



## **Housing Rents and Service Charges 2010/11**

### **SUMMARY**

- 1.1 The Government originally set a policy to restructure social housing rents over the 10 year period 2002/03 to 2011/12. The process involves moving rents incrementally towards a target so that at the end of the restructuring period, council housing rents will be in line with those of other Registered Social Landlords – RSLs – this is known as ‘rent convergence’.
- 1.2 The period of rent restructuring has changed a number of times during the life of the policy, due to the impact of changes in the rate of inflation and Government intervention in terms of rent capping. Currently, it is anticipated that rents will converge in 2012/13 – one year after the original intended date - although this date could change again depending on inflation levels and a shift in government policy.
- 1.3 Our rent proposals for 2010/11 include the ‘unpooling’ or separation of certain service charges totalling £1.57 per week – namely Smoke Alarms and Grounds Maintenance. In addition, the levels of charges for energy usage have been reviewed with a revised level of charges proposed, and proposals for separate meters for electricity.
- 1.4 If the service charges are unpooled, the average rent will reduce by £1.57. When service charges averaging £1.57 are added back, the overall total paid by tenants in 2010/11 will be the same as it would have been if the unpooling of these service charges are not put in place.
- 1.5 Overall the average rent would decrease by 40p a week or – around 0.7%. The average increase for rent and unpooled service charges taken together for 2010/11 works out at just under 2%, although there will be a wide variation, as there always is under rent restructuring.
- 1.6 A majority of tenants will have a rent cap applied at RPI +0.5% +£2. For a tenant paying the average rent this will restrict the increase to around 2.5%. Proposed actual rent increases in April 2010 will feel slightly higher than figures quoted here which are based on an average rent for the whole year rather than that being paid now.
- 1.7 It is proposed to freeze all existing service charges in 2010/11.
- 1.8 It is proposed to introduce a new service charge to be applied to qualifying new tenants relating to tenancy sustainment of £14.50 a week.
- 1.9 Garage and other rents are proposed to be increased by the Guideline rent increase of 3.6%.

## RECOMMENDATIONS

- 2.1 To recommend Council, on 1 March 2010 approve revision of rent and service charges from 5 April 2010 on the basis set out in the report including:
- an average overall weekly rental decrease of £0.40 or 0.7% calculated over 52 weeks, plus
  - introduction of unpooled service charges for Grounds Maintenance and Smoke Alarms as detailed at Appendix 2 which is available on CMIS
  - implementation of revised energy charges as detailed at Appendix 4 which is available on CMIS
  - introduction of new service charge for Tenancy Sustainment of £14.50 per week
  - a freeze on all other Service Charges as set out in Table 2 of the report
  - an increase in Garage Rents and other rents of 3.6%.

## SUPPORTING INFORMATION

### Background

- 3.1 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 rent over a ten-year period that started in April 2002. The intention was that rent levels should ‘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, in order to get to the rent convergence level, average increases in rents have been well above inflation in recent years and this pattern will have to continue if convergence is to be achieved.
- 3.2 The HRA Subsidy system largely drives the extent to which there is a need to increase rents by reducing resources according to an assumed rental path towards rent convergence – that is the point at which Council rents would be broadly the same as those charged by Registered Social Landlords (RSLs). The government has been moving the date for this target in recent years, resulting in different increases in rents each year. Last year it was expected to be a further 15 years to convergence, however, for 2010/11, the target has been reduced to 3 years. This shortening of the period has the effect of increasing the real terms rent more substantially than in the past, but comes at a point where Retail Price Index (RPI) inflation for rent setting purposes in September 2009 was negative at -1.4%.
- 3.3 In this report all rents and service charges shown in the text are calculated on a 52 week basis whilst the charges shown in tables 2 and 3 are the actual amounts tenants will pay over 48 weeks.

### Proposals for 2010/11 Rents

- 4.1 Under Government rules on rent restructuring, the Council needs to converge with RSL rents. Originally this was supposed to be achieved by 2012, but rent capping for a couple of years followed by a halving of the rent increase in 2009/10 part way through the year had pushed back this target considerably.

