



DERBY CITY COUNCIL

COUNCIL CABINET
18 JANUARY 2005

Report of the Director of Finance and
Director of Policy

Housing Rents

RECOMMENDATIONS

- 1.1 To refer this report for consideration by the Community Regeneration Commission on 25 January.
- 1.2 To recommend that Council on 26 January approve the revision of rent and service charges from 4 April 2005 on the basis set out in the report, including:
 - an average weekly rental increase of £1.34 or 2.9% calculated over 52 weeks
 - an average increase of 2.9% on service charges and garage rents.
- 1.3 To recommend that Cabinet receive a further report to determine the proposed increase in ground rents at Shelton Lock Mobile Homes Park, following further consultation with residents.

REASON FOR RECOMMENDATIONS

- 2.1 The Housing Revenue Account, HRA, is required to bring its rents to convergence by 2011/12. In order to achieve this, rent increases above inflation will normally be necessary in the next few years.
- 2.2 To achieve this aim, Cabinet agreed in July 2004 to vary the rent policy of the Council to make sure that the balance of increases for 2004/05 and 2005/06 is more even than a strict interpretation of the policy would imply.

SUPPORTING INFORMATION

Background

- 3.1 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 starting in April 2002. A report on rent restructuring was presented to Cabinet on 25 June 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 financial pressure on the HRA. In addition, failure to implement Government policy on rent restructuring would be likely to cause the

Government to question the Council's need for the additional arms length subsidy recently awarded and jeopardise that subsidy. 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.

- 3.2 The Council has had a policy for many years of trying to keep rents in line with the level of rental income that avoids payment of rent rebate subsidy limitation, RRSL, penalties to the Government. This policy effectively acts as a guideline for the rents to be charged over the next few years, as the Council moves towards the formula rent, that is, the rate where all social housing rents have converged to similar levels by 2011/12. The Council could move more quickly towards that rent, but only if later rent rises are reduced to bring the overall increases by 2011/12 back into line. Any increase greater than limit rents will therefore only result in a short-term increase in resources for the HRA, and would also potentially lead to the payment of RRSL penalties.
- 3.3 Conversely, any lower increase will result both in a loss of income for the HRA and a need for greater increases in rents in later years.
- 3.4 It was agreed by Cabinet in July 2004 to continue the policy of attempting to set rents at a level consistent with avoiding payments of RRSL penalties while rent restructuring continues. This policy acts as a clear guide to the overall levels of rent increase that are required.
- 3.5 Following a resolution to change the normal date for rent increases to April each year, Cabinet also approved a variation to this policy in 2004/05 and 2005/06 during the transition from a rent increase part way through the year to a rent increase in April 2005.

Proposals for 2005/6 Rents

- 4.1 One of the difficulties with having a rent increase part way through the year is that increases or decreases from the government guideline are sometimes necessary to align the actual rent with the appropriate rent under the policy for that year. This, in turn, led to a need to compensate the following year, leading to a see-saw effect on rent increases.
- 4.2 The rent charged in the first half of 2004/05 was well below the required rent under the policy. A literal interpretation of the current policy to avoid RRSL penalty would have led to an increase of 6.5% from October 2004, with an increase of only around 1.2% from April 2005.
- 4.3 The variation approved was to spread the increase more evenly over 2004/05 and 2005/06. An increase of 4.9% was approved from October 2004 followed by an increase of around 2.8% in April 2005, assuming an increase in limit rents of around 4%. The July Cabinet report set an indicative average rent for 2005/6 of £48.11 a week. This remains the average rent required. The average rent at the end of 2004/05 was estimated to be £46.83. The average for that year is now estimated to be £46.77, a slight decrease due to a preponderance of sales of higher rent properties. An actual increase of 2.9% is therefore required from April 2005 to align actual average rents with the average rent consistent with the agreed policy.

- 4.4 The actual rent increase proposed would take effect on 4 April 2005. This has been determined by reference to the Government's policy on limit rents for 2005/06 following receipt of Housing Revenue Account Subsidy Determinations for that year.
- 4.5 The proposed average weekly rental increase over 52 weeks is **£1.34** a week.
- 4.6 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	171		40.07	41.22	1.15		43.41	44.66
1	3,953		43.62	44.87	1.25		47.26	48.61
2	3,707		45.94	47.25	1.31		49.76	51.19
3	6,288		49.37	50.78	1.41		53.48	55.02
4	125		53.87	55.42	1.55		58.36	60.04
5	4		57.78	59.43	1.65		62.59	64.39
6	2		51.47	52.95	1.48		55.76	57.36
Shared ownership	27		26.16	26.91	0.75		28.34	29.15
Daily rents	18		44.70	45.98	1.28		48.42	49.81
Total	14,295		46.77	48.11	1.34		50.67	52.12

