

CANNOCK CHASE COUNCIL

COUNCIL

9 AUGUST 2006

REPORT OF THE DEPUTY CHIEF EXECUTIVE

RENT RESTRUCTURING STRATEGY

1. Purpose of Report

- 1.1 To review the Council's rent restructuring strategy in accordance with the latest rent restructuring guidelines issued by the Department for Communities and Local Government.
- 1.2 To determine the rent restructuring plan for 2006-07.
- 1.3 To review the Council's service charge policy.
- 1.4 To consider the review date for 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 6 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 2006.
    - (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 2006 and 2007.
- 2.2 That the 2006-07 rent restructuring plan, as detailed in paragraph 4.1 is implemented with effect from 2 October 2006.
- 2.3 That the Council determine its future policy regarding service charges and following a consultation exercise regarding the required revision of the Council's Tenancy Agreement consider the introduction of service charges with effect from 2 April 2007.

- 2.4 That Council consider an October annual review date for Council garage rents and if agreed determine garage rents with effect from 2 October 2006.

## 3. Key Issues

- 3.1 The Council's rent restructuring strategy has been reviewed to take account of changes to the Government's rent restructuring policy and 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 5,781 properties and details of these are provided in paragraph 4.1.
- 3.3 The Council do not make any separate charge for a number of additional services which are made to some properties or certain eligible households, i.e. entry phones, the Redhill Road CCTV scheme and the elderly persons internal decoration and grass cutting schemes.
- 3.4 There are however, arguments for linking the cost of specific services to the properties or households to which such services are provided and it is considered that Council may wish to review its current "no service charge" policy.

- 3.5 Whilst service charges could be introduced for entry phones, the Redhill Road CCTV scheme and the elderly person grass cutting scheme it would not be possible to extend this to the elderly persons internal decoration service as this is undertaken on a 3 to 4 year cycle.
- 3.6 If service charges are introduced it will be necessary to change the Council's existing Tenancy Agreement to ensure any charges can be collected together with the rent. In accordance with the Housing Act 1985, any change to the Tenancy Agreement must be the subject of a consultation exercise with all tenants and such an exercise will therefore need to be undertaken before a new Tenancy Agreement is introduced.
- 3.7 Therefore if service charges are to be introduced, it is proposed that these are implemented from 2 April 2007 to enable a new Tenancy Agreement to be in place.
- 3.8 Garage rents are traditionally reviewed as part of the budget process in March. There are however, administrative advantages in moving this to October to coincide with the review of housing rents and it is proposed that Council consider this change.

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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 ODPM 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 The Government's rent restructuring policy has been the subject of a comprehensive review, the results of which were considered by Council on 11 August 2004 and 17 August 2005. Whilst the recommendations were initially deferred for 12 months, the following policy changes have now been implemented for 2006-07 and future years:-
- (a) Larger properties – higher bedroom weights for 3 and 4 bedroom properties and new higher weightings for properties with 5 or 6 (or more) bedrooms.
  - (b) Harmonisation – the use of the same rent restructuring formula in respect of both local authority and RSL properties.
  - (c) Implementation – local authorities should ignore the downward limit of RPI plus 0.5% minus £2.00 per week on rent charges for properties for which rents need to fall by 2011-12.
- 2.2 These policy changes have altered the formula which the Council is required to use in order to determine the rents for individual properties within its housing stock. In accordance with a common April 2000 baseline formula, a weekly rent is calculated as:-
- 70% of the average rent for social housing \*<sup>1</sup>  
multiplied by relative county earnings \*<sup>2</sup>  
multiplied by bedroom weight \*<sup>3</sup>
- Plus  
30% of the average rent for social housing  
multiplied by relative property value \*<sup>4</sup>

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 Government's rent restructuring policy has resulted in the following major changes:-

- (a) Average Social Housing Rent has increased from £45.60 to £54.62.
- (b) Bedroom weights for three-bedroom properties has increased from 1.05 to 1.1., and four-bedroom properties from 1.1 to 1.2.
- (c) Relative property value from £41,350 to £49,750.

2.4 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

2.5 The overall impact of the Government's rent restructuring policy is to increase convergence rents in 2012 by 5.8%, with rents for 2006-07 increasing by an additional 1.1% as compared to the indicative 2006-07 rents, as determined by the 2005-06 Rent Restructuring report to Council on 17 August 2005.

2.6 The Council is required to restructure its rents in order that the actual rent which is charged for each property moves from its current level to the formula rent by March 2012. However, no rent can increase by more than RPI plus 0.5% plus £2.00 in any year.

