

**BIRMINGHAM CITY COUNCIL**

**PUBLIC REPORT**

<b>Report to:</b>	<b>CABINET</b>
<b>Report of:</b>	<b>Strategic Director of Place</b>
<b>Date of Decision:</b>	<b>16 February 2016</b>
<b>SUBJECT:</b>	<b>Council Housing Rent, Service Charges and Other Charges 2016/17</b>
<b>Key Decision: Yes</b>	<b>Relevant Forward Plan Ref: 001220/2016</b>
<b>If not in the Forward Plan: (please "X" box)</b>	Chief Executive approved <input type="checkbox"/> O&S Chairman approved <input type="checkbox"/>
<b>Relevant Cabinet Member(s):</b>	<b>Cllr. John Cotton - Cabinet Member for Neighbourhood Management and Homes Cllr Ian Ward, Deputy Leader</b>
<b>Relevant O&amp;S Chairman:</b>	<b>Cllr. Zafar Iqbal - Neighbourhood and Community Services Overview and Scrutiny Committee</b>
<b>Wards affected:</b>	<b>All</b>

<b>1. Purpose of Report:</b>
<p>1.1 The report seeks approval for the council housing rent and service charges and garage rents that will be implemented from 4 April 2016. The proposals are consistent with the Chancellor of the Exchequer's Budget Statement in July 2015 and Spending Review and Autumn Statement in November 2015.</p> <p>1.2 The proposals are subject to the approval of the Budget for 2016/17 by Council on 1 March 2016 and are consistent with the HRA Business Plan 2016+ and the proposed HRA Budget for 2016/17.</p>

<b>2. Decision(s) Recommended:</b>
<p>Cabinet is requested to:</p> <p>2.1 Approve the changes to rents, service charges and garage rents to be implemented from 4 April 2016 (as set out in paragraphs 5.11, 5.12, 5.14 and 5.16).</p>

<b>Lead Contact Officer(s):</b>	Robert James
	Service Director – Housing Transformation Place Directorate
<b>Telephone No:</b>	0121 464 7699
<b>E-mail address:</b>	Robert.James@birmingham.gov.uk

### **3. Consultation**

#### **3.1 Internal:**

The Director of Finance has also been fully consulted and is supportive of the recommendations. Officers from City Finance and Legal Services have been involved in the drafting of this report.

#### **3.2 External:**

City Housing Liaison Board considered the rent proposals contained within this report at their meeting on 15 October 2015 and 21 January 2016.

### **4. Compliance Issues:**

#### **4.1 Are the recommended decisions consistent with the Council's policies, plans and strategies?**

This decision is consistent with the housing priorities set out in the Council Business Plan and Budget 2016+ and the HRA Business Plan 2016+.

#### **4.2 Financial Implications**

The revised charges will be implemented through existing approved resources for staffing and IT. The net reduction in income as a result of the proposed revised charges amounts to £2.4million and is included in the proposed HRA Budget for 2016/17.

#### **4.3 Legal Implications**

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. This is supplemented by the national rent restructuring policy and the HRA Self-Financing Determination.

#### **4.4 Public Sector Equality Duty**

A copy of the initial screening is attached at Appendix 1 of this report. There are no specific issues identified, as the changes will be implemented for all tenants of the Council and all service users. It is estimated that 75% of council tenants will be insulated from the full impact of the revised charges from 4 April 2016 as they are eligible for support towards their housing costs through housing benefit or universal credit. Those tenants who require assistance will continue to be offered additional financial planning advice through the Central Housing Rents Team and Debt Advice Services in order to reassess and maximise benefit entitlement, and to help tenants to budget effectively.

## **5. Relevant Background/Chronology of Key Events:**

### **National Rent and Service Charge Policy**

#### **New Rent Policy – Effective from April 2015**

- 5.1 A new framework for social rents was confirmed in May 2014, setting out revised guidance to be followed by local authorities from April 2015 for a 10 year period. Whilst not mandatory, there was a firm expectation from central government that the guidance will be followed, and this is necessary to ensure that there are no consequential adverse impacts in relation to housing benefit regulations (if rents are increased above the government guidance then there is a loss of housing benefit reimbursement to the Council equivalent to 77% of the additional rent charged to tenants). This new rent policy affected rent setting in three ways, as set out below.
- 5.2 Firstly, the annual rent increase was changed from RPI + 0.5% to CPI + 1% (for 2015/16 – the first year of operation of this revised framework - the increase was calculated by reference to inflation in September 2014, and both of these calculations resulted in an increase of 2.2%). This amendment was consistent with the increasing adoption of CPI as the inflation measure for welfare benefits.
- 5.3 Secondly, “across the board” rent convergence increases were removed, with rents instead only increased to formula rents when a property is relet. This represented a substantial reduction in future rent levels for the Council, as the previous rent policy required convergence increases in both 2015/16 and 2016/17 to achieve formula rent levels. It is estimated that this represents an annual cost to the HRA of up to £10million per annum, and that it is now likely to take in excess of 20 years for all rents to be increased to formula rents on relet.
- 5.4 Thirdly, the new policy allowed local authorities the flexibility, but not the obligation, to charge market rents for properties with a household income in excess of £60,000. Whilst this would result in higher rents being charged for those properties affected, this element of the revised guidance in Birmingham was not implemented as it was considered that this was unlikely to affect tenants and the cost of administering such a system would outweigh the additional income that might be collected.

