

Report to Cabinet

7 December 2022

Subject:	The review of council tenant rents and housing related property charges
Cabinet Member:	Cabinet Member for Housing Councilor Charn Singh Padda
Director:	Gillian Douglas Director for Housing
Key Decision:	Yes To be significant in terms of its effect on communities living or working in an area comprising two or more wards of the Borough.
Contact Officer:	Nigel Collumbell Service Manager Housing Management

1 Recommendations

- 1.1 That approval is given to authorise the Director of Housing to adjust council rents and housing related charges with effect from 3rd April 2023 as follows:
- Increase rental charges by 5%, which is 2% below the government's social rental cap of 7%.
 - Increase housing service charges by the consumer price index (CPI) + 1%, equivalent to a 11.1% increase.
 - That subject to consultation with the residents of the site, to increase rent at the traveller's pitch in Hills View, Tipton by 5%
 - That rental charges for garage sites be increased by 5% in line with other council fees and charges.
 - That properties managed by Riverside under the Private Finance Initiative (PFI) agreement receive a 5% rental increase and a 11.1% increase in




service charges, which need to match the councils rent and service charge increases.

- (f) That properties that sit outside the Housing Revenue Account (including service tenants for Parks, Sandwell Valley and Caretaking) receive a 11.1% increase in rental charges and service charges, which is equivalent to CPI plus 1%.
 - (g) That the leaseholder annual fee be increase by 11.1%, CPI + 1% in 2023/24 from £104.10 to £115.66.
- 1.2 That the Director of Housing be authorised to establish a hardship fund for HRA tenants (to support them in their tenancy) and to allocate £100k of HRA reserves, to be reviewed annually.


2 Reasons for Recommendations

- 2.1 Each year council tenants, leaseholders and other residents are notified of the rent and other related housing charges to be set from the following April. The purpose of this report is to seek approval to review these charges for the new financial year.
- 2.2 During these exceptional times, the council has to achieve the right balance between supporting tenants in hardship and protecting the Housing Revenue Account (HRA) to ensure we can continue to provide affordable social housing for our residents.
- 2.3 This matter was reported to the Safer Neighbourhoods and Active Communities Scrutiny Board in September. Members of that Board were understanding and supportive of increases to rent and service charges, whilst acknowledging the current difficulties posed by the national financial situation.

3 How does this deliver objectives of the Corporate Plan?

	<p>Quality homes in thriving neighbourhoods</p> <p>Rental income is a key component of the financial wellbeing of the Housing Revenue Account. Funds support the council's ambition to build more new and affordable council homes.</p>
---	---



	Rental income contributes to the maintenance and repairs of existing housing stock.
	<p>A strong and inclusive economy</p> <p>Funds from rental and housing related charges will maintain / increase the capacity to build more affordable housing.</p> <p>Implementing a rental increase below the rate of inflation has a significant impact on our ability to deliver on new build schemes and maintain the quality of our existing housing stock.</p> <p>We will have fewer financial resources to deliver proposals within the 30year business plan. Every 1% 'lost' from rental income equates to a reduction in next year's rental income, estimated at £1.182m or £35.46m over the 30 years.</p>

4 Context and Key Issues

Background

- 4.1 In line with the Welfare Reform and Work Act 2016, Sandwell Council reduced housing rents by 1% per year for four years, between 2016/2017 and 2019/2020.
- 4.2 From 2020 Sandwell Council has had control over its own rent setting in line with the Department for Levelling Up, Housing and Communities (DLUHC) Rents Standard, and Policy Statement on Rents for Social Housing.
- 4.3 In 2019, the government set a rent policy for social housing that would permit rents to increase by up to CPI plus 1 percentage point ('CPI+1%') per annum, and made clear its intention to leave this policy in place until 2025.



