



**HOUSING, HEALTH AND SOCIAL EXCLUSION REVIEW PANEL - 21 NOVEMBER 2001
CABINET - 5 DECEMBER**

RENT RESTRUCTURING

1 INTRODUCTION

- 1.1 This report advises members of proposals to undertake the restructuring of this Council's rents following the issue of new policy guidance by the Government, and seeks approval for certain discretionary matters.

2 BACKGROUND

- 2.1 Members will be aware that implementation of a new points system was put on hold following the publication of the Housing Green Paper, Quality and Choice – A Decent Home For All, in April 2000.
- 2.2 Following a period of consultation, the Government published a policy statement, The Way Forward for Housing, in December 2000. Key Government objectives, confirmed by the policy statement, are:
- (a) to ensure that rents remain affordable in the long term;
 - (b) to make rents fairer and less confusing for tenants;
 - (c) to provide a closer link between rents and the qualities which tenants value in properties;
 - (d) to give tenants the opportunity to take more responsibility for their choice of housing while protecting the vulnerable amongst them;
 - (e) to reduce unjustifiable differences between rents set by local authorities and by registered social landlords;
 - (f) to encourage better management by social landlords of their stock; and
 - (g) to complement wider objectives to give quality and choice.
- 2.3 The policy statement prescribed how social rents are to be calculated in the future, and how changes are to be introduced. It was accompanied by detailed guidance, "A Guide to Social Rent Reforms".
- 2.4 Proposals to change the Housing Revenue Account (HRA) subsidy system, so that it supports rent restructuring, were announced in a consultation paper, issued on 13 July 2001. The results of the consultation should become clear with the publication of the draft HRA subsidy determination in early November 2001.

- 2.5 Although the guidance is not legally enforceable, compliance by local authorities should ensure that reduction in resources through withdrawal of subsidy is minimised.
- 2.6 This report describes the new guidance and proposed subsidy changes, outlines the implications for this Council and its tenants, and discusses areas for policy decision.

3 THE NEW GUIDANCE

- 3.1 A target rent should be calculated for each property of which 70% is based on relative local earnings and 30% is based on the relative property value. A bedroom factor should be applied to the earnings element of the calculation. Appendix A contains a detailed description of the calculation, plus a worked example.
- 3.2 Property valuations should be based as at January 1999. Data already collected for resource accounting purposes may be used, with a suitable adjustment to take account of the different base date.
- 3.3 Phasing-in of the target rent should commence in April 2002 and be broadly complete by March 2012. Landlords have some discretion over the precise pace and timing of restructuring programmes, but should ensure that changes are not concentrated into the later years of the 10 year implementation period. By 2012, each property's rent should be no more than 5% higher or lower than the target rent. Rent changes each year should not exceed £2 per week over and above the normal increase for inflation.
- 3.4 Target rents will rise each year by the national guideline for the local authority sector. For 2002/03, this has been set at 1% above inflation. An average increase of 1.5% above inflation is forecast for the ten year period of implementation.
- 3.5 Service charges should be identified separately from rent for all properties where appropriate, with the possibility of a separate subsidy system applying in the future.

4 THE SUBSIDY CONSULTATION PAPER

- 4.1 The proposals are aimed to provide incentives to authorities to restructure their rents in accordance with the guidance. There are three main subsidy components that will be affected, based on equalising actual rents, guideline rents and limit rents. These are detailed in the following paragraphs.
- 4.2 Guideline Rent – The guideline rent is the rent level assumed by the Government in calculating the Housing Subsidy Element. Under the new arrangements, this would move toward the target rent (or formula rent) in ten equal annual steps. For those authorities with a target rent in excess of the guideline rent, the effect would be to reduce subsidy in real terms year by year.
- 4.3 Limit Rent – The limit rent is the rent level used in calculating the level of rent rebate subsidy. Where the average actual rent of a local authority exceeds the limit rent, the reimbursement of rent rebates is reduced proportionately. Under the new arrangements, this figure would also move toward the target rent (or formula rent) in ten equal annual steps. It is further proposed that with effect from 2004/05, a system of 'property specific' limit rents is phased in. These changes would benefit those authorities that restructure their rents in accordance with the guidance by reducing subsidy losses.

