
Cabinet – 14th June 2006

**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. Our last four rent increases were calculated using the formula in the guidance and were as follows:
 - October 2002, average increase £1.65.
 - October 2003, average increase £1.58.
 - October 2004, average increase £2.00.
 - November 2005, average increase £2.11.
3. In April 2005 the Council concluded its Housing Stock Options Appraisal with a decision to retain ownership and management of council homes. This decision was supported by a financial forecast based on government policy as it was known at the time (including continued compliance with the rent formula as outlined above). The forecast 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.
4. During the Autumn of 2005 the Government announced changes to the rent restructuring guidance designed to increase the differential between large and small properties and to ensure that the original aim of the guidance, harmonisation of council and RSL rents, is achieved¹. The overall effect of these changes is to require larger increases for

¹ There were technical flaws in the original guidance that would have prevented the achievement of this aim.

council rents. To comply with the guidance, Dudley will have to set an average rent increase this year of £2.71 (4.8%).

5. Rent restructuring is supported by the Government's subsidy system which assumes that councils apply the formula rent increase in April and that the additional income is available to pay into a national pool. Dudley does not actually increase its rents until the Autumn. It follows that for the first seven months of every year, the value of rent increases is paid into the national pool without being passed on to tenants, thus reducing the resources available to deliver services. With larger formula rent increases, this already adverse effect is made worse.
6. We are also adversely affected by changes to the government formula for Management and Maintenance Allowances (part of the HRA Subsidy calculation). At the time of the Housing Stock Options Appraisal, Dudley was one of a number of councils standing to gain significantly from a redistribution of these allowances. In Autumn 2005 the Government amended the formula so as to slow down this redistribution, giving greater protection to those councils losing allowances, at the expense of councils like Dudley.
7. The changes described in paragraphs 4 to 6 (together with other adjustments to our forecast) leave us facing a potential shortfall, against our plan to deliver Decent Homes by 2010, of £7m. In March 2006, we held a joint meeting of the five Area Housing Panels to consult with members and tenants' representatives on options to address this challenge. One option considered was that of changing the date of the rent increase. All but one of the panels were in favour of bringing the next rent increase forward to August 2006. Opinions varied about what should happen in subsequent years.
8. Applying the Government's rent formula generates an average increase of £2.71 (4.8%) with a maximum increase of £4.39. 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 £1.50	0.2%
£1.51 to £2.00	8.0%
£2.01 to £2.50	29.2%
£2.51 to £3.00	34.8%
£3.01 to £3.50	20.0%
£3.51 to £4.39	7.8%

9. A letter was sent to the Dudley Federation of Tenants and Residents Associations (DFTRA) on 24th May 2006 outlining the Government's guidance, the effects in terms of the next rent increase and the proposal to move the date of the increase to August. The views of DFTRA will be reported verbally at the Cabinet meeting.
10. 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 fifth 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	60.44	October 2005
Birmingham	57.19	October 2005
Walsall (<i>Walsall Housing Group</i>)	56.16	April 2006
Dudley	55.53	November 2005
Solihull	55.45	April 2006
Coventry (<i>Whitefriars</i>)	54.80	April 2006
Wolverhampton	50.95	November 2005

11. In addition to the rents discussed above, we currently apply service charges in certain properties in respect of heat, light and the use of a communal aerial. 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.
12. The Council currently provides, within its general housing stock, a number of units of furnished accommodation for which a charge of £18.41 per week is made. It provides six units of accommodation for homeless people in Lye for which rent, management charges and service charges are applied (a two-bedroom flat at £141.12 and five one-bedroom flats at £135.94). There is one house for which a garden maintenance charge of £15.00 per week is made. It is proposed that all of these charges be increased by 2.7% in line with the inflation factor used in determining general rents.

Finance

13. Appendix 1 shows the original budget for the current financial year (2006/7) together with a revised budget assuming that an average rent

increase of £2.71 is implemented with effect from the week commencing 7th August 2006. The revised budget shows a surplus of £4.6m at 31st March 2007. This surplus is required in future years to support our business plan to deliver the Government's Decent Homes Standard by 2010.

14. As part of our Deployment of Resources report to Cabinet on 8th February 2006, we set out a Medium-term Financial Strategy for housing. This showed a forecast shortfall of around £7m in the resources required to deliver Decent Homes by 2010. We have now revised this forecast to take account of the additional income from an August rent increase and in the light of our actual financial performance in 2005/6. These changes have, for the time being, eliminated the previously forecast shortfall. However it should be noted that, given the timescales involved, this forecast is very sensitive to economic and policy changes and should be treated with caution. It is proposed that we continue to review our forecasts and consult as appropriate, through the Area Housing Panels, on measures that can be taken to enhance the financial strength of the housing service.

Law

15. 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

16. 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

17. It is recommended that:-
 - a rent increase be implemented for HRA dwellings from 7th August 2006 with an average increase of £2.71 and a maximum increase of £4.39 in line with government rent guidance;
 - the charges outlined in paragraph 12 should be increased by 2.7% with effect from 7th August 2006;
 - a revised budget be set for the current year to reflect the rent increase and other factors (as outlined in Appendix 1);

- members approve the changes to our medium-term financial forecast outlined in paragraph 14.



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



.....
Mike Williams
Director of Finance, ICT and
Procurement

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 Pida Consulting, June 2002)
- Options Appraisal Report on Meeting Decent Homes by 2010 (April 2005).

Appendix 1

Housing Revenue Account 2006/7

	Original budget £m ²	Revised budget £m
<u>Income</u>		
Net rent income	64.2	66.3
Supporting People Income	1.3	1.3
Other income	1.0	0.9
Total income	66.5	68.5
<u>Expenditure</u>		
Management	14.0	14.0
Responsive and cyclical repairs	21.1	21.9
Negative Subsidy	12.5	11.9
Transfer to Major Repairs Reserve	13.5	13.5
Capital charge	27.9	27.1
Other expenditure	2.7	2.4
Total expenditure	91.7	90.8
Net cost of services	25.2	22.3
Adjusting transfer from Asset Management Revenue Account	-24.8	-23.6
Interest on balances	-0.1	-0.7
Net operating expenditure	0.3	-2.0
Revenue contribution to capital expenditure	3.7	3.3
Total deficit for the year	4.0	1.3
Surplus brought forward	5.9³	5.9
Surplus carried forward	1.9	4.6

² Original budget adjusted to take account of actual outturn for 2005/6.

³ Includes £1.9m of earmarked reserves planned to be used in 2006/7.