

CANNOCK CHASE COUNCIL

COUNCIL

6 AUGUST 2008

REPORT OF THE DIRECTOR OF SERVICE IMPROVEMENT

RENT RESTRUCTURING STRATEGY

1. Purpose of Report

- 1.1 To review the Council's rent restructuring strategy and determine the 2008-09 rent restructuring plan.
- 1.2 To review the level of Council garage rents.

2. Recommendations

- 2.1 That Council agree the 2008-09 rent restructuring plan, formulated in accordance with the principles of the council's agreed rent restructuring strategy as set out below:-
 - (a) No rent will change by more than RPI plus 0.5% plus £2.00 per week.
 - (b) All rent changes will be implemented via four equal steps between October 2008 and October 2011, except where:-
 - (i) The total change in rent is between £0.10-£1.00 over the restructuring period, in which case the total change will be implemented in October 2008.
 - (ii) The total change in rent is between £1.01 and £2.00 over the restructuring period, in which case the total change will be implemented in two equal portions in October 2008 and 2009.
- 2.2 That the 2008-09 rent restructuring plan is implemented with effect from 06 October 2008.
- 2.3 That Council consider a further report on the possible introduction of service charges, which takes into account the recommendations of the Housing Policy Development Committee regarding their review of the elderly and disabled persons grass cutting service and the elderly persons internal decoration scheme.
- 2.4 That Council consider the level of garage rents with effect from 6 October 2008.

3. Key Issues

- 3.1 The Government requires all social landlords to set their rents in accordance with a common formula. Where current rents differ from those determined by the formula, social landlords are required to restructure their rents to achieve convergence by March 2012.
- 3.2 The Council's agreed restructuring model has been revised to take account of a 4.4% uplift in the formula rents as prescribed by the Department for Communities and Local Government.

Formula rents have then been compared with the Council's current rents to assess the necessary changes to ensure that convergence is achieved by March 2012.

- 3.3 The Council's agreed rent restructuring strategy is based on implementing the required changes through annual equal steps and as the Council determine the level of council house rents each October, these changes need to be implemented through the four annual rent reviews which remain in the period 2008-11.
- 3.4 As a result all rent changes would be implemented via four equal steps between October 2007 and October 2011 except where:-
- (i) The total change in rent is between £0.10 - £1.00 over the restructuring period, in which case the total change will be implemented in October 2008.
 - (ii) The total change in rent is between £1.01 and £2.00 over the restructuring period, in which case the total change will be implemented in two equal portions in October 2008 and 2009.

Note: The required changes relate to either an increase or decrease in rent.

- 3.5 The rent changes as determined by the Council's rent restructuring strategy provide a revised individual rent for each of the Council's 5,520 dwellings, which will be implemented through the 2008-09 Rent Restructuring Plan. All rent changes would be implemented with effect from 06 October 2008.
- 3.6 The net effect of the proposed changes is:-
- (a) The generation of an estimated additional £401,247 of rent income in 2008-09 and an estimated additional £772,773 of rent income in 2009-10.
 - (b) An average rent increase of £2.69 (4.65%).
- 3.7 The Council's current service charge policy results in no additional charge for certain additional services which are received by some tenants and at this stage no provision has been made for the introduction of service charges as part of any revised rent restructuring strategy.
- 3.8 The Housing Policy Development Committee will, however, review the Council's elderly and disabled persons grass cutting service and the elderly persons internal decoration scheme as part of their work programme for the 2008-09 municipal year. As part of this review, the option of introducing service charges will be an issue for consideration.
- 3.9 The introduction of service charges would require changes to the Council's Tenancy Agreement to ensure that any service charges can be collected together with the rent. A revised draft Tenancy Agreement will be considered by Cabinet on 21 August 2008 and the opportunity has been taken to amend the current Agreement to enable service charges to be introduced.
- 3.10 It is therefore suggested that the Council consider a further report on the possible introduction of service charges, which take into account the recommendations of the Housing Policy Development Committee regarding their policy reviews.

- 3.11 Garage rents are also reviewed as part of the annual rent review process. These currently stand at £6.50 per week for Council tenants and £7.64 for other residents and have been subject to a 25 pence per week increase each year since 2003.
- 3.12 The 'downturn' in the housing market is having a detrimental effect on the estimated capital receipts which are expected to be received from Right to Buy sales and the agreed land sale programme. As this will have implications for the Council's agreed HRA investment strategy, revised HRA business plan projections will be considered by Cabinet at a future meeting.

