



## HOUSING AND REGENERATION SCRUTINY COMMITTEE – 29<sup>TH</sup> NOVEMBER 2022

**SUBJECT: HOUSING REVENUE ACCOUNT CHARGES – 2023/2024**

**REPORT BY: CORPORATE DIRECTOR OF SOCIAL SERVICES & HOUSING**

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### 1. PURPOSE OF REPORT

For Members to consider and take a view on the increased Council Housing rent charges proposed in this report, prior to consideration from Cabinet on the 14<sup>th</sup> December 2022. The charges predominantly focus on council house rents, but also include garages, and are intended to be effective for the Housing Revenue Account (HRA) for the 2023/2024 financial year. This report will be presented to Cabinet Members on 14<sup>th</sup> December 2022 and will include any comments or recommendations from this committee.

### 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 Taxpayer. Whilst there is a clear separation of these funds, most of the proportion of council tenants rent is funded from financial support in the form of Housing Benefit or Universal Credit, which is derived from the taxpayers' purse, therefore value for money must always be sought. 78% of our tenants receive financial assistance towards their rent. 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 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.
- 2.3 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. This has been based on CPI plus 1% plus an additional £2.*
  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 rationale for justifying any rent increase*
- 2.4 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*”.

- 2.5 The Minister in the past has also been keen to continue with a number of initiatives as part of the wider rental agreement which include:
- Strengthen approaches designed to minimise all evictions, working effectively with partners to deliver on a new agreement not to evict into homelessness.
  - Undertake a standardised tenant satisfaction survey for publication on a central website to assist tenants in scrutinising and comparing landlord performance. This is the STAR (Survey of Tenants and Residents) survey. Caerphilly Homes undertook its STAR survey in September/October 2021 and we are required to carry out the survey every two years. The results of the 2021 survey was published by WG in May 2022 along with all the social landlords in Wales.
  - Build on existing commitments to deliver high quality homes which comply with the new housing quality standard “WDQR 2021” across all tenures on sites which attract Welsh Government funding.
  - Continue to work towards an aspiration that all new build housing, regardless of tenure, achieves energy efficiency standards of no less than EPC A on sites that attract any Welsh Government funding.
  - All Social landlords are required to make, and evidence, an annual assessment of affordability for tenants, cost efficiencies and to demonstrate their homes and services represent value for money as part of their decision on the rent uplift to be applied each year. To assist with providing Welsh Government with the necessary assurance, each social landlord will be required to complete a self-certification monitoring form which will be used to monitor compliance with the Welsh Government Rent Standard. This form must be completed and returned by the end of February 2023.
- 2.6 Two issues have arisen since last year which will impact on the rent setting process
1. The Renting Homes Wales Act.
  2. The cost-of-living impact with a significantly high inflation rate.
- 2.7 The new Renting Homes Wales Act comes into effect from 1st December 2022 and dictates that tenants need at least 2 months’ notice of any rent increases. Previously this was 28 days. In order to meet this deadline, WG need to confirm the rent policy details to LHA’s much sooner. Officers have been in various network meetings with WG and other LHA’s and have raised this as a concern. Failure to meet the notification timescale means that the increase cannot be applied and the HRA will lose that income until the 2 months’ notice period has passed. As an example, on a 2% rent increase, this equates to £87k per month, on a 5% increase this equates to £217k per month.
- 2.8 This year has been unprecedented in terms of the market volatility that has seen significant increases in inflation. WG typically do not confirm the rent policy details for the forthcoming financial year until very late in the previous December or early January, meaning a very short timescale for members to agree any rent increases and inform tenants.
- 2.9 The Consumer Price Index (CPI) rate under the current policy has been confirmed as 10.1%.
- 2.10 WG have discretion to amend the “CPI plus 1%” rule if CPI falls below 0% or above 3%. Last year it was changed to “CPI only” when CPI was 3.1%. We have already seen the Scottish Government cap their rent at 0% and the UK Government consulting on a variety of increases between 3% and 7%.
- 2.11 The Minister for Climate Change announced on the 16<sup>th</sup> November 2022 that from April 2023, the maximum limit which social rents can increase will be 6.5% which is well below the rate of inflation that also increased to 11.1% on the 16<sup>th</sup> November 2022, a 40 year high.

However, having considered the review, along with wider factors such as the cost of living and its impact on tenants, 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 that given the existing and future financial outlook, it has been very difficult to consider the right level of rent increase for the social rent settlement 2023/24, and has therefore pursued a voluntary agreement from Councils and RSL's to ensure tenants are supported through the cost of living crisis .

