

CANNOCK CHASE COUNCIL

COUNCIL

22 AUGUST 2007

JOINT REPORT OF THE DIRECTOR OF SERVICE IMPROVEMENT AND THE DIRECTOR OF GOVERNANCE

RENT RESTRUCTURING STRATEGY

1. Purpose of Report

- 1.1 To review the Council's rent restructuring strategy and determine the 2007-08 rent restructuring plan.
- 1.2 To review the level of Council garage rents.

2. Recommendations

- 2.1 That the revised rent restructuring strategy, formulated in accordance with the following principles is agreed:-
 - (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 5 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 2007.
 - (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 2007 and 2008.
- 2.2 That the Council's current service charge policy is confirmed and the provision of the current additional services to certain tenants continue to be funded from housing rents.
- 2.3 That the 2007-08 rent restructuring plan, as detailed in paragraph 3.2 is implemented with effect from 1 October 2007.
- 2.4 That Council consider the level of Council garage rents with effect from 1 October 2007.

3. Key Issues

- 3.1 The Council's rent restructuring strategy has been reviewed to take account of the uplift in formula rents prescribed by the Department for Communities and Local Government.

- 3.2 As a result, revised rents have been calculated for each of the Council's 5,637 properties to provide a rent restructuring plan for 2007-08. An analysis of the changes are provided below:-

	<u>No. of Properties</u>	
	<u>Rent Increase</u>	<u>Rent Decrease</u>
(a) <u>Proposed Changes in 5 Equal Steps</u>		
£0.10 - £1.00 per week	68	1
£1.01 - £2.00 per week	1,228	0
More than £2.00 per week	4,336	0
(b) <u>Other Changes</u>		
£0.10 - £1.00 in October 2007	1	0
£1.01 - £2.00 in equal proportions in October 2007 and October 2008	2	1
	<u>TOTAL</u>	<u>2</u>
	<u>5,635</u>	<u>2</u>

- 3.3 The net effect of the proposed changes are:-

(a) The generation of an additional £354,311 of rent income in 2007-08 and an additional £682,377 in 2008-09.

(b) An average rent increase of 4.3%.

- 3.4 The Council's current service charge policy results in no additional charge for certain additional services which are received by some tenants. This policy was last reviewed by Cabinet on 18 January 2007 when it had been assumed that the Council wish to continue with its present policy. As a result no provision has been made for the introduction of service charges as part of the revised rent restructuring strategy.

- 3.5 Council on 28 February 2007 agreed that Council garage rents should be reviewed as part of the annual rent review process. It is therefore necessary for the Council to determine any increase in garage rents, which would be implemented with effect from 1 October 2007.

- 3.6 Garage currently stand at £6.25 per week and have been subject to a 25 pence per week increase each year since 2003.

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Section 1

1. Background

- 1.1 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 restructuring their rents to achieve convergence with the "formula rents" by March 2012.
- 1.2 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.
- 1.3 Council on 8 August 2002 agreed a rent restructuring strategy. This has subsequently been the subject of an annual review in accordance with annual guidelines issued by the Government and has been implemented through an annual rent restructuring plan formulated as part of the October rent review process.

Section 2

2. Rent Restructuring

- 2.1 Following a comprehensive review, a number of policy changes were made to the Governments rent restructuring policy. These changes were reported to Council on 9 August 2006 and were implemented as part of the 2006-07 rent restructuring plan.
- 2.2 The Council is required to determine rents for individual properties within its housing 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 *³

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.

2.3 The resultant rent arising from the above calculation is termed the formula rent. This is updated each year by inflation and a real terms increase, as prescribed by the DCLG (details relating to the previous calculations are shown in brackets) i.e.

(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

Section 3

3. Service Charges

3.1 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.

3.2 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.

3.3 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.

- 3.4 The Government's policy on service charges 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.
- 3.5 The introduction of service charges has been considered on a number of occasions, the last occasion being by Cabinet on 18 January 2007. It has been assumed that the Council will wish to continue with its present service charge policy and as a result no provision has been made for the introduction of service charges a part of the revised rent restructuring strategy detailed in section 4.