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Section 1**Background**

The Government require all local authorities and Registered Social Landlords (social landlords) to set their rents in accordance with a common formula which takes account of local earnings, the size of individual properties and relative property values. Where current rents differ from those determined by the common formula, social landlords are required to restructure their rents to achieve convergence with the 'formula rents' by March 2012.

The aim of the Government's policy is to ensure that differences in social housing rents are justified by differences in objective criteria such as the size and value of properties and local earnings levels. As a result, two neighbouring properties of the same size and value would have very similar rents, regardless of whether they are owned by a local authority or a RSL.

Council on 8 August 2002 agreed a rent restructuring strategy based on implementing all rent changes through annual equal steps until October 2011. This strategy has subsequently been implemented through an annual rent restructuring plan formulated as part of the October rent review process.

Section 2**Rent Restructuring**

In accordance with the Government's rent restructuring policy, the Council is required to determine rents for individual properties within its housing stock in accordance with a common April 2000 baseline formula; whereby the weekly rent is calculated as:-

70% of the average rent for social housing *¹
 multiplied by relative county earnings *²
 multiplied by bedroom weight *

Plus

30% of the average rent for social housing
 multiplied by relative property value *⁴

Notes

- *¹ The average social housing rent is the average for England at April 2000.
- *² Relative country earnings are the average manual earnings for Staffordshire (at a 1999 price base) divided by the average manual earnings for England (at April 2000).
- *³ A bedroom weight (as prescribed by the DCLG) is applied so that other factors being equal, smaller properties have lower rents.
- *⁴ Relative property value is the existing use value of a dwelling divided by the national average value of social housing in England at January 1999 prices. A valuation exercise to determine 'beacon' relative property values for the Council's housing stock (at a January 1999 price base) was completed in April 2002.

Following a comprehensive review a number of policy changes were made to the Government's policy as reported to Council on 9 August 2006. These included changes to the formula rent methodology, the use of an average social housing rent and alterations to the bedroom weightings.

The formula rent is the rent which results from the baseline formula calculation. This is updated each year by inflation and a real terms increase prescribed by the Department for Communities and Local Government as shown below:-

(a)	Formula Rent 2001-02	1%	increase plus 3.3% inflation (2% plus 2.5%)
(b)	Formula Rent 2002-03	0.5%	increase plus 1.7% inflation (1% plus 2.5%)
(c)	Formula Rent 2003-04	0.5%	increase plus 1.7% inflation (1% plus 2.25%)
(d)	Formula Rent 2004-05	0.5%	increase plus 2.8% inflation (1.5% plus 2.46%)
(e)	Formula Rent 2005-06	0.5%	increase plus 3.1% inflation (1.5% plus 2.53%)
(f)	Formula Rent 2006-07	0.5%	increase plus 2.7% inflation
(g)	Formula Rent 2007-08	0.5%	increase plus 3.6% inflation
(h)	Formula Rent 2008-09	0.5%	Increase plus 3.9% inflation

Note: The figure in brackets relate to calculations made under the previous formula rent methodology prior to the Government's Rent Restructuring policy review.

The Council is required to restructure its rents in order that the actual rent charges for each property moves from its current level to the formula rent by March 2012. No rent can, however, change by more than the 'rent cap' which is defined as inflation plus 0.5% plus or minus £2.00 per week.

The Government is currently undertaking a fundamental review of the Housing Revenue Account subsidy system. It is understood that potential changes to the Government's rent restructuring policy are being considered as part of this review, although details are not yet available. A further report will, however, be submitted following completion of the review in spring 2009.

Section 3

Service Charges

The Council provide a number of specific services which are dependent on the circumstances of the individual property or the tenant. These services include:-

- (a) The provision of a warden service to sheltered housing scheme tenants and a communal alarm service to bungalows and flats which are suitable for occupation by elderly persons.
- (b) The provision of additional tenancy support services to vulnerable tenants.
- (c) The provision of a household contents insurance scheme for tenants who wish to choose the policy offered by the Council's insurers.
- (d) The provision of entry phones to flats with communal entrances and CCTV to properties in the Redhill Road area.
- (e) The provision of grass cutting and internal decoration schemes for elderly persons.

At the present time separate charges are made for:-

- (a) Warden services, the communal alarm service and additional tenancy support services in accordance with the Government's requirements under the Supporting People Programme.
- (b) Household contents insurance, where a weekly premium is collected.

No charges are, however, made for other services (i.e. the provision of entry phones, the Redhill Road CCTV scheme and the elderly persons grass cutting and internal decoration services) and, as a result, the cost of providing these services is spread across all tenants.

