

## Report for Resolution

**Report to** Cabinet  
15 February 2012  
**Report of** Head of finance  
**Subject** Council rents and service charges for 2012/13

Item  
**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 2012/13.

### Recommendations

That cabinet approve:

- (1) maintaining garage rent at current levels;
- (2) maintaining service charges for district heating, premises management, communal window cleaning and sheltered housing bulk metered water at current levels pending further consultation and review in 2012;
- (3) increasing service charges for the gardening service to £4.30 per week and 'one-off' garden clearances to £20;
- (4) increasing service charges for communal television aerials by 3.00% to £0.67 per week in line with the uplift in cost;
- (5) setting sheltered housing support charges at £6.24 per week and sheltered housing service and laundry facility charges at the levels detailed in appendix 1, pending further consultation and review during 2012;

and that cabinet recommend to council that they approve

- (6) Implementation of an average rent increase of 8.37%, being an average of £5.62 per week (para 25)

**or**

- (7) Implementation of an average rent increase of 6.85%, being an average of £4.60 per week (para 26)

**or**

- (8) Implementation of an average rent increase of 5.33%, being an average of £3.58 per week (para 27)

## **Financial Consequences**

The level of rent increase is based on Government guidelines and forms a key factor in the HRA Business Plan. If the level of increase applied is lower than that assumed by the business plan, the authority will receive a reduced income, which will in turn reduce the resources available for investment. Increases in other charges are required to recover costs. Failure to do this would again adversely affect the HRA.

## **Strategic Priorities**

The report helps to meet the strategic priorities “Aiming for excellence – ensuring the Council is efficient in its use of resources, is effective in delivering its plans, is a good employer and communicates effectively with its customers, staff and partners”, “Safe and healthy neighbourhoods – working in partnership with residents to create neighbourhoods where people feel secure, where the streets are clean and well maintained, where there is good quality housing and local amenities and where there are active local communities”, and “Strong and prosperous city – working to improve quality of life for residents, visitors and those who work in the city now and in the future”.

## **Cabinet Members**

Councillor MacDonald - Housing

Councillor Waters - Resources, Performance and Shared Services

**Ward:** All

## **Contact Officers**

Barry Marshall, Head of finance

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## **Background Papers**

Briefing papers to 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. This is being abolished under the HRA Self-Financing reforms implemented by the Localism Act 2011.
2. This report informs members of the proposed changes to charges for 2012/13.

### **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 adjusted 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 was set at 3.1%, based upon the September 2009 inflation rate of -1.4% and a convergence date of 2012/13.
11. For 2011/12, the government set the national average increase at 6.8%, based upon the September 2010 inflation rate of 4.6% and an extended convergence date of 2015/16 resulting in an average increase of 7.58% in Norwich.
12. From 2012/13, the existing housing subsidy system is to be abolished and councils will become self financing, the details of which are the subject of a separate report. The proceeds of future rent increases will remain with the council instead of being negated by housing subsidy payments.
13. Under the previous subsidy system, the council was able to finance the Decent Homes Standard but was unable to maintain service and investment standards in the medium and long term. The introduction of self financing improves this position, enabling a higher level of investment.
14. The level of rent tenants pay continues to be a decision for the council, although under the principals of self financing the incentive to follow rent restructuring policy is lessened. However, it remains the expectation of ministers and assumption of the HRA business plan that authorities will continue to follow the existing guidelines.
15. For 2012/13, the combination of September 2011 inflation at 5.6% and the intention to converge rents by 2016/17 means that following the rent restructuring formula would generate an average increase of 8.37% for Norwich tenants.
16. 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.

## Rent Increase Considerations

17. For 2011/12 a number of options have been considered for the increase of dwelling rent charges:

**Table 1 – Rent Increase Options for Consideration**

Option	Average Increase (%)	Average Increase (£)	Based on RPI	Description
1	8.37%	£5.62	5.60%	RPI at September 2011
2	6.85%	£4.60	4.10%	RPI 5.6% less 1.5%
3	5.33%	£3.58	2.60%	RPI 5.6% less 3.0%

18. The system of caps and limits means that the maximum increase any individual tenant would receive is 6.1% plus £2.00. The 61% of tenants in receipt of housing benefit will have the increases covered by increased benefit.
19. The impact of each option is set out in paragraphs 25-27 below. The budgetary consequences are described in the HRA Budget report on this agenda.

