



DERBY CITY COUNCIL

**COUNCIL CABINET
17 JANUARY 2006**

Cabinet Member for Housing and
Social Inclusion

Housing Rents and Service Charges

SUMMARY

- 1.1 The Government have set a policy to restructure social housing rents over the 10 year period 2002/03 to 2011/12. This involves moving rents incrementally towards a target so that at the end of the tenth year, council housing rents will have converged with those of other Registered Social Landlords – RSLs.
- 1.2 2006/07 is the fifth year of rent restructuring and includes some revisions to Government policy on the process with consequent changes being required to the policy used by the Council in determining the rent increase for its tenants.
- 1.3 Subject to any issues raised at the meeting, I support the following recommendations.

RECOMMENDATIONS

- 2.1 To approve a variation to the policy of setting rents at the maximum possible while avoiding Rent Rebate Subsidy Limitation (RRSL) penalty to setting rents at a capped 5% increase for the next two years.
- 2.2 To recommend that Council on 1 March approve the revision of rent and service charges from 3 April 2006 on the basis set out in the report including:
 - an average weekly rental increase of £2.41 or 5% calculated over 52 weeks
 - an average weekly increase of 3.2% on Service Charges
 - an average weekly increase of 5% on Garage Rents.

REASONS FOR RECOMMENDATIONS

- 3.1 The Council is expected to increase rents in line with Government policy. If the Council does not do so, it will face financial pressure on the Housing Revenue account – HRA – and may be unable to implement policies such as Estates Pride.
- 3.2 The Government could require repayment of the additional arms length subsidy awarded over the past few years.



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SUPPORTING INFORMATION

Background

- 1.1 The Government have set a policy to restructure social housing rents on a more consistent basis. Rent restructuring is the process by which the actual rent for each property will move from its current rent to a target level over a ten-year period that started in April 2002. This means that the rent levels have to 'converge' by 2011/12 to a similar rate to other social housing. If the Council does not increase rents in line with expectations, it will face significant financial pressure on the HRA. This means that for Council tenants in Derby, where rents are lower than in many other areas, the average increase in rents for the next few years is likely to be above inflation.

Further Rent Restructuring

- 2.1 On the introduction of the Government's policy on rent restructuring for social housing in 2002, it was announced that the implementation of the policy would be reviewed after three years.
- 2.2 The review concluded that the basic policy is sound, and made three recommendations for improvements which were the subject of consultation until 30 September 2004:
- larger properties: higher bedroom weights for three- and four-bedroom properties and new, higher, weightings for properties with five and six, or more, bedrooms
 - harmonisation: from April 2005 using the same formula for restructuring local authority rents as that used for RSLs and adopting the RPI for calculating local authority rent increases
 - implementation: under the "caps and limits" rule, the downward limit of RPI + 0.5% minus £2 a week should be ignored.
- 2.3 The Government has recently issued the final HRA Subsidy Determination for 2006/07 and has now resolved to continue with the proposals as originally set out.

Proposals for 2006/7 Rents

- 3.1 The recommendations outlined in paragraph 3.2 now being implemented impact on target rents to increase them significantly compared to the current targets for 2005/06 and what would have been the targets for 2006/07 without the review.
- 3.2 The target rent for Derby – the rent at which our rent will be deemed to have equalised with RSLs in 2011/12 – has increased by 7% from £63.08 to £67.56. To converge in 2011/12, actual rents will therefore need to rise by a further 7% over levels previously expected. It was previously anticipated that rents might need to rise by 5% a year following further rent restructuring. Rents are now expected to rise by around 6% per year until 2011/12.
- 3.3 The Government, however, has also decided that it does not wish to see average rent increases of more than 5% for at least the next two years. Individual rents can be increased by more or less than this amount, but the overall average increase must not exceed 5%. Further details of the effect of this “cap” and proposals to mitigate the effect of the lost rental income will be provided in the Housing Revenue Account Business Plan report going to February Cabinet.
- 3.4 Limit rents in Derby, used until now to guide the setting of actual rents, while avoiding RRSL penalty, have increased by 8.75%. It is therefore not possible to continue the existing policy of setting rents at this level.
- 3.5 It is therefore proposed that the policy of setting rents at the maximum level possible before RRSL penalties are imposed is varied and for the next two years at least and average rent increases are set at 5% in line with Government guidelines. This level of increase will continue to avoid RRSL penalty and will require an average rent of £50.57 per week – an average increase of £2.41 per week or 5%.
- 3.6 It is proposed that the average increase of 5% be achieved by scaling back the rent increases that would have resulted without a rent cap by an equal cash amount for all tenants.
- 3.7 Table 1 shows the current weekly average rent by property type, and the proposed average weekly increases:

Table 1

Beds	No of properties	Current average 52 wk basic rent £	Proposed average 52 wk basic rent £	Average increase over 52 weeks £	Current 48 wk basic rent £	Proposed 48 wk basic rent £
0	166	41.23	42.40	1.17	44.66	45.94
1	3,942	44.87	46.82	1.95	48.61	50.72
2	3,647	47.27	49.65	2.38	51.21	53.79
3	6,200	50.78	53.52	2.74	55.01	57.98
4	122	55.26	58.43	3.17	59.87	63.30
5	7	58.96	62.35	3.39	63.88	67.55
6	2	54.15	57.52	3.37	58.67	62.31
Shared ownership	27	26.96	27.74	0.78	29.21	30.05
Daily rents	21	45.36	47.82	2.46	49.14	51.80
Total	14,134	48.16	50.57	2.41	52.17	54.78

- 3.8 Based on a projected average dwelling stock of 14,000, the increases proposed will yield additional income of around £1.75 million in 2006/07.
- 3.9 The proposed variation in rent will also apply to non-HRA properties owned by the Council. In a few cases, the Director of Corporate and Adult Social Services determines the rent where an element of service is involved with the occupancy.

Service Charges

- 4.1 Service charges and garage rents are being reviewed so that their proper economic cost can be determined. So far three services have been reviewed ...
- Concierge Service – currently provided to 440 tenants in the Riverside area with a weekly charge of £1.55. To recover the actual cost would require an additional charge of £3.15 a week.
 - Gardening Scheme – the review of this service has been referred for further consideration. However it is known that weekly charges of £3.50 recover around half the cost of the provision of the service and an interim increase of £1.50 a week would be considered appropriate.
 - Decorating Service – currently provided to 1,590 tenants in sheltered accommodation at a weekly charge of £3.70. The service operates at a surplus due to the low take-up by residents. An increase of £1.80 a week to a weekly charge of £5.50 a week would be appropriate to recover the cost of the service assuming full take-up
- 4.2 If the increases suggested above were implemented, an additional £204,000 income a year would be raised. However, there is a restriction imposed by the Government on un-pooled service charges limiting the increase allowed to RPI + 0.5%, although the review of all service charges will continue. If the Government restriction is lifted in the future, it will be possible to phase increases to recover the full economic cost of the services provided.
- 4.3 Table 2 shows the revised service charges after an increase of 3.2%. All charges shown are the actual charges due over 48 weeks.

Table 2

	Present £/week	Proposed £/week	Variation £/week
CCTV/concierge	1.55	1.60	0.05
Video Link Entry System	2.15	2.22	0.07
Gardening service	3.50	3.61	0.11
Decorating service	3.70	3.82	0.12
TV aerial	0.30	0.31	0.01
Lock up store	0.40	0.41	0.01
Hard standing/dropped kerb	3.50	3.61	0.11

Communal supplies:			
Heat and hot water			
Bed sit	5.55	5.73	0.18
1 bed	7.10	7.33	0.23
2 bed	8.75	9.03	0.28
3 bed	10.20	10.53	0.33
Heat and Power			
Bed sit	1.45	1.50	0.05
1 bed	1.80	1.86	0.06
2 bed	2.15	2.22	0.07
3 bed	2.30	2.37	0.07
Water Service			
Bed sit	2.90	2.99	0.09
1 bed	3.45	3.56	0.11
2 bed	3.90	4.02	0.12

The new charges will yield additional income of £17,000 to the HRA in 2006/07.

- 4.4 It is proposed to increase garage rents by 5% in line with the general rent increase. This increase will result in additional income of £12,000 to the HRA in 2006/07.

Shelton Lock Mobile Home Park

- 5.1 The mobile home park at Shelton Lock is managed and maintained for the Council by Derby Homes Limited for the payment of a fee. Following consultation with residents and approval by Derby Homes Board, changes to rents, rent policy and other more minor issues were approved by Cabinet on 8 November 2005.

Process

- 6.1 The Council is legally obliged to give tenants four weeks notice of a rent increase. Council on 25 January will approve the rent increase to be implemented from 3 April 2006.
- 6.2 The proposals on rents are consistent with the basis on which the HRA budget for 2006/7 is being prepared. That report will be presented to Cabinet in February, with final decisions being taken by Council on 1 March. Consultation has taken place with tenants through the City Housing Consultation Group, with Derby Homes Board and with the Community Regeneration Commission.

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Background papers:	ODPM HRA Subsidy Determinations and related documents
List of appendices:	Appendix 1 – Implications

IMPLICATIONS

Financial

1. As set out in the report.

Legal

2. As set out in section 6.1 of the report.

Personnel

3. None.

Equalities impact

4. 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. The proposal supports the Council's priority of achieving Value for Money. Rents are being set in line with government guidance and Council policy and continuing to avoid the payment of RRSL penalties.