

TITLE: Rent Setting Report 2006/07

TO/ON: Cabinet 22nd February 2006
Full Council 23rd February 2006

BY: Director of Housing Management Services

PORTFOLIO HOLDER: Cabinet Member for Housing

STATUS: For Publication

1. PURPOSE OF THE REPORT

- 1.1. To set the annual rent increase for the financial year 2006/07 in accordance with Office of the Deputy Prime Minister guidelines on rent restructuring and to agree increases on other rental/service charge income.
- 1.2. To explain how the amendments to the governments rent setting formula impact on rents for Council tenants in Rossendale and to suggest that members choose to amend the councils previous policy and set an increase lower than that available through maximising rental income via the Governments (ODPM) formula.
- 1.3. To notify members that if stock transfer proceeds this will be the last time the council sets the rents, in future, rent setting will fall within the remit of Green Vale Homes.

2. RECOMMENDATIONS

That Cabinet recommends that Full Council:

- 2.1. Increase dwelling rents by an average of 5.27%.
- 2.2. Increase garage rents by 2.7%
- 2.3. Increase communal heating charges by 5%
- 2.4. Increase misc. charges by 2.7%
- 2.5. Increase Supporting People charges by 2.5% in line with the increase determined by the Supporting People Commissioning Body on 9th February 2006.

3. REPORT AND REASONS FOR RECOMMENDATIONS AND TIMETABLE FOR IMPLEMENTATION

3.1 Background

The Government (ODPM) introduced rent restructuring several years ago as part of a mechanism to control Local Authority rents and to realign Local Authority and other Registered Social Landlord rents. Rossendale Borough Council have generally applied the methodology prescribed by ODPM, but with a view to maximising income within the constraints of the methodology (Rent restructuring was intended to be achieved over a 10 year period and the rent increase for the financial year 2006/07 would be the fourth year in that process).

The methodology was based on a target rent that was calculated according to a prescribed formula with rent increases being applied that would move existing actual rents towards the formula rents in broadly even steps up to 2011/12 (while taking into account a maximum permissible increase of RPI + 0.5% pa + £2).

The Government has since reviewed the current methodology and made several changes..

3.2 Changes to the Restructuring Methodology

ODPM decided that the basic policy was sound, but that two small technical adjustments were required as follows:

i) Increase the number of bedroom weightings as follows:

NUMBER OF BEDROOMS	OLD BEDROOM WEIGHTINGS	NEW BEDROOM WEIGHTINGS
BEDSITS	0.8	0.8
1	0.9	0.9
2	1	1
3	1.05	1.1
4	1.1	1.2
5	1.1	1.3
6+	1.1	1.4

This was done in order to properly recognise legitimate rent differentials between smaller and larger properties.

The basic impact for Rossendale is an increase in the formula rents for 3 or more bedroom properties due to changes in the relative weightings.

ii) Harmonising the Local Authority and Registered Social Landlord Formula

Previously two slightly different formula had been used for each of the sectors. The relative formulae were intended to bring rents closer together by 2011/12 but small differences would still remain.

The idea behind using the same formula was to eliminate unfairness and confusion that resulted from using two different calculations.

The impact for Rossendale is an increase in the formula rents due to the Local Authority moving to the new formula.

The Formula Rent is calculated as follows:

70% x **Bedroom Weight** x **National Average Rent in April 2000** x
Relative Manual County Earnings

Plus

30% x National Average Rent in April 2000 x **Property Value Relative to
National Average Property Value in January 1999.**

The items in bold represent the figures that will change as a result of new methodology introduced by ODPM.

3.3 Impact for Rossendale Borough Council

The bedroom weights and national average rent have increased while the relative national average property value has reduced. The two increases outweigh the impact of lesser relative property values which means an overall increase in the formula or target rents for Rossendale.

In previous years it has been the policy to set rents at a level that aims to maximise income. This has meant setting rents at/close to the subsidy limit rent (the point at which any additional increase would mean a loss of subsidy).

If this policy was adhered to this year it could have meant an average increase of over 7% or an additional amount of income of around £190k for the year (compared to the proposed increase).

However, in order to comply with the ODPM requirements on rent restructuring and to adhere to the spirit of the promises on rents contained within the transfer offer document an average increase of 5.27% needs to be applied to current rents (subject to individual rent increases not exceeding the RPI + 0.5% + £2 limit).

This represents a minimum increase that allows rents to move towards target rents in broadly even steps.

3.4 Any increases need to be notified to tenants (28 days notice) and would be effective for the 2006/07 financial year.

- 3.5 **Communal Heating Charges**-The cost of providing this service should be recovered through the charges levied. Energy costs have shown significant increases of late and in order to recover the full cost of the service it is necessary to uplift the current charges by 5%.
- 3.6 **Garage rents/Misc Income**- With general inflation running at around 2.7% it is appropriate to limit the increase to inflation only.

4. CORPORATE IMPROVEMENT PRIORITIES

4.1. FINANCE AND RISK MANAGEMENT

- 4.1.1. The proposed increase in dwelling rents achieves a balance between protecting the level of rental income due and complying with Government policy on rent restructuring.

4.2. MEMBER DEVELOPMENT AND POLITICAL ARRANGEMENTS

- 4.2.1. No member development issues

4.3. HUMAN RESOURCES

- 4.3.1. There are no human resource implications arising from this report.

5. ANY OTHER RELEVANT CORPORATE PRIORITIES

- 5.1. None

6. RISK

- 6.1. Any deviation from the rent restructuring guidelines could mean that target rents are not met by 2011/12.

7. LEGAL IMPLICATIONS ARISING FROM THE REPORT

- 7.1. None

8. EQUALITIES ISSUES ARISING FROM THE REPORT

- 8.1 None.

9. WARDS AFFECTED

- 9.1 All

10. CONSULTATIONS

10.1 Internal consultation

11. Background documents:

Attached report.

File marked Rent Setting 2006/07

For further information on the details of this report, please contact: Lee Wicks, Group Accountant (Housing). Telephone 01706 836324.