- 4.4 However, we are living through exceptional times. When the current rent policy was set in 2019, inflation was forecast to be around 2% in 2022 and 2023. CPI is now 10.1% (as at September 2022), this would permit social landlords to increase rents by 11.1% (CPI+1%).
- 4.5 There is a recognition that the council need to achieve the right balance between protecting our tenants, protecting tax payers (by limiting the welfare costs associated with housing rents) and ensuring the council can deliver on its commitments to build new social homes, maintain our existing housing stock to a good standard and cover operational costs.
- 4.6 Following government consultation where views were sought on a 3%, 5% or 7% rental cap, a rental ceiling of 7% was announced by government for social rents from April 2023.
- 4.7 Following consultation, the government has temporarily amended the CPI+1% policy for 2023/24 in order to provide a backstop of protection for social housing tenants from significant nominal-terms rent increases.
- 4.8 The governments introduction of a 7% rental ceiling acts as an upper limit on the maximum permitted annual rent increase a Registered Provider is allowed to implement. The council are permitted to increase rents by 7% or CPI+1%, whichever is the lower; however we are seeking approval to increase rents by the lower rate of 5%.

Rents

- 4.9 The Council applies two types of rents on its housing stock these being Social Housing Rents (Formula) and Affordable Rent.
- 4.9.1 Formula rents take account of various attributes such as condition of property, local earnings, number of bedrooms and postcode based; this ensures similar rents are charged for similar properties. The rent for new tenants in existing stock are set on a Sandwell Social rent formula basis and it is proposed that this policy continues.



4.9.2 Affordable Rents are set at 80% of the market rent, inclusive of service charges. Affordable rent is charged on new builds under the affordable homes programme and any additional stock such as appropriated stock from the general fund and buy backs etc. The proposal is to set affordable rents at 5% in line with other rental increases.

4.10 Rents are charged for the following council properties and buildings:

- Council tenant properties
- Properties managed by Riverside under the PFI
- Travellers Pitch – Travellers at Hillside View, Tipton
- There are a small number of properties that sit outside of the HRA and their income contributes to the General Fund

4.11 Appendix 1 sets out the proposed typical rent levels at 52 weeks for the main property types and sizes

4.12 It is estimated that 70.2% of our customers are full or partial benefits. This represents a mix of customers on Housing Benefits and Universal Credit.

Table 4.12.1 shows that 29.8% of our customers pay their rent in full.

Table 4.12.1 Customers in Receipt of Housing related benefits for Rents and Service Charges

Overall Summary	No. Customers	% Customers
Total properties	26,827	
Customers on benefits (UC/HB)	18,829	70.2%
Customers on full benefits (UC/HB)	12,792	47.7%
Customers on partial benefits	6,037	22.5%
Customers that pay full rent	7,998	29.8%

4.13 Customers who pay all of their rent and those on partial housing benefits will be impacted by a rental increase, however 47.7% of our customers will be unaffected.



4.14 To demonstrate the impact a 5% rental increase would have, the extract below shows the financial impact for customers living in a 3-bedroom property in receipt of housing benefits for 20%,50% or 70% of their rent. For example, a customer living in a 3-bed house in receipt of 70% benefits would see a rental increase of £1.39 per week. Please see appendix 2 for full details of all property types.

Table 4.14.1

Example 1 - Customers on 20% Housing Benefits - Impact of a 5% increase in rent (pays 80% of rent)

Bedrooms	Bungalow	Flat High Rise	Flat Low Rise/Medium Rise	House	Average
3	£3.91	£3.20	£3.44	£3.70	£3.68

Example 2 - Customers on 50% Housing Benefits - Impact of a 5% increase in rent (pay 50% rent)

Bedrooms	Bungalow	Flat High Rise	Flat Low Rise/Medium Rise	House	Average
3	£2.44	£2.00	£2.15	£2.31	£2.30

Example 3 - Customers on 70% Housing Benefits - Impact of a 5% increase in rent (pays 30% of rent)

Bedrooms	Bungalow	Flat High Rise	Flat Low Rise/Medium Rise	House	Average
3	£1.47	£1.20	£1.29	£1.39	£1.38

Example 4 - Customers not in receipt of any benefits - Impact of a 5% increase in rents (customers paying full rent)

