

Housing Revenue Account (HRA) Rent Setting - Technical Appendix

1.0 Introduction

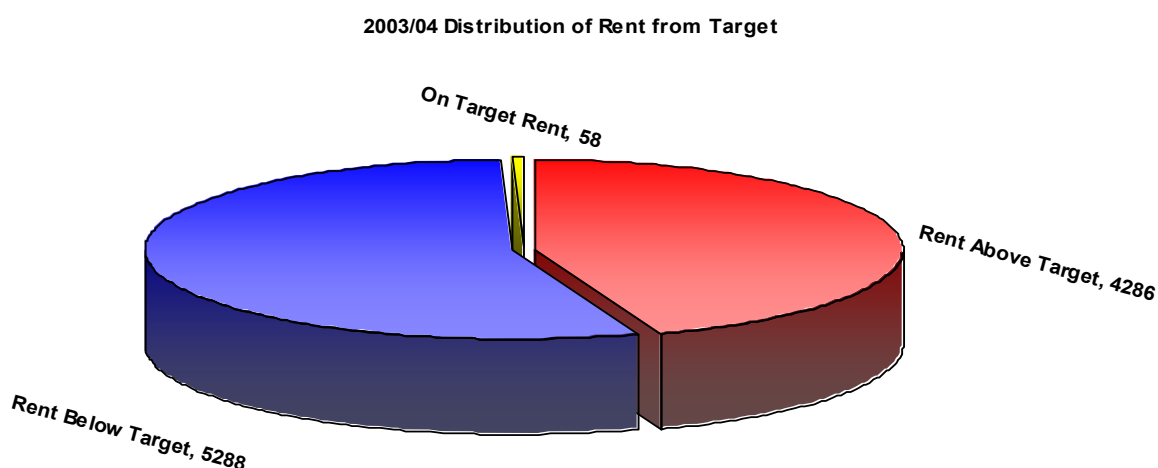
- 1.1 This appendix describes the technical aspects of the rent setting process for 2004-05 in particular the progress of rent levels towards convergent rents in line with government policy on rent restructuring. Government policy on rent restructuring aims to introduce social housing rents that will ultimately produce rents being set (both in the council and RSL sectors) on a nationally determined basis by 2011/12 (whilst taking into account local factors such as the value of dwellings). This aim is not prescriptive in so much as it remains the responsibility of the local housing authority to set rents. Failure by a local authority to take into account this so-called rent restructuring/convergence will incur substantial HRAS losses. The Council implemented this policy fully in 2003/04 on a property specific basis and for 2004/05 continues a stepped approach for each property to reach their target rent level by 2011/12.
- 1.2 The general principles of rent convergence policy are that Councils should use a government formula based both on national items such as the average LA rent and regional earnings and property specific attributes (size, value of property) to derive a formula (or target) rent for each individual property. Councils should then use the intervening period between now and 2011/12 to move the rent charged to tenants for their property from the current level to that formula rent following government guidance on the maximum allowable annual changes to tenants rent. In addition to restrictions placed on annual changes that can be made to tenants rents, the government also sets annual 'rent caps' which define the maximum rent that can be charged for properties based on the number of bedrooms in the property.

2.0 Government Framework for Rent Setting 2004-05

- 2.1 The HRA Subsidy Determinations 2004-05 states that formula rents for 2003/04 should be uprated by 4.09% (GDP Deflator at 2.59% plus 1.5% real increase assumed in the Spending Review of 2002) to reach 2004-05 levels.
- 2.2 The maximum allowable annual increase or decrease in the rent for each property is RPI + 0.5% +/- £2 per week and is based on the September 2003 all items RPI of 2.8%.
- 2.3 The rent caps for 2004/05 are 2003/04 levels uprated by RPI +1%, 3.8%
- 2.4 The rent analysis in this paper is based on 9632 properties in the HRA and is exclusive of Middlesex House, the PSL schemes and shortlife properties. Therefore the analysis is based on the properties within the HRA that have standard tenancies.

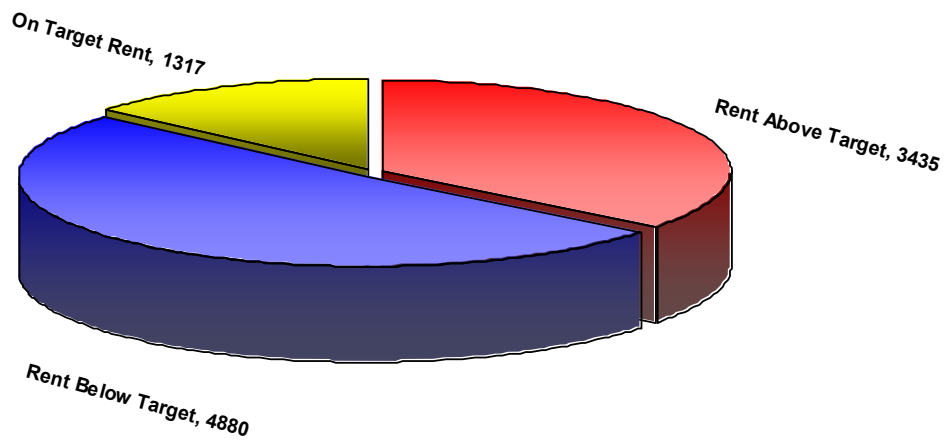
3 Analysis of Convergence 2004-05

- 3.1 Formula (or target) and actual rents have been profiled individually for every property with reference to government guidelines on setting formula rents and moving actual rents towards these targets by 2011/12. The Council has also adhered to government guidance on restricting the maximum charge for each property type (rent caps) and the maximum annual increase or decrease allowable per property per annum (RPI+0.5% +/- £2pw).
- 3.2 The average 2003/04 weekly actual rent for the properties is £69.46 while the average 2003-04 formula rent is £70.02. There are 4286 properties that have rents above their target level, 5288 with rents below their target level and 58 properties that have rents equal to their target levels.

