

Meeting:	Tenants' and Leaseholders' Consultative Forum
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Subject:	Rent Restructuring and Service Charges
Responsible Officer:	Gwyneth Allen – Head of Housing
Portfolio Holder:	Housing
Exempt:	No

SECTION 1 – SUMMARY

This report sets out information relating to the main changes to rent restructuring and the general scope of changes that must take effect for the de-pooling of service charges from 2007/8.

FOR INFORMATION

SECTION 2 - REPORT

2.1. Background

2.2. Until 2002/2003, local authorities developed their own local policies with regard to setting rents. Since then authorities have been restructuring their rents in accordance with government guidance that is aimed at achieving a coherent structure of social rents between 2002 and 2012.

2.3. The 10-year process of rent restructuring for council and housing association is now in its fifth year. Under this scheme, a target or **formula rent** is

calculated for each property in line with government policy on the structure of rents. The formula is calculated based on manual earnings (70%) and the value of the property (30%) modified to reflect a higher rent for larger homes by using a bedroom weight. Actual rents move gradually towards the formula rent over the 10 year rent restructuring period.

2.4. The objectives of restructuring rents are:

- Social rents should remain affordable and well below those in the private sector
- Unjustifiable differences between the rents set by local authorities and housing associations should be eliminated
- Closer links between rents and property qualities should be established
- Social rents should be made fairer and less confusing to tenants

2.5. The council has applied the Government's prescribed formula for calculating social housing rents since April 2002. The actual rent includes an element of service charge which is yet to be determined. However to achieve rent convergence by 2012 the service charge element must be stripped out.

SECTION 3 – FURTHER INFORMATION

3.1. Review of rent restructuring formula

3.2. Following a review, in 2004, by the former Office of the Deputy Prime Minister, the government proposed major changes to rent restructuring policy. Up until now, there existed separate formulas for calculating council and housing association target rents.

3.3. From 2006/07, council target rents must be calculated using the housing association formula in order to achieve rent harmonisation between the two social housing sectors. The main changes are:

- Increased weightings for larger properties
- A new national average property value based on housing association property values that is 20% higher than that used previously
- A new national average rent based on housing association rents that is 20% higher than that used previously
- The formula rent for convergence is being increased by 0.5% a year rather than 1.5% a year to bring about consistency with housing associations
- A limit on increases in average rents by local authorities of 5% a year
- Compensation will be paid to those authorities affected by the 5% cap through the subsidy system

3.4. Harrow's actual rent is higher than formula or target rent. To achieve convergence service charges must be de-pooled.

4.0. Service charges

4.1. In Harrow rents include an element of service charge. Rents are generally taken to include all charges associated with the occupation of a dwelling, such as maintenance and general housing management services. Service charges usually reflect additional services which may not be provided to every tenant, or which may be connected with communal facilities rather than particular to the occupation of a dwelling. Different tenants may receive different types of service reflecting their housing circumstances.

4.2. Government has decided that local authorities should retain discretion to decide what services to charge for separately, and what services should be included within the rent, within a broad framework.

5.0. Treatment of service charges under rent restructuring

5.1. At present, some authorities identify service charges separately, some include the cost in the general rent charge to a tenant, and others pool the cost of services across all tenants. The separation of service charges from rent is known as 'rent unpooling' or 'rent 'de-pooling'. **Formula rents** take no account of service charges. Therefore, government has encouraged local authorities to move towards identifying service charges separately, based on the actual costs of services to individual properties. This would also allow tenants to see what they are getting for their money and to assess the reasonableness of the charges. The services most commonly separated from the rent are:

- Grounds maintenance
- Caretaking
- Estate cleaning
- Communal lighting
- Concierge service
- Heating
- Door entry systems
- CCTV
- Communal aerials
- Laundry services
- Community alarm
- Warden services in a sheltered block

5.2. Service charges are not governed by the same factors as the property charge or rent. Therefore, it is not appropriate to apply the restructuring formula to these charges. However, government does expect local authorities to set reasonable and transparent service charges, which closely reflect what is being provided to tenants.

