



Housing Rents and Service Charges 2008/09

SUMMARY

- 1.1 The Government originally set a policy to restructure social housing rents over the 10 year period 2002/03 to 2011/12, although this is now likely to extend by five years or longer. The process involves moving rents incrementally towards a target so that at the end of the restructuring period, council housing rents will have converged with those of other Registered Social Landlords – RSLs.
- 1.2 2008/09 is the seventh year of rent restructuring and includes some revisions to Government policy on the process. The main change is that for the purposes of calculating the guideline rent for 2008/09 only, the date for rent convergence under rent restructuring has been put back until 2016/17. Three options were consulted upon for a rent increase in 2008/09 ranging from an average of 7.4% to an average of 12%. Consultation with Community Commission and Council tenants through Derby Association of Community Panels – DACP – has taken place and both groups expressed a preference for option 2, an increase of 8.2%.
- 1.3 The Government policy that Service Charges should increase by no more than the RPI plus 0.5% continues for 2008/09 and subsequently.
- 1.4 New Government regulations came into effect on 1 October 2006 and mean that pitch fees at Shelton Lock Mobile Home Park can only be increased or decreased in line with the change in RPI.
- 1.5 Subject to any issues raised at the meeting, I support the following recommendation.

RECOMMENDATION

- 2.1 To recommend that Council on 3 March approve the revision of rent and service charges from 7 April 2008 on the basis set out in the report including
 - an average weekly rental increase of £4.32 (*may be subject to slight change*) or 8.2% calculated over 52 weeks
 - an average weekly increase of 4.4% on Service Charges
 - an average weekly increase of 8.2% on Garage Rents
- 2.2 To approve the proposed increase of 3.9% in pitch fees at Shelton Lock Mobile Homes Park

- small plot £11.68 - increase of £0.44 a week for 9 plots (previously £11.24 a week)
- medium plot £14.60 - increase of £0.55 a week for 24 plots (previously £14.05 a week)
- large plot £16.87 - increase of £0.63 a week for 5 plots (previously £16.24 a week)

REASON FOR RECOMMENDATIONS

- 3.1 The Council is expected to increase rents and service charges 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 continue with policies such as Estates Pride.
- 3.2 New Government regulations came into effect on 1 October 2006 and mean that pitch fees at Shelton Lock Mobile Homes Park can only be increased or decreased in accordance with the RPI.



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SUPPORTING INFORMATION

Background

- 1.1 Rent restructuring is continuing – it 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. Rent levels have to ‘converge’ by a target date – initially 2011/12 - to a similar rate to other social housing. If the Council does not increase rents to meet the restructuring target, it will face significant financial pressure on the HRA. Since Council rents in Derby are lower than in many other areas, average increases in rents for the next few years are likely to continue to be well above inflation.
- 1.2 In 2004 the government consulted upon a review of rent restructuring that recommended three improvements to the process. These were:
 - higher bedroom weights for larger properties,
 - adoption of the same formula for restructuring local authority rents as that used for Registered Social Landlords – RSLs – including use of the RPI
 - ignoring the downward limit of RPI + 0.5% minus £2 a week under the “caps and limits” rule
- 1.3 These recommendations were subsequently confirmed and implemented from 2006/07. The changes impacted on target rents to increase them significantly compared to previous targets for 2005/06 and what would have been the targets for 2006/07 without the review.
- 1.4 The recommendations continue to impact on target rents and therefore on actual rents. The target rent for Derby – the rent level at which our rent will be deemed to have equalised with RSLs in 2011/12 – increased by a further 7% as a result of the changes in 2006/07.
- 1.5 The Government, however, also decided that it did not wish to see average rent increases of more than 5% for the two years 2006/07 and 2007/08. Individual rents could be increased by more or less than this amount, but the overall average increase could not exceed 5%. This led to the introduction of a Rental Constraint Allowance – RCA – to mitigate the effect of the lost rental income due to this cap.
- 1.6 Limit rents in Derby, previously used until the end of 2005/06 to guide the setting of actual rents, while avoiding Rent Rebate Subsidy Limitation – RRSL – penalty,

increased by 8.75% in 2006/07 – therefore it was not possible to continue the policy of setting rents at that level.

- 1.7 The previous policy of setting rents therefore had to be changed and it was agreed that average rent increases for 2006/07 and 2007/08 should be set at 5% in line with Government guidelines.
- 1.8 The principle was also established that individual rents should be calculated by up-rating current rents towards the target rent, scaling back any rents exceeding the RPI + 0.5% + £2 cap to that level and then scaling back all other rents by equal amounts – same pence per week – to achieve the overall 5% increase in the two years.
- 1.9 Applying this policy in 2007/08 required an average rent of £53.11 per week – an average increase of £2.52 per week or 5%.