- 2.12 The latest Business Plan submitted for 2022/23 assumed a rent increase of 3.6% for 2023/24 reducing to 3.1% for 2024/25 and 3% for 2025/26 and 2026/27.
- 2.13 The plan also allowed for a 5% increase in material costs in 2023/24. However, as inflation rates have significantly increased above typical thresholds this has also caused a sharp increase in costs such as materials and fuel which could not be foreseen to that extent, and these increases also need to be reflected in the next business plan to be submitted to WG in March 2023. Modelling various rent increases allowing for an indicative increase in materials is shown further in the report.
- 2.14 Further modelling has also been carried out under the Joseph Rowntree Foundation (JRF) affordability model, which was adopted by Cabinet last year. This has continued to show favourably against our current level and a scenario of future rent increases.
- 2.15 An affordability survey has been available for tenants as part of the rent setting process since 2021/22 when the Minister insisted that affordability must be taken into consideration. Officers continue to develop this survey each year. The survey is called "Your Rent, Your Views" with the aim of capturing tenants' views on their rent, particularly on affordability and value for money. The survey was launched during September and October 2022.
- 2.16 In addition to the affordability survey, as a landlord, we are obliged to survey our tenants under a standard STAR survey, as mentioned in 2.7 above, which is a consistent framework for social landlords to collect, report and measure on tenant's satisfaction. The survey was sent out in September/October 2021. The survey consists of seven core questions and one of these key questions include a direct reference to value for money. 1847 tenants completed this survey.

### **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 14<sup>th</sup> December 2022.
- 3.2 Officers recommend to Cabinet the following increases for consideration from April 2023 based on the options explained in the report, which are: -
- (i) Rent is increased per property to the maximum permitted as per the WG rent policy which is 6.5%. This would increase the current average rent by £6.10 per week from £93.80 to £99.90 per week over 52 weeks.
  - (ii) The level or rent for garages from April 2023 be increased by 5.5% to £8.85 per week.

### **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 impacting on service delivery and could result in increased levels of borrowing, which is an additional cost to the HRA.

- 4.2 Housing Benefit/Universal Credit will cover the increased costs for the rent charge in this report for 78% 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, reduce Homelessness and minimise evictions.
- 4.6 The impact of Covid has significantly impacted on the HRA, in particular material costs, but with a considerable reduction in productivity, meaning that our budget has been delivering less. This has resulted in a backlog of work which will increase costs in 2023/24.
- 4.7 WG will have duly considered all options for the 2023/24 rent settlement and has consulted with all relevant stakeholders including tenant representative bodies. It must therefore be acknowledged that the WG rent increase represents a fair balance between supporting tenants and maintaining the business needs of social housing providers.
- 4.8 The increase is supported under the Joseph Rowntree Foundation affordability model.

## **5. THE REPORT**

### **5.1 Rent Increase**

- 5.1.1 Members will recall that the rent policy under Welsh Government (WG) has changed over recent years and the Minister has reacted where necessary year on year. More recently however, the rent policy has been fixed for a five-year term. We are currently under the 2020/21 to 2024/25 five-year rent band which was set at CPI plus 1%. Under the current rent policy, a target rent band for each Authority was 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.
- 5.1.2 However, during 2021/2022 the target rent band was suspended as a consequence of the Covid-19 pandemic. Furthermore the "plus 1%" was removed for the 2022/23 financial year as a reaction to the ongoing pressures during the Covid-19 pandemic and Brexit, which had seen inflation rise higher than expected. The Welsh Ministers can determine the appropriate charge to the rent levels in that year if CPI falls outside of the range 0% and 3%. As the CPI determinator (September) for setting the policy was 10.1% then WG can determine the rent increase outside of the policy and has therefore announced a maximum uplift of 6.5%. Inflation as of 16<sup>th</sup> November 2022 stands at 11.1%.
- 5.1.3 As a result of the housing benefit limitation scheme, rent increases above Department of Work and Pension (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 all the recommendations contained within this report are compliant with WG. Typically, the limit rent is increased by the rent policy, and the Minister has made reference to this in her letter of the 16<sup>th</sup> November 2022, therefore it is assumed that the DWP rent limits will increase by the same. Approximately 78 % of tenants are in receipt of financial support in the form of Housing Benefit or Universal Credit.

