HOUSING AND REGENERATION SCRUTINY COMMITTEE – 28TH JANUARY 2020

SUBJECT: HOUSING REVENUE ACCOUNT CHARGES – 2020/2021

REPORT BY: CORPORATE DIRECTOR OF SOCIAL SERVICES & HOUSING

1. PURPOSE OF REPORT

1.1 For Members to consider and take a view on the increased Council Housing rent charges proposed in this report, prior to consideration by Cabinet on the 29th January 2020. The charges predominantly focus on council house rents and are intended to be effective for the Housing Revenue Account (HRA) for the 2020/201 financial year.

2. SUMMARY

2.1 Members will be aware that the preparation of the Housing Revenue Account (HRA) budget is quite separate to the work involved in setting the General Fund Budget and Council Tax. The HRA is funded by rental income received from council tenants rather than the Council Tax Payer. Whilst there is a clear separation of these funds, the majority of the proportion of council tenants rent is funded from financial support in the form of Housing Benefit or Universal Credit (72%) which is derived from the tax payers' purse, therefore value for money must always be sought. We charge our council tenants rent over a 48 week basis but The Welsh Government (WG) base their rents on a 52 week basis so this report shows the 52 week equivalent.

2.2 In previous years WG determined the annual guideline rent increases. The standard uplift policy for Local Authorities used to be based on the previous September Retail Price Index (RPI) plus a 2% real increase in support of rent convergence. The Minister for Housing and Regeneration changed this uplift policy as part of the new Policy for Social Housing Rents in April 2015 and was accepted by Members in the 2015/16 HRA charges report. The policy set a target rent band for each Authority and if the average weekly rent is below the target rent, the Authority will have to increase average rents, and if the average weekly rent is above the target rent, average rents will increase at a lower rate, to bring the rent back within the target envelope.

2.3 The uplift on the revised rent policy was fixed for five years up to 2018/19 and used the previous September Consumer Price Index (CPI) inflation figure (as opposed to the RPI inflation figure) and also applied a 1.5% real increase to the average local authority rent. There was also an option to add up to £2 per week if social landlords needed to increase their rent to keep in line with their rent envelope, or if rents were being restructured and if their local rent policy was being revised.

2.4 2018/19 was the final year of the five year agreement and it was expected that rent increases will see a reduction due to the pressure The Minister for Housing and Local Government had when comparing Welsh rents to those in England, where rents were required to be reduced by 1% a year for 4 years from their 2015/16 baseline. The Minister considered the position for 2019/20 and agreed that the increase should be CPI only which was 2.4%. The discretion to apply "up to £2 per week" was removed for those social landlords whose average weekly rent is within or above their Target Rent Band. This decision applied for one year only (2019/20) while Welsh Government awaited the outcome of the Affordable Housing Supply Review. As we were below the target rent band we could apply the “up to £2” discretion which resulted in a 3% increase in 2019/20.

2.5 The Affordable Housing Supply Review was published in April 2019. The purpose of the review was to examine current arrangements supporting the development of affordable housing, and to make recommendations for changes designed to increase supply and improve delivery from the resources available. One of the tasks included making a recommendation on how a sustainable rent policy can help determine long term affordability for tenants and the viability of existing and new housing developments.

2.6 The key recommendations from this review in correlation to the rent policy was

1. *The Welsh Government should implement a five year rent policy from 2020-21*

2. *There should be a focus on landlords considering Value for Money alongside affordability. An explicit annual assessment on cost efficiencies should be part of the rational for justifying any rent increase*

2.7 In reaction to this review, The Minister for Housing and Local Government has stated “*There must be a clear balance between the interest of landlords and residents. Affordability for tenants must take into account the whole cost of living in a property and Landlords are expected to consider these costs when setting rents each year. Affordability is an issue I take very seriously and I am mindful of not placing excessive financial burdens upon tenants”.*.

2.8 Having considered the review, along with wider factors such as the pressures arising from growing levels of homelessness, the need to decarbonise our existing stock, to maintain the Welsh Housing Quality Standard and to build new high quality homes that are near zero carbon, The Minister has confirmed the following for the 2020/21 Rent Policy:-

1. An annual uplift of up to CPI+1% each year for 5 years from 2020-21 to 2024-25 using the level of CPI from the previous September each year.

2. CPI+1% will be the maximum increase allowable in any one year but this must not be regarded as an automatic uplift. Landlords decisions on rent should take into account the affordability of rents for tenants.