Section 3**3. The Council's Rent Restructuring Strategy**

3.1 The Council's agreed rent restructuring strategy has been reviewed to take account of changes to the Government's rent restructuring policy (as detailed in paragraph 2.1) and the uplift in formula rents prescribed by the DCLG (as detailed in paragraph 2.4).

- 3.2 As a result, a revised formula rent has been calculated for each of the Council's 5,781 properties (as at July 2006) 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 are attached as Annex 1.
- 3.3 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 6 annual rent reviews which remain in the period 2006-2012.
- 3.4 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 6 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 2006.
    - (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 2006 and 2007.
- Note: The required changes relate to either an increase or decrease in rent.
- 3.5 It is proposed that the revised rent restructuring strategy is agreed.

#### Section 4

#### 4. Rent Restructuring Plan 2006-07

- 4.1 The proposed revision of the rent restructuring strategy provides an individual rent for each of the Council's 5,781 properties and it is not therefore appropriate to append this to the report. An analysis of the changes for 2006-07 is, however, provided below:

	<u>No. of Properties</u>	
	<u>Rent Increase</u>	<u>Rent Decrease</u>
(a) <u>Proposed Changes in 6 Equal Steps</u>		
£0.10 - £1.00 per week	304	2
£1.01 - £2.00 per week	2,200	0
£2.00 per week	3,273	0
(b) <u>Other Changes</u>		

£0.10 - £1.00 in October 2006	1	1
£1.01 - £2.00 in equal proportions in October 2006 and October 2007	0	0
	<u>TOTAL</u>	<u>3</u>
	<u>5,778</u>	<u>3</u>

4.2 The net effect of the proposed changes is:-

- (a) The generation of an additional £318,157 of rent income in 2006-07 and an additional £612,746 in 2007-08.
- (b) An average rent increase of 3.9%.

## Section 5

### 5. Service Charges

5.1 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.

5.2 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.

5.3 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.

5.4 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.

- 5.5 Council have, on a number of previous occasions, considered the introduction of service charges and have determined that no separate charge should be made for either property related services (i.e. entry phones and the Redhill Road CCTV scheme) or the additional services (i.e. the elderly persons grass cutting and internal decorate schemes) which are received by certain eligible households.
- 5.6 There are however, arguments for linking the cost of specific services to the properties or households to which such services are provided. In particular, the Government consider that it would provide transparency, allow all tenants to see the true costs of the additional services which are provided and link a specific charge to the receipt of additional services.
- 5.7 The introduction of service charges would also enable new services to be introduced (at an additional charge equal to the cost of the new service) or allow additional households to receive existing services (such as grass cutting) again at an additional charge. Service charges would also generate additional income for the HRA which would progressively increase until the completion of rent restructuring in 2011.
- 5.8 For these reasons it is considered that Council may wish to review its current "no service charge" policy.
- 5.9 If service charges are introduced there would be no difference initially between the rent or the total of the rent plus service charge that any individual tenant would be required to pay. The total of the rent plus service charge cannot therefore increase by more than RPI plus 0.5% plus £2.00 per week, although the Council has the discretion to determine the split between rent and service charge, provided that the service charge does not exceed the actual cost of providing the service.
- 5.10 In subsequent years, although the gross cost cannot again, increase by more than RPI plus 0.5% plus £2.00, the rent element would progressively increase until it reached the formula rent target by 2012, with service charge element being made as an additional charge.
- 5.11 These potential changes are illustrated by the example below:-

No Service Charge

2 Bedroom House	<u>Proposed Rent</u> <u>Oct 2006</u> <u>50 week</u>	<u>Formula Rent</u> <u>50 Week</u>	<u>Proposed Rent</u> <u>Oct 2007</u> <u>50 week</u>	<u>Proposed Rent</u> <u>Oct 2008</u> <u>50 week</u>	<u>Proposed Rent</u> <u>Oct 2009</u> <u>50 week</u>	<u>Proposed Rent</u> <u>Oct 2010</u> <u>50 week</u>	<u>Proposed Rent</u> <u>Oct 2011</u> <u>50 week</u>
Property A	59.91	69.61	61.85	63.79	65.73	67.67	69.61
Property B	59.91	69.91	61.85	63.79	65.73	67.67	69.61

