

**Agenda Item: 14**

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**Meeting:** Executive

**Date:** 12 May 2009

**Subject:** Council Housing Rent Increase for 2009/10

**Report of:** Portfolio Holder for Social Care, Health and Housing

**Summary:** The report proposes that the annual rent increase for council housing, should be reduced to an average increase of 3.168% in line with the Government's more recently published, and revised, guideline rent increase for 2009/10. This increase to be applied from the 29<sup>th</sup> June 2009, and the full year effect of a 3.168% average increase to be payable over the remaining 37 rent weeks of the year 2009/10.

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**Advising Officer:** Julie Ogle, Director of Social Care, Health and Housing

**Contact Officer:** Tony Keaveney, Assistant Director Housing Services

**Public/Exempt:** Public

**Wards Affected:** Wards formerly part of South Bedfordshire District Council where council housing is situated.

**Function of:** Executive

**Key Decision:** Yes

**Reason for urgency/ Exemption from call-in (if appropriate):** The Government's Final Determination is due for publication in early May and there is a statutory requirement for 4 weeks notification to tenants' of the rent increase. Call-in would seriously prejudice the Council's and also the public interest. Tenants will pay marginally more rent each week for the remaining rent weeks of the year, for each week that the annual rent increase is not implemented. Cases of individual hardship could result and performance on rent collection could be adversely affected. Therefore this report is exempt from call-in and a decision of the Executive is required as a matter of urgency.

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**RECOMMENDATIONS:**

1. **That the Executive approve an amended rate of increase for council rents to the rate of increase that was originally approved by Council on 26th February 2009, as follows:**
  - (a) **That the rate of increase be reduced from an average of 6.2 per cent. to an average of 3.168 per cent., in accordance with the Government's Rent Convergence Policy and published Draft Housing Revenue Account Determination.**
  - (b) **That the increase is applied from the 29th June 2009, and the full year effect of a 3.168 per cent. average increase is payable over the remaining 37 rent weeks of the year 2009/10.**

- 2. That the Executive notes that the effect of the reduced rate of increase in council rents is neutral to the Council's Housing Revenue Account, which continues to be viable for a period of not less than 15 years, as set out in the Budget reports to Executive and Council in February 2009.**

*Reason for*

*Recommendations: So that the annual rent increase for council housing can be implemented, the proposed increase for 2009/10 because on the 6<sup>th</sup> March 2009, the Government announced that it was reducing the guideline rent increase from an average of 6.2% to an average of 3.1% on a national basis. There is a statutory requirement for 4 weeks notice to be given.*

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### **Unprecedented Situation**

1. On 6<sup>th</sup> March 2009, the Government's Housing Minister announced that "...in the context of the present unprecedented global downturn, it is right that the Government offer real help to council tenants. I am therefore quite exceptionally prepared to offer authorities the opportunity to bid for additional subsidy, if, and only if they are preparing to revisit the level of rents set and reduce them by that amount".
2. The Minister stated that "We are therefore halving the national average guideline increase from 6.2 per cent. to 3.1 per cent. This will require the Department to issue new 2009-10 guideline rents for all local authorities. I am prepared to change the subsidy position of those authorities who reduce their actual average increase in rents in 2009-10 in line with the new national average".
3. The situation that all stock holding councils are managing at this time is unprecedented and not of the Council's making. However, prompt action has been taken and the best is being made of the Government's decision on the 6<sup>th</sup> March 2009 to reduce the guideline rate of increase from an average of 6.2 per cent. for 2009/10 to an average of 3.1 per cent. on a national basis.
4. On balance, the reduction in the rate of increase is to be welcomed, and is the result of determined lobbying by stock holding councils since the Autumn of 2008, when the Draft Determination was first published, setting out the original guideline rent increase of 6.2 per cent. However, it is disappointing that the Government's altered position was announced so late in the day and on the very date that letters notifying tenants of the new increase, and in some cases new Benefit entitlements, were actually delivered. Approximately 1000 letters were delivered that day, before a hold could be put on further letters being delivered.
5. This decision has resulted in significant additional work to recalculate rents and Benefit entitlements; to notify tenants that rents would not increase as agreed in the council's budget; and to adjust the Housing Management and Benefits IT systems. The main concern has been to prevent a problem of Benefit overpayments, which could not be recovered, and to avoid an escalation of work putting right relatively small adjustments that depended on when exactly the increase would come into effect.

