

CONSULTATION ON RENTS AND SERVICE CHARGES 2011/12

Report of the Director and Company Secretary

1. SUMMARY

The Council is consulting on rent and service charge increases for 2011/12. The Committee is invited to make comments should it wish to do so.

2. RECOMMENDATION

- 2.1 That the Committee considers and recommends to the Board a response to the consultation.
- 2.2 In particular, it is recommended that the Committee offers support to the proposed move for void properties going straight to target rent.

3. MATTER FOR CONSIDERATION

- 3.1 The Council has set these out in its consultation paper which is attached at Appendix 1. Rents are currently over 11% below the target rent, which is being increased by September's RPI (4.6%), plus 0.5% to just under £70 (£69.77) for average rent. The proposed increase will be on average 7.4% in rents and 5.1% in service charges. This will bring the average rent to £63.24 a week – still £6.53 a week or 9.4% below the target. This gap will have to be eliminated for the majority of tenants over the next four years to 2015/16.
- 3.2 No new service charges are proposed this year, but existing ones are set to increase by RPI, plus 0.5% or 5.1%.
- 3.3 One key change is the proposal to move new tenancies straight to target rent rather than be based on the current position for the property. This should raise additional funds for the HRA over the next few years. There is currently excess demand for Council homes and the increase should not reduce this to the extent that voids would increase. In the past, such a move would have just raised additional income for the Government within the subsidy system, but the Council is now in a position where this is no longer the case.
- 3.4 The rent and service charge increases are necessary to enable the Council to provide Derby Homes with sufficient resources to maintain the housing stock and services to tenants. Without a move to convergence over the next few years, the resources provided within the HRA would be inadequate. A majority of tenants receive full or partial Housing Benefit. As a result, the increases will be met mostly from Government funds, although full rent payers will have an increase that is well above inflation until target rent is reached. For most tenants

this will be by 2015/16, although the operation of a limitation on increases to £2 a week above RPI+0.5% means that some tenants will not pay the full rent for 10 years.

4. CONSULTATION IMPLICATIONS

The Council is consulting with tenants through the DACP, Derby Homes Board, and the Adults, Health and Housing Commission.

5. FINANCIAL AND BUSINESS PLAN IMPLICATIONS

Higher rents will place additional pressure on tenants who pay the full rent – placing additional strain on rental collection and advice services.

6. EQUALITIES IMPACT ASSESSMENT

The increase amounts to an average of about £4 a week for full rent payers. Those tenants receiving income just above Housing Benefit eligible levels are likely to find this increase – and those for the next few years – to be significant. Rents remain, however, 9% below those in other social housing and well below market levels.

7. RISK IMPLICATIONS

Bad debts and arrears may increase.

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

- Legal and Confidentiality
- Personnel
- Environmental
- Equalities Impact Assessment
- Policy Review

If Board members or others would like to discuss this report ahead of the meeting please contact the author, or the Chief Executive, phil.davies@derbyhomes.org - Tel 01332 888520

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Background Information: None.

Supporting Information: None.

Consultation Document

Housing Rents and Service Charges 2011/12

KEY ISSUES SUMMARY

General

- The RPI inflation rate to be used in the rents and service charges calculations for 2011/12 is that at the mid-point of the previous year – end of September 2010. This rate is 4.6%.
- Rents and rent increases are based on a 52 week year and are overall average figures. Individual rents may increase or decrease by more or less than the average increases proposed.

Council Rents

- The Government originally set a target for rents to reach convergence with Registered Social Landlord – RSL – rents by 2011/12. The current target date is 2015/2016.
- If HRA reform takes place as anticipated with effect from April 2012, it is likely that the convergence date of 2015/16 will be fixed.
- 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.
- 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.
- This produces a national average guideline rent increase for 2011-12 of 6.8%,

- As a measure to keep rents at affordable levels, the Government is continuing to limit individual rent increases to RPI+0.5%+£2 a week with compensation for any loss of income to the HRA due to this constraint.
- 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.
- 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.
- There will continue to be a wide variation in individual rents, as there always is under rent restructuring.
- The consultation paper describes in more detail the proposal for a rent increase in 2011/12, which would require increases to average rents of 7.4% in 2011/12 and will lead to increases in 2012/13 and the remaining period of rent restructuring of around 2.5% above inflation.
- It is proposed to increase garage rents in line with the general increase of 7.4%.