- 4.2 At the moment, average rents in Derby are 11.4% or £7.65 a week below the target rent. In reality, tenants are all on different points in the process of moving towards the target rent so will experience higher or lower increases according to their own position.
- 4.3 The target rent for rent restructuring convergence, increases each year by the previous September's RPI plus 0.5%. As RPI inflation was -1.4% in September 2009, the basic target rent has fallen by 0.9%.
- 4.4 With the target period for rent restructuring set this year at three years, roughly a third of the remaining gap, almost 4%, between actual and target rent has to be closed this year to stay on track. This pushes the national figure up from -0.9% to 3.1% increase. Each authority's average – as for individual tenants - is also at a different point on the track to convergence, and Derby's guideline average rent has been increased by 3.6%. This would require increases in actual average rents of 3.3% in 2010/11.
- 4.5 If average rents were increased according to this formula by an average of 3.3%, this would, however, miss an opportunity to increase resources for the longer term. This is discussed later in this report, and in the associated report on the HRA Business Plan on this agenda.
- 4.6 If rent restructuring were to be completed over the next two years, then further increases of around 4% a year above inflation would be required. Unless RPI reverts to a negative percentage again – it is (at Jan 2010) +2.4% – then this would appear to be a fairly unlikely scenario. It may well be, therefore, that rent restructuring will again be spread over a longer period, reducing real terms increases to a lower and more reasonable amount. This will depend on future Government policy.
- 4.7 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 set at 2012/13 – although dependent on future levels of inflation. The target rent for 2010/11 is £66.31
  - 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. This has been substantially higher than actual rents in recent years.
  - Guideline rent - the rent set by the Government and used for setting subsidy levels. This has increased by 3.6% this year.
  - Actual rent – the rent actually charged to tenants.

These rents for the last 3 years and proposed for 2010/11 are shown in Table 1 below:

**Table 1**

<b>Average Rents - per dwelling per week over 52 weeks</b>	<b>2007/08 £</b>	<b>2008/09 £</b>	<b>2009/10 £</b>	<b>2010/11 £</b>
<b>Target Rent</b>	60.79	63.46	66.92	66.31
<b>Limit Rent</b>	56.54	59.52	61.23	62.53
<b>Guideline Rent</b>	53.87	57.04	58.86	60.39 + (see note)
<b>Actual Rent</b>	53.12	57.48	59.27	58.88
<b>Unpooled Service Charges</b>				<u>1.57</u>
<b>Rent and Unpooled Service Charges</b>				60.45
<b>Difference between Actual Rent £ and Target Rent</b>	-£7.67	-£5.98	-£7.65	-£7.43
<b>%</b>	-14.4%	-10.4%	-11.4%	-11.2%
<b>Difference between Actual Rent and Guideline Rent</b>	-£0.75	+£0.44	-£0.41	- £1.51

**Note:** + this rent is after a caps and limits adjustment of £0.55.

- 4.8 The optimum rent increase will be the one that is the best balance of being most affordable for tenants, while raising the most funding for the HRA to support spending priorities, without exceeding the limit rent or other Government restrictions.
- 4.9 Derby Homes Board has proposed two new service charges to the Council, relating to Smoke Alarms and to Grounds Maintenance. These relate to services which are not received by all tenants but are currently paid out of the rent paid by all tenants. By introducing a service charge related to the specific cost of these services, the aim is to remove the cross subsidy that effectively exists between those tenants not receiving different levels of service. In addition, significant additional funds would be raised over time, in excess of £1m a year eventually, with a majority of those funds being raised from Housing Benefit.
- 4.10 These additional funds are critical spending priorities for the HRA after 2010/11 when additional funding from HRA subsidy runs out, requiring a payment of over £5m a year to be made in 2011/12. There are currently no specific funds for aids and adaptations and funding such spending is effectively requiring reductions elsewhere in the capital programme. It is therefore critical that additional funds are raised to help to maintain overall investment.
- 4.11 The service charges would be 'unpooled' from the basic rent, and would generate more funds over time as the rent increases to the convergence point. Unpooling of service charges will reduce the basic rent for tenants at the point of introduction of the service charge, but result in higher overall charges of rent plus service charge by the end of the rent restructuring process. The benefit to the HRA however is roughly three times the level of resources generated from tenants, as around two thirds of costs are met by Housing Benefit. Thus for every £1 extra charged to paying tenants, another £2 is raised from Housing Benefit, resulting in £3 of resources for the HRA to be spent on maintaining Council homes into the future.

