

Housing Rents and Service Charges 2011/12

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 limitation and capping. Currently, it is anticipated that rents will converge within five years, by 2015/16 – although this date could change again depending on inflation levels and a shift in government policy. If Housing Revenue Account (HRA) reform takes place as anticipated, with effect from April 2012, it is likely this date will be fixed.
- 1.3 Our rent proposals for 2010/11 included the ‘un-pooling’ or separation of service charges for Smoke Alarms and Grounds Maintenance. There is no further un-pooling of service charges proposed for 2011/12.
- 1.4 Government Policy is to establish the percentage average guideline increase by applying RPI inflation at the previous September and a convergence factor to reflect the number of years to rental convergence with the Housing Association sector. The RPI inflation rate for 2011/12 is the rate at September 2010, that is 4.6%.
- 1.5 This produces an average guideline rent increase for 2011-12 of 6.8%. Derby’s rents are below guideline and applying the RPI inflation and convergence factors implies an actual average increase of 7.4% although there will be a wide variation in individual rents, as there always is under rent restructuring.
- 1.6 Some tenants will have their weekly rent increase limited to RPI +0.5% +£2. For a tenant paying the average rent this would mean an increase of around 8.4% or £5 a week.
- 1.7 It is proposed to increase most service charges by RPI + 0.5%, total 5.1% in 2011/12. There are some exceptions to this where lower increases in actual cost have been experienced – notably in grounds maintenance. The full set of new charges are set out in Table 3 in the report.
- 1.8 Garage and other rents are proposed to be increased by the average rent increase of 7.4%.

- 1.9 Turnover and around 1000 homes a year fall void and are re-let. It is proposed to set re-let rents at target rent straight away rather than an incremental movement. This would increase the income received by the HRA. If this policy is adopted it is estimated that it will generate around £130,000 in the first year and £300,000 in 2012/2013.
- 1.10 It is proposed to increase energy charges by 5.1%.
- 1.11 It is proposed to increase pitch fees at Shelton Lock Mobile Home Park by RPI plus – subject to residents' agreement – a further £2 a week to help finance the development of the site.

RECOMMENDATIONS

- 2.1 To recommend Council, on 2 March 2011 approve revision of rent and service charges from 4 April 2011 on the basis set out in the report including:
- an average overall weekly rental increase of £4.34 or 7.4% calculated over 52 weeks, plus
 - an increase in most Service Charges of 5.1% with some – mostly lower – exceptions as set out in Table 3 of the report.
 - To revise service charges for cleaning to cost as soon as possible during 2011/12
 - To implement a recommendation from Housing Boards to move blocks from fortnightly cleaning to weekly cleaning except where a majority of residents have objected.
 - increasing rents to target level for all new tenancies
 - an increase in Garage Rents and other rents of 7.4%
 - To continue the policy last year of increasing utility charges in category 2 sheltered housing by 10% a year - where these are below cost - until the charges reach actual cost.
 - an increase of RPI in pitch fees at Shelton Lock Mobile Home Park plus a further £2 a week to help finance the development of the site.

REASONS FOR RECOMMENDATION

- 3.1 The Housing Revenue Account needs to generate sufficient resources to maintain Council homes. Without the rent increases at the level implied by national policy, resources would be reduced considerably.
- 3.2 The majority of rental income is paid through Housing Benefit, and to restrict the rental increase below that implied by national policy would therefore result in fewer resources for the HRA with the majority of the saving passed back to central government through lower housing benefit costs. The proposals therefore maximise the overall benefit for tenants.

Background

- 4.1 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.
- 4.2 The HRA Subsidy System - HRASS - 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. For 2010/11, the target was reduced to three years compared with a 15 year period the year before. For 2011/12 the period has been lengthened to 2015/16. If reform of the HRASS goes ahead, this date is likely to remain as the target for convergence in future.
- 4.3 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 2011/12 Rents

- 5.1 Under Government rules on rent restructuring, the Council needs to converge with RSL rents. Originally this was to be achieved by 2012, but the latest date is 2015/16 as determined by central Government.
- 5.2 At the moment, average rents in Derby are 11.3% or £7.48 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.
- 5.3 The target rent for rent restructuring convergence increases each year by the previous September’s RPI plus 0.5%. As RPI inflation was 4.6% in September 2010, the basic target rent has risen by 5.1%.
- 5.4 With the target period for rent restructuring set this year at five years, roughly a fifth of the remaining gap, about 2.2%, between actual and target rent has to be closed this year to stay on track. This pushes the national figure up from 5.1% to 7.3% 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 7.0%. As the average rent is below guideline rent at the moment, this would require increases in actual average rents of 7.4% in 2011/12.