## **Prompt action**

6. Delegated decisions have been taken by the Director of Social Care, Health and Housing in consultation with the Portfolio Holder in the period between 6<sup>th</sup> March and 24<sup>th</sup> April, to mitigate against additional expense and to avoid a serious problem of misinformation and confusion to tenants being caused.
7. Two delegated decisions have been taken. The first was on the 6<sup>th</sup> March 2009 to notify tenants that the rent increase has been deferred until a date on which a new level of rent increase could be determined and implemented. Overall, it has proved sensible to simply put on hold the increase until such time as a prudent course of action could be determined.
8. The second delegated decision, taken on the 21<sup>st</sup> April, has been to indicate to the Department for Communities and Local Government (CLG) that the Council will, subject to Executive approval, take advantage of the Government's proposals to reduce the increase in guideline rents as outlined in the draft Amending Determination. This was required prior to the 24<sup>th</sup> April, in order to benefit from the Government's offer of additional subsidy. In effect this means that the Government will levy a correspondingly reduced amount of negative subsidy, equivalent to the reduced amount of rental income that results from the reduction from 6.2 per cent. to 3.168 per cent.
9. The Executive Committee's consideration of this matter is urgent due to there being prejudice to the council's and also the public interest. The Government's Final Determination is due for publication in early May and there is a statutory requirement for 4 weeks notification of the rent increase. With each passing week that the rent increase is not applied, council tenants' will in effect pay marginally more rent each week for the remaining rent weeks of the year, for each week that the annual rent increase is not implemented. There are also implications for lost rental income to the council's Housing Revenue Account. Therefore this report is considered exempt from call-in and a decision of the Executive is required as a matter of urgency.

## **Neutral financial effect on the viability of the Housing Revenue Account**

10. In taking up the Government's offer of subsidy, or more accurately a lesser amount of negative subsidy, the overall position on the Housing Revenue Account of implementing an average increase of 3.168 per cent. is neutral. The reduced rental income is offset by an equivalent amount of negative subsidy not being paid to the Government. Therefore, the position set out to the Executive and Council in February 2009, of a viable Housing Revenue Account, for a period of not less than 15 years, remains unchanged.
11. The HRA is complex, in terms of the subsidy system and the Government's rent convergence policy, such that rents are calculated on a basis which is unique to each individual property. In effect, adopting an average increase on a national basis of 3.1 per cent. does not automatically equate to an average increase of 3.1 per cent. for Central Bedfordshire; and, as point of fact, the actual average increase for Central Bedfordshire, on average, is actually 3.168 per cent and allowable within the precise terms of the Draft Determination that has been published.

12. The main issue is that CLG calculate a guideline rent increase individually for each council. The increase depends on where each council's guideline rent was at 2002 compared to the formula rent for that council. The 3.1% per cent is the national average. The increase for Central Bedfordshire is 3.168 per cent because the guideline rent has further to go to reach the actual formula rent than the national average does. This means that CLG will take away the equivalent of 3.168 per cent. additional rent income in 2009/10 compared to 2008/09 and therefore it is prudent to match that with the rent increase, to achieve a neutral effect overall. Whilst there is a cost to the HRA of approximately £7,000 which the Government is not prepared to reimburse to the council, this amount can be contained within existing HRA budgets, and therefore there is no change to the Council's overall budget framework.