- 5.1.4 CCBC's average rent net of voids is £93.80 (52-week basis). Caerphilly Homes charges over a 48-week period as tenants have 4 rent free weeks each year. The 48-week equivalent rent is therefore £101.61.
- 5.1.5 CCBC rent is currently one of the lowest rents across all the Welsh Local Housing Authorities and applied one of the lowest rent increases in 2022/23.
- 5.1.6 The latest business plan submitted to WG in March 2022 included a rent increase of 3.6% for 2023/24 reducing to 3.1% for 2024/25 and 3% for 2025/26 and 2026/27. For 2023/24 this was on the assumption of applying CPI plus 1%, and at that time CPI forecasts for 2023/24 were 2.6%. However, as inflation rates have significantly increased above typical thresholds this has also caused a sharp increase in costs such as materials and fuel which could not be foreseen to that extent, and these increases need to be reflected in the next business plan to be submitted to WG in March 2023.
- 5.1.7 The following table shows the impact against the base business plan for the various rent increase scenarios. However, the rent increase cannot be analysed alone without being aware of other influences on the HRA, otherwise it will not give the full picture. The base plan has therefore also been uplifted to allow for the additional 22/23 pay award which wasn't confirmed at the time of submitting the 22/23 business plan, and a further increase in 2023/24 for construction and material costs. The shortage of materials such as timber, plaster and steel since 2021 has led to major supply chain issues across the UK as well as driving up costs. Steel has been reported to have increased by 45.8% since last year. Energy prices and the war in Ukraine is also a contributing factor. The cost of raw materials in the UK is expected to more than treble in 2022 according to the Building Cost Information Service (BCIS) Materials Cost Index.
- 5.1.8 For this scenario, the material uplift has been increased to 10% for 2023/24. More detailed costings will be analysed whilst preparing the 2023/24 Business Plan (due for submission to WG in March 2023) but it is prudent to increase the base plan at this stage, to understand the impact against the various rent increase scenarios. Other factors that may also need to be considered include interest rates on the cost of borrowing and the bad debt provision if arrears are likely to increase due to the cost of living.

<b>2022/23 BASE PLAN - ASSUMPTIONS MADE FOR 2023/24 YEAR</b>							
	Rent	Materials	Construction	Shortfall	Borrowing	Borrowing movement to Base Plan	
Base Plan	3.60%	3.40%	5%	£43.5m	£45.6m		Plan submitted to WG March 2022
Scenario 1	0%	3.40%	5%	£47.1m	£51.4m	+\$5.8m	0% rent increase. No other changes
Scenario 2	0%	10%	10%	£60.3m	£70.7m	+\$25.1m	0% increase. Full pay award. Construction 10%
Scenario 3	2%	10%	10%	£56.5m	£66m	+\$20.4m	2% increase. Full pay award. Construction 10%
Scenario 4	4%	10%	10%	£54.5m	£61.3m	+\$15.7m	4% increase. Full pay award. Construction 10%
Scenario 5	6%	10%	10%	£52.5m	£56.7m	+\$11.1m	6% increase. Full pay award. Construction 10%
Scenario 5a	6.5%	10%	10%	£52m	£55.6m	+\$10m	6.5% increase. Full pay award. Construction 10%
Scenario 6	8%	10%	10%	£50.5m	£53m	+\$7.4m	8% increase. Full pay award. Construction 10%

- 5.1.9 We need to strike an appropriate balance between our commitments to service delivery (including increasing housing supply), and to protecting tenants from large rent increases.
- 5.1.10 A rent freeze would protect tenants but would not be financially credible to the HRA.

