

<b>COMMITTEE:</b>	<b>CABINET</b>
<b>DATE:</b>	<b>5<sup>TH</sup> DECEMBER 2001</b>
<b>SUBJECT:</b>	<b>COUNCIL HOUSING RENT RESTRUCTURING</b>
<b>REPORT OF:</b>	<b>HEAD OF HOUSING MANAGEMENT</b>
<b>Ward(s):</b>	All
<b>Purpose:</b>	To inform Members of the proposed changes to the rent setting process and to clarify the potential impact of rent restructuring upon the tenants of Eastbourne Borough Council.
<b>Contact:</b>	Janet Canny, Head of Housing Management, Telephone 01323 415306 or internally on extension 5306.
<b>Recommendations</b>	<p><b>Members are recommended to:</b></p> <ol style="list-style-type: none"> <li>1. <b>Agree that this new rent setting formula is utilised by Eastbourne from 2002/03.</b></li> <li>2. <b>That steps are taken to ensure that, where practicable, all rents are on track to meet target rents by 2011/12.</b></li> <li>3. <b>That rents are set, where practicable, in 10 even stages.</b></li> <li>4. <b>That this matter is reviewed, each year, in the context of the annual Housing Revenue Account Business Plan and the annual subsidy determination.</b></li> <li>5. <b>That a further report be made to Cabinet in January 2002 to decide the rent levels for 2002/03.</b></li> </ol>
<b>1.0</b>	<b><u>Background</u></b>

1.1	<p>The Government initially outlined its proposals to facilitate the convergence of rent in the Council and Housing Association sectors, in the Housing Green Paper published in June 2000. Since that time, there have been a series of consultation documents and guidance notes published, detailing this policy approach in more detail.</p>
1.2	<p>The Governments stated aim is to effectively bring the rent levels of the two tenures together over a period of 10 years. It aims to make the rent levels more equitable, and thus eliminate any rent disparities within all social housing, provided in the same locales, and of a similar property type.</p>
1.3	<p>As part of the Governments investigation into this issue, Eastbourne participated in a pilot study, undertaken by the Schools of Public Policy at Bristol and Birmingham Universities. This project incorporated housing providers from all parts of England and including one of our own Neighbouring Local Authorities as well as a Registered Social Landlord (RSL), which operates in both that Authorities area, as well as Eastbourne. The findings are discussed later in this report. This matter has also been discussed with Price, Waterhouse, Coopers, in the context of the Best Value Review of Housing Management, Part I, Stock Options.</p>
1.4	<p><b>It is recognised that the issue of rent convergence is one which effects all social housing providers. It has been initially suggested that the majority of Local Housing Authorities could see their rent levels increasing, whilst those of Registered Social Landlords could fall. There has been concern expressed by the Housing Association sector</b></p>

2.0	<h2><u>The Rent Setting Formula</u></h2>
2.1	<p>The Department of Transport, Local Government and the Regions (DTLR) has set out the formula to be utilised by all social housing providers in calculating its future rent levels. The calculation is one based on capital values of the properties and earnings.</p>
2.2	<p>In simple terms, using this new formula, the weekly target rent for each property is equal to:</p> <p>70% of the average rent for the sector (Local Authority or RSL)</p> <p>Multiplied by the relative County earnings</p> <p>Multiplied by the bedroom weight</p> <p>PLUS</p> <p>30% of the average rent for the sector (Local Authority or RSL)</p> <p>Multiplied by the relative property value (set at 1999 levels)</p>
2.3	<p>In simple terms, the higher the capital value of an area, and the higher the local earnings, tenants could expect to pay a higher rent than those living in areas where the opposite factors exist.</p>
2.4	<p>Local Authorities have some discretion in moving overall to a position of being within 5% of target rents, within the next ten years. However, this would need to be balanced with the potential changes to be made to housing subsidy, details of which are found later in this report.</p>
2.5	<p>The Government has emphasised that it does not want any household to experience any dramatic increase or decrease in their weekly rent levels. Therefore they are limiting any changes in rent to a maximum of £2.00 per week.</p>

3.0	<b><u>Timetable for implementation</u></b>
3.1	<p><b>It is proposed that target rents should be implemented over a ten year period with rent convergence being established by 2011/12. Whilst Local Authorities have discretion as to how quickly these proposals are implemented, the DTLR have strongly indicated that they would expect to see this occur in 10 even stages.</b></p>
4.0	<b><u>The effects of rent convergence for Eastbourne Council Housing Tenants</u></b>
4.1	<p><b>For the introduction of resource accounting, and in order to develop the Business Plan, it was necessary to undertake a valuation of our stock. The valuations gained against the beacon properties have been used for the purpose of establishing our target rents. They have been set back to capital values at 1999 levels. In respect of the earnings part of the formula, the East Sussex level of manual earnings is £281.50 per week. (The England average is £316.40.)</b></p>

4.2	<p><b>In 1999, the average capital value for Eastbourne has been established as £48,300. The national average was £41,350. However, it must be remembered that it is the actual capital value of each property, which is used in the formula.</b></p>
4.3	<p><b>Officers have spent some time considering the results of the pilot exercise undertaken, detailed in paragraph 1.3. In particular, there has been a validation exercise undertaken to confirm the accuracy of the capital values being used. It is anticipated that the following changes in rents will occur in Eastbourne.</b></p>

4.4

**In 2001/02 Eastbourne's average rent over 48 weeks a year is £52.72. It exceeds the average target rent of £48.35 by £4.37. However, after adding inflation, the 1% real increase demanded by Government, together with the £2 damping mechanism previously mentioned, the net affect on rent levels for 2002/03 will be a 2% increase on this year. Without restructuring the increase would be 3.5%.**