3. The level of rents for individual tenants can be reduced or frozen or can rise by up to an additional £2 over and above CPI+1%, on condition that total rental income collected by the landlord increases by no more than CPI+1%.

4. As an intrinsic part of the 5 year policy, landlords will be expected to set a rent and service charge policy which ensures that social housing remains affordable for current and future tenants. As part of their annual decision they should make an assessment of costs efficiencies, value for money and affordability for tenants which should be discussed at the Board/Cabinet/Council.

2.9 The previous Septembers CPI inflation figure was 1.7%. The policy therefore allows a maximum of 2.7% increase on our total rental income.

2.10 The Business Plan has assumed a rent increase of 3% for 2020/21 to 2024/25.

2.11 By applying 2.7% to our average rent means we are just within the lowest Target Rent Band.

2.12 There is limited time to consider a full affordability options appraisal for setting the rent for 2020/21.

3. RECOMMENDATIONS

3.1 Members are requested to consider and give a view on the following recommendations which will be presented to Cabinet on the 29th January 2020. The options do not fully consider tenants affordability at this time, but this is an exercise that will be undertaken during 2020.

(a) Members recommend to Cabinet the level of increase per property from April 2020 based on the options explained in the report, which are :-

(i) 2.7% (CPI plus 1%) – (£90.65/52 week) the maximum allowed under the rent policy which will set our rent just within the low end of the policy rent band but will reduce our income by £1m to that assumed within our business plan.

(ii) 1.7% (CPI only) – (£89.77/52 week) this would be insufficient for rents to remain within the policy rent band and would reduce our income by £1.5m to that assumed within our business plan. Higher increases may need to be considered in the future to get back within the policy rent band.

(iii) 0% (No increase) – (£88.27/52 week) this would set our rent considerably below the policy rent band and would reduce our income by £1.9m to that assumed within our business plan. Higher increases nay need to be considered in the future to get back within the policy rent band.

(b) To agree that an exercise be undertaken so that tenants affordability can be considered when setting future rent increases in accordance with the rent policy.

4. REASONS FOR THE RECOMMENDATIONS

4.1 Inflationary increases on providing all aspects of the housing service are experienced annually, however as the HRA cannot legitimately set a deficit budget, the loss of additional income will result in reduced resources being available to effectively manage and maintain the stock.

4.2 Housing Benefit/Universal Credit will cover the increased costs for the rent charge in this report for 72% of our tenants up to the Housing Benefit limitation rate (yet to be confirmed).

4.3 If charges are not increased annually it has a detrimental effect on subsequent years as higher increases are then needed to recover the shortfalls from previous years.

4.4 The Council's Business Plan relies on inflationary increases to remain viable and cover increasing costs associated with the delivery of the service.

4.5 Additional resource is necessary to be able to meet the demands from Welsh Government on maintaining the WHQS, the provision of new affordable housing, decarbonisation of the existing stock and increasing support for tenants in order to sustain tenancies and reduce homelessness.

5. THE REPORT

5.1 Rent Increase

5.1.1 For a number of years the WG have effectively determined the level of annual rent increases, and these increases have been linked with the Housing Revenue Account Subsidy (HRAS) calculations, thus restricting an Authority from completely controlling its rental income. Members will be aware of the buy out of the HRAS system which introduced self financing from April 2015.

5.1.2 Under the current rent policy a target rent band for each Authority is set by WG so there is still some degree of control retained by WG however, all of the rental income will be retained by the Authority and used to fund expenditure, service debt and create borrowing headroom to support the delivery of WHQS and future investment.

5.1.3 As a result of the housing benefit limitation scheme, rent increases above DWP rent limits do not produce extra income from the benefits system, as any shortfall would be required to be met by the tenant. This would therefore be an added financial burden to some of our most vulnerable tenants. At this stage however, as in previous years, details regarding the DWP limit under the current rent policy are yet to be confirmed, but as all the recommendations contained within this report are complaint with the WG rent policy, it is assumed that the proposed increases will be within the DWP rent limits. Approximately 72% of tenants are in receipt of financial support in the form of Housing Benefit or Universal Credit.

5.1.4 The WG draft proposal for 2020/2021 of its policy rent band for CCBC is

- Low end £90.41 per week
- Mid point £95.17 per week
- High end £99.92 per week

5.1.5 CCBC's average rent debit for 2019/20 is £88.27 (52 week basis) which met the minimum rent band for 2019/20. By applying the maximum of 2.7% increase means our average rent would be £90.65, which is just within the low end of the rent envelope. The 2019/20 Housing Business Plan however assumed a 3% rent increase for 2020/21 which was on the assumption that the rent policy would be CPI +1%, and that CPI would be 2%.