- 5.1.11 For every 1% increase on our current rent this would be equivalent to approximately £1 a week additional rent charge.
- 5.1.12 CCBC rent arrears are about 4.9% of its rent debit, (approx. £2.6m) and we are in the top quartile when compared to the other 10 LHA's. However, we are in the mid to lower quartile for the number of NOSP's (Notice of Seeking Possession orders) actioned against tenants, leading to no evictions in the past year. Instead, we have focused on more intense tenant support with the aim of supporting tenants to sustain their tenancies, rather than lose them. Also, the cost of living is starting to have an impact. As the cost-of-living rises, we expect to see more tenants struggling and the likelihood that the rent arrears will increase further before any rent increase is even applied. This is not unique to Caerphilly. Officers are in regular contact with other local housing authorities in Wales who are all experiencing the same issues.
- 5.1.13 The JRF Model was recently adopted into CCBC's rent policy, and the latest calculations (ONS lowest quarter percentile weekly pay for 2022) show that even with a rent increase of 4%, all of our stock is lower than the JRF model by an average of 15%. This is an improvement on the calculations in the previous year, where 83% of our stock was below the affordability model because the lowest quarter percentile weekly pay for Caerphilly has increased by some 20%. ONS have confirmed these figures also include any furloughing arrangements up to the tax year April 2022, and the number of jobs in the area has also increased by 2000. Caerphilly is ranked the 5<sup>th</sup> highest earner for the lowest quartile earners out of the 11 remaining Local Housing Authorities. The model therefore suggests that our rent is affordable. If we were so minded and given this was agreed in the rent policy, there is a rationale for a rent increase along with the other circumstances referenced earlier in this note.
- 5.1.14 The loss of income by applying a rent freeze compared to that in the business plan would be about £1.9m compounded each year. To put this into context, the recently agreed pay award for the HRA for 2022/23 is £1.2m alone. We then have to consider and add to the equation; the increased challenges on building safety, the sharp increase on the cost of materials and fuel, the demands for reaching net zero carbon with WHQS2023 set to start next year with estimated price tag of £650m over 10 years, the commitment to build 400 homes, together with the potential impact of the pay line review, then it is clear that the HRA depends on its annual rent increase to keep moving forward whilst sustaining vital services such as tenancy support and repairs & maintenance of homes.
- 5.1.15 The impact of lower increases ultimately means a reduction of services, reprioritising commitments, and increased borrowing.
- 5.1.16 At a recent meeting with all social landlords the Minister asked what prioritisation work landlords had undertaken. This was assumed to be a warning, that whatever the agreed position, it will mean less income for all landlords. In her letter of the 16<sup>th</sup> November The Minister's biggest concern appeared to be those that paid their rent independently and not with benefit support, and over the past month she has been considering the rent increase for 2023/24 and its impact across the sector. She has admitted that given the cost-of-living crisis it has been a very difficult decision to make. At the heart of the decision was the need to balance different priorities, for example, the impact on tenants, the business needs of social housing providers, the needs of homeless households and the commitment for 20,000 new low carbon affordable homes over the term of the administration. With the increase in mind, The Minister is keen to ensure protection and support is available for those tenants to avoid then being placed into financial hardship.
- 5.1.17 Discussions around a potential rent freeze has also caused many councils with new house building plans to raise significant concerns.
- 5.1.18 The Minister has engaged with all parts of the sector to assist in her decision making, including tenant representative bodies, Registered Social Landlords (RSL's) and Local

Authorities. These discussions have focused on a variety of rent level scenarios and potential implications for services and investment. Given the potential implications for tenants of any increase in rent levels, particularly self-payers, discussions have also focused on what support would be available to assist anyone who experiences financial hardship.

- 5.1.19 Based on a working assumption that there will be a reasonable increase in social rent levels, given the difficult balancing act, discussions have covered any commitments social landlords could give to provide assurance to the Minister that tenants in financial hardship will be supported and in particular avoiding homelessness when tenants are engaging with landlords.
- 5.1.20 It has collectively been agreed with Welsh Government that Councils and RSL's would make a voluntary commitment to demonstrate to the Minister, and tenants, that social landlords are dedicated to ensuring that tenants are effectively supported and protected through the cost of living crisis (along with the wider packages of support being implemented by Councils and partners), and would provide assurance to the Minister, which has been a material consideration in her deliberation and decision making around the rent settlement.
- 5.1.21 Caerphilly Homes along with all other social landlords in Wales have therefore voluntarily agreed there will be no evictions due to financial hardship for the term of the rent settlement in 2023-24, where tenants engage with their landlords.
- 5.1.22 During this time social landlords will continue to provide targeted support to those experiencing financial hardship to access support available.
- 5.1.23 In addition, a joint campaign, encouraging tenants to talk to their landlord if they are experiencing financial difficulties and access support available, will be launched across Wales.
- 5.1.24 Caerphilly Homes along with other social landlords across Wales have agreed to maximise the use of all suitable social housing stock, with a focus on helping those in the poorest quality transitional accommodation move into longer term homes that meet their needs. Caerphilly Homes has also reiterated a continued commitment to invest in existing homes to keep them safe, warm and affordable to live in.
- 5.1.25 The principal objective at Caerphilly Homes is the management and sustainment of tenancies. Eviction is the last resort, fully embracing the Welsh Government aim of no evictions into homelessness. Adoption of a person centred, customer focused approach for supporting and enabling tenants, has led to no evictions for financial hardship in the last 2 years.
- 5.1.26 Caerphilly Homes has restructured the rents team. There are 19 staff in the rent department, 4 of which focus on rent and arrears recovery, 6 who deal with welfare benefit checks and entitlements, and 9 who focus on tenancy support and sustainment. There are now more staff on tenancy support than on rent recovery and arrears. This is evidenced also by the increase in arrears whilst officers focus on supporting the tenant to sustain the tenancy, rather than rent recovery. This is all about prevention and early intervention. Investing in prevention will reduce the incidence of crisis situations and likelihood of homelessness.
- 5.1.27 In the last financial year -
- £3.2m additional benefit income secured for tenants during 21/22.
  - 800 successful applications for Discretionary Housing Payments (DHPs)
  - Energy advice to 249 tenants from City & Guild trained staff
  - 350 referrals to Citizens Advice Bureau
  - Supported 1,000 residents to apply for the £200 winter fuel grant
  - Arranged 300 food parcels