- 4.12 There is a cap set by the government to the additional amount that can be raised from a tenant in any one year compared to the previous. This is based on RPI + 0.5% + £2 a week. In most recent years, this has only affected a minority of tenants.
- 4.13 For 2010/11, it is anticipated that there will be a majority of tenants who will have their rent increases capped by this formula, as the RPI measure for September 2009 was so low at -1.4%. This means that for a tenant on the average rent of £59.28, the cap would be set at £60.75 – an increase of only 2.5%.
- 4.14 As the average rent increase alone would be higher than this, a majority of tenants will be capped at around this level of increase. If unpooled service charges are added in to the equation, the capped figure is not increased, and the increases would not take effect next year, but in effect be deferred and spread over future years. It is possible, therefore, to increase service charges and future income while not increasing further the charges to tenants in the short term. In addition the working of the HRA subsidy system will release some additional funds, approximately £400k payable in 2011/12, and further funds in future years if the HRA subsidy system remains. It would therefore appear that 2010/11 is the year during which additional revenue raised by unpooling service charges would be maximised.
- 4.15 Table 2 shows the current weekly average rent by property type, and the proposed average weekly changes:

**Table 2**

No of Bedrooms	No of properties	Current average 52 wk basic rent £	Proposed average 52 wk basic rent £	Average change over 52 weeks £	Current 48 wk basic rent £	Proposed 48 wk basic rent £
0	83	49.15	47.80	-1.35	53.25	51.78
1	3,886	54.52	52.86	-1.66	59.06	57.26
2	3,482	58.18	57.79	-0.39	63.03	62.60
3	6,043	62.87	63.27	0.40	68.11	68.54
4	119	68.69	69.11	0.42	74.41	74.87
5	7	73.23	73.59	0.36	79.34	79.73
6	2	68.72	69.12	0.40	74.44	74.88
Shared Ownership	27	66.75	67.57	0.82	72.31	73.20
Total	13,649	59.28	58.88	-0.40	64.22	63.79

- 4.16 The variation in rent will also apply to non-HRA properties owned by the Council. In these cases, an increase of 3.62% in line with Guideline rents is recommended.

## Service Charges

- 5.1 A restriction is imposed by the Government on unpooled service charges remains limiting the overall increase in rents and service charges 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. Any new unpooled service charges are therefore part of this capping arrangement, and consequently tenants will pay the same in 2010/11 as they would have paid under rent restructuring for rent alone.

- 5.2 As mentioned at previously, Derby Homes Board has proposed two new service charges to the Council, relating to Smoke Alarms and to Grounds Maintenance. In addition a review of energy charges has been undertaken and proposals are put forward to increase charges accordingly.
- 5.3 For smoke alarms the amounts proposed are (48 week basis – actual charge):
- |                 |     |                 |        |
|-----------------|-----|-----------------|--------|
| One smoke alarm | 70p | Multiple alarms | £1.06p |
|-----------------|-----|-----------------|--------|
- 5.4 Each tenant who receives this service will have their 2010/11 rent reduced by the relevant amounts shown above so that their combined rent and service charge in 2010/11 will not be greater than it would have been had we not unpooled these charges. However, over time – as rents converge - these charges will become an addition over and above basic rent and thus generate additional funds for the HRA. It is anticipated that once rent restructuring is complete, this measure will raise around £570,000 a year for the HRA to help to enhance or protect services. The charge would be mandatory; therefore the cost would be recoverable through Housing Benefit where applicable.
- 5.5 Around 65% of the funds would be generated from Housing Benefit (£380,000) with the rest from an increase in overall charges to paying tenants (£190,000), of which the majority of tenants will be capped in 2010/11.
- 5.6 As the rent reductions are targeted to those facing the new charges, then there will be no net impact in 2010/11 beyond that faced under the rest of rent restructuring anyway. In the meantime, though, the operation of the existing HRA subsidy system effectively funds a proportion of these charges through a ‘caps and limits’ adjustment. Assuming the HRAS system continues to operate, the Council will in effect get some of these funds in advance of the real charges being levied on tenants.
- 5.7 For Grounds Maintenance the proposed charges are set out in Appendix 2 which is available on CMIS. They range from £0.10 a week to £7.59 a week (48 week basis). The charge applies to the minority of tenants who receive this service and end the existing cross subsidy from those required to maintain their own gardens.
- 5.8 The overall cap on individual property rent and service charge increases applies at RPI plus 0.5% plus £2 a week. For a tenant paying around the average, this cap will determine the total to be paid and a majority of tenants would be placed in this position. This means that the increased charges will not translate into actual increases to rental income until the effect of the cap works through over a number of years. Again, each case will be different, but all have the cap applied to them.
- 5.9 Overall, around 5,600 homes receive a specific grounds service for their area. As a result, the unpooling of charges would see rents for these tenants reduce by the same amount as their initial charge. A few tenants will face considerable increases over time but these will to be limited by the overall cap on rents and service charges each year, and this increase will therefore be spread over a number of years.