5.5 If rent restructuring were to be completed over the next five years, then further increases of around 2.5% a year above inflation would be required.

5.6 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 2015/16 – although dependent on future levels of inflation. The target rent for 2011/12 is £69.77. The target rent set in 2011/12 is higher than that set in 2010/11 since RPI inflation is 4.6% compared to -1.4% last year, and there will be a need to catch up some or all of the reduced increases in previous years. Following the principles of rent restructuring over the government's timetable would give an overall average rent increase of around 8.5% for Derby.
- Constrained rent – the maximum rent that can be charged each year during the convergence process without losing HRA subsidy – setting rents higher than this rent will result in a loss of HRA subsidy. This has been higher than actual rents in recent years. It would not be possible to charge this rent to all tenants as the resulting rent for some tenants would be higher than the Government's affordability limit of RPI + 0.5% + £2 a week, depending upon each individual's convergence trajectory. The average constrained transitional rent for 2011/12 is £ 64.22. Due to the constraints there would be around 3,500 tenants still below target rent at 2015/16 and convergence would not be fully complete until 2021/22.
- Guideline rent – the rent set by the Government and used for setting subsidy levels. This has increased by 7.0% for 2011/12. Derby's average rent is currently £2.07 a week below the guideline rent, and is even £1.02 a week below the 'constrained' rent – which can be used for subsidy purposes as a guide to where rents should be under government policy. Below this level the HRA receives less than the full amount possible under the current system, and it is suggested that the Council should aim to maximise resources for tenants by aiming at this level of rent in future.
- Actual rent – the rent actually charged to tenants.

These rents for the last 3 years and proposed for 2011/12 are shown in Table 1 below:

Table 1

Average Rents - per dwelling per week over 52 weeks	2008/09 £	2009/10 £	2010/11 £	2011/12 £
Target Rent	63.49	66.99	66.38	69.77
Constrained Rent	56.67	58.51	59.92	64.22
Guideline Rent	57.06	58.88	60.97	65.22
Actual Rent	57.48	59.28	58.90	63.24

Difference between Actual Rent £ and Target Rent %	-£6.01 -9.5%	-£7.71 -11.5%	-£7.48 -11.3%	-£6.53 -9.4%
Difference between Actual Rent and Constrained rent	+£0.81	+£0.77	-£1.02	-£0.98
Difference between Actual Rent and Guideline Rent	+£0.42	+£0.40	- £2.07	-£1.98

- 5.7 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 constrained rent or other Government restrictions such as the limit rent.
- 5.8 There is a limit set by the government to the additional amount that can be raised from a tenant in any one year compared to the previous year. This is based on RPI + 0.5% + £2 a week. In 2010/11, a majority of tenants had their rent increases limited by this formula. This limitation on rents means that the proposed average rent increase for Derby will be reduced from 8.5% to **7.4%**. This is higher than the national average but reflects the fact that Derby's rents remain 11% below the target rent for 2010/11 and this gap needs to be closed by the end of rent restructuring to maintain funding to support services for tenants.
- 5.9 For 2011/12, it is anticipated again that the majority of tenants will be subject to such rent limitation. For a tenant on the current average rent of £58.88, the limit would be set at £63.88 – an increase of £5 a week or 8.5%. The largest rent increase under these proposals would be £5.97 or 7.67%, although some increases will show a higher percentage increase but less in monetary terms.
- 5.10 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	57		48.09	51.36	3.27		52.09	55.64
1	3,876		52.86	56.75	3.89		57.26	61.48
2	3,470		57.79	62.05	4.26		62.61	67.22
3	6,021		63.28	67.94	4.66		68.55	73.61
4	119		69.11	74.37	5.26		74.87	80.56
5	7		73.59	79.20	5.61		79.73	85.80
6	2		69.12	74.65	5.53		74.88	80.87
Shared Ownership	25		67.65	71.77	4.12		73.29	77.75
Total	13,577		58.90	63.24	4.34		63.81	68.51

- 5.11 The variation in rent will also apply to non-HRA properties owned by the Council. In these cases, an increase of 7.4% in line with the average rent increase is recommended.
- 5.12 As the average rent remains well below the constrained rent, there is an opportunity within the subsidy system to increase rents to target on those properties being re-let once the previous tenant has left. This will have no impact on current tenancies. New tenants however would pay the target rent when accepting a tenancy. Their increases in future would be set by reference to the target rent and under the current system this would mean RPI+0.5% each year. As a consequence, the increases that they would have in future would not contain a restructuring element and would be more in line with inflation. The Council stock is experiencing considerable turnover and up to 1000 homes a year fall void and are re-let. One way of moving more quickly towards the overall average target rent would be to use target rent straight away for all new tenancies. This has previously not been adopted as the subsidy system would adjust the additional income raised. This is no longer the case as average actual rent fell below the constrained rent during 2010/11. As a result, adopting such a policy now would actually increase the income received by the HRA. It is therefore suggested that now is the time to introduce such a change of policy. If this policy is adopted it is estimated that it will generate around £130,000 in the first year and £300,000 in 2012/13.