4.5

**The required rent changes however, vary from property to property. It is anticipated that some properties, particularly some of the bedsitter stock will require a significant reduction in rents to meet rent targets. This could be a reduction of up to £24 per week, and it is unlikely these will meet the target rent over the ten year period. Other stock types, particularly the two and three bedroom houses will experience little change in real rent levels and in effect these rent levels will effectively stand still, and increase only in line with inflation. The range of actual changes on rent levels for 2002/03 varies from a 2.3% reduction to a 7.9% increase. About 800 tenants**

4.6	<b>Additional guidance is expected from the DTLR regarding how service charges are to be calculated in future years. Officers are also currently undertaking additional work to reflect any changes required to service charges as a result of the implementation of the Supporting People initiative.</b>
4.7	<b>The new rent setting formula also makes little allowance for changes in the rent to be brought about as a result of “cost-reflective” works, for example Kitchen and Bathroom Improvements. In future years, any changes to the rent can only be brought about by a change to the actual capital value of the property. Officers are currently undertaking additional work to establish the process for ensuring that such improvements are incorporated into the rent setting process for the individual property concerned.</b>

4.8	<b>By 2011/12 it is estimated that 87% of all Eastbourne rents will be within 5% of target.</b>
4.9	<b>It is estimated that as a result of restructuring, Eastbourne's gross weekly rent income in 2011/12, compared to 2001/02 will have fallen, in real terms, by 9.5%.</b>
4.10	<b>Eastbourne Council is in an unusual position in that the majority of Local Housing Authorities, who took part in the pilot project, are expected to see their rent levels increase, rather than decrease in real terms.</b>
5.0	<b><u>Changes to housing subsidy</u></b>
5.1	<b>The housing subsidy system is also to change, in conjunction with the implementation of rent convergence policy.</b>



5.2

**The housing subsidy calculation is based upon assumptions made of a Local Authorities guideline rent. This represents the level of rent the Government expects to be raised locally. It is proposed that in future, housing subsidy will reflect rent restructuring by moving guideline rents to formula rents in ten equal steps starting from 2002/03. The mechanism will be changed to penalise Councils that fail to follow the rent restructure guidelines.**

5.3

**Eastbourne faces a position where rental income will fall over the ten year period by £900,000 in real terms. Early indications are that we should therefore receive an increase in housing subsidy, which in effect could make up this income shortfall, but because subsidy is based on annual determinations there can be no guarantee of this. Members should be aware that Eastbourne would be disadvantaged if it decided not to implement the rent restructuring proposals in full, as subsidy calculations will be based on the assumption that we will.**

5.4	<p><b>To safeguard our financial position in respect of housing subsidy, it is therefore proposed that this new rent setting formula is utilised by Eastbourne from 2002/03.</b></p>
5.5	<p>The Cabinet Spokesperson for Housing has responded to the consultation documents on rent restructuring and the housing subsidy system, outlining the Borough's views that future subsidy levels must reflect the changing rental stream. It is essential that revenue streams do not fall as this could affect the quality of housing service being delivered.</p>
6.0	<p><b><u>Consultations</u></b></p>
6.1	<p>The rent restructuring proposals have already been raised at a variety of Member and Tenant seminars held over the last 18 months. It is anticipated that additional information will be made available to tenants at the next Tenants Advisory Group meeting.</p>
7.0	<p><b><u>Financial Implications</u></b></p>
7.1	<p>It is assumed that any real fall in rental income will be met through the changes to the subsidy system, if Eastbourne follows the rent restructuring guidelines.</p>

7.2	<p><b>The DTLR has not yet decided how to proceed should there be any properties which have not met their target rent by 2011/12, despite the best efforts of the landlord. This, and other issues, will become clearer as the new system develops.</b></p>
8.0	<p><b><u>Anti-Poverty Implications</u></b></p>
8.1	<p>It is recognised that there could be financial implications for all tenants of Eastbourne Borough Council. Those older households and single parent families in receipt of full Housing Benefit, will experience no real change to their financial situation. Those two parent families and younger person households, who are less likely to be in receipt of Housing Benefit could face real increases in the rents they are due to pay, though this is dependent upon the actual property they occupy.</p>
8.2	<p>Every effort will be made by officers in the Housing Management Division to identify those tenants who may face additional financial hardship in order to offer appropriate welfare benefits advice.</p>

8.3	It is worth noting that this situation would occur at any time that rent levels are increased and in previous years efforts to maximise household income have assisted greatly in ensuring that accommodation remains affordable.
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8.4	The Government is also seeking to limit any impact of the rent setting policy, by limiting any increases/decreases in rents to a £2 maximum each year.
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9.0	<b><u>Summary</u></b>
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9.1	<p>Members are asked to agree the following recommendations:</p> <ol style="list-style-type: none"> <li>1. Agree that this new rent setting formula is utilised by Eastbourne from 2002/03.</li> <li>2. That steps are taken to ensure that, where practicable, all rents are on track to meet target rents by 2011/12.</li> <li>3. That rents are set, where practicable, in 10 even stages.</li> <li>4. That this matter is reviewed, each year, in the context of the annual Housing Revenue Account Business Plan and the annual subsidy determinations.</li> <li>5. That a further report be made to Cabinet in January 2001 to decide the rent levels for 2002/03.</li> </ol>
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Janet Canny, Head of Housing Management	
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**Background Papers:**

The Background Papers used in compiling this report were as follows:

“The Effects of Rent Restructuring on Eastbourne”, Schools of Public Policy, University of Birmingham and Bristol (2001)

“Guide to Social Rent Reforms”, DTLR (2001)

“HRA Subsidy and Rent Restructuring”, DTLR Consultation Paper (2001)

To inspect or obtain copies of background papers please refer to the contact officer listed above.

(Cabinet – rent restructuring dec 01)