



DERBY CITY COUNCIL

**COMMUNITY COMMISSION
20 JANUARY 2009**

Report of the Corporate Director
– Corporate and Adult Services

ITEM 10

Housing Rents and Service Charges 2009/10 Consultation

RECOMMENDATION

1. To comment on the proposals for Housing Rents and Service Charges and the Shelton Lock Mobile Homes Park Rents for 2009/10.

SUPPORTING INFORMATION

- 2.1 A consultation paper has been prepared which sets out the proposals for Housing Rents and Service Charges and for pitch fees at the Shelton Lock Mobile Homes Park for 2009/10. This is attached at appendix 2.
- 2.2 The proposals are consistent with the current framework proposed by Government for the convergence of local authority rents with those of other social landlords and with the 2008/09 Housing Revenue Account – HRA – budget and business plan. The proposal for calculating guideline rents for 2008/09 only is convergence by 2024/ 25 although since the consultation paper was written this has been changed by the Government to 2023/24 but this has no material effect on the proposals.
- 2.3 The consultation paper has been issued to Derby Homes for them to lead in consultation with tenants and other interested groups. Subject to comments from those consultees and this Commission, the proposal will be presented to Cabinet on 17 February and Council on 2 March 2008 for final decision.
- 2.4 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 HRA and may be unable to continue with policies such as Estates Pride.
- 2.5 Cabinet approved a new policy for setting rents at Shelton Lock Mobile Homes Park in November 2005, in line with the provisions of the Park Homes Charter 1994. However, new regulations came into effect on 1 October 2006 and mean that pitch fees can only be increased or decreased in accordance with the Retail Price Index (RPI).

IMPLICATIONS

Financial

- 1.1 The proposals set out comply with Government's rent convergence, rent capping arrangements and its policy on Service Charges.
- 1.2 The proposals are also consistent with the Councils HRA Budget and Business Plan
- 1.3 The proposals for the pitch fees at Shelton Lock Mobile Homes Park comply with Government regulations that came into effect on 1 October 2006.

Legal

- 2.1 The decision on the rent increase and service charges require Council approval as part of the budget and policy framework.
- 2.2 Four weeks notice is required to tenants of the decision to increase rents and it is now necessary under the new Government regulations for park homes to give the same notice period to residents of the Shelton Lock Mobile Homes Park.

Personnel

3. None directly arising

Equalities Impact

4. None directly arising

Corporate Objectives and Priorities for Change

5. None directly arising



Consultation Document

Housing Rents and Service Charges 2009/10

KEY ISSUES SUMMARY

General

- The RPI inflation rate to be used in the rents and service charges calculations for 2009/10 is that at the mid-point of the previous year – end of September 2008. This rate is 5.0%.
- Rents and rent increases are based on a 52 week year and are overall average figures. Individual rents may increase or decrease by more or less than the average increases proposed.

Council Rents

- The Government originally set a target for rents to reach convergence with Registered Social Landlord – RSL – rents by 2011/12.
- The target set in 2009/10 is higher than that set in 2008/09 since RPI inflation was 5% compared to 3.7% last year, and there will be a need to catch up some or all of the reduced increases in previous years. If rents were increased to the target rent by 2011/12, an overall average increase of £5.27 a week or 9.2% would be needed in 2009/10.
- The current average rent is £57.45 a week, compared to a target rent – where rents would be at the convergence point – of £63.46 a week. That is actual rents are lower than target by £6.01 or 10.5% at the moment, and this gap has to be bridged in order for rents to converge as planned by the government.
- To create some certainty over future rent levels and prevent unacceptably high future rent levels and increases, the Government is proposing fixed increases in guideline rents of 6.1% and 6.2% for 2009/10 and 2010/11 respectively.
- This will mean the date of convergence will float, at least for the next two years, depending on future levels of RPI inflation.

- The proposed date of convergence when calculating the 2009/10 rent increase is therefore deemed by the government to be 2024/25 for next year only. This convergence point might be brought forward in 2010/11 if inflation is substantially below the expected increase in rents of around 6% in 2010/11.
- As a further measure to keep rents at affordable levels, the Government is proposing to limit the average overall rent increase to 7% with compensation for any loss of income to the HRA due to this constraint.
- The consultation paper sets out 3 options for a rent increase in 2009/10, which would require increases to average rents of 5.95% or 7% in 2009/10 and would probably lead to similar increases in 2010/11. The Council is proposing to adopt the lowest rent increase of these three options – an average increase of 5.95% for 2009/10.
- It is proposed to increase garage rents in line with the general increase.