- 5.1.28 Caerphilly Homes have also embraced the Transitional Accommodation Capital Programme and are in the process of bringing voids back into use, working with private sector landlords under Caerphilly Keys, building modular on council owned land and reviewing our ability to convert 'out-moded' sheltered stock where possible, to build new homes, more quickly.
- 5.1.29 There is a significant lack of suitable single person move on accommodation options in the borough which is significantly impacting on our ability to move single person households out of transitional accommodation into more permanent homes. This coupled with the current state of the Private Rented Sector is a challenge for Caerphilly Homes at this time, whilst we have a very clear and determined new build plan, we also need our RSLs to work with us in building the accommodation that we need to meet this demand.
- 5.1.30 The voluntary agreement of all social landlords in Wales also committed to continue and enhance existing engagement with tenants in rent-setting decisions, including explaining how income from rent is invested and spent. Working in partnership with tenants, Welsh Government, funders and other partners Caerphilly Homes will contribute to develop a consistent approach to assessing affordability across the social housing sector in Wales.
- 5.1.31 Caerphilly Homes and other social landlords across Wales will also participate in an assurance exercise in April 2023 to reflect on the application of the rent policy to date. This will build on the work undertaken by social landlords over the past three years, and inform future work to develop a consistent approach to assessing affordability
- 5.1.32 Caerphilly Homes support consistent messaging, and we do this direct to all tenants in updates and surveys. A newsletter was sent recently to 83,000 residents explaining the different support is available.
- 5.1.33 Last year Caerphilly Homes carried out tenant focus groups and received a clear request from tenants to show how all the rent is being spent and there is already a commitment to send all our tenants information every year on how the rent is spent.
- 5.1.34 Caerphilly Council would welcome a consistent approach to an affordability model. In fact, Caerphilly Homes engaged with WG colleagues when reviewing the rent policy to consider what existing affordability benchmarks were available. Through the research and discussion with officials it appeared that the Joseph Rowntree Foundation (JRF) Living Rent model (benchmarking rent not being any higher than 28% of household income) to be a good affordability model. Now that the Office National Statistics data has been updated to reflect the latest census information, Caerphilly Homes rents are 100% below that threshold and even with a rent increase of 8%, the rents would still be affordable when reviewed against the JRF model.
- 5.1.35 On the 19th July 2022 Council agreed to a £90m borrowing level which included maintaining the WHQS programme and progressing with new build. Total borrowing for achieving the WHQS standard was £40.9m. Borrowing for new build was therefore confirmed at £49.1m within the current approval limit. This limit does not include the costs of additional challenges from WHQS 2023 that was recently out for consultation, or the increases due to higher inflation rates and the cost of living.
- 5.1.36 WHQS 2023 Consultation ended on 3rd August 2022. WG are expecting to respond to the consultation exercise by the end of the calendar year but what is clear from networking meetings with other LA's is the concern about funding and the timeline to achieve decarbonisation.
- 5.1.37 Members must also 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. This directly links with the Council's 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.