Introducing A Service Charge

	<u>Proposed Rent</u> <u>April 2007</u> <u>50 week</u>		<u>Formula Rent</u> <u>50 Week</u>	<u>Proposed Rent</u> <u>Oct 2007</u> <u>50 week</u>	<u>Proposed Rent</u> <u>Oct 2008</u> <u>50 week</u>	<u>Proposed Rent</u> <u>Oct 2009</u> <u>50 week</u>	<u>Proposed Rent</u> <u>Oct 2010</u> <u>50 week</u>	<u>Proposed Rent</u> <u>Oct 2011</u> <u>50 week</u>
Property A	58.98	Rent	69.61	61.10	63.23	65.36	67.49	69.61
	0.93	Service Charge		0.95	0.97	0.99	1.01	1.04
	<u>59.91</u>		<u>69.61</u>	<u>62.05</u>	<u>64.20</u>	<u>66.35</u>	<u>68.50</u>	<u>70.65</u>
Property B	59.91	Rent	69.61	61.85	63.79	65.73	67.67	69.61
		Service Charge	0.00	0.00	0.00	0.00	0.00	0.00
			<u>69.61</u>	<u>61.85</u>	<u>63.79</u>	<u>65.73</u>	<u>67.67</u>	<u>69.61</u>

- 5.12 Whilst service charges could be introduced for both the property related services and the elderly persons grass cutting service, it would not be possible to extend this to the elderly persons internal decoration service as this service is undertaken on a 3 to 4 year cycle and is not therefore received by each household every year.
- 5.13 A number of anomalies could also arise regarding any service charge policy for the elderly persons grass cutting scheme during the initial years. Following introduction of a service charge (which would result initially in a lower rent) a household could decide to discontinue the service (in order to "save" paying the service charge) and would as a result pay a lower rent than his/her neighbours, until rent convergence in October 2011.
- 5.14 The introduction of service charges would require changes to the Council's existing Tenancy Agreement to ensure that any charges can be collected together with the rent. In accordance with the Housing Act 1985, any change to the Tenancy Agreement must be the subject of a consultation exercise with all tenants and such an exercise will therefore need to be undertaken before a new Tenancy Agreement is introduced.
- 5.15 It is therefore proposed that if the Council wish to introduce service charges, the implementation of any scheme should be deferred until the week commencing 2 April 2007.
- 5.16 The actual cost of any service charges would be determined immediately prior to their introduction but indicative figures are as follows:-
- (a) Entry Phones £0.13 per week
  - (b) CCTV in the Redhill Road area £2.45 per week
  - (c) Grass Cutting Service £0.93 per week
- 5.17 The amount of additional income which would be generated from the above service charges is estimated to be:-
- (a) 2006-07 - Nil
  - (b) 2007-08 - £85,530
  - (c) 2008-09 - £88,010
  - (d) 2009-10 - £90,590
  - (e) 2010-11 - £93,210

## Section 6

### 6. Garage Rents

- 6.1 Garage rents are not covered by the Government's rent restructuring policy and are traditionally reviewed as part of the budget process in March.
- 6.2 There are however, a number of administrative advantages in implementing changes to garage rents at the same time rent changes are made to the Council's housing stock and it is therefore proposed that garage rents are reviewed in October each year.
- 6.3 Subject to this change being agreed, it will be necessary for Council to determine any increase in garage rents, which would be implemented with effect from 2 October 2006.

Section 7

**7. Contributions to CHASE**

- 7.1 The introduction of service charges would provide transparency, allow all tenants to see the true costs of the additional services which are provided and link a specific charge to the receipt of additional services. This would contribute towards the CHASE objective in relation to Social Inclusion and Housing.

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 six-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.
- 12.3 With regards to the proposed introduction of service charges, the Council as landlord, cannot unilaterally make changes to the tenancy agreement without undertaking a consultation exercise with existing tenants in accordance with the provisions of the Housing Act 1985. Any representations received must be considered before any proposed changes are agreed and subsequently incorporated into a revised tenancy agreement.

**Section 13**

**13. Financial Implications**

- 13.1 An estimate of the additional income which would be generated as a result of the October 2006 rent review was included in the three-year HRA budget agreed by Council on 22 February 2006 amounting to £322,090 in 2006-07.
- 13.2 The proposed rent charges will generate additional rent income of:-
- (a) £318,157 in 2006-07
  - (b) £612,746 in 2007-08
- 13.3 The introduction of service charges would generate additional income for the HRA which was not taken into account when the three-year HRA budget was agreed by Council on 22 February 2006. Whilst no additional income would be generated in 2006-07, the amount would progressively increase until the completion of rent restructuring as estimated below:-
- (a) 2007-08 - £85,530
  - (b) 2008-09 - £88,010
  - (c) 2009-10 - £90,590
  - (d) 2010-11 - £93,210

**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

- (a) Office of the Deputy Prime Minister – “A New Financial Framework for Local Authority Housing – Resource Accounting in the Housing Revenue Account” (June 2002)
- (b) Letter from the Department for Communities and Local Government – “Housing Revenue Account Subsidy Payments to Local Authorities to Offset Rental Income Foregone” (10 May 2006)

ANNEX 1CALCULATION OF FORMULA RENTS 2005-06 – 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