5.3. The most widely used method in apportioning the cost of the service charge is a flat rate for each service. Other methods include a fixed amount to all tenants, a flat rate for each estate or block and a flat rate for each property type. Some council's have used more than one method to apportion their service charge costs. Appendices 1 – 3 illustrates examples of how service charges are calculated for a range of services.

5.4. If a local authority follows this approach then at the end of the rent restructuring period, the total charge to the tenant would comprise the **formula rent** plus a service charge based on the actual cost of additional services to that tenant. Where a property is subject to a cap on the **formula rent**, the service charge may be additional to the cap but should be strictly limited to the cost of the services provided.

5.5. Local authorities are expected to use their discretion on charging for services to avoid situations in which anomalies are created, e.g. it costs tenants much more to live in high-rise flats than it would be to live in street properties that they would find more attractive. In particular, government do not think it appropriate to levy service charges on services such as lifts that are essential to high rise flats any more than it would be appropriate to charge tenants of certain system-built houses extra amounts to reflect the high costs of maintaining their homes. These costs that are inevitable for the properties concerned: neither tenant nor landlord has any discretion over them. For some other services, drawing a clear line between those, which should be explicitly charged for, and those that should not is no easy matter. This is best left to local judgement.

6.0. Keeping Charges Affordable

6.1. Government policy is that no one's rent should increase by more than RPI + ½% +/- £2 per week because of rent restructuring. Similarly, they want to limit rises in overall bills due to separate identification of charges for existing services.

6.2. Therefore, in a year in which any service charge is de-pooled, local authorities are encouraged not to increase the total charge to any individual tenant by more than RPI + ½% +/- £2 per week. Within this constraint the authority has the discretion to decide the split between rent and service charges, so long as the total service charge is not more than the cost of providing those services.

6.3. In years where there is no de-pooling, service charges to an individual should not increase by more than RPI + ½% +/- £2 per week in any year. If this approach is followed, the total charge to tenants would not increase by more than RPI + ½% +/- £2.

6.4. There may be very rare occasions where an authority has to increase its service charge by more than RPI + ½% due to increases in costs outside its control, such as increases in fuel costs.

7.0. New Charges

7.1. One exception to this is when new services are introduced, in which case an additional charge equal to the cost of the new service may be made. A new service may be something completely new, or an extension of an existing service. However, government would expect authorities to consult appropriately with tenants before introducing new or extended services and associated charges.

8.0. Issues to take into account

8.1. At the Cabinet meeting of 17 February 2005 the revenue budget for 2005/2006 and medium term budget strategy for 2005/6 and 2007/8 plus the housing revenue account were approved on the basis of:

- a zero rent increase for two subsequent years
- Harrow's average rent would consequently be maintained below the formula rent thus incurring no rebate limitation until 2001/12
- rents would increase from 2007/8 by a standards 4.73% pa to reach convergence

8.2. Following the decision to retain the council's housing stock using the prudential borrowing arrangements to meet the Decent Homes Standard, the HRA Business Plan was signed off by GOL in January 2006 on the basis that the de-pooling of service charges in 2006/7 would deliver increased rental income.

8.3. The service charge costs after de-pooling should not exceed the cost of providing the service in the first place.

8.4. Housing benefit implications need to be assessed. At present entitlement to housing benefit is payable on the pooled service charge included with the rent. De-pooling may result in tenants be liable for elements of the service charge.

9.0. Next steps

9.1. A benchmarking exercise will be undertaken to update the Council's module for applying formula rents and to identify and agree the service charge elements to be de-pooled.

9.2. A further report will be submitted in January 2007 setting out options for the treatment of service charges and the timetable in relation to consulting all tenants.

SECTION 4 - CONTACT DETAILS AND BACKGROUND PAPERS

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Background Papers:

- A Guide to Social Rent Reforms in the Local Authority Sector (2004), OPDM
- Briefing: Council Rents and Service Charges 2006/7, London Councils
- Cabinet Report (17.02.05), agenda item 10 – Revenue Budget 2005/6 and Medium Term Budget Strategy 2005/06 to 2007/8 (including Housing Revenue Account)