

RENT RESTRUCTURING

Report of the Chief Executive and the Director of Finance

SUMMARY OF REPORT

1. This report sets out Government policy on rent restructuring and makes recommendations concerning those aspects of implementation, which are open to the City Council to determine.

RECOMMENDATIONS

2. It is recommended that
 1. adjustments towards target rents take place in ten equal steps
 2. both existing and new tenants will pay the same rent for the same property
 3. discretion be used to vary by 5% from target rents in order to alleviate the highest increases, with such adjustments being determined and applied following the national policy review in 2005
 4. service charges be excluded from the determination of target rents on the same basis as those excluded for rent rebate subsidy limitation purposes or as may be specified in future regulations and guidance.

REASON FOR RECOMMENDATIONS

3. The City Council is required to implement rent restructuring to council housing from 2002 and needs to make certain decisions on the manner in which this is implemented.

MATTER FOR CONSIDERATION

- 3.1 For a number of years governments have believed that rents for local authority housing do not sufficiently reflect differences in the type, size and quality of council housing. Concern has also arisen that housing association rents tend to be significantly higher than local authority rents, even when similar types of accommodation are compared.
- 3.2 In order to address these concerns a Government policy on social housing rents has been introduced known as rent restructuring. This policy seeks to

ensure that ...

- the size, quality and location of a home is reflected in its rent
- councils and housing associations charge similar amounts for similar properties
- rents across the country are worked out on the same basis, and that
- rents remain affordable.

3.3 Commencing in 2002 all social housing landlords are expected to apply a common formula to determining the level of their rents and adjust them to these levels over the next ten years. The new formula is based on ...

- average weekly full time manual earnings for Derbyshire
- the value of the property
- the number of bedrooms
- the national average council rent.

An illustration of how these factors would be applied in setting the rent for a three bedroom property appears at Appendix A.

3.4 Application of this formula will produce a target rent for each property. Where the current rent is lower than the target rent, then rent charged would be expected to rise to within 5 % of the target rent over the next 10 years. Conversely, where the current rent is above the target rent, then the rent charged would be expected to be reduced to within 5% of the target rent over the next 10 years.

3.5 An annual rent plan will be produced setting out target rents, the implementation period and progress towards implementation. Actual rent increases over the ten years will differ from those set out in the rent plan, because they will be adjusted by ...

- Inflation
- Government policy on national average rent increases
- A review of the rent restructuring policy in 2005.

3.6 Current average rents in Derby are £41.71. In contrast application of the formula would result in average rents of £46.03. This means that in addition to any changes related to inflation and Government policy on national average increases there will need to be further changes in order to bring rents to target levels. The changes related to rent restructuring can be phased over the next ten years. It should be noted that these changes relate to rent and that service charges are excluded from these figures and

are not subject to the rent restructuring formula. Many tenants also pay service charges and these are excluded from the figures set out in this report. Service charges are further discussed in 3.17 and listed at Appendix B.

- 3.7 There is a national ceiling of £2 per week, per property, which is the maximum increase that can be made in any one year, as a result of rent restructuring. Any national increase assumed by Government can be added to this. There are also overall limits on the total level of rents that can be charged. As at April 2002 these are

4 bedroom property or larger	£100 per week
3 bedroom property	£95 per week
2 bedroom property	£90 per week
1 bedroom property	£85 per week

These limits will mean that some properties in high value areas will not achieve their target rent at the end of the 10 year period. This is permissible within Government policy where this arises from these ceilings

- 3.8 As individual target rents will be applied for each property changes will in most cases be by more or less than the average. Current estimates are that 9,347 of tenants (61.5%) will pay more rent in real terms as a result of rent restructuring whilst 5,856 (38.5%) will pay less. Of those who will pay more, 722 (4.7%) are expected to be paying more than £20 per week extra. These tenants will benefit from the ceiling limiting rent rises to £2 per week in any one year so that at the end of the ten year period their actual rents will still be below the target rent. The range of changes is set out in Table 1.