- 5.1.38 A nil increase for 2023/24 would mean the rent would remain at £93.80/wk (52 wk) but this would require considerable future rent increases to get back into the target rent band envelope range if and when this is re-introduced. This would also result in reduced income of £1.9m annually to that assumed within our business plan, and this is without factoring in any further cost increases as explained in the report. Again, members must consider the ongoing effect of this reduced rent to address the significant investment required as explained above.
- 5.1.39 A 6.5% increase for 2023/24 would mean the rent would be set at £99.90/wk (52 wk) which would result in additional income of some £3.4m which is £1.5m more than assumed within the Business Plan (which was based on a 3.6% increase). However, based on the increases explained in 5.1.7 and 5.1.8 of this report, this would still require an increase of borrowing of some £10m to meet the demands and costs of the services.
- 5.1.40 Additional borrowing as a consequence of income shortfalls must be affordable under the Prudential Code. It 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.
- 5.1.41 In addition, affordability for tenants is now a factor that must be considered as part of setting any rent increases. This involves engaging with tenants to capture relevant data and views and establishing a suitable model that would evidence affordability together with a system for accurately recording such information. "Your rent your views" survey have been available to tenants each year since 2020.
- 5.1.42 Since 2014/15 the average rent increase for Caerphilly Homes is 2.98%

## **5.2 Affordability**

- 5.2.1 Officers have continued to work on developing the affordability survey and have met colleagues in Welsh Government and other local authorities with the aim of sharing best practice. The feedback from Welsh Government on the previous year's rent setting process across the sector gave us more of an understanding as to what Welsh Government were expecting in order to evidence affordability. For example, landlords automatically received a favourable score if they used the Joseph Rowntree Foundation (JRF) Living Rent model or an equivalent affordability tool. As referenced in 5.1.31 Caerphilly Homes had been considering the JRF model prior to the pandemic but did not have the resources to progress during 2020/21. The JRF model was agreed by Cabinet on the 13<sup>th</sup> July 2022 to be included as part of Caerphilly Homes existing rent policy.
- 5.2.2 Other areas of good practice included a wide range of tenant consultation platforms and appropriate feedback, working in collaboration with tenants to set rents. As an authority we have been limited to certain media platforms due to GDPR concerns, which has restricted our ability to reach all tenants. However, officers have developed a full consultation process including an online survey during October/November 2022, and two focus groups. The survey was posted on Facebook and Twitter and was also available on the Council's website. An EGov bulletin was sent to those tenants who have registered with the link. There were periodic reminders over the term of the survey and there was also a dedicated helpline for any tenants who required assistance in completing the survey
- 5.2.3 Members will be pleased to note that Caerphilly have been approached by TPAS Cymru to present at a rent consultation webinar and share best practise on how we engage with our tenants. We have been quoted as a "fantastic case study" together with 2 other social landlords (1 in Wales and 1 in Scotland). Caerphilly Homes has also presented at TPAS Cymru conference in November on our rent and affordability consultation, so whilst it has proven challenging to try and engage with as many tenants as possible through different medias, it is clear that we are leading the way on how we approach it.

- 5.2.4 Overall, there were 271 tenant responses to the survey with a mix of areas and tenures being represented. Unfortunately, this was a decrease of 102 compared to the previous year, despite the efforts made.
- 5.2.5 41% of the tenants were represented from the East of the Borough, 30% from the South and 29% from the North.
- 5.2.6 The majority of responses were from tenants in houses (47%) followed by flats (24%) and bungalows (14%) with the main source of income being from sickness or disability benefits (61%), followed by employment (37%).
- 5.2.7 61% of the respondents received some form of benefit support towards paying their rent. 40% of respondents received no support.
- 5.2.8 68% of responding tenants think our rents are fair and affordable (compared to 65% last year) and 32% do not. Mixed responses vary from "Because we receive housing benefits which help" "Cheaper than private rents" "It's a reasonable amount" to "The bedroom tax is crippling", "Benefit payments do not cover the increased cost of living", and "Rents rise every year but earnings don't".
- 5.2.9 88% of tenants were extremely or very concerned about the cost of living.
- 5.2.10 63% of tenants thought that their rent provides value for money (compared to 61% last year). Comments included: "property maintenance is expensive", "I am happy with my home and the service you provide" "I realise that you look after tenants the best you can", to "More needed on helping people move" "repairs are poor", and "No they waste it by building new offices and such"
- 5.2.11 Any tenant who expressed difficulties with paying their rent within the survey comments, was contacted and offered support by Tenancy Support Team.
- 5.2.12 23 tenants attended the focus groups, and it was interesting to note that when asked their opinion on a rent freeze, the majority of tenants agreed that an increase should be applied in order to sustain the services. These tenants understood the impact on the housing service by not applying a rent increase albeit they wanted the increase to be as low as possible. They did not want to have a reduction in services. Tenants also agreed that paying their rent was one of their priorities during the cost-of-living crisis but they were cutting back on other areas such as heating and making cheaper food choices. Concerns were made around keeping warm during the winter and officers commented that the Council was considering Community Hubs offering warmth, refreshments and support in the near future. Tenants generally agreed that rent was affordable at the moment but were concerned about the long term impact of the cost of living. For those who are on benefits they were very thankful that their rent would be paid, and would struggle if they weren't receiving financial support, but were still concerned about the other costs rising.
- 5.2.13 The survey overall gave us a mixed response, and there are clearly some responses that need to be followed up, but it does suggest a higher proportion of our tenants agree that their rent is affordable and offers value for money.
- 5.2.14 The average social rent for Caerphilly CBC in 2022/23 is £93.80/wk, which is nearly 7% lower than the All-Wales Average for Local Authorities of £100.46/wk. The All-Wales Average for Registered Social Landlords is £101.20/wk. Caerphilly CBC is ranked the lowest Local Authority in Wales in terms of its weekly rent according to Data Stat Wales.
- 5.2.15 Data Stat Wales latest publication for Private rents in Caerphilly CBC only go up as far as 2019/20. Private rent for a 3 bed house for 2019/20 is on average £134.28 per week, compared to the Caerphilly Homes average rent for a 3 bed house at £108.90/wk (which is 2022/23 rent). Increases would have been applied for private rent since 2019/20 making the comparison gap wider.