- 4.4 The Consultation Paper suggests that, nationally the subsidy lost by local authorities through guideline rent increases will be matched by additional subsidy allocations through management and maintenance allowances, these elements increasing in real terms by 5% and 3% respectively in 2002/03. The actual levels of increase are likely to vary between authorities. Real terms increases beyond next year are uncertain.

5 IMPLICATIONS FOR NFDC RENTS

- 5.1 Restructuring will result in many changes to rents, upwards and downwards. The overall total of target rents is £12,200 per week less than the current total. This equates to £635,000 per annum. The actual effect on rent income year by year will depend on decisions made with regard to the phasing-in of the new rents.
- 5.2 Changes to rents required, range from a reduction of £21.25 per week to an increase of £29.02. In some 67% of cases, the target rent is lower than the current rent, whilst in 33% of cases, the target rent is higher. An analysis of the changes is contained in appendix B.
- 5.3 The average target rent is £56.29 per week, compared with the current average of £58.56. The change in average rents varies according to category. Most categories show a reduction. Overall, flats show the greatest reduction. A full breakdown, including property values, is shown in appendix C.
- 5.4 Clearly, property values will have a direct impact on rent levels. Appendix D shows, for selected areas, average property values, current rents and target rents for various property types.
- 5.5 The proposed rent structure addresses many of the anomalies that exist in the current points-based system.
- 5.6 The current housing management computer software does not contain the necessary functionality to cope with the new arrangements. A solution has been proposed by the software supplier, and it is aimed to have updated programmes in place in time to enable phasing-in of the new rents to begin in April 2002.
- 5.7 It will be necessary to make arrangements to ensure that valuations are reviewed following major improvement works.
- 5.8 Service charges are already identified separately with the exception of some non – sheltered flats. It is planned to review this matter when resources permit.

6 OVERALL RESOURCE IMPLICATIONS

- 6.1 This Council's guideline rent for 2001/02 is £49.21 per week. Under the new arrangements, this would rise to £56.29 (plus inflation) over a period of ten years, resulting in a subsidy reduction of £1.996m per annum, once fully implemented. This would happen regardless of whether the Council restructures its rents.
- 6.2 The Council's current average rent of £58.56 exceeds the limit rent of £53.82, resulting in current subsidy loss of £809,000. If the Council adopts the new proposals, this subsidy loss would be removed once average rents equalled the limit rent. If the Council did not adopt the new proposals, subsidy losses would be likely to increase as the system of property-specific limit rents is phased-in.

- 6.3 Using the average figures quoted for 2002/03, this Council's management and maintenance subsidy would increase by £305,000, and increases for future years could be between £228,000 and £431,000. However, it has also been suggested that the Authority may not receive increases, as its current allowances of £896.23 per dwelling exceed the target allowances by £126.85. Clearly, this makes the assessment of the long – term implications impossible.
- 6.4 In summary, the impact of the fully implemented proposals on the Housing Revenue Account, before changes in management and maintenance allowances would be:

	£000
Income reduction	640
Guideline rent increase	1996
Rent rebate subsidy	<u>-809</u>
Total reduction in resources	1827

- 6.5 The Consultation Paper proposes that the changes should be implemented over a ten year period. Appendix E shows the impact of the proposals and other anticipated variations that would result in 2002/03, under the first three options set out in paragraph 7.2.
- 6.6 In order to balance the Housing Revenue Account, expenditure budgets would need to be reduced by an amount equal to the loss of resources.