Service Charges

- 6.1 In 2010/11 un-pooling of certain services took place and new services were introduced. There are no proposals to un-pool further services or introduce new services for 2011/12, although such proposals are possible in future years.
- 6.2 Table 3 shows proposed revised service charges for existing services including those introduced for the first time in 2010/11. Most services and energy charges show an increase of 5.1%. This represents RPI of 4.6% as at the end of September 2010 plus 0.5%. All charges shown are the actual charges due over 48 weeks.
- 6.3 There are a few exceptions where costs have been contained to a lower level and therefore a lower increase is appropriate. These are:
- Grounds Maintenance – a contract increase of 2.5% is expected to be agreed with our contractors
 - Smoke Alarms – the main costs are our employee costs which have not been increased this year – a freeze is therefore proposed on this charge.
 - Contract Cleaning number 18 onwards – these charges have been calculated on actual costs this year and hence should increase only by 2.5% in line with expected contract inflation. The earlier service charges need to be reviewed properly, but are undercharged compared to costs – these will increase on an interim basis by 5.1% and be reviewed to come in line with actual costs. Once those costs are established, the charges will be revised to meet actual costs. This is expected to be during 2011/12.
 - The one increase above 5.1% proposed is to utility charges at Whitecross house and Rebecca House which are known to be below cost at the moment. These

were increased last year by 10% as a move towards cost but remain well below that level. It is proposed to continue to increase the charge each year by 10% until the charge catches up with actual costs. This affects 19 tenancies. This will apply only to existing tenants.

- 6.4 The local Housing Boards have made a recommendation that Cabinet should approve moving blocks currently receiving a fortnightly cleaning to a weekly clean except where the majority of residents object to this and can provide an adequate cleaning service themselves. It is suggested that this be adopted formally.

Table 3

	Present £/week	Proposed £/week	Variation £/week
Cat 1 Accommodation Charge	0.65	0.68	0.03
Cat 2 Accommodation Charge	3.32	3.49	0.17
CCTV/Concierge	1.84	1.93	0.09
Video Link Entry System	2.55	2.68	0.13
Rebecca house:			
Heat – Hot water bedsit	6.56	7.22	0.660.00
Heat – Hot water 1 bed	8.41	9.258.41	0.840.00
Heat – Hot water 2 bed	10.35	11.3910.35	1.040.00
Water Meter bedsit	3.43	3.60	0.17
Water Meter 1 bed	4.08	4.29	0.21
Water Meter 2-3 bed	4.60	4.83	0.23
Gardening service	4.15	4.36	0.21
Decorating service	4.39	4.61	0.22
TV aerial	0.35	0.37	0.02
Misc Maintenance	3.35	3.52	0.17
Lock up store	0.47	0.49	0.02
Parking Permit	2.00	2.10	0.10
Hard standing/dropped kerb	4.15	4.36	0.21
Supported Living:			
Main Service Charge	13.99	14.70	0.71
Reduced Service Charge	8.69	9.13	0.44
Previous P/time	13.29	13.97	0.68
Supported Living Bronze	2.31	2.43	0.12
Supported Living Gold	3.10	3.26	0.16
Supported Living Piper System	3.21	3.37	0.16
Furniture Packs :			
Carpets/Curtains 1	2.86	3.01	0.15
Carpets/Curtains 2	2.31	2.43	0.12
Carpets/Curtains 3	4.02	4.23	0.21
Carpets/Curtains 4	4.57	4.80	0.23

