

**Housing Rents and Service Charges 2009/10****SUMMARY**

- 1.1 The Government originally set a policy to restructure social housing rents over the 10 year period 2002/03 to 2011/12, although this is now likely to be extended. 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 2009/10 is the eighth year of rent restructuring and includes some changes to Government policy on the process. The main change is that for the purposes of calculating the guideline rent for 2009/10 only, the date for rent convergence under rent restructuring has been put back until 2023/24. The actual year of convergence could change again depending on the provisions contained in future subsidy determinations including future rates of inflation.
- 1.3 Three options were consulted upon by the Council for a rent increase in 2009/10 ranging from an average of 5.95% to an average of 7%. Consultation with Community Commission and Council tenants through City Housing Consultation Group – CHCG – has now taken place.. The consultation was based on the information contained in the draft Housing Revenue Account – HRA – subsidy determinations for 2009/10 with a convergence date of 2024/25. As mentioned above in paragraph 1.2, the final determinations have changed the date of convergence to 2023/24. This has the effect of increasing the overall average increase to £3.64 or 6.33%. The rent increase could, however, be maintained at £3.42 or 5.95% with little detrimental effect on the HRA and continuing to move towards convergence. This was explained to CHCG and an increase of 5.95% was accepted by them as the preferred option.
- The Government policy that Service Charges should increase by no more than the retail price index - RPI - as at September of the previous year plus 0.5% continues for 2009/10 and subsequently. It is also proposed to increase the charge to £2 a week, at all sites, for car parking for residents who are not tenants of the Council.
- 1.4 It is also proposed to clarify the policy regarding rent free weeks when there are 53 rent weeks in the year, which happens occasionally. There are normally 52 weeks in the rent year and there are four rent free weeks. It is proposed to clarify the policy as being to grant 4 ‘rent free’ weeks in each and every rent year. The next 53 week rent year will be 2013/14.
- 1.5 Government regulations that came into effect on 1 October 2006 mean that pitch fees at Shelton Lock Mobile Home Park can only be increased or decreased in line with the change in RPI, apart from specific circumstances relating to capital investment.

RECOMMENDATION

- 2.1 To recommend that Council on 2 March 2009 approve the revision of rent and service charges from 6 April 2009 on the basis set out in the report including:
- an average overall weekly rental increase of £3.42 (*may be subject to slight change*) or 5.95% calculated over 52 weeks
 - an average weekly increase of 5.5% on Service Charges as set out in Table 2 of the report
 - an increased charge of £2.00 a week for car parking for residents who are not tenants of the Council
 - an average weekly increase of 5.95% on Garage Rents.
- 2.2 To approve the proposed increase of 5% in pitch fees at Shelton Lock Mobile Homes Park:
- small plot £12.26 - increase of £0.58 a week for 9 plots (previously £11.68 a week)
 - medium plot £15.33 - increase of £0.73 a week for 24 plots (previously £14.60 a week)
 - large plot £17.71 - increase of £0.84 a week for 5 plots (previously £16.87 a week).
- 2.3 To have a consistent number of four rent-free weeks in all future years.

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 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 However, the Housing Revenue Subsidy Determinations that were received for the current year, has made the future pattern of rent restructuring 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 Housing Revenue Account – HRA - subsidy system.”
- 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. The proposed £2 a week charge for car parking is also over 48 weeks.

Proposals for 2009/10 Rents

- 3.4 The draft HRA Subsidy determinations for 2009/10 were received on 29 October 2008. These were preceded by a pre-determination consultation that ended in September 2008. The purpose of this consultation was to propose to Local Authorities that there should be no significant changes to the current HRA 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.
- 3.5 As part of this stabilisation 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 2008 for 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.
- 3.6 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 was 5%.
- 3.7 Latest calculations show that a rent increase of about 9.2% or £5.27 average 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 £57.48 a week. The Government will compensate authorities for any rent lost due to the imposition of this limit, believed to be the through the 'caps and limits' financial mechanism.
- 3.8 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	60.06 +
Actual Rent	50.59	53.12	57.48	60.90 #
Difference between Actual Rent £ and Target Rent %	-£7.81 -15.4%	-£7.67 -14.4%	-£5.98 -10.4%	-£6.05 -9.9%
Difference between Actual Rent and Guideline Rent	+£0.51*	-£0.75*	+£0.44	+ £0.84

Notes: + this rent is after a caps and limits adjustment of £0.57.

- 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 3.10 below.

- 3.9 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.
- 3.10 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 these years and not linking them 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 £3.66 in 2010/11.
- 3.11 Fixing the increase in guideline rents at 6.1% for 2010/11 as the government has indicated, would mean that the rent convergence date will change again depending on what the actual rate of inflation is in September 2009. It is probable that inflation will fall in 2009 having the effect of bringing forward the date of rent convergence.
- 3.12 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 2023/24 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 would mean an average increase in rents of £3.64 a week.
- However the Council's preferred option is as consulted upon and agreed by the CHCG would mean an average rent increase in 2009/10 of **£3.42 a week or 5.95%**. This lower increase continues to move the actual rent towards the target rent and reduces the gap to the target rent to below 10%.

