

Cabinet – 21st September 2005

Joint Report of the Director of Adult, Community and Housing Services and the Director of Finance

Review of Housing Finance

Purpose of Report

1. To seek approval to set council rents and other charges.

Background

2. In December 2000 the Government issued a new *Guide to Social Rent Reforms*. This guidance set out a method of restructuring to remove unjustifiable differences between council rents and the rents of registered social landlords (*RSLs*) over a period of ten years. The HRA Subsidy system supports the guidance by imposing financial penalties for councils that fail to comply. Our last three rent increases complied with the guidance and were as follows:
 - October 2002, average increase £1.65.
 - October 2003, average increase £1.58.
 - October 2004, average increase £2.00.
3. Compliance with government rent guidance generates an average increase in November 2005¹ of £2.11 (average 3.9%) with a maximum increase of £4.14. The range of increases is illustrated in more detail below:

RANGE OF RENT INCREASES

Range of rent increase	Proportion of properties affected
£0.00 to £1.00	0.5%
£1.01 to £1.50	6.2%
£1.51 to £2.00	38.1%
£2.01 to £2.50	36.4%
£2.51 to £3.00	14.5%
£3.01 to £4.14	4.3%

¹ Later than normal due to the later than normal date of Cabinet.

4. A letter was sent to Dudley Federation of Tenants and Residents Associations (*DFTRA*) on 10th August 2005, outlining the Government's guidance and the effects in terms of the next rent increase. *DFTRA* replied on 17th August 2005, accepting the proposed rent increase. This letter is attached as Appendix 1.
5. The following table shows comparisons with the rents of neighbouring councils. It is important to note that, prior to 2002, all councils were operating local rent-setting policies. This is the fourth year of a gradual process to move towards the Government's formula rents. Dudley's rents are rising relative to those of other councils and Registered Social Landlords, reflecting the impact of property values on the rent formula. The differentials shown below are likely to change further as rent restructuring progresses.

**LOCAL AUTHORITY RENTS
AVERAGE RENTS ON 50 WEEK BASIS**

Authority	Current average rent	Last rent review
Sandwell	56.08	October 2004
Dudley	53.43	October 2004
Birmingham	53.31	October 2004
Walsall (<i>Walsall Housing Group</i>)	52.62	April 2005
Coventry (<i>Whitefriars</i>)	51.82	April 2005
Solihull	50.71	April 2005
Wolverhampton	48.10	November 2004

6. In addition to the rents discussed above, we currently apply service charges in certain properties in respect of heat and light, the use of a communal aerial and Council Tax and water (where met by the Council). The income from these charges is currently adequate to cover the actual cost of the services provided and so it is proposed that no increase is made.
7. The Council provides 19 caravan plots at the Oak Lane Gypsy Site for which we charge a rent of £64.97 per week. This rent was last reviewed in April 1999. It is proposed that we increase the weekly rent to £76.00, to reflect inflation during the intervening period.
8. The Council provides temporary accommodation at the Lye Homeless Centre. This accommodation is currently being refurbished to modern standards and is due to re-open in December with six self-contained units (one two-bedroom flat and five one-bedroom flats). It is proposed that rents be charged in line with government rent restructuring together with service charges to reflect the cost of utilities, furniture and intensive management. This would generate the following charges:

	Two-bed flat £	One-bed flat £
Rent	51.31	46.13
Utilities	22.33	22.33
Council Tax	6.30	6.30
Furniture	18.41	18.41
Management charge	42.77	42.77
TOTAL	141.12	135.94

9. The Council currently provides, within its general housing stock, 20 units of furnished accommodation. There are 12 units of furnished accommodation for young people nominated by the Youth Offending Team (for which there is a furniture charge of £10 per week) and 8 units of temporary accommodation for homeless people (for which there is no furniture charge as this was initially grant funded by ODPM, but provision now needed to be made for replacements). It is proposed that, in order to follow a more consistent approach and reflect the cost of wear and tear on furniture, a charge of £18.41 per week is made for all furnished units.
10. In addition to the various weekly charges reviewed above, the Council levies annual charges for garage plots and access agreements. These were last reviewed in April 2000. The following table shows the current charges and proposed new charges to reflect the impact of inflation in the intervening years:

	Current annual charge £	Proposed new charge £
Garage plot - surfaced	45.54	53.00
Garage plot - unsurfaced	22.77	26.50
Access agreement	14.40	16.80

11. Garage rents were last increased in November 2004. At that time the Executive determined that, in view of the excessive administrative cost of annual increases, the next increase should not take place until November 2007.