## Relationship with Investment Strategy & Housing Revenue Account budgets

20. The relationship of rents with the Investment Strategy and the HRA revenue budgets is incorporated in detail within the HRA Business Plan which currently assumes the implementation of 8.37% average rent increase in 2012/13.
21. An average rent increase below 8.37% (based on RPI of 5.6%) would lead to a reduction in rent income to the council. The council will be unable to borrow beyond the HRA debt cap set by the government. Current forecasts indicate that because of the borrowing required to fund the “Whole House” upgrade approach, the HRA would be unable to make further borrowing until 2021. Therefore, the shortfall in income resulting from a reduced rent increase would mean that some upgrades to council homes would be delayed until further borrowing capacity becomes available in about 2021.
22. 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).

## Consultation with tenants

23. Tenants have been consulted over proposed increases, through meetings with Sheltered Housing Tenants’ Forum and a briefing session with tenants invited from the focus groups pool.
24. Feedback from these consultation meetings has demonstrated that whilst some tenants maintain concerns over the proposed level of the increase, others accepted that the proposals were fair when considering the planned level of improvements to their homes.

### **Possible Rent Increase of 8.37%**

25. The following table sets out the range of increases tenants would receive in April 2012 if this option is agreed.

**Table 2 – Range of proposed rent increases at 8.37% increase**

Increase	Number of tenants	Percentage of tenants
£2.50 to £2.99	2	< 1%
£3.00 to £3.49	17	< 1%
£3.50 to £3.99	203	1%
£4.00 to £4.49	518	3%
£4.50 to £4.99	1,601	10%
£5.00 to £5.49	4,864	31%
£5.50 to £5.99	3,169	20%
£6.00 to £6.49	4,143	26%
£6.50 to £6.99	1,201	8%
£7.00 to £7.49	32	< 1%
£7.00 to £7.50	17	< 1%
£7.00 to £7.51	5	< 1%

### **Possible Rent Increase of 6.85%**

26. The following table sets out the range of increases tenants would receive in April 2012 if this option is agreed.

**Table 3 – Range of proposed rent increases at 6.85% increase**

Increase	Number of tenants	Percentage of tenants
£0.50 to £0.99	1	< 1%
£1.50 to £1.99	1	< 1%
£2.00 to £2.49	17	< 1%
£2.50 to £2.99	183	1%
£3.00 to £3.49	467	3%
£3.50 to £3.99	1329	8%
£4.00 to £4.49	4900	31%
£4.50 to £4.99	3960	25%
£5.00 to £5.49	4732	30%
£5.50 to £5.99	161	1%
£6.00 to £6.49	15	< 1%
£6.50 to £6.99	6	< 1%

## **Possible Rent Increase of 5.33%**

27. The following table sets out the range of increases tenants would receive in April 2012 if this option is agreed.

**Table 4 – Range of proposed rent increases at 5.33% increase**

Increase	Number of tenants	Percentage of tenants
-£1.49 to -£1.00	1	< 1%
-£0.00 to £0.49	1	< 1%
£1.00 to £1.49	1	< 1%
£1.50 to £1.99	125	1%
£2.00 to £2.49	659	4%
£2.50 to £2.99	859	5%
£3.00 to £3.49	5160	33%
£3.50 to £3.99	5028	32%
£4.00 to £4.49	3879	25%
£4.50 to £4.99	53	< 1%
£5.00 to £5.49	6	< 1%

## **Future Rent Levels**

28. Future rent levels are difficult to predict with any certainty owing to unpredictable inflation rates, but the HRA Business Plan assumes that the government's rent restructuring policy will continue to be followed until rents converge in 2015/6.

29. It is anticipated that in due course, the Homes and Communities Agency (HCA) may issue guidance regarding the setting of future rents.

## **Garage Rent Charges**

30. In the past year the management of the council's 3,856 garages has transferred to the Home Ownership team. A new web based allocation system has been implemented as well as robust letting / void and clearance procedures.

31. There are 763 empty garages available and ready for relet. A target has been set for 2012/13 for garages to increase income by 5% by increasing occupancy.

32. There will be no increase in the level of existing charges, to encourage retention and highlight value for money.

## **Service Charges Increases**

33. 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.

34. In recent years, service charge increases have been based on affordability issues rather than on the costs of the services provided. A review in 2011, prompted by Audit Commission recommendations, revealed that substantial costs were not being met by service charge income.

35. The scale of increases that were required to cover the levels of cost of some services were significant and would have posed considerable affordability issues for tenants.

### **District Heating Service Charges**

36. Following consultation with tenants, charges for district heating services were reviewed from October 2011 and will be reviewed again in October 2012.

### **Premises Management Service Charges**

37. The premises management service is currently subject of a thorough review looking at the current service provided and options for future service delivery. This review will also look at charging and it is anticipated that charges will be reviewed and consulted on, in time for an October 2012 implementation.