3.13 The rent increase for 2010/11 is also likely to be around 6% even if inflation falls substantially as currently expected during this year, although individual tenants' rents would be capped at a limit of RPI plus 0.5% plus £2 a week. The gap between actual and target rents will be caught up over a number of years until the 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% by September 2009, then a real terms increase of 3% or more could be anticipated for 2010/11.

3.14 Table 2 shows the current weekly average rent by property type, and the proposed average weekly increases:

Table 2

No of Bedrooms	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	83	47.94	50.61	2.67	51.94	54.83
1	3,888	53.01	56.07	3.06	57.42	60.74
2	3,486	56.44	59.78	3.34	61.14	64.77
3	6,057	60.86	64.55	3.69	65.93	69.93
4	119	66.43	70.50	4.07	71.97	76.37
5	7	70.84	75.17	4.33	76.74	81.43
6	2	65.67	70.20	4.53	71.14	76.05
Shared Ownership	26	65.14	68.84	3.70	70.57	74.58
Total	13,668	57.48	60.90	3.42	62.27	65.98

3.15 Based on dwelling stock of 13,668, the increases proposed will yield additional income of around £1.9 million in 2009/10.

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

Service Charges

4.1 Service charges and garage rents continue to be reviewed so that their proper economic cost can be determined.

4.2 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.

4.3 As a result of the review, the consultation stated that it is proposed to increase the number of services which are un-pooled and charged directly to individual properties. As a first phase, the consultation proposed that there would 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 was to be 6 April 2009, but will now be put back to a future date to allow for more consultation on the impact of the separation of service charges from the rent and to determine the position with regard to Housing benefit on such charges..

4.4 Eligibility for housing benefit is a key issue for affordability for many tenants. Before any new charge is levied, the impact of eligibility rules must be clearly understood. At the moment there remains further clarity required on the position for service charges relating to smoke alarms and burglar alarms. These issues will need to be clarified further and more consultation would be required with the CHCG before such charges were introduced.

4.5 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.

4.6 Table 3 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%. All charges shown are the actual charges due over 48 weeks.

Table 3

	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	0.89	0.05
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

	Present £/week	Proposed £/week	Variation £/week
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:			
Bed sit	3.25	3.43	0.18
1 bed	3.87	4.08	0.21
2 bed	4.36	4.60	0.24
Energy supplies – Sheltered Schemes:			
Heat and hot water:	6.22	6.56	0.34
Bed sit	7.97	8.41	0.44
1 bed	9.81	10.35	0.54
2 bed	11.44	12.07	0.63
3 bed			
Heat and Power:			
Bed sit	1.63	1.72	0.09
1 bed	2.03	2.14	0.11
2 bed	2.41	2.54	0.13
3 bed	2.58	2.72	0.14

It is estimated that the increases proposed will yield additional income of around £20,000 in 2009/10.

- 4.7 It is proposed to increase the charge for the permits for car parking spaces to £2 a week for residents who are not tenants of the Council. These residents live near car parks managed by Derby Homes. The permits allow them to park and avoid penalties from the Vehicle Services company employed to manage the car park. This increase was supported by the CHCG.
- 4.8 It is proposed that garage rents will be increased by 5.95% in line with the general rent increase.

Shelton Lock Mobile Home Park

- 5.1 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.
- 5.2 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.

5.3 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.

5.4 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).

5.5 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

6.1 The Council is legally obliged to give tenants four weeks notice of a rent increase. Council on 2 March 2009 will be recommended to approve the rent increase to be implemented from 6 April 2009.

6.2 The proposals on council rents and service charges are consistent with the basis on which the HRA budget for 2009/10 has been prepared. That report is also being presented to Cabinet on 17 February 2009. Consultation has taken place with tenants through the Derby Association of Community Partners, Local Housing Boards and Housing Focus Group, with Derby Homes Board and with the Community Commission.

6.3 The proposals on pitch fees for Shelton Lock Mobile Homes Park are in line with the Government regulations which came into effect from 1 October 2006. The regulations amend Part 1 of Schedule 1 to the Mobile Homes Act 1983 and include provisions which specifically relate to pitch fees and how they can be charged. Consultation has taken place with Derby Homes Board and with the residents at Shelton Lock.

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Background papers:	Housing Revenue Account Subsidy Determinations 2009/10
List of appendices:	Appendix 1 – Implications

IMPLICATIONS

Financial

- 1.1 As set out in the report.

Legal

- 2.1 As set out in section 6.1 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.