Bedrooms	Bungalow	Flat High Rise	Flat Low Rise/Medium Rise	House	Average
3	£4.89	£4.01	£4.30	£4.62	£4.60



- 4.15 The Housing Money Advice Service have implemented positive initiatives to support tenants that contribute towards their rental payment. The Welfare Rights Team assist the residents of Sandwell to claim the benefits that they are entitled to through benefit maximisation, representing clients where claims have failed.
- 4.16 Additional funds have been sought through charities such as Warmer Homes and South Staffordshire Water, and The Housing Support Fund has been used to support households facing hardship.
- 4.17 A pre-warrant panel with representation from Children's Services supports families in hardship to work collaboratively to deliver the best outcome for families. Appendix 5 details all the mitigations in place to reduce risks and support households facing hardship.
- 4.18 The Council needs to get the right balance between protecting its tenants from rental increases and minimising lost income in order to achieve proposals within the 30-year business plan.
- 4.19 The governments rental cap has put pressure on the HRA and ambitious proposals set out in the councils 30-year business plan to build more affordable social housing. Every 1% 'lost' from rental income equates to a reduction in next year's rental income estimated at £1.182m or £35.46m over 30 years.
- 4.20 The rental income is vital to the financial well-being of the Housing Revenue Account (HRA). Rental income offsets operational costs and financial charges, and the surplus is used to invest in capital improvements; in particular to fund the council's affordable homes new build scheme.
- 4.21 The additional income generated from a 5% increase of £5.91 million will contribute to the upkeep of our existing stock as well as enabling us to build more high-quality housing to meet the needs of our residents. A rental increase lower than the governments rental cap would have a detrimental impact on the council's ability to continue to improve and increase our social housing stock.



- 4.22 As at 31 March 2022 there are 982 properties in Wednesbury currently managed by Riverside under the Private Finance Initiative (PFI) agreement. It is proposed that PFI property rents are increased by 5% and service charges are increased by 11.1%. This is in line with properties managed by the council.
- 4.23 There are a small number of properties that sit outside the Housing Revenue Account and their rental income contributes to the council's general fund finances. This includes service tenants for Parks, Sandwell Valley and Caretaking. It is proposed that rent and service charges on these properties are increased by 11.1% (CPI +1%) from April 2023. These properties are heavily discounted.

Service Charges

- 4.24 A decision was made to freeze service charges for council tenants during 21/22. This was following the COVID pandemic as there was an interruption to some services provided.
- 4.25 Service charges were increase by CPI+1% in 2022/23 which was a 4.1% increase
- 4.26 Analysis undertaken by Savills has highlighted a low level of service charges in Sandwell (based on 2020/21 outturn) when benchmarking against other authorities.
- 4.27 Sandwell charge an average £100 in service charges per property per annum (average over total stock). Other local authorities across the West Midlands charge an average of £205 per property (based on data from 14 local authorities). A peer group of 17 local authorities charge an average of £215 per property. The service charge freeze has had a detrimental impact on Sandwell's lower comparable service charges.
- 4.28 Service charges are outside of the government's legislative changes. The principle continues to be to recover the cost of service provision. Sandwell needs to generate additional income to support the ambitious capital build programme.
- 4.29 Service charges are charged to tenants living in flatted accommodation, and other properties having communal areas which require services such as:



- Cleaning, for internal and external cleaning of high and low-rise flatted accommodation
- Security, for CCTV, Concierge and Door Entry
- Aerials, for a digital aerial service
- Heating and other charges relating specifically to some blocks, an estimated charge is set to recover costs but there may be retrospective adjustments between years to reflect actual costs

4.30 Although service charges are annually reviewed and included in the rent review report to Cabinet, traditionally they have only been uplifted annually by inflation. The income generated from service charges contributes significantly to the HRA; however, the costs of service provision is subsidised by rental income as some charges do not cover actual costs. As these charges have not been reviewed for a considerable number of years a root and branch review will ensure the Council applies charges efficiently which in turn will mitigate the heavy burden on the HRA.