Service Charges

- Derby Homes and the Council are continuing to review the cost of providing services to determine their true economic cost. Some services were un-pooled in 2010/11 and new services introduced. There are no such proposals for 2011/12, although further un-pooling and new services are possible in future years.
- A Government restriction remains that limited the increase in charges for existing un-pooled services to RPI + 0.5%, with further adjustment to energy charges which can be inflated in line with actual costs.
- For 2011/12 therefore it is proposed to limit the increase for all services to 5.1%
- It is proposed to increase energy charges by 5.1% with a further review of energy related services so that they can in the future be set in line with actual energy costs.

Voids

- The Council stock is experiencing considerable turnover and around 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 set re-let rents at target rent straight away. 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 12/13.

Shelton Lock Pitch Fees

- New Government regulations came into effect on 1 October 2006 and mean that pitch fees can only be increased or decreased in accordance with the Retail Price Index (RPI).
- For 2011/12 there will be an increase of 4.6% based on RPI as at September 2010.
- Subject to agreement by residents, there will be a further increase of £2 a week. The revenue raised will help finance the development of the site and will be matched by a further £190,000 from the Council's Housing Capital Programme.

Consultation Document

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 (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 3 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.
- 3.3 In this paper 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

- 4.1 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.
- 4.2 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.
- 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 4.6% in September 2010, the basic target rent has risen by 5.1%.
- 4.4 With the target period for rent restructuring set this year at 5 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.

4.5 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.

4.6 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
- 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.
- 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
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- 4.7 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.
- 4.8 There is a limit set by the government to the additional amount that can be raised from any individual 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.
- 4.9 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.
- 4.10 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	68.24	4.34		63.81	68.51

- 4.11 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.
- 4.12 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 tenants. 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.

- 4.13 It is hard to gauge the additional income that this would generate, but it has been estimated that it might be of the order of £130k in 11/12 and £300k in 12/13

Service Charges

- 5.1 In 2010/11 un-pooling of certain services took place and new services were introduced. There are no proposals to unpool further services or introduce new services for 2011/12, although such proposals are possible in future years.
- 5.2 Table 3 shows proposed revised service charges for existing services including those introduced for the first time in 2010/11. The 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.

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
Heat – Hot water bedsit	6.56	6.89	0.33
Heat – Hot water 1 bed	8.41	8.84	0.43
Heat – Hot water 2 bed	10.35	10.88	0.53
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	1.50	0.07
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

	Present £/week	Proposed £/week	Variation £/week
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 PS	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
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 Bedsit	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

	Present £/week	Proposed £/week	Variation £/week
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	1.90	0.09
Contract Cleaning 19	2.76	2.90	0.14
Contract Cleaning 20	2.82	2.96	0.14
Contract Cleaning 21	3.08	3.24	0.16
Contract Cleaning 22	4.04	4.24	0.20
Contract Cleaning 23	4.15	4.36	0.21
Contract Cleaning 24	4.19	4.40	0.21
Contract Cleaning 25	5.78	6.07	0.29
Utility Charge	11.27	11.84	0.57
Utility Charge House	14.93	15.69	0.76
Utility Charge Bedsit	8.64	9.08	0.44
Utility Charge 1 Bed	11.27	11.84	0.57
Utility Charge 2 Bed	13.47	14.14	0.67
Smoke Alarm 1	0.70	0.74	0.04
Smoke Alarm 2	1.06	1.11	0.05
Tenancy Sustainment	14.50	15.24	0.74
Grounds Maintenance	0.10 – 7.59	0.11 – 7.98	0.01 – 0.39

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

Shelton Lock Mobile Home Park

- 6.1 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.
- 6.2 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.
- 6.3 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 2011/12 the increase will be 4.6 % and will mean minimum pitch fees charged will be:
- small plot £12.82 - increase of £0.56 a week for 9 plots (previously £12.26)

- medium plot £16.04 - increase of £0.71 a week for 24 plots (previously £15.33)
- large plot £18.52 - increase of £0.81 a week for 5 plots (previously £17.71).

- 6.4 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 use 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

- 7.1 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.
- 7.2 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 the same agenda. Consultation will take 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.
- 7.3 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.

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Background papers: Housing Revenue Account Subsidy Determinations 2011/12