Service Charges

- Derby Homes and the Council are continuing to review the cost of providing services to determine their true economic cost. It is proposed to increase the number of services which are un-pooled and charged directly to individual properties.
- A Government restriction remains that limited the increase in charges for existing un-pooled services in 2006/7 and future years to RPI + 0.5%, with further adjustment to energy charges which can be inflated in line with actual costs to be considered.
- For 2009/10 therefore it is proposed to limit the increase for existing and unchanged services to 5.5% with a further review of energy related services to consider increasing these in line with energy costs.
- It is proposed to introduce some new and revised service charges in 2009/10.
- 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

- New Government regulations came into effect on 1 October 2006 and mean that pitch fees can only be increased or decreased in accordance with the Retail Price Index (RPI).
- For 2009/10 there will be an increase of 5.0% based on RPI as at September 2008.

Consultation Document

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. The intention was that rent levels have to ‘converge’ by 2011/12 to a similar rate to other social housing rents. Since Council rents in Derby are lower than in many other areas, average increases in rents have been well above inflation and this pattern will continue if convergence is to be achieved.
- 1.2 However, the Housing Revenue Subsidy Determinations that were received for the current year made the future pattern of rent restructuring appear uncertain: “Ministers proposed – *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.”

Proposals for 2009/10 Rents

- 2.1 The draft HRA Subsidy determinations for 2009/10 were received on 29 October. These were preceded by a pre-determination consultation that ended in September. The purpose of this consultation was to propose to Local Authorities that there should be no significant changes to the current Housing Revenue Account Subsidy system until the outcome of the current joint Communities and Local Government and HM Treasury Review of Council Housing Finance is known. The consultation proposed therefore that the formulae and definitions used for 2009/10 will also be used in 2010/11.
- 2.2 As part of this stabilization process, the Government also wish to create some certainty in the level of rent increases over the next two years and so instead of guideline rent increases being dependent on the level of inflation prevailing in September this year, and at September 2009 for the 2010/11 determination, the proposal is to use fixed average percentage guideline rent increases in the determinations for both 2009/10 and 2010/11.
- 2.3 The consultation stated that the draft determination would include more than one set of figures to illustrate different rent-setting options. One option now proposed is the “default” option based on September 2008 RPI and with the original rent convergence date of 2011/12. This produces some very high average guideline rent increases because the original convergence date is only 3 years away and RPI inflation at September 2008 is 5%.
- 2.4 Latest calculations show that a rent increase of about 9.2% or £5.27 a week would be needed in Derby in 2009/10 if convergence is to be achieved by the original target date of 2012. While “Authorities may wish to use this option, it would not be the preferred one of Communities and Local Government.” In any case an increase of this amount would not be possible in Derby as the determination also proposes an overall limit of 7% on average rent increases to protect tenants from unacceptably high rent increases. The maximum overall average rent increase that could be

applied is therefore 7% or £4.02 a week since the average anticipated for the current year is £57.45 a week. The Government will compensate authorities for any rent lost due to the imposition of this limit, although they have yet to provide details of how they will do so.

2.5 Rent restructuring should be considered in the context of four key rents:

- Target rent – rent at full convergence. The actual date of convergence is now floating and will depend on future levels of inflation. The target rent for 2009/10 is £66.95
- Limit rent – the maximum rent that can be charged each year during the convergence process – setting rents higher than the limit rent will result in a loss of subsidy.
- Guideline rent - the rent set by the Government and used for setting subsidy levels
- Actual rent – the rent actually charged to tenants

These rents for the last 3 years and proposed for 2009/10 are shown in Table 1 below:

Table 1

Average Rents - per dwelling per week over 52 weeks	2006/07 £	2007/08 £	2008/09 £	2009/10 £
Target Rent	58.40	60.79	63.46	66.95
Limit Rent	53.30	56.54	59.52	63.07
Guideline Rent	50.08	53.87	57.04	60.63
Actual Rent	50.59	53.12	57.45	60.87#
Difference between Actual Rent £ and Target Rent %	-£7.81 -15.4%	-£7.67 -14.4%	-£6.01 -10.5%	-£6.08 -10.0%
Difference between Actual Rent and Guideline Rent	+£0.51*	-£0.75*	+£0.41	+£0.24

*Notes: * These rent increases were capped leading to rents falling below guideline rents. # This rent is proposed as the actual increase for 2009/10 equivalent to the third option section 2.10 below.*

2.7 The optimum rent increase will be the one that is most affordable, continues to go towards meeting the target rent and does not exceed the limit rent or other Government restrictions.

2.8 The Government is proposing to mitigate the effect of high RPI inflation on 2009/10 and 2010/11 rents by fixing the average guideline rent increases for those years and

not linking these to the current rate of inflation. The proposal is that average guideline rent increases should be fixed at 6.2% for 2009/10 and 6.1 % in 2010/11. This will mean guideline increases of £3.59 in 2009/10 and £3.70 in 2010/11.

