

## **HOUSING RENTS – REDUCTION TO APPROVED RENT INCREASE 2009/10**

### **SUMMARY**

- 1.1 Additional Housing Revenue Account (HRA) Subsidy has been offered by Communities and Local Government (CLG) to all Councils with a housing stock if they agree to reduce the amount of the 2009/10 rent increase. This report proposes a reduction to the rent increase previously agreed by Council on 2 March 2009.

### **RECOMMENDATION**

- 2.1 To accept the offer from CLG of additional financial assistance to enable council house rents to be reduced.
- 2.2 To reduce the average overall rent increase for all Council owned dwellings within the HRA to 3.1%, instead of an increase of 5.95% as approved by Council at its meeting on 2 March 2009.
- 2.3 To agree that the revised increase will be implemented from 13 July 2009 and will only apply to tenants in residence on that date.

### **SUPPORTING INFORMATION**

#### **Background**

- 3.1 In the Autumn of each year, following consultation, the Government publish formal Guideline rents in a determination as part of the HRA subsidy settlement for the following year. Based on this settlement, Council approved the HRA Budget and Business Plan and proposals for a rent increase at the meeting held on 2 March 2009. Tenants were consulted and responded that in order to maintain services they would agree to a 5.95% overall average increase in rents with effect from 6 April 2009. The necessary 28 days was given to tenants in early March. On 6 March 2009, the Minister for Housing announced that Communities and Local Government was “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.” This would be achieved by halving the national average guideline rent increase from 6.2% to 3.1% for all local authorities. The assistance will be available to all councils who agree to reduce their actual average increase in rents in 2009/10 in line with the new national average.

## **Revised Proposals for 2009/10 Rents**

- 3.2 Details of the new proposals have now been issued by Communities and Local Government and are summarised in the following paragraphs.
- 3.3 A revised draft determination has been issued for consultation that amends the increase in the guideline rent as set out in the December 2008 determination from 6.2% to an increase of 3.1 %. If the proposed changes are accepted, the Guideline rent for Derby reduces from £60.63 a week to £58.86 a week – a reduction of £1.77 a week. It is on this figure that the compensation from the government to the Council for a reduced rent increase will be calculated. The consultation ended on 24 April by which time an indication had to be given whether the Council wished to take up the offer made. A provisional acceptance was made by the due date.
- 3.4 To secure the compensation, the Government's guidance on rent restructuring must be followed and the actual rent increase must be the lower of 3.19% of the average guideline rent in 2008/09 **or** 3.19% of the actual average rent in 2008/09:

Average Guideline Rent in 2008/09 = £57.04 a week; 3.19% = £1.82

Actual Average rent in 2008/09 = 57.48 a week; 3.19% = £1.83

*Note that the 3.19% is calculated as the difference between the guideline rent for 2008/09 and the revised guideline rent for 2009/10, both as shown in the 2009/10 subsidy determination. The guideline rents are £57.04 compared with £58.86 – a difference of £1.82 or 3.19%.*

- 3.5 Therefore, if rents increase by £1.82 a week as the lower of these two amounts, the actual average rent in 2009/10 will be £59.30 a week compared with £60.90 a week following Council's recent approval of a 5.95% increase – a loss of £1.60 a week but the Council would be compensated through subsidy by the difference in guideline rents for 2009/10 that CLG has calculated of £1.77 a week – there would be a slight gain by taking up the offer. It should be noted that the £1.82 revised increase in rent is an overall average figure – most individual rents will increase by more or less than this amount. Tenants have been consulted and are happy to accept the lower increase given that the compensation receivable will mean that services will not be affected.
- 3.6 The total gain will be about £120,000 but it should be noted that no additional funds have been made available to cover IT and administration costs and re-issuing rent notices – these costs will have to be met by the Housing Revenue Account.
- 3.7 The Government has asked for an estimate of the additional cost that would fall on the general fund – mainly the costs associated with the changes in housing benefit – and when details have been received from all authorities on the possible extra costs, a decision will be taken on whether to offer any financial assistance.

## **Implementation of the Revised Increase**

- 3.8 Following extensive enquiries, it has been found that there is not an IT solution available that will allow the backdating of the new rent increase to the beginning of the rent year on 6 April.

- 3.9 This means that the revised increase will have to be implemented from a future point in time following the decision by Council. It is estimated that the earliest date would be from week commencing 13 July or rent week 15, to allow time for the required four week notice period to tenants and to make the necessary changes to individual rents within the rental system. A recent circular from the Department of Work and Pensions has confirmed that implementation part way through the year is acceptable and will not lead to subsidy loss due to overpayments of housing benefit.
- 3.10 The adjustment will apply only to those tenants who are resident at the time of implementation of the increase. Tenants who were resident before this time and have since left will not be refunded – rents are property specific and will have been correctly charged up until the time of the change.
- 3.11 All the rental figures quoted in this report are on a 52 week basis. In practice, tenants pay their rents over 48 weeks with 4 rent free weeks a year. All the rent free weeks fall in the second half of the year so the revised rent will be payable over the remaining 34 rent weeks.
- 3.12 The total decrease in rent for individual tenants will not necessarily be approximately half of the initial increase – rent restructuring is continuing and target rents have not changed. Under the revised increase proposal only the inflation element of the calculation has changed and all rents will be further away from their target rent. Those closer to the target rent will see the largest decrease while those further away will see smaller decreases.
- 3.13 Since the target rent has not changed, larger increases in the future will be required to converge at any given point in time but this may be mitigated by the Government continuing to extend the period over which convergence is to take place.
- 3.14 The rent increase for 2010/11 will be based on the average of the total amount paid in 2009/10, not on the reduced amount payable from July 2009 to March 2010.
- 3.15 These points have been explained and exemplified to a number of tenants at recent Housing Focus Group meetings and the explanation will be included in the letter to be sent to all tenants notifying them of their revised rent.

**For more information contact:** Name Peter Morris Tel 01332 255353 e-mail [peter.morris@derby.gov.uk](mailto:peter.morris@derby.gov.uk)

**Background papers:** CLG letter and draft amending HRA Subsidy Determination, 26 March 2009.  
CLG letter 11 March 2009  
CLG written Ministerial Statement 6 March 2009  
CLG News Release 6 March 2009

**List of appendices:** Appendix 1 – Implications

<b>IMPLICATIONS</b>
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**Financial**

- 1.1 As set out in the report. The rental income the Council will lose by implementing the lower increase is £1.13 million. The compensation offered by the Government is £1.25 million. There will be sufficient compensation to ensure that the HRA budget and services for 2009/10 as previously approved are not adversely affected. The compensation will also be sufficient to cover additional costs of about £20,000 to be borne by the HRA in implementing the increase. Additional costs of around £4,000 to be borne by the general fund in making appropriate changes to Housing Benefit cannot be charged to the HRA, although the Government has indicated that it may make additional funding available for this purpose.

**Legal**

- 2.1 The Council is legally obliged to give tenants four weeks notice of a rent variation.

**Personnel**

- 3.1 None

**Equalities Impact**

- 4.1 It is not anticipated that there will be any adverse impact on any of the Council's equality target groups.

**Corporate objectives and priorities for change**

- 5.1 The objective of **making us proud of our neighbourhoods** is enhanced by the management of Council Housing and Council estates partly paid for by rents.