

Consultation Document



DERBY CITY COUNCIL

Housing Rents and Service Charges 2007/8

KEY ISSUES SUMMARY

General

- The RPI inflation rate to be used in the rents and service charges calculations for 2007/08 is that at the mid-point of the previous year – end of September 2006. This rate was 3.6%.
- House prices in Derby have been increasing faster than Council rents, with increases of around 90% since the start of rent restructuring in 2002.

Council Rents

- The Government have set a target for rents to reach convergence with Registered Social Landlord, RSL, rents by 2011/12.
- The target for 2011/2012 – based on future RPI increases of 2.5% a year - would be an average rent of £68.34 a week. It is therefore likely that real – that is above inflation - average rent increases of around 4% a year – or around 6.5% a year in cash terms if inflation is at 2.5% - will be required until 2011/12 if 'convergence' is to be achieved by then.
- The Government last year introduced rules to limit the overall average increase in rent income for each Council to 5% for 2006/7 and 2007/8.
- In addition they have set a limit by which rents for individual properties are capped to an increase of RPI (3.6%) + 0.5% + £2 a week.
- Following consultation, the Council in January 2006 resolved to increase average rents in 2006/07 and 2007/08 by 5% in line with Government policy. The proposal for this year is to maintain that policy.
- The Council also agreed that the way in which rents would be increased for individual properties would be to
 - increase rents in a straight line towards their target rent
 - any rents exceeding the RPI + 0.5% + £2 are scaled back to this level

- all other property rents to be scaled back to achieve the average 5% increase required.
- It is proposed to increase garage rents by 5% again in 2007/08 in line with the general increase.

Service Charges

- Derby Homes and the Council had been reviewing the cost of providing services to reflect their true economic cost to ensure that cross-subsidy between tenants is avoided.
- However the Government limited the increase in 2006/7 and future years to RPI + 0.5% plus an adjustment for energy charges which can be inflated in line with actual costs.
- The restriction on service charges remains and for 2007/8 therefore it is proposed to limit the increase to 4.1% plus an adjustment for energy if required.
- The restriction means that it will not be possible to pass on to tenants the full cost of providing some services.

Shelton Lock Pitch Fees

- Cabinet approved changes to pitch fees and pitch fee policy in November 2005 following consultation with residents and approval by Derby Homes Board.
- Pitch fees had not been increased since 1994 and it was agreed that annual increases of around 7% would be applied until the Park Homes account was brought into balance.
- The first increase of 7% was implemented in January 2006 and it was agreed that pitch fees would remain at that level until 31 March 2007 at which point an increase of around 9% was projected to cover the period 1 January 2007 to 31 March 2008.
- However, new Government regulations came into effect on 1 October and effectively mean that pitch fees can only be increased or decreased in accordance with the Retail Price Index, RPI, unless there are capital investments at the site.
- The principle on which pitch fee increases will be determined on 1 April will be by applying the increase in RPI as at the end of September in the previous year.
- For 2007/08 only there will be an increase of 4.1% based on RPI and covering the period 1 January 2007 to 31 March 2008. Subsequent increases will be 1 April to 31 March each year.

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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 well above inflation.
- 1.2 Rents have risen over the first five years of rent restructuring – from 2001 to 2006 - by considerably less than the increase in average house prices over the same period. Average house prices in Derby have risen by around 90% in the last five years. Average Council rents have increased from £41.10 to a current £50.59 – an increase of 23%. All references to weekly rents in this document refer to a 52 week equivalent rent. In practice, tenants pay slightly more on a 48 week basis with four rent free weeks in each year.
- 1.3 In 2004 the government consulted upon a review of rent restructuring that recommended three changes 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
- 1.4 These recommendations were subsequently confirmed and implemented from 2006/07. The changes increased target rents – the rent level at which we will have converged with RSLs in 2011/12 – by 7%.

Proposals for 2007/08 Rents

- 2.1 The Government, however, also decided that it did not wish to see average rent increases of more than 5% for at least the two years 2006/07 and 2007/08. Individual rents can be increased by more or less than this amount, but the overall average increase must not exceed 5%.
- 2.2 Limit rents in Derby, previously used to guide the setting of actual rents, increased by 8.75% in 2006/07 – therefore it was not possible to continue the policy of setting rents at that level.
- 2.3 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. The proposal this year is to continue this policy for 2007/08.

