

Briefing Paper

RENTS RESTRUCTURING AND SERVICE CHARGES

Adrian Waite – July 2004

Rents

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

However, the law has not been changed to reflect the introduction of rent restructuring. In fixing rent local authorities are still required to comply with Section 162 of the Local Government and Housing Act 1989 which states –

- A local authority may make such reasonable charges as they may determine for the tenancy or occupation of their houses.
- The authority shall from time to time review rents and make such changes either to rents generally or of particular rents as circumstances may require.
- In exercising their functions under this section a local authority shall have regard in particular to the principle that rents of houses of any class or description should bear broadly the same proportion to private sector rents as the rents of houses of any other class or description.

Local Authorities and Registered Social Landlords have both reported a trend to increased rent arrears during recent years. In reviewing rent arrears management, consideration should be given to the following key areas:

- Policies and Procedures
- Arrears Prevention
- Arrears Recovery
- Legal Action
- Former Tenants' Arrears
- Performance Review and Continuous Improvement

Rent Restructuring

The Housing Green Paper “Quality and Choice: A Decent Home for All”, published in April 2000 contained proposals for the restructuring of local authority rents. These were developed further in the government’s statement on housing policy that was published in December 2000.

The government wishes to achieve convergence between local authority and registered social landlords' rents by 2011/2012 and calculates that this will result in local authority rents being 4-5% lower than registered social landlords' rents, reflecting differences in property age and condition.

In the longer term, the government envisages local authority and registered social landlord rents will increase at the same rate.

The Government's stated aims are to:

- Hold rents at an affordable below-market level.
- Make rents fairer and less confusing for tenants.
- Implement a system of rent setting under which rents reflect property size, value and local earnings through a universally applied formula thus providing a closer link between rents and the qualities that tenants value in properties
- Achieve a coherent structure for social rents within ten years, but to give landlords some flexibility over detailed implementation.
- Limit real terms increases in rents for individual tenants to ½% plus £2 per week in any year above the normal inflation-linked increase. There are also absolute limits in place for dwellings dependant on the number to bedrooms.
- Reduce unjustifiable differences between the rents set by local authorities and by registered social landlords.
- Limit registered social landlords' overall annual rent increases to an average of 0.5% above inflation from 2002/2003.
- Allow slightly quicker increases in average local authority rents of 1% above inflation in 2002/2003 and 1.5% p.a. until 2011/2012 reflecting ongoing improvements in the quality of local authority homes and achieving consistency in the approach to rent setting between the local authority and registered social landlord sectors.
- Encourage better management by social landlords of their stock.
- Give tenants the opportunity to take more responsibility for their choice of housing.

It has been decided that rents will be based 70% on local earnings and 30% on property values. There is also an element to reflect bedroom numbers. Local discretion is limited to setting rents within a band of 5% above or below the target rent derived from the formula. In arriving at this formula the government took account of the following matters:

- The affordability of rents for tenants.
- The impact of rents on work incentives.
- How efficiently below-market rents target help on people in greatest need.
- The impact on public expenditure.
- The impact on the finances of social landlords especially registered social landlords, who must be able to maintain their stock and meet their commitments to lenders.

There will only be small rent changes on refurbishment. Improvements will not greatly increase rents, as the value element is only 30%. Rent increases for items including new central heating will only be possible through use of the 5% discretion.

Appleby Business Centre, Bridge Street, Appleby in Westmorland, Cumbria CA16 6QH
Telephone: 017683-52347 or 52165 Mobile: 07971-321863. Fax: 017683-52546.
E-Mail: Adrian.waite@awics.co.uk. Website: www.awics.co.uk.

Director: Adrian Waite MA CPFA ACIH FIPSM
Company Number: 3713554. VAT Registration Number: 721 9669 13

Rent restructuring has led to a change in the calculation of housing subsidy as outlined in section five.

The Rent Formula

The rent formula works in the same way in all local authority areas and is based on comparing local data with returned averages.

For example, a property owned by a Local Authority and valued at £100,000 located in London, attracts the following formula rent:

Average value of Council properties:	£41,350
Value of example property:	£100,000
National average weekly earnings:	£318.10
London average weekly earnings:	£358.10
National average weekly Council rent:	£45.61

$$\text{Weekly Rent} = ((358.10/318.10) \times 45.61 \times 0.7) = \text{£}35.94$$

$$\text{Plus } ((100,000/41,350) \times 45.61 \times 0.3) = \text{£}33.09$$

$$\text{So Weekly Rent} = \text{£}35.94 + \text{£}33.09 = \text{£}69.03$$

The rent in the illustration is at 2000/2001 values. The average rent is increased each year to reflect inflation and the national average real terms increase of 1% in 2002/2003, 2003/2004 and 2004/2005 and a planned 1.5% p.a. thereafter.

