailored accordingly to meet the Council's and tenants' priorities. Integration and transformation programme. |

## **5. Consultations**

- 5.1 Consultation on rents, service charges (linked to the supporting people arrangements) and heating/lighting charges will take place at the Tenants' Forum on the 12<sup>th</sup> January 2012.

## **6. Equality Analysis**

- 6.1 Higher rent increases would clearly impact more on those on low incomes although around 70% are in receipt of housing benefit. There are, however, some changes in housing benefit entitlements on the horizon that will impact on some tenants. A lower rent increases could help with that.

## **7. Shared Service / Partnership Implications**

- 7.1 Mid Suffolk DC have a requirement for additional capital investment in the early years of their business plan and are therefore not able to reduce the level of rent increases below that recommended by the national social rent policy/convergence.
- 7.2 Babergh's average rent is currently £74.64 (on a 52 week basis) and Mid Suffolk's is £70.33. A slightly lower rent increase for Babergh tenants will bring the average rents a bit closer together, although ultimately, when both councils' rents reach RSL rent levels, there will still be a difference of around £5 a week.
- 7.3 Supporting people and service charge arrangements differ between the two councils but these are being reviewed as part of the overall service integration programme. A separate paper will be presented to the Committee in February.

## **8. Key Information**

- 8.1 The Housing Panel were advised on the 19<sup>th</sup> December that the Government's new HRA finance reforms are based on an expectation that rents will increase in the next few years based on the national social rent policy i.e. that council house rents will converge with those of other Registered Social Landlord's (RSL's) by 2015.
- 8.2 The Government's convergence formula is based on RPI+0.5% plus up to £2 to achieve convergence by April 2015. RPI in September 2011, on which this formula is based for 2012/13 rent increases, was 5.6%. The debt settlement, currently estimated at £84m, is also based on this assumption. Further details on the debt

settlement and the draft 30 year HRA Business Plan will be reported to the Committee in February.

- 8.3 If the convergence formula is applied it would result in an average rent increase of 7.8% for 2012/13. Alternative rent increases have been modelled, ranging from 5% to 7% to assess the financial impact over the next ten years (in income foregone and additional interest payable). The results are set out below:

| <b>Option</b> | <b>Rent Increase</b>                                   | <b>Total Cost for First 10 Years</b> |
|---------------|--|--------------------------------------|
| 1             | 7.8% year 1, 4.6%* per annum for the following 3 years | £nil                                 |
| 2             | 5% year 1, 5.1%* per annum for the following 3 years   | £1.65m                               |
| 3             | 6% year 1, 4.9%* per annum for the following 3 years   | £1.00m                               |
| 4             | 7% year 1, 4.7%* per annum for the following 3 years   | £0.45m                               |

\* Based on future RPI of 2.5%

- 8.4 The Panel gave consideration to the potential hardship which a 7.8% increase could cause, alongside the forthcoming housing benefit changes that would also affect some tenants.
- 8.5 As can be seen from the table, reducing the increase from the 7.8% required to achieve rents convergence by 2015 to 5% in 2012/13, with potential increases of around that level in the following 3 years would cost the HRA in the region of £1.7m. That income could be available for further investment in Council Housing, including building new social housing.
- 8.6 A lower rent increase in 2012/13 will mean slightly higher rent increases in subsequent years and/or delaying convergence with RSL rents later than 2015.
- 8.7 It should be noted that heating/lighting charges to tenants in sheltered and homeless accommodation are likely to increase by around 9% in 2012/13, putting further pressure on household budgets for those concerned.
- 8.8 The HRA Business Plan is currently being finalised, specifically:
- The finalised draft budget for 2012/13 will be used as the base against which to project future costs and income.
  - Future spending plans and borrowing options, based on work that is currently being undertaken by officers in conjunction with our treasury advisors, which will be reported to Members for decision as part of the overall business plan.

8.9 The draft 30 year business plan will be submitted to the Committee on 9<sup>th</sup> February and then put forward for adoption by full Council on 23<sup>rd</sup> February 2012. The business plan will be developed further during 2012/13

8.10 Agreement to the rent increase for 2012/13 will be made by the full Council on 23<sup>rd</sup> February 2012.

**9. Appendices**

9.1 None.

**10. Background Documents**

10.1 The Housing Revenue Account Self-Financing Determinations

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