4.31 A commitment was made in the Rent Review Cabinet Report in December 2021 to review all services charges to ensure charges applied cover the full cost of service delivery. This work has commenced, however due to the complexities involved the review will continue into 2023/24.

4.32 Cleaning charges relate to internal cleaning within blocks and other shared facilities, and the external cleaning of paths and gardens. There are higher costs associated with high rise blocks as they will receive more frequent inspections and cleaning.

4.33 Security charges are applicable in high- and low-rise blocks. Most properties receive a secure door entry service with a fob key and intercom / buzzer link. Full provision includes a door entry service with additional CCTV at the entrance and around the block, with a direct link to the control room at Roway Lane, which is monitored 24/7. The block expansion project will increase this facility and ensure all residents in high-rise blocks benefit from the safety and security provided by a monitored CCTV system. Phase one of this project is already underway.



- 4.34 Aerial service charge relates to a digital aerial service provided to 10,125 tenants. There is a contract to maintain and repair this service. The service charge contributes to a replacement fund for when these are renewed or replaced.
- 4.35 Other service charges for specific schemes include furniture costs, warden services and lifts. It is proposed that these charges increase by CPI + 1% in line with other service charges.
- 4.36 Leaseholders are also charged service charges, in addition to services mentioned above there is a recharge for the management and administration functions.
- 4.37 The proposal is to increase service charges by CPI+1%. Appendix 3 shows how this will impact current charges. Customers who are in receipt of benefits (Housing Benefits or Universal Credit) will largely not be affected by this uplift.

Garages

- 4.38 Garages are within the council's general fund property portfolio. As of October 2022, 62.5% of garages were rented by private home owners or by tenants as a second garage.
- 4.39 Increased revenue from garage rental would support the general fund. Garages rented by customers that are not tenants or leaseholders will be charged a higher rate as VAT is applied.
- 4.40 A large proportion of garage tenants use this facility as a much cheaper alternative to storage costs. It is recommended that the weekly garage rental is increased by 5%, in line with the council's fees and charges. This will increase garage rentals from £11 to £11.55 per week.

Leaseholder Management fee

- 4.41 Leaseholders are charged a management fee to cover the resource costs of running the services. This includes employee costs, training, ICT costs, postage, printing. The charge is currently £104.10 per annum



4.42 It is proposed that the leaseholder annual fee be increase by 11.1% (CPI + 1%) in 2023/24 to £115.66. The council's leaseholder charges are lower than neighbouring authorities; as a comparable, Dudley charged £140 during 2022/23 with proposals to increase during 2023/24.

5 Alternative Options

- 5.1 It has been recommended from April 2023 to increase rents by 5% for tenants within the Riverside managed PFI estate of Wednesbury. The council does have the discretion to set PFI rent. It would be seen to be very unfair for other council tenants in neighbouring areas to have council rent increased and not have the same with the PFI estate in Wednesbury
- 5.2 The Department of Levelling up Housing and Communities (DLUHC) policy allows social landlords to increase their annual rents by 7% which is in line with the recent government rental cap. It is recommended that rents are increase rents by 5%, 2% lower than the cap to support tenants with the cost of living.
- 5.3 Increasing rents below the rate of inflation creates financial pressures for the council to deliver key services. The provision of good quality Housing and Neighbourhoods are key to improving lives and life chances for our residents. Reducing the level of income to the HRA will seriously impact our 30-year business plans and will mean less funding for new homes provision.
- 5.4 An alternative would be to increase rents by 3%. The budgetary pressures from this would impact our ability to deliver key services and may result in reduced services where costs can't be met through operational budgets. Appendix 4 shows the rental impact on budgets.