- 2.4 Applying this policy in 2007/08 would require an average rent of £53.11 a week – an average increase of £2.52 a week or 5%.
- 2.6 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	128	42.68	43.88	1.20	46.24	47.53
1	3,907	46.83	48.85	2.03	50.73	52.93
2	3,573	49.65	52.13	2.48	53.78	56.47
3	6,137	53.49	56.38	2.89	57.95	61.08
4	119	58.36	61.71	3.35	63.23	66.86
5	7	62.34	65.94	3.59	67.54	71.43
6	2	57.51	60.99	3.48	62.30	66.07
Shared ownership	27	27.73	28.37	.64	30.04	30.73
Total	13,900	50.59	53.11	2.52	54.81	57.54

- 2.7 Based on a projected average dwelling stock of 13,675, the increases proposed will yield additional income of around £1.8 million in 2007/08.
- 2.8 The proposed variation in rent will also apply to non-HRA properties owned by the Council. In a few cases, the Director of Corporate and Adult Social Services determines the rent where an element of service is involved with the occupancy.

Service Charges

- 3.1 Service charges and garage rents were being reviewed so that their proper economic cost could be determined.
- 3.2 However, there is a restriction imposed by the Government on un-pooled service charges 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 2007/08 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 4.1%. This represents RPI of 3.6% as at the end of September 2006 + 0.5%. All charges shown are the actual charges due over 48 weeks. In the case of energy prices, the final figures may need to rise considerably more than this amount which is illustrative of 4.1%.

Table 2

	Present £/week	Proposed £/week	Variation £/week
CCTV/concierge	1.60	1.67	0.07
Video Link Entry System	2.22	2.32	0.10
Gardening service	3.61	3.76	0.15
Decorating service	3.82	3.98	0.16
TV aerial	0.31	0.32	0.01
Lock up store	0.41	0.43	0.02
Hard standing/dropped kerb	3.61	3.76	0.15
Communal supplies: Heat and hot water			
Bed sit	5.73	5.96	0.23
1 bed	7.33	7.63	0.30
2 bed	9.03	9.40	0.37
3 bed	10.53	10.96	0.43
Heat and Power			
Bed sit	1.50	1.56	0.06
1 bed	1.86	1.94	0.08
2 bed	2.22	2.31	0.09
3 bed	2.37	2.47	0.10
Water Service			
Bed sit	2.99	3.11	0.12
1 bed	3.56	3.71	0.15
2 bed	4.02	4.18	0.16

The new charges will yield additional income of £22,000 to the HRA in 2007/08.

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 fee. Following consultation with residents and approval by Derby Homes Board, changes to pitch fees, pitch fee policy and other more minor issues were approved by Cabinet on 8 November 2005.
- 4.2 The pitch fees at the mobile home park had not been increased since 1994. The policy approved was that pitch fees should be increased to a level that assumed an average increase of 2.5% had been applied each year since 1995.
- 4.3 It was agreed that an average increase of 7% should be implemented from 1 January 2006 and then annually from 1 April 2007. Under the Council's agreement with residents, there must be at least a one-year interval between increases. Pitch fees will therefore remain at the level set in January 2006 until 31 March 2007 at which point an increase covering the period 1 January 2007 to 31 March 2008 will be required. An increase of around 9% would have been appropriate for this fifteen month period. Subsequent increases will cover the period 1 April to 31 March.
- 4.4 However, new regulations have come into effect from 1 October 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.
- 4.6 It is proposed to consult with residents to standardise the review date as 1 April so that different fees for the same size pitch are avoided. In the event of agreement not being reached, individual rental agreements will be able to be determined using the same principles as those having a 1 April review date, albeit that such an exercise would be administratively burdensome and result in differing charges for similar plots.
- 4.7 It is proposed that the principle on which increases in pitch fees will be determined on 1 April will be 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 2007/08 only, the increase will be for 15 months, as previously outlined. The movement in RPI for the fifteen months to 30 September 2006 is 4.1% giving the following proposed pitch fees:
- small plot £11.24 - increase of £0.44 a week for 9 plots (previously £10.80)
 - medium plot £14.05 - increase of £0.55 a week for 24 plots (previously £13.50)
 - large plot £16.24 - increase of £0.64 a week for 5 plots (previously £15.60)

Process

- 5.1 The Council is legally obliged to give tenants four weeks notice of a rent increase. Council on 24 January will be requested to approve the rent increase to be implemented from 2 April 2007.
- 5.2 The proposals on council rents are consistent with the basis on which the HRA budget for 2007/08 is being prepared. That report will be presented to Cabinet in February, with final decisions being taken by Council on 1 March. Consultation will take place with tenants through the City Housing Consultation Group, with Derby Homes Board and will do so with Community Commission on 4 December.
- 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 on pitch fees will take place with Derby Homes Board and with the residents at Shelton Lock.