2.9 Increasing guideline rents by 6.2% for 2009/10 will have the effect of pushing back the date of convergence to 2024/25 and is the Government's preferred option for calculating next year's rent increase. Fixing the increase in guideline rents at 6.1% for 2010/11 may mean that the rent formula for that year compared to that proposed for 2009/10 will change – the rent convergence date will change depending on what the actual rate of inflation is in the previous September. It is possible that inflation will fall in 2009/10 leading to an adjustment in the rent formula in 2010/11 which will have the effect of bringing forward the date of rent convergence. For example, if RPI inflation in September 2009 is 4% then a 6.1% increase in guideline rents would imply a convergence date of 2015/16 while an inflation rate of 3% would lead to convergence in 2013/14.

2.10 Given the Government's proposals for rent restructuring over the next two years including the introduction of a floating convergence date and a 7% limit on the average overall rent increase, options for rent increases are limited. Possible options are:

- Increase actual rents to the Limit Rent – the Council's policy prior to rent capping. This would mean a rent increase of £5.62 a week or almost 10%. The increase would be limited to £4.02 a week under the Government's proposal for a 7% limit on average overall increases.
- Increase rents to achieve convergence in 2011/12 – the Council's current policy - this would mean a rent increase of £5.27 a week or 9.2%. This option would also be limited to £4.02 a week under the Government's proposal for a 7% limit on average overall increases.
- Increase rents so that convergence takes place in 2024/25 given that RPI inflation is 5% in September 2008 and that the Government wishes to fix Guideline rent increases at 6.1% and 6.2% in 2009/10 and 2010/11 respectively. This is the Government's preferred option and would mean an average rent increase in 2009/10 of **£3.42 a week or 5.95%**. Average rents would continue to be around £6 a week or 10% below the target rent.

2.11 The rent increase for 2010/11 is also likely to be around 6% even if inflation falls substantially as currently expected next year. The gap between actual and target rents will be caught up over a number of years until convergence point is reached. At the moment it is not possible to precisely determine future increases because they will be determined by future rates of RPI inflation and the Government's future proposals on the floating date of convergence, but the real terms increase in rents in 2010/11 could be quite substantial as the guideline rent of 6.1% is now fixed, and if inflation falls as expected to below 3%, then a real terms increase of 3% or more could be anticipated for 2010/11.

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

2.13 The Council welcomes consultation responses on which option it should adopt.

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 plus 0.5% except where the council has no control over rising costs, for example increased charges for energy, or for new services. It is therefore proposed that existing unchanged service charges for 2009/10 shall be increased by RPI plus 0.5% plus an adjustment for increased energy costs where necessary.

3.3 As a result of the review, it is proposed to increase the number of services which are un-pooled and charged directly to individual properties. As a first phase there will be new charges for:

- Grounds Maintenance – flats and sheltered scheme properties
- Smoke Alarms – flats/bungalows
- Smoke Alarms – houses
- Burglar Alarms

and a revised charge for:

- Energy supplies – sheltered schemes

The target implementation date for these new and revised services is 6 April 2009. The Council welcomes consultation responses on the introduction of these new and revised service charges and the level of charge proposed.

There would also be the introduction of a new service charge and revisions to some existing services and charges, with a target date of implementation of 7 September 2009:

- Communal energy supplies – new service charge for blocks of flats
- Home Decoration Service – replacement of current service with revised scheme for eligible properties.
- Garden Maintenance – replacement of current service with revised scheme for eligible properties.
- Furnished Tenancies – additional service charge for sound-insulated carpets for specific flats.
- Communal Cleaning and Caretaking – replacement of current cleaning service charges incorporating caretakers and a revised cleaning contract for communal areas.

A separate consultation will take place for these new and revised service charges to be implemented in September 2009.

- 3.4 The impact of the new and revised charges on individual properties will be evaluated to ensure that overall charges do not increase the costs to tenants beyond a reasonable level. The maximum increase in rent and service charges combined – apart from energy charges - for any tenant is RPI plus 0.5% plus £2 a week. Given that the average rent increase proposed is below 6% it is unlikely that total charges for many tenants would exceed that limit. If they do, individual rents would be capped at that level.
- 3.5 Table 2 shows the revised service charges for existing and unchanged services. These services show an increase of 5.5%. This represents RPI of 5.0% as at the end of September 2008 plus 0.5%. The table also includes the proposed charges for the newly introduced and revised services with the target date of implementation of 6 April 2009. All charges shown are the actual charges due over 48 weeks.