- 5.2.16 Caerphilly CBC ranked 5<sup>th</sup> highest out of the 11 Local Housing Authorities in terms of workplace earnings gross weekly pay (at the lower quartile) at £356.60, which is 4.76% above the All-Wales Average for the LHA's at £340.40/wk.
- 5.2.17 The results of the 2021 STAR survey to tenants, on their satisfaction with the housing service, confirmed 77% were satisfied overall with the service provided by Caerphilly Homes, and 76% were satisfied that their rent provides value for money.
- 5.2.18 These statistics together with the tenant's affordability survey suggest that the rent is affordable and provides value for money. However, Welsh Government require us to prove this in terms of measuring our current rent against an appropriate affordability model, which will be the JRF model.

### **5.3 Tenancy Support**

- 5.3.1 Caerphilly Homes Rents team offer person centred support to tenants. A team of tenancy and welfare benefit support staff are available to provide support as soon as a tenancy starts. Staff have the discretion and flexibility to deal with differing individual circumstances when tenants are in difficulty and are empowered to deliver innovative solutions.
- 5.3.2 The number of tenants claiming housing benefit or universal credit housing costs to help pay their rent has increased from 72% to 78% since December 2020. Since April 2021, our staff have assisted tenants to claim over £3.2m in additional benefits. This support is not only offered to tenants experiencing financial hardship, but to tenants who we recognise using key data sets are not claiming their full entitlement of benefits.
- 5.3.3 Surveys completed by tenants receiving the service have shown the huge difference it has meant to their lives. Quotes below have been extracted directly from the surveys:
- "Thank you for everything you have done for me it has made a huge difference. I fell into heaven when I came to this wonderful council",
  - "Been told so many times that I wasn't able to claim (including by DWP) but the Council staff helped me to claim successfully. This has changed my life massively",
  - "Given me a different perspective of people from the council, reassured me that if there was anything else to get it touch. Built up trust, so great that I know where to call if I need help" and,
  - "I didn't expect to get a backdate I am so happy I am going to use the money to buy a mobility scooter something I never ever thought I could afford to buy. I can't thank you enough"

This support is integral to the Rents Team and will continue to be offered to all tenants

### **5.4 Garage Charges**

- 5.4.1 The garage rationalisation and refurbishment programme, linked to the WHQS programme has led to a reduction in our garage stock but has resulted in improvements to our remaining stock. This work had a significant impact on void levels as the blocks of garages had to be fully vacated prior to commencement of works on each site. On completion of works to each block, former garage tenants and former leaseholders of garage plots have been 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. However, due to Covid-19 the void position on garages has not yet improved due to resources being deployed in more critical areas. Caerphilly Homes currently own 887 garages of which 135 are let to council tenants and 505 are let to private residents. The remaining 247 (28%) are void.

- 5.4.2 The rent on garages had not been increased for 3 years while the rationalisation programme was being undertaken but an increase was re-introduced in 2020/21 at 1.5%. Total investment to our garage stock was £2.6m and we can collect £380k per annum in charges if all garages are let. Currently our garage charge is £8.39 per week and 79% of garage tenants are not council tenants. The 2022/23 business plan assumed a 2.8% increase for the 2023/24 financial year, which was based on the forecasted RPI rate of inflation at the time of preparing the business plan. The actual RPI rate currently is 12.6% with sources estimating this is likely to fall to about 5.5% next year. For the 21% who are council tenants a 5.5% increase would equate to £8.85 per week (an additional 46p per week) and for the 79% non-council tenants this would equate to £10.62 to include VAT.