6 Implications

<p>Resources:</p>	<p>Rent income is a key component of the HRA finances. As a ringfenced account, all costs must be met from this revenue source. This includes all day to day running costs and any financing costs associated with capital investment.</p> <p>In order to continue the investment in the Housing stock, rent increases are inevitably required. With increases in CPI and Building Cost Indices (BCI) following the COVID-19 pandemic, more pressure is being put on HRA finances to continue to deliver services to tenants and continue improvements to the stock to ensure high quality homes and services are provided to tenants.</p> <p>Proposals within the 30-year business plan to build more affordable social housing stock cannot be met unless we maximise our rental income.</p> <p>Included within this report are increases to garage rents. It will also generate an additional income to the general fund of approx. £51.7K. The income generated will support budget reductions and is not part of an investment strategy.</p>
<p>Legal and Governance:</p>	<p>The Local Government and Housing Act 1989 sets out the obligations for annual reviews of rent and service charges and to ensure that there is a balanced budget for the ring-fenced HRA.</p> <p>The Council has power under Section 24 of the Housing Act 1985 to make reasonable charges for the tenancy or occupation of its flats and houses. The Council is required to review from time to time that the rents and service charges that it charges for the tenancy or occupation of its dwellings are fair and reasonable. The review of rents is now subject to further restrictions arising from the provisions of the Welfare Reform and Work Act 2016.</p>



	<p>The Council may amend the rent for its tenants by giving at least 28 days' notice. The notice period arises from Section 102 (1)(b) of the Housing Act 1985 and in the terms of the Council's standard tenancy agreement.</p>
<p>Risk:</p>	<p>The corporate risk management strategy has been complied with, identify and assess the risks associated with the decisions being sought. This has concluded that there are no significant risks. For all risks identified, there are measures in place to mitigate these to acceptable levels.</p> <p>There is a risk that by increasing housing rents by 5%, customers may fall into financial hardship and the council will see an increase in the level of arrears. The Income and Money Advice Team have mitigations in place to manage risk and support tenants.</p> <p>There is a business risk that housing strategies within the 30-year business plan cannot be met with a rental increase lower than the rate of inflation</p> <p>Every 1% 'lost' from rental income equates to a reduction in next year's rental income, estimated at £1.182m or £35.46m over the 30 years.</p> <p>The recommendations from this report if approved, will assist in the mitigation of a number of risks which are noted in the Housing directorate risk register and currently assessed as red or amber.</p>
<p>Equality:</p>	<p>There are no significant equality issues arising from this report.</p> <p>The Public Sector Equality Duty requires public local authorities to have due regard to:</p> <ul style="list-style-type: none"> • eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;



	<ul style="list-style-type: none"> • advance equality of opportunity between people who share a protected characteristic and people who do not share it; and • foster good relations between people who share a protected characteristic and people who do not share it. <p>The Income Management Service takes decisions on customer rent accounts in line with the responsibilities outlined above within the Public Sector Equality Duty. This ensures that all our customers are treated fairly and equally regardless of the personal circumstance.</p> <p>With service charges, there is a difficult and sensitive balance between charges and recovering costs and maintaining and improving services. The increases have been considered fair; it is appreciated that full cost recovery in some instances is not possible since it would cause too onerous, and create significant rises to tenants' current charges.</p>
<p>Health and Wellbeing and Social value</p>	<p>There are no direct implications from this report but rent and service charge income will continue to be used to protect residents such as through the funding of support for the anti-social behaviour service, cleaning of estates, fire protection measures and CCTV.</p>
<p>Climate Change</p>	<p>The requirement to retro-fit properties to achieve net zero targets for our housing stock will require significant investment which the HRA currently doesn't have capacity to deliver. Any rent increases below the current levels of inflation will increase further the budget pressures on the HRA in future years putting at risk our ability to deliver on these targets.</p>



7. Appendices

- Appendix 1 – Impact of Rental Increase on Average Weekly Rents
- Appendix 2 – Impact of Rental Increase on Customers on Partial Housing Benefits

- Appendix 3 – Rental from Service charges and Impact on weekly charges
- Appendix 4 – Rental Increase and the Impact on Budgets

- Appendix 5 - Briefing Note - Hardship Interventions to Supporting Tenants in Rent Arrears

8. Background Papers

Government rental cap - <https://www.gov.uk/government/news/rent-cap-on-social-housing-to-protect-millions-of-tenants-from-rising-cost-of-living>