Table 2

	Present £/week	Proposed £/week	Variation £/week
CCTV/concierge	1.74	1.84	0.10
Video Link Entry System	2.42	2.55	0.13
Gardening service	3.93	4.15	0.22
Decorating service	4.16	4.39	0.23
TV aerial	0.33	0.35	0.02
Lock up store	0.45	0.47	0.02
Parking Permit	1.36	1.43	0.07
Hard standing/dropped kerb	3.93	4.15	0.22
Supported Living:			
Main Service Charge	13.26	13.99	0.73
Reduced Service Charge	8.24	8.69	0.45
Previous P/time	12.60	13.29	0.69
Carelink:			
Bronze	2.19	2.31	0.12
Gold	2.94	3.10	0.16
Visiting Warden	3.04	3.21	0.17
Furniture Packs :			
Carpets/Curtains 1	2.71	2.86	0.15
Carpets/Curtains 2	2.19	2.31	0.12
Carpets/Curtains 3	3.81	4.02	0.21
Carpets/Curtains 4	4.33	4.57	0.24
Carpets/Curtains 5	5.43	5.73	0.30
Carpets/Curtains 6-7	6.53	6.89	0.36
Furniture Pack 1	8.14	8.59	0.45
Furniture Pack 2	9.24	9.75	0.51
Furniture Pack 3	11.95	12.61	0.66
Furniture Pack 4	13.57	14.32	0.75
Furniture Pack 5	15.24	16.08	0.84
Furniture Pack 6	15.76	16.63	0.87
Furniture Pack 7	16.86	17.79	0.93

Furniture Pack 8	6.53	6.89	0.36
Furniture Pack 9	11.95	12.61	0.66
Furniture Pack 10	13.57	14.32	0.75
Furniture Pack 11	5.43	5.73	0.30
Furniture Pack 12	10.86	11.46	0.60
Furniture Pack 13	8.70	9.18	0.48
White Goods BC	6.53	6.89	0.36
White Goods	9.24	9.75	0.51
Contract Cleaning :			
Contract Cleaning 2	0.84	0.88	0.04
Contract Cleaning 3	0.31	0.33	0.02
Contract Cleaning 4	0.21	0.22	0.01
Contract Cleaning 6	0.63	0.66	0.03
Contract Cleaning 7	0.68	0.72	0.04
Contract Cleaning 8	1.57	1.66	0.09
Contract Cleaning 9	1.15	1.21	0.06
Contract Cleaning 10	0.99	1.04	0.05
Contract Cleaning 11	0.63	0.66	0.03
Contract Cleaning 12	1.04	1.10	0.06
Contract Cleaning 13	0.79	0.83	0.04
Contract Cleaning 14	0.94	0.99	0.05
Contract Cleaning 15	1.31	1.38	0.07
Contract Cleaning 16	0.71	0.75	0.04
Contract Cleaning 17	0.96	1.01	0.05
Water Service – Sheltered Schemes:	3.25	3.43	0.18
Bed sit	3.87	4.08	0.21
1 bed	4.36	4.60	0.24
2 bed			
Energy supplies – Sheltered Schemes:			
Heat and hot water:	6.22	Awaiting New Charges from	Derby Homes
Bed sit	7.97		
1 bed	9.81		
2 bed	11.44		
3 bed			
Heat and Power:			
Bed sit	1.63	Awaiting New Charges from	Derby Homes
1 bed	2.03		
2 bed	2.41		
3 bed	2.58		
Grounds Maintenance – Flats and Sheltered Schemes	-	Awaiting New Charges from	Derby Homes
Smoke Alarms - Flats	-	0.63	New Charge
Smoke Alarms - Houses	-	1.23	New Charge

Burglar Alarms	-	2.54	New Charge
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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 2009/10 the increase will be 5.0% and will mean pitch fees charged will be:
- small plot £12.26 - increase of £0.58 a week for 9 plots (previously £11.68)
 - medium plot £15.33 - increase of £0.73 a week for 24 plots (previously £14.60)
 - large plot £17.71- increase of £0.84 a week for 5 plots (previously £16.87)
- 4.7 Derby Homes and the Council have undertaken a review of the future of the Park Home and there may be further proposals emerging from this in due course. The proposed increases here are to maintain current rental levels in real terms as a minimum in the interim.

Process

- 5.1 The Council is legally obliged to give tenants four weeks notice of a rent increase. Council on 2 March will approve the rent increase to be implemented from 6 April 2009.
- 5.2 The proposals on council rents and service charges are consistent with the basis on which the HRA budget for 2009/10 is being prepared. That report will be presented

to Cabinet in February. Consultation will take place with tenants through the Derby Association of Community Partners, Local Housing Boards and Housing Focus Group, with Derby Homes Board and will do so with Community Commission on 13 January 2009.

- 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.

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Background papers: CLG Draft HRA Subsidy Determinations and related documents