Table 1 Range of rent changes		
	Number	Percentage
Pay less rent	5,856	38.5%
<i>consisting of</i>		
- £10 or more	12	0.08
- £5 to £10	758	4.97
- £1 to £5	3,917	25.70
- less than £1	1,169	7.67
Pay more rent	9,347	61.5%
<i>consisting of</i>		
+ under £1	943	6.19
+ £1 to £5	2,307	15.14

- 3.9 Analysis of these figures by property type shows that average rents are expected to increase for all property types, except 4 bedroom properties, with the increase being greatest for bed sits. The expected average changes by property type are set in Table 2.

Table 2 Average Rent Changes by Property Type				
	Number of Properties	Average Actual Rent	Average Target Rent	Percentage Change
Overall	15,263	£41.71	£46.03	+ 9.29%
Bedsit	229	£24.25	£34.97	+ 30.65%
1 bedroom property	4,002	£36.10	£41.62	+ 13.26%
2 bedroom property	3,941	£40.69	£45.74	+ 11.04%
3 bedroom property	6,947	£45.67	£48.79	+ 6.39%
4 bedroom property	138	£50.06	£52.30	+ 4.28%
5 bedroom property	5	£56.61	£52.84	- 7.13%
6 bedroom property	1	£49.40	£52.01	+ 5.01%

- 3.10 Mapping shows that increases are likely to be concentrated in higher value areas of the city and conversely that reductions are likely to be concentrated in lower value areas.
- 3.11 Where improvement work is undertaken the Council's current rent structure applies rent supplements for a wide range of amenities and facilities regardless of the location or valuation of the property concerned. Full modernisation for example can result in a rent supplement of £12 – 15 per week. Under rent restructuring these charges will no longer be made. Target rents will continue to be based on 1999 values until 2011 and recalculated at that point. The national policy review in 2005 may adjust both the formula and the base year for the valuations used within it. In due course therefore improvements may result in increased rents in so far as they increase property values.
- 3.12 In the next few years the Government has indicated that the national rate of increase in the council housing sector will exceed that in housing associations. This will accelerate the process of rent convergence between the sectors. The Government estimates that at the end of the 10 year period housing association rents will be 5 -10% higher than council rents. This difference will however be related to differences in the size and value of the accommodation that they manage, rather than, as at present, partly relating to the different ways in which the sectors are financed.
- 3.13 There are a number of areas where the City Council has discretion in the application of rent restructuring. These are....
- The speed at which actual rents move towards target rents
 - Whether or not new tenants pay the full target rent from the commencement of their tenancies.
 - Whether to and how to use the 5% discretion to vary from target rents
 - Definition of service charges, which are excluded for the purpose of setting target rents.

These areas, where decisions can be made locally, are discussed in 3.14 – 3.15

The speed at which rents move towards their target level

- 3.14 Local authorities can immediately alter rents to the full target rent level, spread any changes equally over the ten years or make these in later years. In Derby it is proposed that that actual rent move towards target rents in ten equal steps. This is the assumption made by Government in determining housing subsidy.

The position of new tenants

- 3.15 Local authorities can phase in any changes for existing tenants whilst if they chose placing new tenants on the full target rent from the commencement of their tenancy. It may not be considered equitable for new tenants and existing tenants occupying identical accommodation to pay different levels of rent. For this reason it is proposed that the rents of all properties, whether occupied by new or existing tenants move towards target rents at the same speed.

The use of discretion to vary from target rents

- 3.16 Rent restructuring will result in more significant increases for some properties than for others and may have an adverse effect on the level of demand for some properties. It is proposed that the use of the discretion to vary by 5% from target rents be considered following the national review of the rent restructuring policy in 2005. This is an appropriate point to make these decisions since that review may result in revisions to the basis on which target rents are calculated. It is expected that the Council may then wish to apply this discretion where the most significant changes will occur on and where demand may be adversely affected by rent restructuring.

