

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Leader and Cabinet

16 April 2009

AUTHOR/S: Chief Executive/Principal Accountant (Housing)

HOUSING RENTS

Purpose

1. To ask Cabinet to recommend to Council that the rent increase for the 2009-10 financial year be revisited in the light of a changed Government recommendation.

Background

2. Since the Council approved the rent increase for 2009-10, the Minister for Housing has proposed an alteration to the recommended level of increase for local authority rents and draft proposals for implementing a reduced level of increase have now been received from the Department of Communities and Local Government (CLG).
3. In order to take up the opportunity to apply a lower level of increase and receive compensation for the loss of income to the Housing Revenue Account (HRA) that this would imply, Councils must make a formal commitment to apply the revised level of rent increase for 2009-10 by the 24th April 2009.
4. Changes in HRA rent levels can only be agreed by Council after recommendation by Cabinet, and to meet the CLG's deadline the matter, therefore, needs to be considered at the Council's meeting on 23rd April 2009.

Considerations

5. On 26th February 2009 the Council approved a rent increase from the first rent week in April 2009, based on an inflationary increase of 5.5%, plus or minus a maximum of £2.00 towards the phasing in of rent restructuring. This increase was in line with the original recommendation received from the CLG.
6. On the 6th March the Minister for Housing announced in the press that she proposed to halve the recommended increase for local authority rents from 6.2% to a national average of 3.1% and this intention was confirmed soon after by the Department of Communities and Local Government (CLG).
7. The draft proposal, which has now been received from the CLG, is that the inflationary increase would be 2.4% (instead of 5.5%), plus or minus a maximum of £2.00 towards the phasing in of rent restructuring. For South Cambridgeshire this would result in an estimated increase of around 3.2%, instead of the 6.3% previously agreed. At individual rent level, this would reduce the average rent from around £77.90 to £75.65.
8. As indicated in the previous paragraph the use of the formula recommended by the CLG would result in an increase in excess of the 3.1% that is given as a maximum in the draft proposal. Staff at the CLG have indicated that a

revision to the draft is likely to be issued in the next few days to resolve this anomaly. Should no revised draft be received, then to be able to take up the offer, a further reduction in rents may be required to ensure that the average increase is at or below 3.1%. In this event the average rent would become £75.55.

9. If the Council agree to reduce the 2009-10 increase in line with that now being recommended, the CLG has stated that compensation will be given, in-year, through the subsidy system, for the loss of income this would imply for the HRA.
10. The impact on the HRA of making this reduction would, therefore, be broadly neutral, because although rent income would be reduced, the negative housing subsidy payment to the government would also be reduced by a more or less equivalent amount.
11. In the event South Cambridgeshire Village Homes being established, the effect of receiving less rent income on the new organisation would be mitigated by the fact that the capital cost of buying the homes would have been reduced to reflect the lower level of rent income expected. This is because the valuation, for transfer purposes, is based on the income and expenditure over the first 30 years of the life of the new organisation.
12. If South Cambridgeshire Village Homes is set up and pay a smaller amount to buy the homes from the Council as a result of a reduction in rent levels, clearly, the Council will receive a smaller capital receipt and, consequently, have less funding available to offset any residual costs to the Council following the transfer. Savills (the lead consultants) have been asked for an estimate of the effect on the receipt and this should be available prior to the meeting.
13. When Members considered the rents for 2009-10 in February, increases in other charges were also considered alongside the rents and the same inflationary uplift used for rents was, incidentally, applied to both garage rents and a part of the sheltered housing service charge. However, whilst the CLG has agreed to provide compensation to Councils that revisit rent levels and apply the revised inflationary uplift of 2.4% rather than the 5.5%, such compensation will be solely for loss of rental income. The loss of garage rents and the relevant element of the sheltered housing service charge would be around £30,000 per annum, compounded. In the event of the HRA properties remaining with the Council then it is anticipated that there will be pressure to increase income from all possible sources. Any reduction in charges now would, therefore, give rise to the likelihood of an excessive uplift in future years.
14. A change to a 2.4% increase in garage rents would reduce these from £7.00 per week (for those rented to a Council tenant or leaseholder) and £9.67 a week (for other garages) to £6.86 and £9.47 respectively. The communal facilities element of the sheltered housing service charge would be reduced from £6.93 to £6.73 and the maximum equity shareholders service charge from £19.54 (for those on schemes without communal rooms) and £27.77 (for other shareholders) to £19.43 and £27.45 respectively. However, for the reasons outlined in the previous paragraph, it is not recommended that consideration be given to altering any charges other than rents.