Proposals for 2008/09 Rents

- 2.1 The Government has recently consulted with Authorities on the mechanism for setting guideline rents in HRA subsidy for next year.
- 2.2 As noted above, the RCA was introduced to reimburse authorities with the lost rental income due to the difference between the 5% actual average rent increases and the increases which would have been implemented if the 5% overall limit had not been imposed in each of the two years 2006/07 and 2007/08.
- 2.3 The average rent increase in 2006/07 would have been about 6% and in 2007/08 would have been about 7% if the 5% limit had not applied each year.
- 2.4 Rent levels in Derby are therefore around 3% below the point where they would have been had the Council not followed Government policy and limited the overall increase to 5% in each of the two years 2006/07 and 2007/08.
- 2.5 The draft HRA Subsidy determinations for 2008/09 were received on 27 November. The future pattern of rent restructuring now appears uncertain: “Ministers propose – *solely for the purpose of calculating guideline rents for 2008/09* – to put back the date for rent convergence under rent restructuring to 2016/17. The likelihood is that this date will be reviewed for future determinations given that Ministers are considering the possibility of wider reform of the HRA subsidy system.”
- 2.6 Latest calculations show that a rent increase of about 8% would be needed in Derby in 2008/09 if convergence is to be achieved by the original target date of 2012. The ending of the RCA after 2007/08 without an additional real terms increase in rents will lead to substantial losses of income to the HRA.
- 2.7 However, the draft determination states that the RCA has been removed from the subsidy calculation for 2008/09 and that “Ministers are minded to apply downward pressure on the guideline rent trajectory in 2008/09 with the aim of maintaining rent affordability for tenants.”
- 2.9 These principles were confirmed in the final HRA subsidy determinations received on 15 January.

2.8 There are four levels of rent that need to be considered: Target, Guideline, Limit, and Actual rents. The target rent is the rent at full rent convergence. This is the highest level of rent that will be reached either in 2012 or at some later date – perhaps 2016/17. The limit rent is the one at which the Council loses no subsidy as a result of setting too high a rent on the way to convergence – above this rent, the Council will lose most of the rental that it charges to tenants through a reduction to subsidy. It used to be the guiding principle in rent setting before rents were capped as explained above. The guideline rent is the one used by the government in setting subsidy levels, and is normally the lowest of the four until all four converge at the convergence date. As explained above, actual rents were previously set at or about the limit rent but has in all years been higher than the guideline rent until 2007/08. Average actual rents in Derby are now £53.12 a week or £0.70 below the guideline rent and this difference will need to be met by future increases from 2008/09 onwards.

2.9 Table 1 below sets out these rents for the last three years:

Table 1

Rents per dwelling per week	2005/6 £	2006/7 £	2007/8 £
Limit rent	48.91	53.19	56.50
Guideline rent	45.05	49.97	53.82
Actual rent	48.16	50.59	53.12
Difference between actual and limit rent	-0.75	-2.60	-3.38
Difference between actual and guideline rent	+3.11	+0.62	-0.70

2.10 Table 1 shows the effect of rent capping, whereby the actual rent has fallen further behind the limit rent but also for the first time actually below the guideline rent. In 2006/07 and 2007/08 the Council has been compensated for these losses through the RCA, but this will no longer be the case in future. The issue is therefore about how the rent increases to catch up with the target rent, the limit rent and the guideline rent over time. Actual rents set below the guideline are very unusual. Setting a fixed recommendation, though, is difficult because of the uncertainty as to when rent convergence will now take place. If we could be confident that this would now be 2016/17 this would spread the catch up in rents over the longest period, but would expose tenants to a potentially huge increase if this period is subsequently shortened.

2.11 Given the uncertainty over the future pattern of rent restructuring, possible options for a rent increase in 2008/09 are:

- The first option would be to move to the limit rent. This is the level of rent that was charged by the Council prior to the introduction of rent capping. This would require an increase of £6.39 a week or **12%**, followed **by 2.7%** above inflation until 2012.
- The second option could be to continue with the trajectory that assumes rent convergence in 2012 – this would require an increase of **8.2%** in 2008/09 and further increases of **4%** above inflation in the three remaining years 2009/10 to 2011/12. Thereafter, rent increases would increase in line with RSL rents.
- A third option would be to Increase rents to the guideline rent for 2008/09. The Council's current actual average rent is below the guideline for 2008/09 by £3.91 a week. The average rent increase under this option would be **7.4%**. This option would result in rent increases of around **2%** a year, for eight years, if the convergence date remains at 2016/17. After 2016/17, rents could then go up in line with RSL's. This would generate around £0.2m less than option 2 in the first year.