Finance

12. Appendix 2 shows the original budget for the current financial year (2005/6) together with a revised budget assuming that an average rent increase of £2.11 is implemented with effect from the week commencing 7th November 2005. The forecast is also affected by a slowdown in Right to Buy sales which improves rental income but necessitates a larger revenue contribution to capital to compensate for a lower level of capital receipts. The original budget showed a surplus

of £1.0million at 31st March 2006. The revised budget shows a surplus of £2.1million at that point. This surplus is required in future years to support our business plan to deliver the Government's Decent Homes Standard by 2010 (see below).

13. As part of the Housing Stock Options Appraisal (approved by Council in April of this year) we prepared a financial forecast up to 2010. It was based on financial trends and government policy (including rent restructuring) and showed that, on the basis of delivering a minimum programme of repairs and improvements, it would be possible to deliver the Decent Homes Standard by 2010. We have reviewed this longer-term forecast in the light of the slowdown in capital receipts noted above. The review shows an increased need for investment (due to a larger housing stock) and slightly reduced capital receipts, compensated by higher rental income. The net effect of these changes is expected to be broadly neutral. Summaries of the original and revised longer-term forecasts are attached as Appendix 3.

Law

14. The housing finance regime is governed by Sections 74-88 in Part VI of the Local Government and Housing Act 1989. Section 24 of the Housing Act 1985 provides that the Council may make such reasonable charges as they determine for the tenancy or occupation of their houses. In addition, this section imposes an obligation on the Council to review rent from time to time and to make such changes either of rents generally or particular rents as circumstances may require.

Equality Impact

15. Rent restructuring involves the application of formula rents based on property value, number of bedrooms and regional manual earnings relative to national manual earnings. The impact on economically disadvantaged groups is mitigated by the housing benefit system.

Recommendation

16. It is recommended that:-
 - a rent increase be implemented for HRA dwellings from 7th November 2005 with an average increase of £2.11 and a maximum increase of £4.14 in line with government rent guidance;
 - a rent increase of £11.03 be implemented for Oak Lane Gypsy Site from 7th November 2005;
 - rent and other charges be applied at the re-opened Lye Homeless Centre as detailed in the table following paragraph 8;
 - a furniture charge of £18.41 per week be implemented for all furnished properties from 7th November 2005;

- new annual charges for garage plots and access agreements be applied as outlined in the table following paragraph 10, with effect from 1st April 2006;
- a revised budget be set for the current year to reflect the rent increase and other factors (as outlined in Appendix 2);
- Cabinet note the longer-term forecast outlined in paragraph 12 and Appendix 3.



.....
Linda Sanders
Director of Adult, Community
and Housing Services

.....
for Mike Williams
Director of Finance

Contact Officer: Iain Newman
 Telephone: 01384 815075
 Email: iain.newman@dudley.gov.uk

List of Background Papers

- Guide to Social Rent Reforms (DTLR, December 2000)
- Dudley Metropolitan Borough Council Rent-Restructuring Valuations of Housing Stock as at January 1999 (DTZ Piedad Consulting, June 2002)
- Options Appraisal Report on Meeting Decent Homes by 2010 (April 2005)

DFTRA

Booth Court,
Lower Derry St,
Brierley Hill,
West Midlands.
DY5 2SJ.

Dudley Federation of Tenant & Residents Association
Company Registration Number
04376573

Tel: 01384 868010
Fax: 01384 343548

Website: www.dfta.org.uk
e-mail: info@dfta.org.uk

Mr John Stringer
3 Capstan House,
10/08/05
Waterfront East,
Brierley Hill,
West Midlands.
DY5 1XL

Your Ref JS/JAP Date

17 August 2005

Dear John,

Proposed rent increase – November 2005

Although rent rises will never be popular, we understand that the Council have no option but to follow the formula for rent convergence set out by the government. Taking this into consideration we the Federation accept the proposed rent increase.