- 5.10 Again, once rent restructuring has worked through, there would be an increase in resources generated of around £600,000 a year for the HRA which would be available to enhance or protect services. Again these changes would be mandatory and therefore eligible for Housing Benefit.
- 5.11 Taken together, these two measures would have the ability to eventually generate almost £1.2m a year in additional revenue, two thirds of which would come from Housing Benefit. The maximum benefit to tenants overall therefore, would come from raising these new service charges in order to invest the proceeds in the maintenance of their homes.
- 5.12 The concern will be about those tenants not on housing benefit who will have to pay and that any charge is reasonable and phased in. The overall cap on rents and service charges means that the average rent increase is estimated to be just under 2% or around 2.7% from what is being charged now, but there will be a lot of variation within this.
- 5.13 Derby Homes have undertaken some work to update energy charges for the few homes still with shared metering. This reveals that current charges are understated by between 13% and 109% reflecting increased energy costs. While these are a minor amount (under £10,000 a year of cross subsidy) the proposed increases would be very substantial for the few tenants to which this applies.
- 5.14 For 2010/11 it is proposed to change the way in which tenants are charged for energy usage in these properties. At present, the charges are a composite of gas, water and electricity. However, from April it is proposed to continue to charge for gas and water, based on shared meters, but transfer responsibility for the electricity to the tenants via the individual meters that are in place in each property.
- 5.15 To prevent increases in charges from being excessive it is proposed to 'cap' rises to 10% of the 2009/10 charge. The calculations are set out in Appendix 3 which is available on CMIS. It is intended that the charges continue to be increased until they reach the actual cost in each case.
- 5.16 In addition to the above charges it is also proposed, at the suggestion of Derby Homes, to introduce a new charge for 'Tenancy Sustainment'. The proposal is for all Introductory Tenants to be assessed in terms of their ability and experience to live independently and successfully manage a tenancy. Those assessed as being in need will receive an intensive housing management service starting at the point when they are first offered a property. Those tenants who can clearly demonstrate that they are low risk in terms of tenancy failure will not be required to receive the service. Those Introductory Tenants who receive this service will be required to pay a service charge of £14.50 per week. The funds raised would be passed to Derby Homes to fund a programme of intensive management support for these new tenants. As an entirely new service, and limited to new tenants only, this charge would not be subject to the capping rules for unpooling of service charges.
- 5.17 The impact of all increased charges on individual properties has been evaluated to ensure that overall charges do not increase the costs to tenants beyond the limits set by the government. 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. If total charges for individual tenants would exceed that limit, they will be

capped at that level. The overall increase in average rents and unpooled service charges will be just under 2%. Existing service charges are proposed to be frozen, so overall cost increases would be less than this.

- 5.18 Table 3 shows the service charges for existing and unchanged services. As no increase is proposed for these services the charges remain the same as the previous year. All charges shown are the actual charges due over 48 weeks.