#### Tenants in receipt of benefit

- 5.4.3 Garage rents are not eligible for housing benefit and the majority (79%) of garage tenants are not actually council house tenants.

#### Financial impact

- 5.4.4 The Business Plan has included a 2.8% increase on garage rental income but did not foresee the unprecedented increases in inflation rates ahead. Not increasing the income in line with predicted inflation will mean a loss of approximately £21k.

## **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. SUMMARY OF INTEGRATED IMPACT ASSESSMENT**

- 7.1 Section 24 of the Housing Act 1985 provides Local Housing Authorities (LHA's) with the power to set rents for its properties relating to Part II of said Act. A LHA is under a duty to act reasonably by determining rent levels. When setting rents under this section, a LHA must comply with any standards relating to rent set by the Welsh Ministers under section 111 of the Housing (Wales) Act 2014 and must also have regard to guidance issue under section 112 of the 2014 Act. Section 74 of the Local Government and Housing Act 1989 requires a LHA to keep and maintain a HRA ring-fenced account which ensures that the income raised from operating council housing is spend on council housing, and that neither the HRA nor General Fund are cross subsidised. Section 76 of the Local Government and Housing Act 1989 requires that the HRA cannot be set into a deficit.]
- 7.2 An increase in rents is required in order not to set a deficit budget within the HRA. The additional income is utilised on maintaining or improving existing services as well as creating financial resource to be able to meet WG agendas and challenges such as minimising evictions, not to evict into homelessness, deliver high quality homes, evidencing affordability and value for money, maintaining WHQS, installing Optimised Retrofit Programmes on existing stock, and enhancing tenant involvement.
- 7.3 68% of tenants who were surveyed on "Your rent your view" survey confirmed that their rents were deemed fair and affordable and 63% thought their rents provided value for money. 76% of tenants who were surveyed on the STAR survey also thought their rents provided value for money and 77% were satisfied with the services provided. As part of the rent setting process, tenants were also involved in focus groups.

- 7.4 The latest statistics from Data Stat Wales ranks Caerphilly CBC the lowest in terms of Local Authority rent and 5<sup>th</sup> highest in terms of workplace earnings (lower quartile). 78% of Caerphilly CBC tenants are in receipt of financial support for their rent in the form of Housing Benefit or Universal Credit. Tenancy support is offered to all tenants.
- 7.5 The proposed increase during an unprecedented increase in inflation is set as per the rent policy determined by Welsh Government and is lower than the current rate of inflation.
- 7.6 [Link to the Integrated Impact Assessment.](#)

## 8. FINANCIAL IMPLICATIONS

- 8.1 This report deals with the financial implications of the proposed rent increases which affect the HRA.
- 8.2 The impact of the Welfare Reform Act is not taken into consideration

## 9. PERSONNEL IMPLICATIONS

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

## 10. CONSULTATIONS

- 10.1 All consultation responses have been reflected in this report

## 11. STATUTORY POWER

- 11.1 Local Government Acts 1972. This is a Cabinet function.

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Consultees:	<p>Cllr Andrew Whitcombe - Chair Housing and Regeneration Scrutiny Committee</p> <p>Cllr Patricia Cook - Vice Chair Housing and Regeneration Scrutiny Committee</p> <p>Cllr Shayne Cook - Cabinet Member for Houses and Property</p> <p>Christina Harry - Chief Executive</p> <p>Dave Street - Corporate Director Social Services and Housing</p> <p>Nick Taylor-Williams - Head of Housing</p> <p>Robert Tranter - Head of Legal Services/Monitoring Officer</p> <p>Stephen R Harris - Head of Corporate Finance and S151 Officer</p> <p>Sandra Isaacs - Rents Manager</p> <p>Amanda Main - Acting Benefits Manager</p> <p>Fiona Wilkins - Housing Services Manager</p> <p>Jane Roberts-Waite - Strategy and Co-ordination Manager</p> <p>Alan Edmunds - WHQS Project Manager</p> <p>Jason Fellows - HRO Manager</p> <p>Kerry Denman - Housing Solutions Manager</p> <p>Mandy Betts - Tenants and Community Involvement Manager</p>
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Background Papers: N/A