- 4.7 Based on a projected average dwelling stock of 14,000, the increases proposed will yield additional income of around £1m in 2005/06.
- 4.8 The proposed variation in rent will also apply to non-HRA properties owned by the Council. In a few cases, the Director of Corporate Services determines the rent where an element of service is involved with the occupancy.
- 4.9 Service charges and garage rents are to be reviewed so that their proper economic cost can be determined and recovered. It is envisaged that this change will take effect from April 2006. Meanwhile, it is proposed that service charges and garage rents increase by 2.9% in April 2005 in line with the average rent increase proposed.
- 4.10 Following consultation, a fee of £5 a month has been introduced to regulate the use of the car park provided for use by residents of John Lombe Drive. Tenants and former tenants still resident in that street continue to park with no charge, non-residents must pay the £5 fee.
- 4.11 Table 2 shows the revised service charges after the proposed average 2.9% increase although there is some variation within this average as charges are rounded to the nearest 5p. All charges shown are the actual charges due over 48 weeks.

Table 2

	Present £/week	Proposed £/week	Variation £/week
CCTV/concierge	1.50	1.55	0.05
Video Link Entry System	2.10	2.15	0.05
Gardening service	3.40	3.50	0.10
Decorating service	3.60	3.70	0.10
Lock up garages	5.05	5.20	0.15
Cat 1 Accommodation	0.60	0.60	-
Cat 2 Accommodation	2.95	3.05	0.10
TV aerial	0.30	0.30	-
Lock up store	0.40	0.40	-
Hard standing/dropped kerb	3.40	3.50	0.10
Communal supplies:			
Heat and hot water			
Bed sit	5.40	5.55	0.15
1 bed	6.90	7.10	0.20
2 bed	8.50	8.75	0.25
3 bed	9.90	10.20	0.30
Heat and Power			
Bed sit	1.40	1.45	0.05
1 bed	1.75	1.80	0.05
2 bed	2.10	2.15	0.05
3 bed	2.25	2.30	0.05
Water Service			
Bed sit	2.80	2.90	0.10
1 bed	3.35	3.45	0.10
2 bed	3.80	3.90	0.10

The new charges will yield additional income of £ 20,000 to the HRA in 2005/06.

Shelton Lock Mobile Home Park

- 5.1 The account for the Mobile Home Park is treated as a trading account and surpluses and deficits are ring-fenced to that account. The base budget for 2004/05 was set to break even and it was agreed that there should be no increase for that year.
- 5.2 However, it is now 10 years since the ground rents at the Mobile Home Park were reviewed. Currently the average ground rents are:

Small Pitch	£10.10
Medium Pitch	£12.60
Large Pitch	£14.60

- 5.3 An inflationary increase of 2.5% a year since 1995 would equate to ground rents of:

Small Pitch	£12.90
Medium Pitch	£16.15
Large Pitch	£18.70

- 5.4 Derby Homes currently manages the site and charges an annual fee of £1,298. This does not represent a true cost of the services provided by both Local Housing Office staff and Finance Staff employed by Derby Homes. It was agreed in July to consult with residents of the site and set a rent from April 2005, which reflects rents charged by comparable authorities for similar facilities including the recovery of a fee representative of the true cost of services provided.
- 5.5 Consultation with residents is ongoing. A further report will be presented to Cabinet in due course.

Future years

- 6.1 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.
- 6.2 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 + 5% minus £2 a week should be ignored.
- 6.3 The Government has deferred for one year a decision on whether to accept the recommendations of this review. If it had been implemented then local authority rents would have risen by more than they will under the existing policy. The estimate given by the review was £0.40 a week in the first year of implementation, rising to £2.10 a week by the completion of rent restructuring in 2011/12. If the review is implemented in 2006/07, a rent increase of 6 – 6.5% is likely for that year and subsequently, compared with a previous estimate of 5 – 5.5% a year. The likely financial effects of the review on the HRA will be set out in the HRA Budget report, to be presented to Cabinet on 8 February 2005.

Process

- 7.1 The Council is legally obliged to give tenants four weeks notice of a rent increase. Consequently, Council on 26 January is the latest date on which a rent increase from 4 April can in practice be approved. This requires that Community Regeneration Commission should consider the proposals on 25 January and that Council members should be aware of its views when considering the recommendations in this report.

- 7.2 The proposals on rents are consistent with the basis on which the HRA budget for 2005/6 is being prepared. That report will be presented to Cabinet on 8 February prior to consultation, with final decisions being taken by Council on 2 March. Consultation will take 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:	None
List of appendices:	Appendix 1 – Implications

IMPLICATIONS

Financial

1. As set out in the report.

Legal

2. As set out in section 7.1 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 with the rate of increase having been reduced for one year as a result of the change of date previously approved.