**Table 3**

	Present £/week	Proposed £/week	Variation £/week
CCTV/concierge	1.84	1.84	0.00
Video Link Entry System	2.55	2.55	0.00
Gardening service	4.15	4.15	0.00
Decorating service	4.39	4.39	0.00
TV aerial	0.35	0.35	0.00
Lock up store	0.47	0.47	0.00
Parking Permit	1.43	1.43	0.00
Hard standing/dropped kerb	4.15	4.15	0.00
Supported Living:			0.00
Main Service Charge	13.99	13.99	0.00
Reduced Service Charge	8.69	8.69	0.00
Previous P/time	13.29	13.29	0.00
Carelink:			0.00
Bronze	2.31	2.31	0.00
Gold	3.10	3.10	0.00
Visiting Warden	3.21	3.21	0.00
Furniture Packs :			0.00
Carpets/Curtains 1	2.86	2.86	0.00
Carpets/Curtains 2	2.31	2.31	0.00
Carpets/Curtains 3	4.02	4.02	0.00
Carpets/Curtains 4	4.57	4.57	0.00
Carpets/Curtains 5	5.73	5.73	0.00
Carpets/Curtains 6-7	6.89	6.89	0.00
Furniture Pack 1	8.59	8.59	0.00
Furniture Pack 2	9.75	9.75	0.00
Furniture Pack 3	12.61	12.61	0.00
Furniture Pack 4	14.32	14.32	0.00
Furniture Pack 5	16.08	16.08	0.00
Furniture Pack 6	16.63	16.63	0.00
Furniture Pack 7	17.79	17.79	0.00
Furniture Pack 8	6.89	6.89	0.00
Furniture Pack 9	12.61	12.61	0.00
Furniture Pack 10	14.32	14.32	0.00
Furniture Pack 11	5.73	5.73	0.00
Furniture Pack 12	11.46	11.46	0.00
Furniture Pack 13	9.18	9.18	0.00
White Goods BC	6.89	6.89	0.00



	Present £/week	Proposed £/week	Variation £/week
White Goods	9.75	9.75	0.00
Contract Cleaning :			0.00
Contract Cleaning 2	0.89	0.89	0.00
Contract Cleaning 3	0.33	0.33	0.00
Contract Cleaning 4	0.22	0.22	0.00
Contract Cleaning 6	0.66	0.66	0.00
Contract Cleaning 7	0.72	0.72	0.00
Contract Cleaning 8	1.66	1.66	0.00
Contract Cleaning 9	1.21	1.21	0.00
Contract Cleaning 10	1.04	1.04	0.00
Contract Cleaning 11	0.66	0.66	0.00
Contract Cleaning 12	1.10	1.10	0.00
Contract Cleaning 13	0.83	0.83	0.00
Contract Cleaning 14	0.99	0.99	0.00
Contract Cleaning 15	1.38	1.38	0.00
Contract Cleaning 16	0.75	0.75	0.00
Contract Cleaning 17	1.01	1.01	0.00

- 5.19 It is proposed that garage rents will be increased by 3.6% in line with the guideline rent increase.

## Process

- 6.1 The Council is legally obliged to give tenants four weeks notice of a rent increase. Council on 1 March 2010 will be recommended to approve the rent increase to be implemented from 5 April 2010.
- 6.2 The proposals on council rents and service charges are consistent with the basis on which the HRA budget for 2010/11 has been prepared. That report is also being presented to Cabinet on this same agenda. Consultation has taken place with tenants through the Derby Association of Community Partners, City Housing Consultation Group, with Derby Homes Board, the HRA Strategic Working Party and with the Community Commission.

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**Background papers:** Housing Revenue Account Subsidy Determinations 2010/11

**List of appendices:** Appendix 1 – Implications  
Appendix 2 – Grounds Maintenance charges - available on CMIS  
Appendix 3 – Energy charges – available on CMIS

<b>IMPLICATIONS</b>
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**Financial**

- 1.1 As set out in the report.

**Legal**

- 2.1 As set out in section 6.1 and 6.3 of the report.

**Personnel**

- 3.1 None.

**Equalities Impact**

- 4.1 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**

- 5.1 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.