

BABERGH DISTRICT COUNCIL

From: Head of Housing	Report Number: N130
To: Strategy Committee	Date of meeting: 10 April 2014

TRANSITIONAL RENT DISCOUNT SCHEME

1. Purpose of Report

- 1.1 To seek Members approval for a scheme to provide transitional rent discount to those tenants who have seen the highest rent increases in 2014/2015.

2. Recommendation

- 2.1 That Members approve a Transitional Rent Discount Scheme for 2014/15 based on the principles set out in the report.
The Committee is able to resolve this matter.

3. Financial Implications

- 3.1 The financial implications of the scheme are set out in the table below:

Increase	Year 1 costs	Year 2 costs	Total
£6.21 to £8.79	£36,478	-	£36,478
£7.13 to £8.79	-	£27,275	£27,275
Total	£36,478	£27,275	£63,753

4. Risk Management

- 4.1 This report is most closely linked with the following Significant Business Risks:

Risk Description	Likelihood	Impact	Mitigation Measures
Failure to comply with Housing Benefit Regulations could lead to legal challenge	Unlikely	Noticeable	Consultation with Shared Revenues Partnership colleagues has ensured that the scheme complies with Housing Benefit Regulations
The principles of the scheme are legally challenged, leading to claims against the Council.	Unlikely	Bad	It is never possible to guarantee that a scheme such as this will not be challenged but the considered view is that any challenge would be extremely unlikely to succeed.

5. Consultations

- 5.1 The Tenants Forum has been advised that a scheme is being developed which will provide discount to those tenants who have seen the highest rent increases. Final detail will be circulated to the Tenants Forum during April.
- 5.2 Consultation has taken place with the Shared Revenues Partnership. The comments and advice from colleagues at SRP are included within the report.
- 5.3 Consultation has taken place with Legal colleagues who advise that the scheme appears to have been properly considered and appears reasonable in all the circumstances. It is therefore likely that any legal challenge would be unsuccessful.

6. Equality Analysis

- 6.1 An Equality Analysis has not been undertaken. Officers will report to the meeting concerning the requirements to carry out or not carry out an Equality Analysis.

7. Shared Service / Partnership Implications

- 7.1 The scheme will be introduced for Mid Suffolk Housing Revenue Account (HRA) tenants within the same principles. However the financial implications are different for each Council.

8. Background information

- 7.1 Following a change to the Governments rent increase formula guidance, convergence of council rents with higher housing association rents will end earlier than anticipated. This results in a loss of £2.3m forecast income to the HRA Business Plan over 8 years and £15.8m over 30 years.
- 7.2 To mitigate the loss to the HRA Business Plan, Members approved a rent increase of 7.46%, which increased the £2 cap within the formula to £6, but reduced target rent levels by 0.75%. This had the effect of moving a greater number of properties to new target rent levels in 2014/15. It also created greater equity in rent levels, whilst maintaining medium and long term forecast income levels.
- 7.3 As a result of this decision, an additional £15k income is forecast to the HRA Business Plan over the 8 year period 2014/15 to 2019/20 against original forecasts.
- 7.4 Members acknowledged that where historically properties had lower rents, tenants would see higher increases as a result of the increase in the £2 cap. To balance the decision, it was proposed that discount was provided to tenants where the increases were highest, for a transitional period.
- 7.5 The table below shows:
 - Members approach to annual rent increases in previous years in Option 1

- The actual rent increase adopted for 2014/2015 in Option 3.
- The different impact on averages of Options 1 and 3
- Loss/gain to the Business Plan over the 5 years 2014/15 to 2019/20

	Option 1	Option 3
Detail	Using RPI rent increase formula setting cap at £2. Target rent remaining @ 100%.	Using RPI rent increase formula setting cap at £6. Target rent reduced by 0.75% to 99.25%.
Av Rent	£87.93	£89.38
Av Increase	£ 4.75	£ 6.20
Av Increase	5.72%	7.46%
Loss (-) Gain (+) to BP	8 years = £-2.3m	8 years = £+15k

8. Principles of the Scheme

- 8.1 The scheme will be funded from the HRA. The increased forecast revenue income which totals £15k and is shown in the table at 7.5 in Option 3 will be used towards the cost of the scheme.
- 8.2 A rent discount will be applied to all properties within the scope of the scheme.
- 8.3 Where a tenancy started prior to the 7th April 2014 and continues after the 7th April 2014 and where the rent has increased by £6.21 or more, transitional rent discount will be granted for between 1 and 2 years.
- 8.4 When the tenancy ends the rent discount will end and the property rent will be aligned to target rent level.
- 8.5 In consultation with the Shared Revenues Partnership it has been established that the Council could be at risk of legal challenge if rent discount is provided on the basis of whether or not the tenant occupying the property is in receipt of housing benefit. Applying the discount based on the payment status of the tenant will contravene housing benefit regulations. The discount must be applied to all properties within the scope of the scheme.
- 8.6 This ruling is provided for in Regulation HB Regulation 9(1)(i)

The claimant is not eligible for HB if the authority is satisfied that his or her liability "was created to take advantage of the HB scheme".

Therefore HB has to be calculated on the discounted rent as calculating on the full rent before discount would be seen as taking advantage of the scheme.

- 8.7 For Housing Benefit calculation, a reduction in the eligible rent will reduce the amount of Housing Benefit a tenant can receive, but one transaction will negate the other. Therefore, those tenants in receipt of full or part housing benefit will not see an adverse affect on their household budget.

- 8.8 Modelling the impact of the discount scheme has established that an extension of discount beyond 2 years, will unfairly advantage the tenants who are included in the scheme against future annual rent increases.
- 8.9 For an increase of between £6.21 and up to £7.12 per week, rent will be discounted for 1 year. For an increase of £7.13 and above, rent will be discounted for 2 years.
- 8.10 The appropriate level of discount will be applied to the 2014/15 rent to achieve a weekly increase of no higher than £6.20, e.g. a property with a rent increase of £6.82 will receive a discount of £0.62p per week for 1 year.
- 8.11 756 tenancies are within the scope of the scheme. For those tenancies, rent increases range from £6.21 to £8.79 per week.
- 8.12 Estimated costs of funding the scheme over the 2 year period total £63,753k. The scheme will require 'up front' funding from the HRA Strategic Priorities Reserve. The additional forecast income (£15k over 8 years) will be repaid to the Strategic Priorities Reserve, reducing the net cost of the scheme to £48,730k.

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