3.17 Definition of service charges

In addition to rent many tenants pay service charges. In order to apply rent restructuring the authority needs to agree the basis on which such charges are identified and exclude these from the calculation of target rents. Government guidance on this matter is awaited. Current Government practice in applying rent rebate subsidy limitation is to exclude the charges listed in Appendix B. The calculation of these charges is subject to external audit. It is proposed that current practice be followed by excluding these charges from the determination of target rents. It should be noted that this is an interim position pending relevant Government regulations or guidance.

OPTIONS CONSIDERED

4. The options considered are explained in paragraphs 3.13-3.17, which cover the areas of discretion left to the Council in implementing the Government's policy.

FINANCIAL IMPLICATIONS

- 5.1 The Government will make assumptions that the Council is increasing its rents in line with rent restructuring when it sets the level of housing subsidy. It will assume these changes will take place in ten equal steps, starting in 2002/03. In 2004 it will also apply rent rebate subsidy limitation on a property-by-property basis and not just (as now) on the basis of an authority's average rent. These mechanisms will compel the Council to adjust its rents in line with the Government's rent restructuring policy.
- 5.2 The White Paper on Local Government Finance, published in 2001, identified the income stream arising from rent restructuring as a source of additional revenue that could be retained by 'high performing' ALHMOs (arms length housing management organisations). Under the proposed system of 'prudential borrowing' this increased rental income together with, if necessary, increased housing subsidy, would support the cost of the additional borrowing incurred in order to bring the stock to the decent homes standard.
- 5.3 Rent restructuring and Supporting People require rent and service charges to be separated. It is only the rent element that will be adjusted in line with rent restructuring. The Council will need to follow Government regulations and guidance in determining which items relate to rent and which to service charges. Pending this it is proposed to exclude those service charges listed in Appendix B on the basis set out in section 3.17.
- 5.4 The Council will continue to set its rent policy and the overall level of rent income that is needed each year to balance its Housing Revenue Account. Derby Homes will be responsible for calculating, setting and collecting rent on the Council's behalf and drafting the Annual Rent Plan for approval by the Council and submission to Government.

LEGAL IMPLICATIONS

6. None directly arising from this report.

PERSONNEL IMPLICATIONS

7. None directly arising from this report...

ENVIRONMENTAL IMPLICATIONS

8. None directly arising from this report...

EQUALITIES IMPLICATIONS

9. None directly arising from this report...

APPENDIX A

ILLUSTRATION OF THE METHODOLOGY TO BE APPLIED IN DETERMINING TARGET RENT LEVELS

The information that would be used to calculate the rent for a 3 bedroom Council house worth £35,000 in Derby would be:

Average local authority rent at April 2000:	£45.60
Average weekly earnings in Derbyshire*	£321.10
National weekly average earnings*	£316.40
Bedroom weight**	1.05
National average LA property value at Jan 1999	£41,350
Valuation	£35,000

Putting these figures into the formula, which weights 70% of rent in relation to earnings and 30% in relation to property value the calculation would be.

Earnings related element

70% of the sector average rent	$70\% \times £45.60$	= £31.92
multiplied by relative county earnings	$\times £321.10/£316.40$	= £32.39
multiplied by bedroom weight	$\times 1.05$	= £34.01

Property value related element

30% of the sector average rent	$30\% \times £45.60$	= £13.68
multiplied by relative property value	$\times £35,000/£41,350$	= £11.57

Total Target Rent

adding together the sub-totals	$£34.01 + £11.57$	=£45.58
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* Based on the official index of manual workers earnings

** Bedroom weights applied in the formula are	Bedsit	0.80
	One bedroom	0.90
	Two bedroom	1.00
	Three bedroom	1.05
	Four or more	1.10

APPENDIX B

SERVICES CHARGES EXCLUDED FROM DETERMINATION OF TARGET RENTS

Carelink Bronze

Carelink Gold

Contract cleaning

Communal Water Metering

Decorating Service

Furniture Packs

Gardening Service

Heating and hot water

Insurance

Lock Up Garages

Miscellaneous Maintenance

Piper System

Walbrook Supported Living

Service Charges – Other

Stores

TV Relay

Warden Services