



Housing Rents and Services Charges 2006/7 Consultation

RECOMMENDATION

1. To comment on the proposals for Housing Rents and Service Charges for 2006/7.

SUPPORTING INFORMATION

- 2.1 A consultation paper has been prepared which sets out the proposals for Housing Rents and Service Charges for 2006/7. This is attached at Appendix 2.
- 2.2 The proposals are consistent with the framework proposed by Government for the convergence of local authority rents with those of other social landlords by 2011/12.
- 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 January and Council on 26 January for final decision.

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Background papers: None
List of appendices: Appendix 1 – Implications
Appendix 2 – Housing Rents and Service Charges 2006/7
Consultation document

IMPLICATIONS

Financial

1. The proposals set out are designed to comply with the Government's rent convergence and rent capping arrangements whilst seeking not to lose housing subsidy.

Legal

2. The decision on the rent increase and service charges required Council approval as part of the budget and policy framework. Four weeks notice is required to tenants of the decision to increase rents.

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 2006/07

KEY ISSUES SUMMARY

Rents

- The Government has set a target for rents to reach by 2011/12 of £67.56 which would require rents to increase by 6% each year.
- The Government has also introduced rules to limit **overall** 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 increase of RPI (2.7%) + 0.5% + £2.
- As previously the Council needs to increase rents at different rates for different properties to move towards the 2011/12 target. However there are choices on how to do this and these are explained in the paper.
- The Council and Derby Homes prefer an option which:
 - increases rents in a straight line towards their target rent
 - any rents exceeding the RPI +0.5% + £2 will be scaled back to this level
 - all other property rents will be scaled back to achieve the average 5% increase required.
- It is proposed to increase garage rents by 5% in line with the general increase.

Service Charges

- Derby Homes and the Council have been working to ensure service charges reflect their true economic cost to ensure cross subsidy between tenants is avoided.
- The Government has however limited the 2006/7 increase to RPI + 0.5% plus an adjustment for energy costs.
- The Council and Derby Homes have written to the Government to draw attention to the anomaly which prevents service charges being adjusted to their true cost.
- For 2006/7 therefore it is proposed to limit increases to 3.2% plus an adjustment for energy if required.

Background

1. The government has 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 – a report on rent restructuring was presented to Cabinet on 25 June 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.

Further Rent Restructuring and Proposals for 2006/07 Rents

- 2.1 On the introduction of the government’s policy on rent restructuring for social housing in 2002, it was announced that the implementation of the policy would be reviewed after three years.
- 2.2 The draft HRA Subsidy Determination for 2006/07 introduces changes to the rent restructuring arrangements for local authorities based on the recommendations of the three-year review published in December 2004.
- 2.3 The proposals for 2006/07 are ...
 - The formula or target rent is amended to be the same as that used by Registered Social Landlords – RSLs. This change is supplemented by an increase in the weighting applied to properties with 3 or more bedrooms and is intended to achieve harmonisation of rents across the social housing sector by 2011/12.
 - In Derby, the increase in target rent is by 7% - from £63.08 to £67.56. This increase would mean rent increases averaging 6% a year for the remaining period of rent restructuring, assuming annual inflation of 2.5%.
 - The annual limitation to increases applied to actual rents at the individual property level remains – at inflation plus 0.5% plus £2 – but the former annual limitation on reductions in actual rents – inflation plus 0.5% minus £2 – is removed.
 - The measure of inflation has changed to RPI plus 0.5% as the basis for calculating local authority yearly rent increases before the addition for rent restructuring, rather than the previous calculation which was based on the GDP deflator.
 - A new additional limitation – or cap – on the overall average rent increase from 2005/06 to 2006/07 of 5%. This 5% cap will also apply to overall average rent increases from 2006/07 to 2007/08.
 - ODPM will pay compensation to local authorities for rent lost as a result of the cap on average rents, on a basis to be determined later.
 - ODPM has stated that it would like authorities to have regard to the policy intention to create more realistic differentials for larger properties but otherwise authorities should apply the policy as they wish.
- 2.4 The outcome of the review outlined in paragraph 2.3 now being implemented impacts on target rents to increase them significantly compared to the current

targets for 2005/06 and what would have been the targets for 2006/07 without the review. The review adds roughly 1% a year to the rent that is now required to converge in 2011/2012.

- 2.5 Limit rents in Derby, used until now to guide the setting of actual rents, have increased by 8.75%. It is therefore not possible to continue the existing policy of setting rents at this level, as to do so would breach the new cap on rents
- 2.6 It is therefore proposed that the policy of setting rents at the maximum level possible before RRSL penalties are imposed is varied and for the next two years at least overall average rent increases are set at 5% in line with Government guidelines. This level of increase will continue to avoid RRSL penalty and will require an average rent increase of around £2.50 per week or 5%.