2.9 Table 2 summarises the pattern of average rents since 2005/06 and the options for a rent increase for 2008/09

Table 2

Rents per dwelling per week	2005/6 £	2006/7 £	2007/8 £	2008/9 £		
Limit rent	48.91	53.19	56.50	59.51		
Guideline rent	45.05	49.97	53.82	57.03		
				Option	£/wk	%
Actual rent	48.16	50.59	53.12	1	59.51	12%
				2	57.44	8.2%
				3	57.03	7.4%
Difference between actual and guideline	+3.11	+0.62	-0.70	1	+2.48	
				2	+0.41	
				3	-	

2.10 If the second or third options were adopted, and the Government then decided to set the point at which rent convergence will occur earlier than the 2016/17 assumed in calculating this rent level, the effect would be that future increases in rents would need to be even steeper for the remaining period of rent restructuring. Given that the actual rent would be over 4% behind the limit rent - where it originally should have been - it is possible that average rents would need to increase by over 4% a year in real terms – that is above inflation – for three years to 2012.

2.11 Applying option 2 in 2008/09 would require an average rent of £57.44 per week – an average increase of £4.32 per week or 8.2%.

2.12 Table 3 shows the current weekly average rent by property type, and the proposed average weekly increases:

Table 3

No of Bedrooms	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	122	43.94	47.82	3.88	47.60	51.81
1	3,897	48.86	53.00	4.14	52.93	57.42
2	3,524	52.15	56.45	4.29	56.50	61.15
3	6,061	56.39	60.87	4.48	61.09	65.94
4	119	61.72	66.43	4.72	66.86	71.97
5	8	65.94	70.84	4.90	71.43	76.74
6	2	60.99	65.67	4.68	66.07	71.14
Shared Ownership	27	28.50	30.84	2.34	30.88	33.41
Total	13,760	53.12	57.44	4.32	57.55	62.23

2.13 Based on a projected average dwelling stock of 13,560, the increases proposed will yield additional income of around £2.9 million in 2008/09.

2.14 The variation in rent will also apply to non-HRA properties owned by the Council.

Service Charges

3.1 Service charges and garage rents continue to be reviewed so that their proper economic cost can be determined.

3.2 However, a restriction imposed by the Government on un-pooled service charges remains limiting the increase allowed to RPI + 0.5% except where the council has no control over rising costs, for example increased charges for energy. It is therefore proposed that service charges for 2008/09 shall be increased by RPI + 0.5% + an adjustment for increased energy costs where necessary. 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.

3.3 Table 2 shows the revised service charges after an increase of 4.4%. This represents RPI of 3.9% as at the end of September 2007 + 0.5%. All charges shown are the actual charges due over 48 weeks.

Table 2

	Present £/week	Proposed £/week	Variation £/week
CCTV/concierge	1.67	1.74	0.07
Video Link Entry System	2.32	2.42	0.10
Gardening service	3.76	3.93	0.17
Decorating service	3.98	4.16	0.18
TV aerial	0.32	0.33	0.01
Lock up store	0.43	0.45	0.02
Parking Permit	1.30	1.36	0.06
Hard standing/dropped kerb	3.76	3.93	0.17
Supported Living:			
Main Service Charge	12.70	13.26	0.56

