

## **COUNCIL RENTS AND SERVICE CHARGES**

Report of the Director and Company Secretary

### **1. SUMMARY**

Each year, the Council needs to set Rents and Service Charges for the following year. The Council consults tenants, Derby Homes and Scrutiny as part of that rent setting process. The average rent increase is proposed to continue the policy of previous years – setting a maximum increase of RPI + 0.5% + £2 a week for individual tenants, and generating an average rent increase of 5.2% or £3.56 a week, bringing the average rent to £72.05 a week.

The Resources, Remuneration and Regeneration Committee considered this issue at its meeting on 3<sup>rd</sup> January and recommended that the Board fully supports the Council's proposals.

### **2. RECOMMENDATION**

- 2.1 That the Board supports the Council's proposals on Rents and Service Charges.

### **3. MATTER FOR CONSIDERATION**

- 3.1 The Council can set any rent for its Council homes, but if it charges an average rent above the government set 'limit rent', it has to repay to the government a penalty (rent rebate subsidy limitation) of around two thirds of the income charged above the limit rent. The government has a policy of 'converging' the limit rent with the target rent (set by a national fixed formula) for each property, by 2015/16. This policy was built into the calculations for the debt settlement for Council housing made in April 2012, and is therefore assumed to be followed in order to raise the required funding for the maintenance of Council housing into the future.
- 3.2 The Council has had a long standing policy of increasing rents in line with the government formula for rent setting, and the proposed increase this year would continue that policy.
- 3.3 Target rent is currently around 8% above the actual average rent charged (£68.49 a week), which implies a further increase of 2.7% in real terms each year for the next three years to reach convergence. Once rents reach target rents, increases would then be restricted to RPI + 0.5% a year. New tenancies are already let at target rent, reducing the number of tenants facing larger percentage increases in future.

- 3.4 The RPI for September is the basis of the increase each year, and this year stood at 2.6%. This therefore implied an increase in target rent of 3.1% (2.6% + 0.5%), and in overall rents of around 5.8% (3.1% + 2.7%). The restraint of RPI+0.5%+£2 a week lowers the average rent increase to an average 5.2%. Existing tenancies are at different distances from the target rent and actual increases will therefore vary.
- 3.5 The rent increases are necessary to sustain the HRA Business Plan in the longer term and to continue to maintain and improve Council housing. Lower increases would cost around £0.5m a year per percent, of which around 60% would be of benefit to the government in the form of lower housing benefit.
- 3.6 The Council could – as it remains a long way below limit rent – around £2.50 a week – increase the rent considerably more than the suggested RPI+0.5%+£2 a week. It could move to limit rent immediately without any financial penalty from the government, raising further funds in the short term for the HRA but increasing the average rent rise to 8.8% next year, with some increases well above this level. This level of increase would clearly present a large number of tenants with huge increases in rent at a difficult time, especially where welfare reform changes also impact.
- 3.7 The overall rent levels remain well below market levels – the average Council home will cost £72 a week (£76 average for new lets at target rent) on these proposals, a level around 60% of the average market rent in Derby. Council housing remains excellent value for money for tenants.
- 3.8 An additional rent proposal relates to a new service for vulnerable tenants requiring enhanced housing management services. Previously the Council was able to support Derby Homes' tenancy support and supported living services through Supporting People funding. This funding has now been terminated with effect from April 2013. The Council therefore has to determine whether to create a new service enabling a replacement service to be maintained for tenants in these groups. If it does, it could fund these through a rent add on. As the Council's rent is well below the limit rent, such an additional rent can be charged without financial penalty – at least for the next few years, allowing some service to be maintained, helping to keep tenants in the community for as long as possible. Such a rent add on would replace the existing service charge for this service. Currently the service charge is £14.33 a week, and this would be replaced with a rent add on of £9.80 a week. This rent add on would be set outside of the RPI+0.5%+£2 a week cap as the rent would be lower than the service charge previously levied.
- 3.9 **Service Charges**  
In addition to rents, the Council needs to determine the level of service charges next year. In general, the Council passed a resolution last year to allow increases at inflationary levels, and in most cases this is the proposal – that is an increase of 2.6%. The exceptions to this are set out below.
- 3.10 **Utility costs**  
Gas and electricity provision for shared sheltered accommodation is through the Councils contracted suppliers to take advantage of the bulk purchasing opportunities.

Gas prices, although increasing, are forecasted to be contained within the existing service charge rate and are proposed to be frozen for 2013/14.

Electricity charges have risen hugely, and an increase above 10% should be made if service charge income was to cover costs. It is suggested that increases be limited to 10% in 2013/14 with continued increases up to 10% annually until service charge income covers costs.

The estimated shortfall in electricity service charge income to costs is £1,500 in 2013/14. Charges at Kestrel House will be around a third below the required level in 2013/14, which equates to approx £50 per flat additional charge above inflation if this was to be fully levied in 2013/14.

Water charges from Severn Trent for metered supplies increased in 2012/13 by 4.6% and this is the proposed increase to the service charge for 2013/14.

### **3.11 Concierge**

Last year the Council reviewed the charge for concierge charges and agreed to spread the required increase in charges over three years. As a consequence, the charges will increase by more than inflation but remain subsidised until the end of that process. Next year will be year two of three. Weekly increases range between £1.55 and £3.35.

### **3.12 Television aerials**

Leaseholders have not been charged for this service in recent years and it is proposed to reintroduce the charge at cost plus 10% administration as allowed in leases.

### **3.13 Estate Charge from 2014/15**

Grounds maintenance service charges currently only recover the cost of regular, scheduled maintenance tasks for grass, shrubs and hedges. They do not yet include the substantial cost of tree maintenance, work that is not scheduled annually, such as re-planting shrubs at the end of their useful life, or the cost of maintaining 'hard' grounds, such as paths, bin stores and perimeter fencing.

It is proposed to develop the charges into a full grounds charge, to also potentially include the communal cleaning charge and be re-labelled as an estate charge. It is proposed to introduce this charge in April 2014 to allow time for all sites to be properly assessed.

### **3.14 Summary**

Overall, the proposals from the Council are in line with the previously established policy and raise sufficient funds to support the HRA Business Plan. The proposal for additional rent relating to intensive housing management is particularly welcomed as this helps to sustain a service to tenants that would otherwise need to be closed. It is therefore recommended that the Board fully supports the proposals.

## **4. CONSULTATION IMPLICATIONS**

Consultation by the Council is with tenants through the DACP, and with Scrutiny as well as with Derby Homes' Board.

## 5. FINANCIAL AND BUSINESS PLAN IMPLICATIONS

Without the assumed level of rent increases each year, the HRA business plan would face considerable financial pressure that would result in lower standards for tenants and less replacement of homes lost through the Right to Buy within the HRA. The core Derby Homes' budget is elsewhere on the agenda for this meeting but should be sustainable, depending on final Council decisions, particularly on the rent add-on proposal.

## 6. EQUALITIES IMPACT ASSESSMENT

- Does this report affect the delivery of a service Yes
- Has an Equality Impact Assessment been completed No (please attach as appendix)
- If no Equality Impact Assessment has been completed please provide a summary of the equalities implications – all tenants have been treated equally in this respect.

The areas listed below have no implications directly arising from this report:

Legal and Confidentiality  
Council  
Personnel  
Environmental

Health & Safety  
Risk  
Policy Review

If Board members or others would like to discuss this report ahead of the meeting please contact the author.

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Background Information: None

Supporting Information: None