5.1.6 Initially, WG have stated in their policy that "*The rent policy allows you to apply the inflation plus £2 (per week) if you are aiming to move to a higher point within the Target Rent Band to meet your business plan commitments…"* This was removed for 2019/20 and was only applicable if Social Housing Landlords were below the rent envelope. This has subsequently changed under the 2020/21 policy, and the "plus £2" can now only be applied on condition that the total rental income collected by the landlord is no more than CPI +1% (2.7%).

5.1.7 The latest business plan submitted to WG in March 2019 included a rent increase of 3% for 2020/21 (assuming CPI would be 2%) and this resulted in a £34m borrowing requirement in order to meet the WHQS by 2020. Meeting the WHQS standard by December 2020 is a statutory requirement. As there is a restriction on the rental increase, this would mean a shortfall on the business plan. However, during 2019/20 it was necessary to reprofile the WHQS programme as a consequence of performance issues with external contracting. This meant our In-house workforce taking on an additional 150 properties, which led to an extension from March 2020 to June 2020 to complete the programme in order to absorb the extra work. In effect, this has consequently reprofiled the expenditure and the borrowing requirement over 2 financial years. With the 0.3% reduction in rent this means the business plan will need to be amended to reflect reduced income of £1m for 2020/21.

5.1.8 Furthermore, the business plan should now reflect the restriction placed on the 2020/21 rent policy and reduce the anticipated rent level for the next 5 years. The current plan assumes 3% rent increase and it would be prudent to reduce this to 2% especially as CPI has seen a reduction over the last few years. However, after the WHQS Programme is achieved in 2020, the business plan reduces its expenditure to reflect the ongoing planned maintenance of the WHQS programme. This will assist in absorbing the rent reduction, albeit the planned maintenance programme will need to react to the funding that is available as a consequence.

5.1.9 However, whilst there is some flexibility in the business plan to support the commencement of a new affordable housing build programme, the current plan does not include any detailed projections for future new build or increased costs expected for decarbonisation , and any reductions in rental income will therefore reduce the funding available to deliver on these initiatives.

5.1.10 In addition, affordability for tenants is now an issue that has to be considered as part of setting any rent increases. This would involve engaging with tenants to capture relevant data and establishing a suitable model that would evidence affordability and a system for accurately recording such information. This will take considerable time to implement and as such cannot be actioned in time to set this year's rental charge. The Chief Housing Officer will consider the resources that are needed so that tenants affordability can be reflected for future rent increases. This could have a significant impact on rental income going forward.

5.1.11 A rent increase of less than 3% will mean less income to deliver housing services which will obviously result in a review of the services and the way they are currently delivered, the extent of work to be undertaken, alternative options for increasing income or an increase in borrowing. Considering options of less than the maximum such as CPI only and a nil increase has been tested against the current business plan.

5.1.12 An increase of CPI only at 1.7% for 2020/21 would increase the average weekly rent by £1.50 to £89.77/wk which is below the policy rent band set by WG and would require higher future rent increases to get back into the envelope range. This would also result in reduced income of £1.9m to that assumed within our business plan to ensure the WHQS programme is financed and maintained. Again to be prudent we should also reduce the forthcoming years to reflect the pattern of reducing CPI. This in itself does not hinder the WHQS programme any further, but members must consider the pressure Local Housing Authorities are facing from Welsh Government on increasing housing supply and ensuring we meet the decarbonisation agenda, both of which require significant investment. The recent report to The Housing and Regeneration Scrutiny committee on 26th November outlined the need for £14m additional borrowing to kick start the new build programme with the aim to deliver 400 affordable homes between 2020 and 2025. This directly links with the Councils commitment contained within the Corporate Plan 2018-2023 and Wellbeing Objective 3 which aims to address the supply, condition and sustainability of homes throughout the county borough. The £14m was on the assumption of a 3% rental increase over the next 5 years.

5.1.13 A nil increase for 2020/21 with a reduction to 1.7% for the next four years would mean the rent would remain at £88.27 but this would be well below the policy rent band set by WG and would require considerable future rent increases to get back into the envelope range. This would also result in reduced income of £1.9m to that assumed within our business plan. Again members must consider the ongoing effect of this reduced rent to address the significant investment required as explained above.

5.1.14 Additional borrowing must be affordable under the Prudential Code and also means an increase in debt and interest charges which takes resources away from the HRA to manage and maintain our housing stock and support our tenants.