#### **New National Rent Policy – Effective from April 2016**

- 5.5 On 8 July 2015 the Chancellor of the Exchequer set out a substantial revision to the National Rent Policy that had only taken effect from April 2015. These changes were subsequently confirmed as a part of the Autumn Statement in November 2015. It is anticipated that these changes will become mandatory, with the underlying legislation incorporated into the proposed Welfare Reform Bill. This new policy will affect rents as set out below.
- 5.6 Rents to tenants are required to reduce by 1% per annum for four years commencing from April 2016, replacing the previous regime of annual increases of CPI + 1%. Over the four years to 2019/20, this will result in tenants’ rents being approximately 13% lower than would have been the case under the previous policy as assumed in the HRA Business Plan 2015+. The resources available to each local authority’s HRA will however be reduced on an ongoing basis as a result of this change and the impact in Birmingham is estimated at £42m per annum by 2019/20.

5.7 The strategy that has been adopted to balance the HRA Self Financing Business Plan 2016+ to reflect this new rent policy is outlined in the HRA Section of the City Council Business Plan and Budget 2016+.

5.8 There are no changes to the existing national guidelines in respect of service charges to tenants. The principle continues to be the recovery of the cost of services provided, including an appropriate proportion of overhead costs. This policy will continue to be applied by the Council.

#### Draft Housing and Planning Bill

5.9 The Housing and Planning Bill is currently being progressed through Parliament (including the House of Lords) and this is likely to introduce further changes that will affect the current rent policy.

5.10 In particular, this will include proposals that are referred to as 'Pay to Stay'. In effect, local authorities and housing associations will be required to charge market rents to tenants where household income exceeds £30,000. The details of how this requirement will be administered have not yet been finalised, but the requirement is likely to be effective from April 2017. Housing Associations will be allowed to retain any additional income as a result of this change, but local authorities will be required to pass on any additional income generated (net of administration costs) to central government. The Cabinet Member for Neighbourhood Management and Homes has submitted a response to the consultation paper by the CLG setting out his concerns on the proposals and the City Council has also expressed its opposition to the policy through a resolution passed at a meeting held on 1 December 2015.

#### Birmingham City Council Rent and Service Charge Proposals for 2016/17

5.11 It is proposed that rents for existing tenants are reduced by 1% in line with the new policy, with effect from 4 April 2016. The average weekly rent to be implemented as a result of this revision will be £81.78 per week compared to £82.61 for 2015/16 (this equates to a rent of £88.58 per week over a 48 week cycle, with 4 weeks rent payment holidays, 2 weeks in each of December 2016 and March 2017). It is further proposed that rents for new tenants are set at formula rents as set out in the Government publication "Guidance on Rents for Social Housing" as published in May 2014.

5.12 It is proposed that rents charged for properties let at affordable rents continue to be calculated by reference to formula rents, with uplift on a 52 week basis of £2.70 per week (reduced by 1% from 2015/16), with the overall rent charged representing approximately 71% of market rents in Birmingham. This is being implemented to comply with the conditions for the receipt of Affordable Housing Grant from the Homes and Communities Agency.

5.13 The table overleaf shows the key elements of expenditure funded from the weekly rent, including a comparison between the projected outturn for 2015/16 and the proposed budget for 2016/17. The exemplifications of typical rent levels on a 52 week basis for the main property types and sizes are set out in Appendix 2.

	<b>2015/16 £pw</b>	<b>2016/17 £pw</b>	<b>Change £pw</b>	<b>%</b>
Repairs	19.65	19.31	-0.34	-1.7%
Local Housing Costs	18.41	18.80	+0.39	+2.1%
Voids & Arrears	3.39	2.29	-1.10	-32.4%
Debt Financing Costs	15.98	15.76	-0.22	-1.4%
Debt Repayment	5.29	0.34	-4.95	-93.6%
Contributions for Capital Investment	15.77	22.83	+7.14	+45.3%
Other	4.12	2.45	-1.67	-40.5%
<b>Total Weekly Rent (52 wk basis)</b>	<b>82.61</b>	<b>81.78</b>	<b>-0.83</b>	<b>-1.0%</b>

The analytical and comparative work with other local authorities (Core Cities, Metropolitan Authorities and London Boroughs) that was undertaken as a part of the Service Review Programme has been updated using the latest published figures for 2013/14. The conclusions from this work are summarised below:

- the Council is delivering an efficient local housing service – spending only 21% of all rent on delivering the Service (compared to 41% in London, 29% in Metropolitan Districts, 28% in Unitary Authorities and 26% in Districts)
- the Council spent 25% of all rent on the Repairs Service (compared to 21% in London and in line with the other family groups – in part, for the Council, this is a reflection of the investment made in the stock and therefore reducing day to day repairs expenditure).
- the Council also spent considerably more of the rent income for long term investment and reduction of debt at 50% (compared to 33% in London, 34% in Metropolitan Districts, 39% in Unitary Authorities and 45% in Districts).