7 POLICY MATTERS FOR CONSIDERATION

- 7.1 As noted above, Landlords should aim to achieve full implementation of target rents by 2012, but have some discretion over the precise pace and timing of restructuring. Taking into account the extent of changes required to this Council's rents, subsidy implications, and the restrictions on annual changes, it is considered that the full ten year period will be required and that phasing-in of the new rents should commence in April 2002.
- 7.2 There are four main options available with regard to rent - setting arrangements for 2002/03. There are advantages and disadvantages to each and these are discussed in the following paragraphs. Appendix E contains an analysis of the financial impact in year 2002/03 of options A to C. The impact of option D would be between that of options B and C.
- 7.2.1 Option A - Increase rents by the guideline only, (currently assumed at 3.5%), with no movement towards target rents.

Advantages	Administratively simplest solution. Minimises impact on overall resources in 2002/03.
Disadvantages	Will make achievement of full rent restructuring within 10 year period more difficult. Likely to lead to increasing subsidy losses in future years. Does not address existing problems with points system.

- 7.2.2 Option B – Increase rents generally by the guideline only (3.5%?), and move from current rents to target rents in ten equal annual steps (subject to maximum of £2 above inflation per week in any year.)

Advantages	Net reduction in Council's income will be gradual. Eg £27,000 in 2002/03. Impact on tenants with a higher target rent is controlled. Addresses problems with current points system.
Disadvantages	Administratively more complex as most properties will have a phasing adjustment for ten years or more.

7.2.3 Option C – Increase rents generally by the guideline (3.5%?), and implement target rent in full with effect from 2002/03.

Advantages	Relatively easy to implement. Favours tenants where target rent is lower. Addresses problems with current points system.
Disadvantages	Compared with option B, results in reduction in resources of £235,000 in 2002/03. Results in large increases for some tenants in 2002/03. Approach not favoured by DTLR, as they recommend a maximum increase each year of inflation plus £2.

7.2.4 Option D – Increase rents generally by the guideline (3.5%?), and change rents by £2 per week above inflation each year until target rent is reached.

Advantages	Administratively easier than option B as target rent for each property will be reached at an earlier date. Favours tenants where target rent is lower.
Disadvantages	Reduction in Council's resources will be greatest in early years and will gradually reduce over the implementation period.

7.3 Assuming that option B or D above is selected, the Council would have discretion as to whether to implement the target rent in full whenever a change of tenancy takes place. Again, there are advantages and disadvantages of different approaches and these are discussed below.

7.3.1 Implement target rent in full upon change of tenancy.

Advantages	Administratively easier as target rents will be reached at an earlier date.
Disadvantages	As target rent is lower for 67% of properties, this is likely to lead to reduction in overall rent income. Would lead to inconsistencies between adjacent properties.

7.3.2 Do not change rent upon change of tenancy, but continue with standard phasing-in arrangements.

Advantages	Rent income is more predictable. There will be no inconsistencies between adjacent properties.
Disadvantages	Administratively less easy, as target rent for each property will take the maximum period to implement.

- 7.4 Consideration has been given as to whether a rent increase should be applied in future whenever improvements such as double glazing or central heating take place. As noted above, property valuation figures used in target rent calculations are derived from data collected for resource accounting purposes. The methodology followed, using the 'beacon approach', resulted in valuations which do not take account of minor differences between properties such as the existence or otherwise of double glazing or central heating. It is also noted that relative property values play a fairly modest role in the restructuring formula. For example, at current prices, rents will change by only £3.46 per week for each £10,000 change in property value. In the interests of consistency, it is proposed therefore, not to apply a rent increase in future whenever double glazing or central heating is installed.
- 7.5 It is recognised that tenants may query the valuation on which their rent is based. It is proposed that such queries are investigated and determined by the Council's Valuer. There are potentially significant implications, firstly in terms of staff resources, and secondly in terms of the wider effects of any changes made to individual property valuations. It will be necessary to compile guidelines, clearly stating the grounds on which valuations may be disputed, and the process for resolving the matter.
- 7.6 For the vast majority of properties an open market value has been assessed for resource accounting purposes, and this value will be used in the target rent calculation with the appropriate adjustments.