5.2 Garage Charges

5.2.1 The garage rationalisation and refurbishment programme, linked to the WHQS programme has led to a reduction in our garage stock and will result in improvements to our remaining stock .This work, which is ongoing, is currently having a significant impact on void levels as the blocks of garages must be fully vacated prior to commencement of works on each site. On completions of works to each block, former garage tenants and former leaseholders of garage plots will be offered new tenancies of the newly built or refurbished garages, prior to new tenants being sought for the remainder from existing waiting lists or through marketing. In addition a number of garages have been demolished due to unsuitability and lack of demand. Therefore until the rationalisation programme is fully completed and take up of existing garages assessed, it is not proposed to increase the rent on Council owned garages this year. Currently our garage charge is £8.11 per week

Tenants in receipt of benefit

5.2.2 Garage rents are not eligible for housing benefit and the majority (75%) of garage tenants are not actually council house tenants.

Financial impact

5.2.3 The Business Plan has included a 2% increase on garage rental income. Not increasing the income will mean a loss of approximately £5k in the Business Plan in 2020/21. This will not have an immediate impact on the borrowing requirement in the short term.

6. ASSUMPTIONS

6.1 Assumptions are prevalent within the Housing Business Plan and are necessary to create a 30 year projection as requested by Welsh Government. Assumptions are included on key drivers such as (i) Interest rates (ii) Inflation (iii) Rental Increases (iv) Staffing levels (v) stock movement (vi) capital programme expenditure (vi) level of rent arrears, and (vii) level of voids and are taken from projections, local knowledge and Welsh Government guidance.

7. LINKS TO STRATEGY

7.1 The recommendations within this report provide the council with additional income that will be used to supplement existing funding arrangements to provide management, repair and improvement of the housing stock. This funding is used to maximize the resources available to assist in meeting and maintaining the WHQS. The rent increase is applied equally to all tenants. The report therefore links to the following strategic objectives:

- The Caerphilly We Want (CCBC, 2018-2023) – Well-Being Plan Objective 4: Positive Places – Enabling our communities to be resilient and sustainable

- Corporate Plan (CCBC, 2018-2023) Well-being Objective 3: the availability, condition and sustainability of homes throughout the county borough and provide advice, assistance or support to help improve peoples well-being.

- Caerphilly Homes Service Plan.

7.2 Improving Lives and Communities: Homes in Wales (Welsh Government, 2010) which sets out the national context on meeting housing need, homelessness and housing related support services.

7.3 Effective financial planning and financial control contribute to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -

- A prosperous Wales.
- A resilient Wales.
- A healthier Wales.
- A more equal Wales.
- A Wales of cohesive communities.
- A globally responsible Wales

7.4 Whilst Housing services contribute towards the Act, this is a financial report for information only and therefore does not directly contribute towards the above wellbeing goals.

8. WELL-BEING OF FUTURE GENERATIONS

8.1 Effective financial management is a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

9. EQUALITIES IMPLICATIONS

9.1 An EIA screening has been completed in accordance with the Council's Strategic Equality Plan and supplementary guidance. No potential for unlawful discrimination and/or low level or minor negative impact has been identified; therefore a full EIA has not been carried

10. FINANCIAL IMPLICATIONS

10.1 This report deals with the financial implications of the proposed rent increases which affects the HRA.

10.2 The impact of the Welfare Reform Act is not taken into consideration

11. PERSONNEL IMPLICATIONS

11.1 The proposals contained in this report will not alter the current arrangements for the collection of housing revenue account monies.

12. CONSULTATIONS

12.1 All consultation responses have been reflected in this report. The report will be presented to Cabinet on the 29th January 2020.

13. STATUTORY POWER.

13.1 Local Government Acts 1972 . This is a Cabinet function.

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Consultees:	Cllr J Ridgewell	- Chair Housing & Regeneration Scrutiny Committee
	Cllr C Forehead	- Vice Chair Housing & Regeneration Scrutiny Committee
	Cllr L Phipps	- Cabinet Member for Homes, Places & Tourism.
	Dave Street	- Corporate Director Social Services & Housing
	Shaun Couzens	- Chief Housing Officer
	Robert Tranter	- Head of Legal Services/Monitoring Officer
	Stephen R Harris	- Interim Head of Business Improvement Services & Acting S151 Officer
	Sandra Isaacs	- Rents Manager
	Amanda Main	- Acting Benefits Manager
	Fiona Wilkins	- Housing Services Manager
	Paul Smythe	- Housing Technical Manager