Section 4

4. The Council's Rent Restructuring Strategy

- 4.1 The Council's agreed rent restructuring strategy has been reviewed to take account of the 4.1% uplift in formula rents prescribed by the DCLG as detailed in paragraph 2.3.
- 4.2 As a result, a revised formula rent has been calculated for each of the Council's 5,637 properties (as at July 2007) using information from the Council's "beacon" relative property valuation exercise, together with information provided by the DCLG in relation to the other factors included in the formula rent calculation. Details of the information provided by the DCLG is attached as Annex 1.
- 4.3 Formula rents have been compared with the Council's current rents to assess the necessary changes to ensure that convergence is achieved by March 2012. As the Council determine the level of Council house rents each October, the required charges need to be implemented through the 5 annual rent reviews which remain in the period 2007-2012.
- 4.4 As a result of this exercise, the Council's rent restructuring strategy has been revised in accordance with the following principles:-
- (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 5 equal steps between October 2006 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 2007.
 - (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 2007 and 2008.
- Note: The required changes relate to either an increase or decrease in rent.
- 4.5 It is proposed that the revised rent restructuring strategy is agreed.

Section 5**5. Rent Restructuring Plan 2007-08**

- 5.1 The proposed revision of the rent restructuring strategy provides an individual rent for each of the Council's 5,637 properties and it is not therefore appropriate to append this to the report. An analysis of the changes for 2007-08 is, however, provided below:-

	<u>No. of Properties</u>	
	<u>Rent Increase</u>	<u>Rent Decrease</u>
(a) <u>Proposed Changes in 5 Equal Steps</u>		
£0.10 - £1.00 per week	68	1
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	<u>TOTAL</u>	<u>2</u>
	<u>5,635</u>	<u>2</u>

- 5.2 The net effect of the proposed changes are:-
- (a) The generation of an additional £354,311 of rent income in 2007-08 and an additional £682,377 in 2008-09.
- (b) An average rent increase of 4.3%.

Section 6**6. Garage Rents**

- 6.1 Council on 28 February 2007 resolved that garage rents were maintained at their current level until October 2007 to enable them to be reviewed as part of the annual rent process for Councils housing stock.
- 6.2 Garage rents are not covered by the Governments rent restructuring policy and it will be necessary for Council to determine any increase in garage rents, which would be implemented with effect from 1 October 2007.
- 6.3 Garage rents currently stand at £6.25 per week and have been subject to a 25p per week increase each year since 2003.

Section 7

7. Contributions to CHASE

- 7.1 The implementation of the Councils rent restructuring plan for 2007-08 will contribute to the Healthier Communities, Housing and Older People objective of CHASE.

Section 8

8. Section 17 (Crime Prevention) Implications

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

Section 9

9. Human Rights Act Implications

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

Section 10

10. Data Protection Act Implications

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

Section 11

11. Risk Management Implications

- 11.1 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

12. Legal Implications

- 12.1 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.
- 12.2 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 five year time scale. Clearly, the rent restructuring is less likely to have a significant impact on tenants if they are introduced more gradually over a longer period of time.

Section 13

13. Financial Implications

- 13.1 An estimate of the additional income which would be generated as a result of the October 2007 rent review was included in the three-year HRA budget agreed by Council on 28 February 2007 amounting to £343,300 in 2007-08.
- 13.2 The proposed rent charges will generate additional rent income of:-
- (a) £354,311 in 2007-08
 - (b) £682,377 in 2008-09
- 13.3 Garage rents currently stand at £6.25 per week. An increase for example of 10p per week would generate an additional income for 2007-08 and £4,250 for 2008-09.

Section 14

14. Human Resource Implications

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

Section 15

15. Conclusions

- 15.1 That the recommendations set out in Section 2 of the report are agreed.

Background Papers

None

Annexes

- (a) Calculation of Formula Rents 2007-08

ANNEX 1CALCULATION OF FORMULA RENTS 2007-08 – 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