5.14 It is proposed that service charges are increased to reflect changes in costs of service delivery as a result of pay and price inflation. The service charges are separately calculated for each District for Caretaking and Cleaning charges, with other charges calculated on a Citywide basis and in all cases will be levied over a 48 week cycle alongside the weekly rent, with the major average charges on a 52 week basis as follows:

<b>Service Charge</b>	<b>April 2015 Average Charge</b>	<b>April 2016 Average Charge</b>	<b>Change from 2015/16</b>
Door Entry / Night-time Security	£8.97	£9.05	0.9%
Traditional Concierge / Night-time Security (Bloomsbury EMB only)	£19.26	£19.43	0.9%
Cleaning	£2.52	£2.58	2.4%
Multi-Storey Communal Areas	£6.29	£6.35	0.1%
Caretaking	£8.81	£8.89	0.9%
Sheltered – high rise	£4.55	£4.59	0.9%
Sheltered – low rise	£6.65	£6.71	0.9%
Careline	£1.85	£1.87	1.1%

- 5.15 The rent and service charge variation proposals will ensure that the debt allocation to Birmingham City Council through the implementation of Self-Financing from 1 April 2012 remains affordable, whilst ensuring that services to tenants can be maintained at an appropriate level.
- 5.16 It is proposed to increase garage rents from 6 April 2016 to £6.45 per week (currently £5.91 per week) over a 52 week cycle, equivalent to an increase of 9.1%. This represents the fifth year of a 10-year programme to improve the Council's garage provision, including a rationalisation of holdings, improvements to retained garages and a realignment of garage rents to become closer to market levels and garage rents levied by other local authorities.

## **6. Evaluation of Alternative Option(s):**

- 6.1 As a part of the annual Budget setting process, the Council is required to consider the appropriate level of variation to be implemented for rents and service charges to ensure that expenditure plans are affordable.
- 6.2 The proposed rent reduction for 2016/17 is consistent with national rent setting policy. HRA rents will continue to be around 70% of market rents in Birmingham, and also compare favourably with those charged by Registered Providers.
- 6.3 Implementing a higher rent increase than proposed may be unlawful and would be likely to have an adverse impact on the ability of HRA tenants to pay their rent, and have a consequential adverse impact on levels of arrears. Taken together with the impact on tenants' financial wellbeing, this option is not considered appropriate.
- 6.4 Implementing a lower rent increase than proposed would create additional financial pressures on the HRA, and result in a reduction in levels of service provided to tenants. This represents a substantial risk to the effective management of council housing, and is not recommended.

## **7. Reasons for Decision(s):**

- 7.1 The annual changes to the rent and service charges are a key decision and require the approval of Cabinet. The changes are consistent with the approved HRA Business Plan 2016+.
- 7.2 The rent and service charge income is a key component of the ring fenced HRA Budget that is scheduled for consideration of the overall Budget for 2016/17. The reduced income that will be generated in the HRA in 2016/17 and future years from the proposed changes, when taken alongside other compensating budget savings proposals, will ensure that the HRA Self-Financing Settlement continues to be affordable.

<b>Signatures</b>	<b><u>Date</u></b>
Cllr John Cotton Cabinet Member for Neighbourhood Management and Homes	.....
Cllr Ian Ward Deputy Leader	.....
Jacqui Kennedy: Acting Strategic Director for Place	.....

<b>List of Background Documents used to compile this Report:</b>
Report to Cabinet Member for Housing (16 January 2012) – HRA Municipal Garage Strategy
CLG Publication – HRA Self-Financing Determination (February 2012)
CLG Publication – Guidance on Rents for Social Housing (May 2014)
Council Business Plan and Budget 2016+ (including HRA Business Plan 2016+)

<b>List of Appendices accompanying this Report (if any):</b>
1. Appendix 1 – Equalities Assessment
2. Appendix 2 – Exemplifications of typical rents by property type and size

## Exemplification of Typical Rent by Property Type and Size

Property type	Property Size	Existing Tenants				New Tenants Formula Rent 2015/16 £ per week
		2015/16	2016/17	Decrease		
		£ per week	£ per week	£ per week	%	
Flat	1 bedroom	69.11	68.42	0.69	1.0%	69.72
	2 bedroom	74.74	73.99	0.75	1.0%	75.69
	3 bedroom	85.34	84.49	0.85	1.0%	87.53
House	2 bedroom	85.31	84.46	0.85	1.0%	86.97
	3 bedroom	95.16	94.21	0.95	1.0%	98.79
	4 bedroom	103.41	102.38	1.03	1.0%	105.18
Bungalow	1 bedroom	76.82	76.05	0.77	1.0%	77.86
	2 bedroom	87.28	86.41	0.87	1.0%	89.68
Maisonette	2 bedroom	79.68	78.88	0.80	1.0%	81.54
	3 bedroom	86.17	85.31	0.86	1.0%	96.36

Note: the above table sets out the proposed rent charges (excluding service charges) on a 52 week basis, for the main categories of property held within the HRA (representing in excess of 98% of the homes held within the HRA).