The Government's service charge policy states that local authorities are expected to set reasonable and transparent service charges which closely reflect what is being provided to tenants, and are encouraged to move towards identifying service charges separately, based on the actual cost of provision. However, local authorities also have the discretion to decide what services to charge for separately and, within a broad framework what services to include within the rent.

The introduction of service charges has been considered by Council on a number of previous occasions. The last occasion was on 22 August 2007 when the current policy was reaffirmed in that no separate charge is made for the additional services which are received by certain tenants and that these continued to be funded from housing rents.

The Housing Policy Development Committee will, however, review the Council's elderly and disabled persons grass cutting service and the elderly persons internal decoration scheme as part of their work programme for the 2008-09 municipal year. As part of this review, the option of introducing service charges for these services will be an issue for consideration.

The introduction of service charges would require changes to the Council's existing Tenancy Agreement to ensure that any service charges can be collected together with the rent. In accordance with the Housing Act 1985, any changes to the Tenancy Agreement must be subject to consultation with all tenants, before any new Tenancy Agreement is introduced.

The Council's current Tenancy Agreement has a number of weaknesses and has been subject to comprehensive review. As a result of this work, a revised draft Tenancy Agreement for consultation with tenants will be considered by Cabinet on 21 August 2008 and the opportunity has been taken to amend the current Agreement to enable service charges to be introduced. Following a proposed 8 week consultation period and the consideration of tenants' comments, it is envisaged that a revised Tenancy Agreement which would enable service charges to be introduced would be in place at the end of the calendar year.

It is therefore suggested that Council consider a further report on the possible introduction of service charges, which take into account the recommendations of the Housing Policy Development Committee regarding their review of the elderly and disabled persons grass cutting service and the elderly persons internal decoration scheme.

Section 4

The Council's Rent Restructuring Strategy

The Council's rent restructuring model has been revised to take account of a 4.4% uplift in formula rents as prescribed by the Department for Communities and Local Government (DCLG).

As a result, a revised formula rent has been calculated for each of the Council's 5,520 properties (as at July 2008) using information from the Council's 'beacon' relative property valuation exercise, together with information provided by the DCLG in relation to other factors included in the formula rent calculation. Details of the information provided by the DCLG is attached as Annex 1.

Formula rents have then been compared with the Council's current rents to assess the necessary changes to ensure that convergence is achieved by March 2012.

The Council's agreed rent restructuring strategy is based on implementing the required changes through annual equal steps as the Council determine the level of Council 'house' rents each October,

these changes need to be implemented through the four annual rent reviews which remain in the period 2008-11.

As a result all rent changes will be implemented via four equal steps between October 2007 and October 2011 except where:-

- (i) The total change in rent is between £0.10 - £1.00 over the restructuring period, in which case the total change will be implemented in October 2008.
- (ii) The total change in rent is between £1.01 and £2.00 over the restructuring period, in which case the total change will be implemented in two equal portions in October 2008 and 2009.

Note: The required changes relate to either an increase or decrease in rent.

The implementation of the agreed rent restructuring strategy will generate £401,247 in 2008-09 and £772,773 of estimated additional income in 2009-10.

Section 5

Rent Restructuring Plan 2008-09

The rent changes as determined by the Council's rent restructuring strategy will provide a revised individual rent for each of the Council's 5,520 dwellings, which will be implemented through the 2008-09 rent restructuring plan. An analysis of the rent changes included within the 2008-09 plan are set out below:-

	<u>No. of Properties</u>	
	<u>Rent</u> <u>Increase</u>	<u>Rent</u> <u>Decrease</u>
(a) <u>Proposed Changes in 4 Equal Steps</u>		
£0.10 -£1.00 per week		
£1.01 - £2.00 per week	1	0
More than £2.00 per week	489	0
	5,027	0
(b) <u>Other Changes</u>		
£0.10 - £1.00 in October 2008	1	1
£1.01-£2.00 in equal proportions in October 2008 and October 2009	1	0
	<u>TOTAL</u>	
	5,519	1

All rent changes would be implemented with effect from 6 October 2008, and will result in an average rent increase of £2.69 (4.65%).

Section 6

Garage Rents

Council on 28 February 2007 resolved that garage rents are reviewed as part of the annual rent review process for the Council's housing stock.

Garage rents are not covered by the Government's rent restructuring policy and it will be necessary for the Council to determine any increase in garage rents, which would be implemented with effect from 6 October 2008.

Garage rents currently stand at £6.50 per week for Council tenants and £7.64 for other residents and have been the subject of a 25 pence per week increase each year since 2003.