Rent Increases for Individual Properties

- 3.1 There are several options for the way in which individual property rents can be determined. Appendix 1 shows a table listing possible options, bearing in mind the overall 5% cap.
- 3.2 This consultation seeks to establish principles, with figures to be modelled and inserted in the reports to Cabinet in February and Council on 1 March.
- 3.3 It is proposed that the same principles established for determining the rents of individual properties for Council tenants will also apply to non-HRA properties owned by the Council.
- 3.4 There are implications of any of the options. Option A is the simplest to understand, but is riskier in the medium term, as the gap between actual and target rents will increase for larger properties. This may lead to capping of future rent increases for such properties. Further work is being undertaken to assess the viability of this option before any recommendation is made about which option to take.
- 3.5 The other options are combinations of a move towards the target rent as required, but with various ways of reducing rents to meet the government's new cap of 5%. These could favour different groups of tenants according to the policy chosen.

Shelton Lock Mobile Home Park

4. 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 rents, rent policy and other more minor issues were approved by Cabinet on 8 November 2005.

Garage Rents

5. Pending their review, it is proposed to increase garage rents by 5% in line with the general rent increase.

Service Charges

- 6.1 Service charges and garage rents are being reviewed so that their proper economic cost can be determined, and cross subsidy between tenants reduced. So far three services have been reviewed by Derby Homes ...
- Concierge Service – currently provided to 440 tenants in the Riverside area with a weekly charge of £1.55. To recover the actual cost would require an additional charge of £3.15 a week. Derby Homes Board has recommended that the charge be increased to £3.15 a week from 2006/07.
 - Gardening Scheme – the review of this service has been referred for further consideration. However it is known that weekly charges of £3.50 recover around half the cost of the provision of the service and an interim increase of £1.50 a week might have been appropriate to reduce the level of cross subsidy between tenants
 - Decorating Service – currently provided to 1,590 tenants in sheltered accommodation at a weekly charge of £3.70. The service operates at a surplus due to the low take-up by residents. An increase of £1.30 a week to a weekly charge of £5.00 a week would be appropriate to recover the cost of the service assuming full take-up.
- 6.2 If the increases suggested above were implemented, an additional £204,000 income a year would have been raised for the HRA. There is, however, a restriction imposed by the Government on un-pooled service charges limiting the increase allowed to RPI + 0.5%. There are some limited exceptions to this rule, such as where costs are outside the Council's control, for example, increases in fuel costs. It is proposed that the review of all service charges will continue. This would mean that if the Government restriction on service charges were lifted in the future, it would then be possible to phase in increases in charges to recover the full economic cost of the services provided. The charging policy will therefore be kept under review and further reports presented if appropriate.
- 6.3 In the meantime, it is proposed to increase service charges in all cases by 3.2%. A specific review of energy charges will hopefully be completed in time to see if there is a case for a higher increase in this charge due to significant fuel price increases.

Final Determination

7. Any changes following issue of the final HRA Subsidy Determination, expected to be released in late December, will be reported verbally to the consultation groups and reflected in the Cabinet report on 17 January.

Consultation

8. The consultations will be as follows:

Local Housing Board (North) – 5 January
Local Housing Board (South) – 12 January

Derby Homes Board members, CHCG representatives and Community Partner chairs will be invited.

9. Cabinet will make final decisions on 17 January 2006 with confirmation by Council on 25 January 2006.

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Background papers:	Draft determination of Housing subsidy and related emails.
List of appendices:	Appendix 1 – Options for Determining Rent Increases for Individual Properties

Options for Determining Rent Increases for Individual Properties

Option	Advantages	Disadvantages
A. 5% increase on current rents	Simple to apply, easily understood	Minimal regard to ODPM policy intention of creating more realistic differentials for larger properties. Will lead to higher increases and possible capping for rents of larger properties in the future as the gap between actual and target rents will increase.
B. Up-rate current rents towards the target rent, scale back any rents exceeding the RPI + 0.5% + £2 cap to that level, then scale back all other rents on pro-rata basis (same percentage) to achieve overall 5% increase	Has regard to ODPM policy intention of creating more realistic differentials for larger properties. Will help spread the increases for larger properties. Minimises risk of capping and loss of income.	More complicated to apply, not so easily understood.
C. Up-rate current rents towards the target rent, scale back any rents exceeding the RPI + 0.5% + £2 cap to that level, then scale back all other rents by equal amounts (same pence per week) to achieve overall 5% increase	Has regard to ODPM policy intention of creating more realistic differentials for larger properties. Will help spread the increases for larger properties. Minimises risk of capping and loss of income.	More complicated to apply, not so easily understood.
D. Up-rate current rents towards the target rent, scale back any rents exceeding a self-imposed cap and then scale back all rents on pro-rata basis to achieve overall 5% increase	Has some regard to ODPM policy intention of creating more realistic differentials for larger properties. Will help spread the increases for larger properties	More complicated to apply, not so easily understood. Spread of increases for larger properties will be to lesser extent than options B. and C.
E. Up-rate current rents towards the target rent, scale back any rents exceeding a self-imposed cap and then scale back all rents by equal amounts to achieve overall 5% increase	Has some regard to ODPM policy intention of creating more realistic differentials for larger properties. Will help spread the increases for larger properties	More complicated to apply, not so easily understood. Spread of increases for larger properties will be to lesser extent than options B. and C.