### **Sheltered Housing Service Charges**

38. On 21<sup>st</sup> September 2011, Cabinet agreed to accept the variation of contract with Norfolk Supporting People and remodel the sheltered housing service to bring costs in line with the reduction in supporting people funding and eliminate the financial subsidy of non management costs from the HRA.

39. As a result of the review, it is proposed that:

- i. The weekly sheltered housing support charge will be set to recover costs at £6.24 in accordance with the contract with Norfolk Supporting People;
- ii. The weekly sheltered housing service charge will be set to recover the costs of providing the service, at levels detailed in appendix 1;
- iii. The sheltered housing laundry facilities charge will be fully separated from the existing service charge and set to recover the cost of providing the laundry equipment as set out in appendix 1.

40. It is intended that a further consultation will be carried out during 2012 to consider the unpooling of future sheltered housing charges. Any changes resulting from the outcome of the consultation will be reflected in a further review of charges to take effect from October 2012 and annually thereafter.

### **Sheltered Housing Bulk Metered Water Charges**

41. Due to the layout of the internal pipe work at some sheltered housing schemes, it has not been possible to fit individual water meters, therefore water is supplied via a bulk meter. The water and sewerage charges are paid by the council and recovered from tenants in the form of an individual service charge.



42. The water service charge is set to recover the council's costs and is reviewed annually; however the water supply company do not publish their charges tariff for the forthcoming year until March, which causes difficulty in assessing an accurate service charge.
43. It is proposed that sheltered housing bulk metered water charges remain at current levels with a view to revising the level of charges once Anglian Water have published their charges tariff, with any revisions to the tenants charge becoming effective from the first rent week in October 2012 and annually thereafter.

### **Gardening Service Charges**

44. Two charges exist for the gardening service, a one-off garden clearance charge currently set at £15 and a weekly service charge for an ongoing service set at £3.71 per week
45. The income from service charges does not currently cover the full cost of providing the service, the shortfall being funded by the HRA.
46. The proposed increase in service charges as set out in table 5, seeks to reduce the shortfall currently funded by the HRA.

**Table 5 – Proposed increase to gardening service charges**

	Current Charge	Increase %	Increase £	Proposed Charge
One-off garden clearance	£15.00	33.33%	£5.00	£20.00
Weekly service charge	£3.71	15.90%	£0.59	£4.30

### **Communal Television Aerial Service Charge**

47. The proposed increase in communal television aerial contract as set out in table 6, seeks to recover the cost of providing the service.

**Table 6 – Proposed increase to communal television aerial charge**

Current Charge	Increase %	Increase £	Proposed Charge
£0.65	3.00%	£0.02	£0.67

### **Communal Window Cleaning Service Charge**

48. Charges for the cleaning of communal windows will remain at current levels with a view to revising the level of charges with effect from the first rent week in October 2012 and annually thereafter.

**Sheltered Housing Service and Laundry Facilities Charges****Proposed Charges for 2012/13**

<b>Scheme</b>	<b>Service Charge per week</b>	<b>Laundry Charge per week</b>
Millers Lane	£ 13.38	£ 1.33
Lakenfields	£ 16.54	£ 1.29
Britannia Court	£ 15.61	£ 1.38
Melbourne Cottages	£ 12.61	£ 1.38
Stone Road	£ 16.54	£ 1.03
St James Close	£ 15.29	£ 1.29
Northfields / George Carver Court	£ 11.20	£ 1.47
Douro Place	£ 15.62	£ 1.29
Fugill Road	£ 10.52	£ 1.05
Don Pratt Court	£ 11.60	£ 1.16
Waddington Court	£ 11.93	£ 1.22
Ryrie Court	£ 12.54	£ 1.26
Longbow Court	£ 10.78	£ 1.17
Foresters Close	£ 11.42	£ 1.00
Meadowsweet	£ 10.74	£ 0.69
Silver Birch Court	£ 12.22	£ 1.10
Bradecroft	£ 11.51	£ 1.07
Harry Perry Close	£ 11.58	£ 0.88
Seabrook Court	£ 11.75	£ 1.19
Alnwick Court	£ 10.81	£ 1.10
Alfred Nichols Court	£ 12.61	£ 1.02
Silkfields	£ 18.12	£ 1.10
Fellowes Close	£ 12.06	£ 1.10
Singer Court	£ 13.54	£ 0.89
Gildencroft	£ 1.70	n/a
Custance Court	£ 1.70	n/a
Bailey Court	£ 1.70	n/a
Rowland Court	£ 1.70	n/a