15. The Head of Revenues has estimated that the additional administrative cost of implementing any change to the 2009-10 rent level will be around £10,000. The Government indicated that no compensation would be given for administration costs, however, as an estimate of the cost has been requested by the CLG it is possible that the matter is being reconsidered by the Department.
16. Should Members agree to revise the level of rent increase for 2009-10, following the final recommendation from the CLG, the change will be introduced as soon as it is practical to do so. It is unlikely that any change will be implemented before June and additional software requirements could lead to further delays

Options

17. Not to revise rent levels in line with the CLG's new recommendation. This option would avoid the cost and effort of implementing a change and the adverse impact on the sale value of the Council homes in the event of a transfer. However, it could leave the Council open to criticism from the Tenants, Central Government and the Media.
18. To reduce the rent increase by a lesser amount than recommended by the CLG. This option has not been considered in this report because there would be no compensation from the Government for the loss of rental income and any such loss would be compounded in future years.
19. To revise the rent increase for 2009-10 financial year in line with the new recommendation from the CGL. This option would involve administrative costs to the HRA and reduce the capital receipt for the Council homes if they are transferred. The press coverage will have given rise to an expectation from tenants that the Council will reduce their rents and, as there will be little financial impact on the HRA, it could be difficult for Members to justify not implementing the revised 2009-10 rent increase now recommended by CLG.

Implications

20. Financial	The financial implications are contained in the body of the report
Legal	There do not appear to be any legal implications
Staffing	There do not appear to be any staffing implications
Risk Management	There do not appear to be any risk management implications
Equal Opportunities	There do not appear to be any equal opportunities implications

Effect on Strategic Aims

21.	Commitment to being a listening council, providing first class services accessible to all.
	The members of staff currently involved in visiting tenants in connection with the Housing Futures Project have reported that tenants have expressed concern over the high level of the 2009-10 rent increase.
	Commitment to ensuring that South Cambridgeshire continues to be a safe and healthy place for all.
	Nothing significant

Commitment to making South Cambridgeshire a place in which residents can feel proud to live.
Nothing significant
Commitment to assisting provision for local jobs for all.
Additional income for tenants could result in more spending in local shops and on local services.
Commitment to providing a voice for rural life.
Nothing significant

Conclusions/Summary

22. In line with the Government's original recommendation for local authority rents, this Council's rents were increased by 5.5% in addition to a maximum variation of £2.00 per week. Since Members approved the rent increase the CLG has offered Councils the opportunity to revise this rent increase to 2.4% in addition to the maximum variation of £2.00 per week, with in-year financial compensation being provided to Councils that firmly commit to applying the recommended revision by the 24th April 2009.
23. Whilst Councils are being asked to make commitment based on draft figures, the CLG has indicated that the final recommendations will not differ substantially.
24. Compliance with the newly released draft recommended rent increase for South Cambridgeshire would result in an average rent increase for tenants of around 3.2%.
25. If a commitment is made to revise rent levels in line with the final recommendation from the Government, then the Council will receive compensation for the reduction in rental income. The impact on the HRA will therefore be broadly neutral.
26. In the event of a transfer of the Council's homes to South Cambridgeshire Village Homes the lowering of rent levels would have a negative impact on the capital receipt available to the Council to support the funding of other projects and residual costs. There should, however, be little impact on the financial situation of South Cambridgeshire Village Homes.
27. If the Council agree to revise the 2009-10 rents in line with the CLG's recommendation, then, in order to take advantage of the compensation scheme this will have to be a firm commitment. Therefore, unless the final scheme is substantially different from that reported above, it is not proposed to come back to Members for a further decision once final figures and details are received from the CLG. Members will, however, be informed of the estimated impact of the final scheme on rent levels and budgets.

Recommendations

28. Cabinet is requested to recommend to Council that a commitment be made to revise rent levels for 2009-10 in line with the final recommendation from the CLG.

Background Papers: the following background papers were used in the preparation of this report:

Housing Rents and Charges - Item 6, Cabinet 12 February 2009

The Draft Housing Subsidy Account Subsidy Determination 2009-10 Amending Determination 2009 - CLG

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