Caps on individual rents have been set, known as the 'bedroom' cap, at: Bedsit/1bed = £85, 2 bed = £90, 3 bed = £95, 4+ bed = £100.

The government invites authorities to move all rents from the current levels to the formula in equal annual instalments from 2002 to 2012.

Service Charges

Council tenants usually have their service charges included with their rents, but tenants of registered social landlords usually have their rents and service charges assessed separately.

What is rent and what is a service is not clearly or fully defined in law. Fixed service charges are part of rent whilst variable service charges, because they can be changed between rent reviews, are not. Traditionally, a service charge is viewed as something over and above what a tenant normally pays for occupying a home. Formula rents take no account of service charges.

The government has decided that local authorities should retain discretion in whether to implement service charges based on local circumstances. There is a broad definition of what could be classed as a service charge. This service charge can be based on actual costs per property or on a fixed charge to all affected properties.

Appleby Business Centre, Bridge Street, Appleby in Westmorland, Cumbria CA16 6QH
Telephone: 017683-52347 or 52165 Mobile: 07971-321863. Fax: 017683-52546.
E-Mail: Adrian.waite@awics.co.uk. Website: www.awics.co.uk.

Director: Adrian Waite MA CPFA ACIH FIPSM
Company Number: 3713554. VAT Registration Number: 721 9669 13

Where service charges are introduced/increased the amount the tenant actually pays in rent and service charges should be contained within the Retail Prices Index + ½% + £2 per week limit (except for new services). The local authority will have the discretion to decide on the total split between rent and service so long as the service charge is not greater than the cost of the services provided and that the total charge stays within the limit rent.

Subsequently, service charges can be increased by no more than Retail Prices Index plus ½% in any year. For those authorities that aim to recover the full cost of services provided this objective could be difficult with this limit in place.

Where caps on rents are in place a service charge can be implemented in addition to the cap, as long as the charge is no more than actual costs incurred.

However, it is recognised that limit rents need to move to formula rents irrespective of whether service charges are separated out. It is proposed that:

- (a) In 2003/4 for rent subsidy limitation purposes the local authority will be allowed to keep 20% of any service charge. This will increase progressively by 10% each year.
- (b) Service charges will be deemed to have been introduced for any properties where total service charges are greater than those in 2001/2 by an allowance for inflation plus the cost of any new service introduced since 2001/2.
- (c) The same adjustments will happen for property specific rent subsidy limitation in 2004/5.

The Three Year Review

The government is currently conducting a three-year review of the operation of rent restructuring. The government has said that:

- They are aiming to have interim results in 2004
- It is not a fundamental review of policy: looking more at implementation issues
- Restructuring will not disappear: it is likely to be central to Housing Benefit reform
- Property specific subsidy limitation will be introduced as necessary to reinforce restructuring (see section five)
- Authorities will continue to be encouraged to separate out service charges

Conclusions

The government is committed to restructuring local authority housing rents, and on achieving convergence between local authority and registered social landlords' rents. Those who are involved in social housing broadly support these objectives. However, the practical problems associated with achieving this are considerable, and the impact on rent levels in different parts of the country are significantly different. At local level implementation will raise social and political issues that local authorities may not be able to address through the 5% discretion that they will be allowed. Whether the process will be complete by 2012, as the government believes, also remains to be seen.

Appleby Business Centre, Bridge Street, Appleby in Westmorland, Cumbria CA16 6QH
Telephone: 017683-52347 or 52165 Mobile: 07971-321863. Fax: 017683-52546.
E-Mail: Adrian.waite@awics.co.uk. Website: www.awics.co.uk.

Director: Adrian Waite MA CPFA ACIH FIPSM
Company Number: 3713554. VAT Registration Number: 721 9669 13

The government's proposals for rent re-structuring have the potential to make a significant impact on local housing authorities. The possible effect of rent increases on tenants and affordability has been noted, and the changes to housing subsidy issues raise further significant issues about the effect of rent re-structuring on the resourcing of the Housing Revenue Account.

There will be authorities that find that rent re-structuring will lead to increases in rents combined with even greater reductions in housing subsidy and therefore reductions in maintenance budgets. The logic behind this may be difficult to explain to tenants!

Authorities that are considering options for the future management and ownership of housing stock may also find that rent re-structuring changes the balance of the arguments!

Adrian Waite
July 2004.

Appleby Business Centre, Bridge Street, Appleby in Westmorland, Cumbria CA16 6QH
Telephone: 017683-52347 or 52165 Mobile: 07971-321863. Fax: 017683-52546.
E-Mail: Adrian.waite@awics.co.uk. Website: www.awics.co.uk.

Director: Adrian Waite MA CPFA ACIH FIPSM
Company Number: 3713554. VAT Registration Number: 721 9669 13