	Present £/week	Proposed £/week	Variation £/week
Carpets/Curtains 5	5.73	6.02	0.29
Carpets/Curtains 6-7	6.89	7.24	0.35
Furniture Pack 1	8.59	9.03	0.44
Furniture Pack 2	9.75	10.25	0.50
Furniture Pack 3	12.61	13.25	0.64
Furniture Pack 4	14.32	15.05	0.73
Furniture Pack 5	16.08	16.90	0.82
Furniture Pack 6	16.63	17.48	0.85
Furniture Pack 7	17.79	18.70	0.91
Furniture Pack 8	6.89	7.24	0.35
Furniture Pack 9	12.61	13.25	0.64
Furniture Pack 10	14.32	15.05	0.73
Furniture Pack 11	5.73	6.02	0.29
Furniture Pack 12	11.46	12.04	0.58
Furniture Pack 13	9.18	9.65	0.47
White Goods BC	6.89	7.24	0.35
White Goods	9.75	10.25	0.50
Furniture Pack 1	15.64	16.44	0.80
Furniture Pack 2	16.74	17.59	0.85
Furniture Pack 1 Single bed	1.10	1.16	0.06
Furniture Pack 2 Single bed	2.20	2.31	0.11
Furniture Pack 3 Single bed	3.30	3.47	0.17
Furniture Pack 5 Single bed	5.51	5.79	0.28
Settee 3 Seater	4.74	4.98	0.24
Contract Cleaning :			
Contract Cleaning 2	0.89	0.94	0.05
Contract Cleaning 3	0.33	0.35	0.02
Contract Cleaning 4	0.22	0.23	0.01
Contract Cleaning 6	0.66	0.69	0.03
Contract Cleaning 7	0.72	0.76	0.04
Contract Cleaning 8	1.66	1.74	0.08
Contract Cleaning 9	1.21	1.27	0.06
Contract Cleaning 10	1.04	1.09	0.05
Contract Cleaning 11	0.66	0.69	0.03
Contract Cleaning 12	1.10	1.16	0.06
Contract Cleaning 13	0.83	0.87	0.04
Contract Cleaning 14	0.99	1.04	0.05
Contract Cleaning 15	1.38	1.45	0.07
Contract Cleaning 16	0.75	0.79	0.04
Contract Cleaning 17	1.01	1.06	0.05
Contract Cleaning 18	1.81	1.86	0.05
Contract Cleaning 19	2.76	2.83	0.07
Contract Cleaning 20	2.82	2.89	0.07
Contract Cleaning 21	3.08	3.16	0.08
Contract Cleaning 22	4.04	4.14	0.10

	Present £/week	Proposed £/week	Variation £/week
Contract Cleaning 23	4.15	4.25	0.10
Contract Cleaning 24	4.19	4.29	0.10
Contract Cleaning 25	5.78	5.92	0.14
Utility Charge 1 Bed Kestrel	11.27	11.27	0.00
Utility Charge Bedsit	8.64	8.64	0.00
Utility Charge 1 Bed Whitecross	11.27	12.40	1.13
Utility Charge 2 Bed	13.47	14.82	1.35
Utility Charge House	14.93	16.42	1.49
Smoke Alarm 1	0.70	0.70	0.00
Smoke Alarm 2	1.06	1.06	0.00
Tenancy Sustainment	14.50	15.24	0.74
Grounds Maintenance	0.10 – 7.59	0.11 – 7.78	0.01 – 0.19

- 6.3 It is proposed that garage rents will be increased by 7.4% in line with the average rent increase.

Shelton Lock Mobile Home Park

- 7.1 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.
- 7.2 In October 2006 new regulations introduced under 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.
- 7.3 The principle on which increases in pitch fees will be determined on 1 April will be by applying the latest increase in RPI at the time of the notice of increase being issued to residents. For 2011/12 the increase will therefore be around 5 %, but based on the published RPI at the time the notice is issued to residents.
- 7.4 Derby Homes and the Council have undertaken a review of the future of the Mobile Home Park and a further proposal is the separation of water charges subject to agreement by the residents. If agreed by the residents, there will be a further £2 a week increase in addition to the proposed increases in the previous paragraph. This additional increase will be used to help finance the development of the site, together with a further £190,000 from the Council's Housing Capital Programme, approved by Cabinet in November 2010.

Process

- 8.1 The Council is legally obliged to give tenants four weeks notice of a rent increase. Council on 2 March 2011 will be recommended to approve the rent increase to be implemented from 4 April 2011.
- 8.2 The proposals on council rents and service charges are consistent with the basis on which the HRA budget for 2011/12 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 Adults, Health and Housing Commission.
- 8.3 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.

OTHER OPTIONS CONSIDERED

- 9.1 A lower rent increase – this is not proposed as there would be insufficient resources for the maintenance of Council homes in the future.
- 9.2 A higher rent increase – this is not proposed as the extra rent generated would be limited by government policy.

This report has been approved by the following officers:

Legal officer	Olu Idowu
Financial officer	Peter Morris
Human Resources officer	Rod Wood
Service Director(s)	Mark Menzies, Martyn Marples
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Background papers: Housing Revenue Account Subsidy Determinations 2010/11

List of appendices: Appendix 1 – Implications

IMPLICATIONS

Financial

- 1.1 As set out in the report.

Legal

- 2.1 As set out in section 6.2, 7.1 and 7.3 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.

Health and Safety

- 5.1 None.

Carbon commitment

- 6.1 None.

Value for money

- 7.1 As set out in the report.

Corporate objectives and priorities for change

- 8.1 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.