### **Implementation of the rent increase**

13. On the basis that a neutral position is preferred, the main objective at this time is to manage the situation in order to avoid unnecessary expense and minimise additional work; avoid Benefit over-payments; and to provide proper and timely notifications. It is to be regretted that the Government has indicated that it will not compensate councils for the cost of additional work that has been required in recent weeks. This is estimated to have a value of approximately £7,000.
14. The Government's Determination unambiguously states: "We intend that, for those authorities that accept this offer, the new reduced rent increase will apply from 1<sup>st</sup> April 2009". Whilst the date on which the increase becomes effective this year has been deferred, it is considered right, if the effect on the HRA is to be neutral, that the annual increase of 3.168 per cent on average is applied for the full year. In fact, this is assumed in the Determination. Therefore, the additional amount of rent that is due will be payable by tenants in equal instalments, for the remaining 38 rent weeks of the year 2009/10.
15. It is worth noting that the Housing Management team's performance for rent collection in 2008/9 is strong, due mainly to efficient business systems, focus and effective communication to convey the importance of paying rent in timely manner. However, this success is also due to work undertaken to support tenants who are struggling to pay their rent and to promote financial inclusion, in particular as a result of close co-operation with the Benefits teams. This approach will continue, to support tenants who experience difficulty as a result of the economic recession.
16. An independent review of the Housing Revenue Account has been commissioned, as a due diligence exercise, in part to validate or challenge assumptions that were last tested during Options Appraisal in 2004/5, and also to test the HRA position in the light of a Treasury review of Council Housing Finance, which is due for publication in the near future. Essentially, it is an independent health check and an opportunity to look to the future.

17. In order to progress in a timely manner the various strands of work that are required to implement a revised level of rent increase, the work has been undertaken at risk on the basis that the Government's Draft Determination, currently subject to consultation which ended on the 24<sup>th</sup> April, will not be subject to further revision when the Final Determination is published at the beginning of May. In the unlikely event that a further revision to the Determination is made, following consultation, Members will be at advised at the Executive meeting on the 12<sup>th</sup> May and appropriate action will be agreed at that meeting, if necessary. On balance however, the merit of prompt action to resolve this matter as soon as possible, outweighs the consideration of waiting until the position is clear beyond all possible doubt.

### **Conclusion and Next Steps**

18. The situation that arose in recent weeks is abnormal and results from the Retail Price Index (RPI) for September 2008, on which basis the Guideline rent increase is determined, being so significantly at variance to the prevailing RPI rate at this time. However, this was known for some months and there was ample opportunity for the Government to reduce, as it has now done, the percentage increase in Guideline rents.
19. The best has been made of a difficult situation, which came at a time of significant additional pressure to create Central Bedfordshire. Overall, a pragmatic approach has been taken, that will alleviate hardship for some tenants, but which is neutral in its effect to the Housing Revenue Account and does not alter the medium term viability of the HRA.
20. Letters providing 4 weeks notification of the rent increase will be sent out in due course, to take effect from the 29<sup>th</sup> June 2009.

### **CORPORATE IMPLICATIONS**

#### **Council Priorities:**

Primarily, this report supports the values of Central Bedfordshire, namely to "strive for efficiency" and "being close to our communities [through] awareness of the needs of all our customers". It does not directly contribute to the five agreed priorities for Central Bedfordshire.

#### **Financial:**

The overall effect on the HRA is neutral. However, a due diligence exercise has been commissioned

#### **Legal:**

The Chief Finance Officer is of the view that the overall effect on the HRA is neutral and as the decision is in accordance with the budget, it may therefore be taken by the Executive.

**Risk Management:**

There are no major operational or strategic risks that require mitigation or controls to be implemented, other than the pragmatic balance of risk that the Final Determination may change from the Draft Determination, requiring a verbal update to the Executive Committee.

**Staffing (including Trades Unions):**

There are no staffing implications.

**Equalities/Human Rights:**

There are no implications that directly impact on Human Rights or have Equalities implications.

**Community Development/Safety:**

There are no implications for Community Development or Community Safety.

**Sustainability:**

There are no implications for Sustainability.

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**Appendices:**

There are no appendices.

**Background Papers** (open to public inspection):

THE DRAFT HOUSING REVENUE ACCOUNT SUBSIDY DETERMINATION 2009-2010 AMENDING DETERMINATION 2009

Location of papers: Priory House, Chicksands