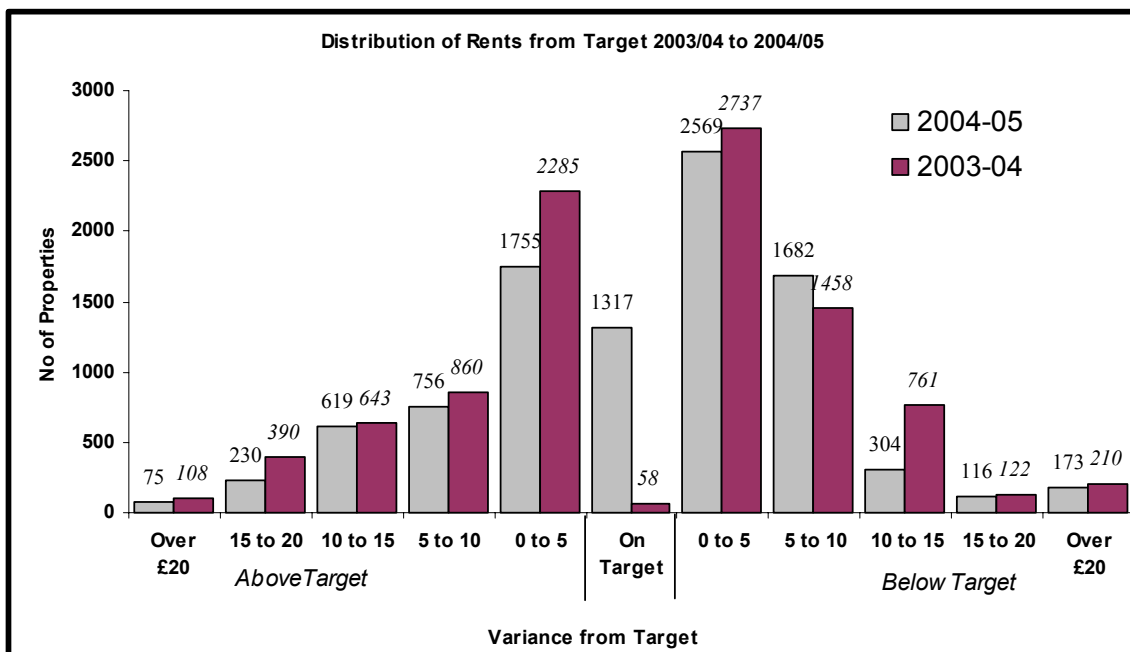


- 3.3 Following rent restructuring guidelines for setting the 2004/05 rents means that all of the properties will have a cash increase in rent. However, after allowing for the effects of inflation, 5714 will have a real (above inflation) rise in rents with 3918 having a real decrease (increase in rent at less than the rate of inflation).
- 3.4 Using this restructuring process, the average 2004/05 weekly rent for the properties is £72.01 while the average 2004-05 target rent is £72.88. In 2004/05, there are 3435 properties that have rents above their target level, 4880 with rents below their target level and 1317 properties that have rents equal to their target levels. This means that 14% of properties achieve convergence rents in 2004/05 as compared to 0.6% in 2003/04.

2004/05 Distribution of Rent from Target



- 3.5 The overall average weekly change in rent for the properties will be a cash increase of £2.56 which after adjusting for inflation equates to an increase of £0.27
- 3.6 These proposed rental adjustments will have a significant impact in moving individual properties towards their target rents. The graph below gives a visual representation of this impact and shows that for 2004/05 the number of properties with a rent less than £5 from target is 5641 or 59% of the total. This is an increase of 641 (7%) from 2003/04. The graph also illustrates the movement of rents towards target by the noticeable increase in the number of properties whose rents are close to being on target.



3.7 The changes proposed as a result of these changes will mean an overall increase in rental income of approximately £1.3M during 2004/05.

3.7.1 The average changed in rent and formula rents for 2004/05 are shown in the table below

<i>No of Bedrooms</i>	<i>No of properties</i>	<i>Average Rent 2003/04</i>	<i>Average Formula Rent 2003/04</i>	<i>Average Rent 2004/05</i>	<i>Average Formula Rent 2004/05</i>
Bedsit	504	£52.81	£51.96	£54.77	£54.08
One Bed	3123	£60.47	£61.01	£62.89	£63.50
Two Bed	3203	£69.27	£70.99	£71.99	£73.89
Three Bed	2365	£80.89	£79.88	£83.39	£83.15
Four Bed	381	£91.73	£92.65	£94.75	£96.38
Five Bed	49	£96.73	£107.16	£101.08	£111.42
Six Bed	7	£99.16	£124.08	£104.32	£129.07
TOTAL	9632	£69.46	£70.02	£72.01	£72.88

Note

Rent Capping set at £106.60 for 2004/05 is applicable to four and over bed properties

Band	No of Properties
Cash Reduction	7
0 to £0.50	244
Between £0.50 and £1.00	1210
Between £1.00 and £1.50	1693
Between £1.50 and £2.00	482
Between £2.00 and £2.50	759
Between £2.50 and £3.00	811
Between £3.00 and £3.5	1165
Between £3.50 and £4.00	1868
Between £4.00 and £4.50	1150
Over £4.50	243
TOTAL	9632