

Report for Resolution

Report to Executive
10 February 2010

Report of Director of Regeneration & Development and Head of Finance

Subject Council Rents and Service Charges for 2010/11

11

Purpose

This report sets out recommendations for the changes to rents and service charges for the Council's housing stock for the financial year 2010/11.

Recommendations

That Council agree:

- (1) to implement an average rent increase of 2.4%, being £1.45 per week for Housing Revenue Account dwellings, and a corresponding average rent increase of 2.03% (£1.38) for General Fund dwellings;
- (2) to set service charges for district heating, premises management, sheltered housing and good neighbour services, at the levels set out in paragraph 32;

Financial Consequences

The level of rent increase is set by the Government and any variation from this guideline will adversely affect the Housing Revenue Account (HRA). If the level of increase applied is lower than that set by the Government, the authority will receive a reduced income. An increase that exceeds the level set by the Government will result in a loss of subsidy. Increases in other charges are required to recover costs. Failure to do this would again adversely affect the HRA. The report indicates the extent of the adverse affect of the options put forward.

Strategic Objective

The report helps to achieve the corporate objective to strive for sufficient, good-quality, affordable housing, providing choice and accessibility.

Executive Member: Councillor Brenda Arthur

Ward:

Contact Officers

Jerry Massey, Director of Regeneration & Development	01603 212225
Mark Smith, Financial Control Manager	01603 212561
Shaun Flaxman, Housing Finance Manager	01603 212805

Background Papers

Briefing & Consultative papers to CityWide Board and consultative meetings

Report

Introduction

1. The Housing Revenue Account (HRA) has to be drawn up in a manner prescribed by the Government. Income for the HRA comes from:-
 - Rents and other charges
 - Housing Revenue Account subsidy, including the Major Repairs Allowance (MRA) which is Government support for expenditure on repairs.
2. This report informs members of the proposed changes to charges for 2010/11.

Rent policy context

3. In December 2002 the Executive agreed to introduce the Government's Rent Restructuring from April 2003. Under this system a target rent for each property is calculated. Rents for individual properties are set to collect the general increase, and move rent levels towards the target rents. The Government initially intended that Council and Registered Social Landlord rents, for properties of similar sizes and locations, would converge by April 2011. This means that the amount of increase in rent can vary for properties depending on how near they are to the target rent as calculated by the Rent Restructuring Formula.
4. The rents charged by an authority are effectively controlled as each year the Government sets a guideline rent. Setting a rent increase above the government's expected level results in a loss of subsidy and setting a rent increase below the government's expected level results in a loss of income to the authority. Neither variation provides a proportionate financial advantage to the Council or tenants.
5. In 2005/06 the Government reviewed the rent restructuring policy. In April 2006 the formula was revised and a new 5% cap introduced, for two years, on average rent increases. Where the average increase across the stock, under the revised formula, was more than 5% the Government compensated authorities for the income they would have had were it not for the 5% cap by providing a Rental Constraint Allowance.
6. For 2008/09 the Government withdrew the 5% cap and the associated Rental Constraint Allowance. This allowed the average rent increase to exceed the 5% that had been applied in the past two years. However, in order to maintain rent affordability for tenants, for the purposes of calculating 2008/09 rents only, the Government allowed convergence to be extended to April 2016. It indicated that this convergence date will again be reviewed in future years. In order to compensate authorities for loss of income resulting from the caps and limits on rent increases in 2008/09, the Government is making an adjustment to the HRA Subsidy calculation in 2009/10.
7. The impact for Norwich tenants in 2008/09 was that the rent restructuring policy required an increase of 6.14%. This council, after considering the financial implications and consulting tenants, determined that the average increase should be limited to 5.5%, with the loss of income being recouped through the future application of rent convergence from the lower base.
8. For 2009/10, the government initially set a national average rent increase of 6.2%, based on September RPI of 5% and convergence in 2024. Caps and limits were again to apply to individual rents, with allowance made in 2010/11 guideline rent. The government also announced that its intention was that the 2010/11 national average

rent increase would be 6.1%.

9. This initially proposed 2009/10 increase was, at a very late stage following lobbying from this Council amongst others, ameliorated so that the increase to be applied was at a national rate of 3.1%. Owing to the timing of this announcement, this was implemented as an increase of 3.40% with effect from 4 May 2009.
10. For 2010/11, the national average increase has been set at 3.1%, based upon the September 2009 inflation rate of -1.4% and a convergence date of 2012/13.
11. Rent income is a critical factor in the Housing Revenue Account Business Plan, which has recently been updated. This update has confirmed the finding of the 2005 Stock Option Appraisal that although the Council is able to finance reaching the Decent Homes Standard, in the medium and long term there are inadequate resources to maintain service and investment standards.
12. If rent income (net of the guideline rent clawback) is less than the level anticipated in the Business Plan, the funding gap will grow and therefore the length of time that the stock can be properly maintained will shorten. Conversely, rent income in excess of Business Plan expectations will extend the period over which the necessary investment in stock can be maintained.
13. The implementation of a 2.4% increase will be consistent with the assumptions in the Business Plan.
14. 61% of tenants are in receipt of Housing Benefit, which will increase to cover the increased rent set out above. The financial impact of the increases will fall hardest on those just above the benefit entitlement threshold, either impacting on their disposable income or forcing them into benefit.