The tenants of Dudley decided to keep the Council as their landlord after going through the Option Appraisals process and now quite a few surveys show that a large majority of tenants are satisfied with council services.

Regular meetings and consultation between Dudley Federation of Tenant and Resident Associations and Building Services Management [Forge House] on working practice and implementation has led to a clearer understanding of what both sides expect from each other with regard to repairs and programmed work. This is fed back through the comments we receive as representatives, from tenants who have been the recipient of work carried out.

The Federation and the majority of tenants also realise that the council must meet the Decent Homes Standard by 2010 and again this is an extra expense.

We strongly believe by continually "Working together" will ensure that tenants get value for their money.

Yours sincerely,
[Allan Miles](#)
Director / Chairperson DFTRA

Housing Revenue Account 2005/6

	Original budget £m ²	Revised budget £m
Income		
Net rent income	-62.2	-63.4
Supporting People Income	-1.8	-1.7
Other income	-0.9	-0.9
Total income	-64.9	-66.0
Expenditure		
Management	13.9	13.9
Responsive and cyclical repairs	22.9	22.9
Negative Subsidy	9.0	9.2
Transfer to Major Repairs Reserve	13.6	13.6
Capital charge	28.2	28.3
Other expenditure	2.6	2.6
Total expenditure	90.2	90.5
Net cost of services	25.3	24.5
Adjusting transfer from Asset Management Revenue Account	-25.1	-25.2
Interest on balances	-0.1	-0.5
Net operating expenditure	0.1	-1.2
Revenue contribution to capital expenditure	1.7	1.9
Total deficit for the year	1.8	0.7
Surplus brought forward	-2.8	-2.8
Surplus carried forward	-1.0	-2.1

² Original budget adjusted to take account of earmarked reserves brought forward at 1st April 2005.

Longer-term forecastsLonger-term forecast produced for Housing Stock Options Appraisal

	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	
	£m	£m	£m	£m	£m	£m	£m	£m	
Revenue Resources	31.8	38.2	39.0	34.4	32.3	33.1	33.5	34.1	
Capital	25.4	24.1	23.2	21.9	24.7	25.0	24.1	26.3	
Total Resources	57.2	62.4	62.2	56.4	57.0	58.1	57.5	60.4	471.2
Cost of Management	13.0	14.1	12.8	13.1	13.4	13.8	14.1	14.5	
Cost of Revenue Repairs	18.9	24.1	26.2	21.3	18.9	19.3	19.4	19.6	
Cost of Revenue	31.8	38.2	39.0	34.4	32.3	33.1	33.5	34.1	
Cost of Capital	25.4	24.1	23.2	21.9	24.7	25.0	24.1	26.3	
Total Investment needed	57.2	62.4	62.2	56.4	57.0	58.1	57.5	60.4	471.2
Surplus									0.0

Latest revised longer-term forecast

	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	
	£m	£m	£m	£m	£m	£m	£m	£m	
Revenue Resources	31.8	34.6	44.5	34.6	32.5	33.4	33.9	34.6	
Capital	25.4	24.1	23.6	22.4	25.0	25.4	24.5	26.9	
Total Resources	57.2	58.7	68.1	57.0	57.5	58.8	58.4	61.5	477.2
Cost of Management	13.0	14.1	13.9	13.1	13.4	13.8	14.1	14.5	
Cost of Revenue Repairs	18.9	20.4	30.6 ³	21.5	19.1	19.6	19.7	20.1	
Cost of Revenue	31.8	34.6	44.5	34.6	32.5	33.4	33.9	34.6	
Cost of Capital	25.4	24.1	23.6	22.4	25.0	25.4	24.5	26.9	
Total Investment needed	57.2	58.7	68.1	57.0	57.5	58.8	58.4	61.5	477.2
Surplus									0.0

³ £22.9m from HRA and £7.7m from Housing Repairs Account.