

The rent increase on average this year equates to an increase of around 6.95%

Why is the percentage rent increase so high when interest rates are so low at the moment?

The rent increase is set using the RPI, (Retail Price Index) as at September each year; in September 2008 the RPI was 5%

Why are you increasing our rents so much in this current economic climate?

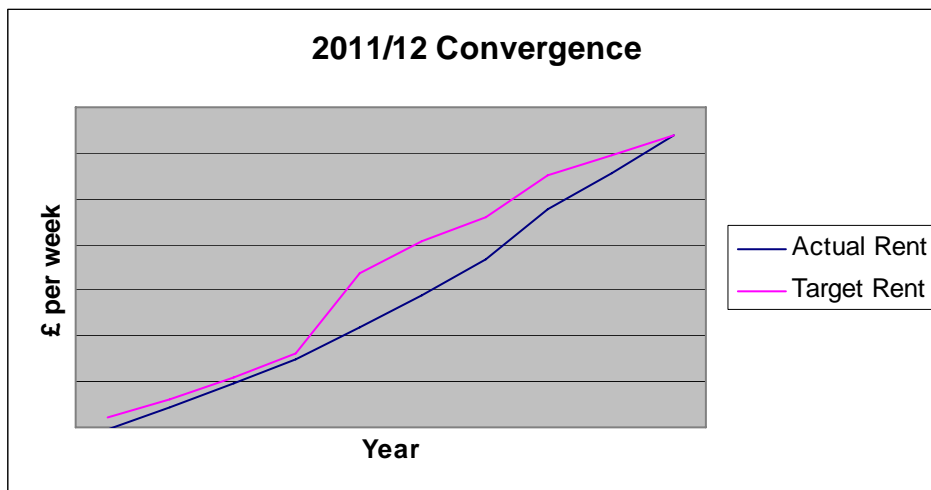
To understand our current situation we need to start by understanding how much Government policy dictates what happens at a local level.

The Government actually sets rent levels using a formula applied nationally. This was introduced in 2002 and called rent restructuring. Basically the Government wanted council rents to be the same as those charged by housing associations and said there should be a target rent that both types of organisations work towards. Council rent levels were significantly lower than those for housing associations, this was perceived as unfair and an impediment to tenants moving between tenures.

This target rent was set using information such as average house prices in the area and average earnings. Once the rent target was set the government required local councils to set rent increases over the course of ten years to meet that target rent level.

The target rent set in 2002 (£61.01) was assumed to increase each year by inflation. The graph below illustrates this.

- The pink line indicates the target rent increasing each year by inflation.
- The blue line shows the increases projected by the Council to meet the target rent over 10 years.



To make sure rents were not raised too much, the Government put in place measures to limit the increases a Council can make in any one year.

The limit set is Retail Price Index (in Sept each year), + ½ %, and + or – £2 per week.

So rent can't go up by more than the above formula.

The RPI in September 08 was high at 5%, so the average rent increase under the government formula, also appears to be high.

As in the past, this year the Government also set an overall cap (or limit) on the total increases for tenants at 7%, this sum included any increase on service charges.

Why don't you freeze our rents given the current financial climate?

Because Council homes funding is held in a national pot. The money collected from tenants as rents, is passed over to the Government each year, it is not kept by the Council. The Government then considers what money to give back to Hounslow Homes in order for them to run the housing service. This is calculated using yet another formula, this is called the subsidy determination.

So each year the government calculates how much rent we should collect based on the target rent formula. For example, they might say that for next year we should collect 50 million.

If we freeze our rents and don't follow the rent restructuring formula (lets say if we freeze them and we collect only 48 million pounds) the Government will still expect us to collect 50 million. Therefore the Council will have to pay more to the government than we have actually charged and collected.

So why not freeze the rent for one year and take this money out of reserves?

If we did that, it would not actually be a one off payment. Next year the government would assume we were collecting the 50 million pounds they calculated for 2009/10 plus an increase for the following year, 2011/12.

This would mean we end up paying them more than we collect each year from here on.

The table below shows the effect on our 5 year financial plan if rents are frozen for 2009/10. In fact the reserves would be exhausted early in 2012/13, so action would be required before then.

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
Opening HRA Balance	(10,649)					
7% Rent Increase Net (Surplus)/ Deficit	(2,448)	1,024	(3,191)	1,449	644	761
0% Rent Increase Net (Surplus)/ Deficit	(2,448)	4,822	2,495	4,962	3,993	4,091
HRA Balance with 0% increase in 2009/10	(13,097)	(8,275)	(5,780)	(818)	3,175	7,266

Even if this was paid out of reserves (our savings) year on year, are there any other reasons why you want to keep the rent increase to the formula?

Yes. The Government are currently reviewing this whole system and the fact that they take the rent and give us back an allowance. In effect they are considering letting Councils keep the rent they collect directly. As we don't know how this would work it is much safer to stay within Government guidelines until the detail is known.

The other problem we have to deal with is that the special allowance we have being getting for being an ALMO is due to come to an end in 2010/11. This will mean a loss year on year of over £2.5 million. If we

commit now to year on year 'top ups' from reserves to the government for not following the formula, this £2.5 million could create another significant burden that over time we couldn't cover.

Why don't you freeze any increases in service charges?

Service charges are charged for specific services you receive and you are only charged for the actual cost of the service. If we freeze the charges in this area we would have to find any increases in actual running costs such as increase in electricity prices from somewhere else. This would be a double 'hit' on the budget if we freeze rents as well.

It should also be noted that service charge income is kept and not passed to the government. However, increases are still subject to the limits set out in the formula, in this year 7%. Therefore at present, because service charges have only just been introduced we are not recovering the full costs anyway. It will take up to ten years before all tenants are paying the full cost.