Consultation with tenants

15. Tenants have been consulted over the proposed increase, through a meeting with the Finance Sub-Group of the CityWide Board and two briefing sessions with tenants invited from the focus groups pool.
16. Feedback from these consultation meetings has been generally positive, to the effect that the proposed increase is a fair balance between affordability for tenants and the need to raise income to fund management and maintenance costs.

Relationship with Investment Strategy & Housing Revenue Account budgets

17. The relationship of rents with the Investment Strategy and the HRA revenue budgets is incorporated in detail within the HRA Business Plan.
18. The impact of the level of rent increases on the Investment Strategy, in general, is in the long term. Low rent income reduces the resources available for investment, so that non-essential works will need to be curtailed earlier, while high rent income would postpone the need for curtailing non-essential works.
19. The impact of the rent increase on the HRA revenue budgets will be in the Rent Income budget (reflecting the gross amount chargeable) and the Provision for Bad Debt budgets (reflecting the amounts collected and the arrears considered to be collectable).

Recommended Rent Increase

20. The following table sets out the range of increases tenants would receive in April 2010 if the recommendations of this report are agreed.

Table 1 – Range of proposed rent increases

Increase	Number of tenants	Percentage of tenants
£0.00 - £0.49	24	< 1%
£0.50 - £0.99	33	< 1%
£1.00 - £1.49	12,091	76%
£1.50 - £1.99	3,731	23%

Future Rent Levels

21. Future rent levels are difficult to predict with any certainty, owing to possible changes in government policy, inflation rates, and convergence dates.
22. If inflation continues at a low level, it is likely that convergence can be maintained at 2012/13 without requiring unacceptably high rent increases under current government policy.
23. However, if inflation increases to a positive number much above zero, the government may choose to re-extend the convergence date in order to restrain average rent increases to an acceptable figure.
24. The government is expected to be consulting shortly on proposals for the abolition of the Housing Subsidy system through which compliance with rent policy is encouraged, and responsibility for monitoring compliance transferred to the Tenant Services Agency. The extent to which this will affect the Council's flexibility to set rents outside the constraints of the policy is not yet clear.
25. Current government policy, the Rent Restructuring regime, may also change (either to the advantage or disadvantage of the Council and tenants) depending on the outcome of the forthcoming general election.

Service Charges Increases

26. Service charges are applied for services provided to groups of tenants, rather than services provided to all tenants. This is in line with the government's expectation that the costs of such services are met by those benefiting from them, rather than by tenants as a whole.
27. In recent years, service charge increases have been based on affordability issues rather than on the costs of the services provided. A review, prompted by Audit Commission recommendations, has revealed that there are substantial costs not currently being met by service charge income. No increase has been implemented for the 2009/10 financial year pending the conclusion of this review.
28. The scale of increases that would be required to cover the current levels of costs on some services would be significant and pose considerable affordability issues for tenants.
29. Accordingly, and following consultation, increases are being proposed to begin to address the shortfall between costs and income.

30. It is proposed that the level of service charges be re-considered in September 2010, following further work to be carried out and consulted upon, with a view towards further revising the level of charges with effect from the first rent week in October.

31. Issues to be investigated as part of this process would include:

- Standards of service commensurate with an affordable level of charges;
- The degree, if any, to which service costs should be subsidised from rents;
- Cost implications of current and alternative methods of service delivery;
- Pooling or unpooling of charges so that they relate to local or city-wide service costs;
- Alternative bases of distributing costs between service charge recipients;
- Proposed levels of charges with effect from October 2010 and beyond.

32. Accordingly, the Executive is asked to agree the following increases and decreases in service charges to apply from 5 April 2010:

Table 2 – Proposed service charge increases

Service Charge	Average charge £/week	Average Increase £/week	Average Increase %	Number of tenants
Sheltered Housing	£7.06	£2.12	30%	857
Good Neighbour	£2.02	£0.28	14%	129
Static Premises Management	£7.51	- £0.20	- 2.7%	780
Mobile Premises Management	£1.84	£0.61	33%	829
District Heating	£8.60	Nil	Nil	1,685

33. As with rents, the average charges shown above summarise a wide range of individual charges.

34. Tenants have been consulted on the proposed increases, and the proposed further consideration of service charges later in the year, and have provided generally favourable feedback.

General Fund Dwellings

35. General Fund dwellings are rented to tenants on the same basis as HRA properties but as values are significantly higher (average value is £63,245 as opposed to £35,547 for HRA properties at January 1999 values), formula rents are correspondingly higher. Because of the limit on increases ($RPI + \frac{1}{2}\% + £2$) the percentage by which the resulting rents increase is lower for General Fund dwellings (2.03%) than HRA dwellings (2.4%).

36. The range of recommended increases in General Fund dwelling rents is as detailed in the table below.

Table 3 – Range of proposed General Fund rent increases

Increase	Number of tenants	Percentage of tenants
£0.50 - £0.99	1	< 1%
£1.00 - £1.49	110	88%
£1.50 - £1.99	14	11%