Section 7

Mid-Year Review of the Housing Revenue Account

A report which provides a mid-year review of the HRA to provide a revised budget for the current year and the base budget for future years is traditionally considered in the autumn.

The process has been extended in recent years to include a review of the HRA business plan projections in order to meet the Council's requirements to:-

- (a) Develop and implement a strategy to bring its housing stock up to the decent homes standard by 2010 and maintain it in a decent condition thereafter.
- (b) Ensure that 'a balanced HRA' is maintained in the foreseeable future.

The agreed HRA capital investment strategy is dependant upon the generation of capital receipts and the 'downturn' in the housing market is having a detrimental effect on the estimated receipts which are expected to be received from Right to Buy sales and the agreed land sale programme.

As a result, revised HRA business plan projections will be considered by Cabinet at a future meeting.

Section 8

Contributions to CHASE

The implementation of the Council's rent restructuring plan for 2008-09 will generate additional income for the Housing Revenue Account. The additional income will be used to provide housing services which contribute to the Healthier Communities, Housing and Older People objective of CHASE.

Section 9

Section 17 Implications

There are no identified Section 17 implications arising from this report.

Section 10

Human Rights Act Implications

There are no identified implications in respect of the Human Rights Act 1998 arising from this report.

Section 11**Data Protection Act Implications**

There are no identified implications in respect of the Data Protection Act arising from this report.

Section 11**Risk Management Implications**

There are a number of risks associated with the implementation of the annual rent review. These risks are, however, managed through established procedures which include a number of verification checks and are the subject of an annual audit review.

Section 12**Legal Implications**

Any changes to the rent structure must be implemented having regard to the guidance issued by the Department for Communities and Local Government. These changes are being made to promote harmonisation between tenants and to achieve fairness and equality in the charging policy.

Social landlords are being encouraged to restructure their rents towards the new target rents, with the aim of completing the process as far as possible by March 2012, until total convergence is achieved. The Council has the discretion to implement the changes as it deems appropriate within the recommended four year timescale. Clearly, rent restructuring is less likely to have a significant impact on tenants if it is introduced more gradually over a longer period of time.

Section 13**Financial Implications**

Estimates of the additional income which would be generated as a result of the October rent reviews between 2008 and 2010 were included in the three year HRA budget agreed by Council on 27 February 2008. This is compared with the revised rent review estimates in the table below:-

	<u>Estimated Additional Income</u>	
	<u>2008-09</u>	<u>2009-10</u>
Budget Estimate (27 February 2008)	£354,311	£682,377
Rent Review (October 2008)	£401,247	£772,773
Additional estimated income	£46,936	£90,396

Garage rents currently stand at £6.50 per week. An increase for example of 25 pence per week would generate additional income of £5,060 for 2008-09 and £10,130 for 2009-10.

Section 14**Human Resource Implications**

There are no identified human resource implications associated with this report.

Section 15

Conclusions

This report presents details of the 2008-09 rent structuring plan which has been formulated in accordance with the principles of the Council's agreed rent restructuring strategy.

The recommendations are set out in section two of the report.

Background Papers

None.

Annexes

Annex 1: Calculation of Formula Rents 2008-09

ANNEX 1CALCULATION OF FORMULA RENTS 2008-09 – INFORMATION PROVIDED BY THE DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENTi. Average Social Housing Rent

Average Social Housing Rent for England (April 2000) - £54.62

ii. Earnings

(a) Average gross weekly manual earnings in Staffordshire - £296.20 (1999 price base)

(b) Average gross weekly manual earnings in England - £316.40 (1999 price base)

iii. Bedroom Weights

(a) Bedsit - 0.80

(b) One Bedroom - 0.90

(c) Two Bedroom - 1.0

(d) Three Bedroom - 1.1

(e) Four Bedroom - 1.2

iv. Relative Property Value

Average relative capital value for social housing dwellings in England in January 1999 - £49,750.

v. Formula Rent Increases

(a) Formula Rent 2001-02 - 1% increase plus 3.3% inflation

(b) Formula Rent 2002-03 - 0.5% increase plus 1.7% inflation

(c) Formula Rent 2003-04 - 0.5% increase plus 1.7% inflation

(d) Formula Rent 2004-05 - 0.5% increase plus 2.8% inflation

(e) Formula Rent 2005-06 - 0.5% increase plus 3.1% inflation

(f) Formula Rent 2006-07 - 0.5% increase plus 2.7% inflation

(g) Formula Rent 2007-08 - 0.5% increase plus 3.6% inflation

(h) Formula Rent 2008-09 - 0.5% increase plus 3.9% inflation