For certain properties however, it has not been possible to establish an individual market value. These mainly comprise hostel accommodation, either in purpose-built blocks or conversions of existing buildings. The approach adopted for resource accounting purposes was either to establish an existing use value (EUV) or a depreciated replacement cost (DRC) for each block.

For target rent purposes, it is proposed to apportion these block valuations to arrive at an individual value for each unit of accommodation. This approach is supported by the DTLR.

8 FINANCIAL IMPLICATIONS

- 8.1 The changes brought about by the proposals for rent restructuring will have a significant impact upon available resources in the ring fenced Housing Revenue Account. The amount will vary according to the outcome of the current subsidy consultation exercise and to decisions made by the Council with regard to certain discretionary matters as discussed in this report. The reductions in income will mean that less work will be able to be carried out or conversely if the amount of maintenance expenditure must be maintained, then management and commissioning costs will need to be reduced.

However, the current, relatively high, levels of expenditure are necessary to deal with the current maintenance backlog, (principally in the area of improvements to kitchens

and bathrooms). It is anticipated that this backlog will be effectively dealt with over the 10-year period whilst the rent restructuring proposals are implemented. Whilst income over the period will be diminishing it is, nevertheless, expected to be sufficient to deal with this identified backlog. Thereafter the Major Repairs Allowance will be sufficient to adequately maintain the stock to the standard required. The new Business Plan for the Housing Landlord Service which is due to be submitted to the DTLR in July 2002 will identify how the maintenance programme will be adapted to recognise the reductions in funding and yet still ensure adequate levels of repairs and improvements.

9 CRIME AND DISORDER IMPLICATIONS

9.1 There are no crime and disorder implications arising from this report.

10 ENVIRONMENTAL IMPLICATIONS

10.1 By providing a closer link between rents and property values, certain properties may become easier to let, thereby reducing void times.

11 CONSULTATION WITH PORTFOLIO HOLDER FOR HOUSING

11.1 The Portfolio Holder for Housing supports the recommendations contained in this report.

12 CONCLUSIONS

12.1 It is in the overall interest of the Council and its tenants to commence phasing-in of the new rent structure as soon as practicable.

12.2 Tenants' representatives considered this matter at a meeting of the Housing Services Group on 25 October 2001. Whilst they have some concerns, they understand the issues involved and support the recommendations made.

13 HOUSING HEALTH AND SOCIAL EXCLUSION PANEL

The Housing Health and Social Exclusion Panel at their meeting on 21 November 2001 supported the recommendations set out below.

14 RECOMMENDATIONS

14.1 Subject to confirmation being received with regard to future HRA subsidy arrangements, it is recommended that:

14.2 Council rents to increase generally from 1 April 2002 by the DTLR guideline, currently estimated to be 3.5%.

14.3 Phasing-in of the new rent structure to commence on 1 April 2002.

14.4 New rents to be phased in by ten equal annual steps, with rent increases for any tenant restricted to £2 over and above inflation.

14.5 Target rent not to be applied whenever a change of tenancy takes place.

- 14.6 With effect from 1 April 2002, no rent increase to be applied following the installation of central heating or double glazing.
- 14.7 Valuation queries to be investigated and determined by the Council's Valuer, in accordance with guidelines to be agreed with the Portfolio Holder, following consultation with tenants' representatives.
- 14.8 For blocks, where individual open market values cannot be established for each dwelling, target rents to be derived from the block valuation.

<p>For further information, please telephone:</p> <p>1. <u>Rent Restructuring Matters</u></p> <p>Gordon Ballantyne Housing Contract Manager (023) 8028 5175</p> <p>2. <u>Subsidy and General Financial Implications</u></p> <p>Kevin Green Accountancy Manager (023) 8028 5715</p>	<p>Background Papers:</p> <p>Report B, Housing Committee 20 September 2000</p> <p>Policy statement, The Way Forward for Housing, December 2000</p> <p>Guide to Social Rent Reforms</p> <p>New Financial Framework for Local Authority Housing: HRA Subsidy and Rent Restructuring, 13 July 2001</p>
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