Reduced Service Charge	7.89	8.24	0.35
Previous P/time	12.07	12.60	0.53
Carelink:			
Bronze	2.10	2.19	0.09
Gold	2.82	2.94	0.12
Visiting Warden	2.91	3.04	0.13
Furniture Packs :			
Carpets/Curtains 1	2.60	2.71	0.11
Carpets/Curtains 2	2.10	2.19	0.09
Carpets/Curtains 3	3.65	3.81	0.16
Carpets/Curtains 4	4.15	4.33	0.18
Carpets/Curtains 5	5.20	5.43	0.23
Carpets/Curtains 6-7	6.25	6.53	0.28
Furniture Pack 1	7.80	8.14	0.34
Furniture Pack 2	8.85	9.24	0.39
Furniture Pack 3	11.45	11.95	0.50
Furniture Pack 4	13.00	13.57	0.57
Furniture Pack 5	14.60	15.24	0.64
Furniture Pack 6	15.10	15.76	0.66
Furniture Pack 7	16.15	16.86	0.71
Furniture Pack 8	6.25	6.53	0.28
Furniture Pack 9	11.45	11.95	0.50
Furniture Pack 10	13.00	13.57	0.57
Furniture Pack 11	5.20	5.43	0.23
Furniture Pack 12	10.40	10.86	0.46
Furniture Pack 13	8.33	8.70	0.37
White Goods BC	6.25	6.53	0.28
White Goods	8.85	9.24	0.39
Contract Cleaning :			
Contract Cleaning 2	0.80	0.84	0.04
Contract Cleaning 3	0.30	0.31	0.01
Contract Cleaning 4	0.20	0.21	0.01
Contract Cleaning 6	0.60	0.63	0.03
Contract Cleaning 7	0.65	0.68	0.03
Contract Cleaning 8	1.50	1.57	0.07
Contract Cleaning 9	1.10	1.15	0.05
Contract Cleaning 10	0.95	0.99	0.04
Contract Cleaning 11	0.60	0.63	0.03
Contract Cleaning 12	1.00	1.04	0.04
Contract Cleaning 13	0.76	0.79	0.03
Contract Cleaning 14	0.90	0.94	0.04
Contract Cleaning 15	1.25	1.31	0.06
Contract Cleaning 16	0.68	0.71	0.03
Contract Cleaning 17	0.92	0.96	0.04
Communal supplies:			
Heat and hot water			
Bed sit	5.96	6.22	0.26
1 bed	7.63	7.97	0.34
2 bed	9.40	9.81	0.41

3 bed	10.96	11.44	0.48
Heat and Power			
Bed sit	1.56	1.63	0.07
1 bed	1.94	2.03	0.09
2 bed	2.31	2.41	0.10
3 bed	2.47	2.58	0.11
Water Service			
Bed sit	3.11	3.25	0.14
1 bed	3.71	3.87	0.16
2 bed	4.18	4.36	0.18

Note: the shaded charges are newly included.

- 3.4 It is estimated that the increases proposed will yield additional income of around £20,000 in 2008/09.

Shelton Lock Mobile Home Park

- 4.1 The mobile home park at Shelton Lock is managed and maintained for the Council by Derby Homes Limited for the payment of a management fee.
- 4.4 In October 2006 new regulations introduced in the Mobile Homes Act (1983) came into effect in which there is a presumption that pitch fees will not increase or decrease by more than RPI since the last review date unless this would be unreasonable having regard to
- expenditure by the Council since the last review date on improvements that benefit the residents and which they were consulted upon and did not object to.
 - any decrease in amenity of the site since the last review date
 - the effect of any enactment that has come into force since the last review.
- 4.5 Under the regulations, review date means the date specified in the written agreement as the date on which the pitch fee will be reviewed in each year or if no such date is specified the anniversary of the date of the agreement commenced. The Council carried out a consultation process with the residents of the Park Homes site and introduced a standard review date of 1 April.

- 4.6 The principle on which increases in pitch fees will be determined on 1 April will be by applying the increase in RPI as at the end of September in the previous year, in line with the method used for determining increases for Council rents and service charges. For 2008/09 the increase will be 3.9% and will mean pitch fees charged will be:
- small plot £11.68 - increase of £0.44 a week for 9 plots (previously £11.24)
 - medium plot £14.60 - increase of £0.55 a week for 24 plots (previously £. 14.05)
 - large plot £16.87- increase of £0.63 a week for 5 plots (previously £16.24)

Process

- 5.1 The Council is legally obliged to give tenants four weeks notice of a rent increase. Council on 3 March will approve the rent increase to be implemented from 7 April 2008.
- 5.2 The proposals on council rents are consistent with the basis on which the HRA budget for 2008/09 has been prepared. That report is also on this Cabinet agenda. Consultation has taken place with tenants through the Derby Association of Community Panels, with Derby Homes Board and with Community Commission.
- 5.3 The proposals on pitch fees for Shelton Lock Mobile Homes Park are in line with the latest Government regulations which became effective from 1 October 2006. The regulations amend Part 1 of Schedule 1 to the Mobile Homes Act 1983 and include new provisions which specifically relate to pitch fees and how they can be charged. Consultation will take place with Derby Homes Board and with the residents at Shelton Lock.

For more information contact:	Officer Peter Morris Tel 255353 e-mail peter.morris@derby.gov.uk David Enticott Tel 255318 e-mail david.enticott@derby.gov.uk
Background papers:	CLG Housing Subsidy Determinations 2008/09
List of appendices:	Appendix 1 – Implications

IMPLICATIONS

Financial

1. As set out in the report

Legal

2. As set out in section 5.1 and 5.3 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 priorities

5. The objective of **making us proud of our neighbourhoods** is enhanced by the management of Council Housing and Council estates partly paid for by rents and service charges.