



SPECIAL HOUSING AND ENVIRONMENT SCRUTINY COMMITTEE - 21ST NOVEMBER 2023

SUBJECT: HOUSING REVENUE ACCOUNT CHARGES – 2024/2025

REPORT BY: DEPUTY CHIEF EXECUTIVE

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 by Cabinet. 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 2024/2025 financial year. This report will be presented to Cabinet Members on 13th December 2023 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 (Contract Holders), 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. 77% 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 were
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 Climate Change 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 last STAR survey in September/October 2021, and is required to carry out the survey every two years. The next STAR survey is currently out to tenants, with the closing date of 24th November. The results of the 2021 survey were published by WG in May 2022 along with those of all the social landlords in Wales. WG will publish the results of the 2023 survey, but a date has not yet been confirmed. The results will be reported to Members through the appropriate channels and feedback will also be provided to all tenants and staff.
 - 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 Energy Performance Certificate (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 typically by the end of February each year.
 - A voluntary agreement was pursued from Councils and Registered Social Landlords (RSLs) last year to ensure tenants are supported through the cost-of-living crisis.
- 2.6 Members may recall from last year’s report of the specific issues that arose which impacted on the rent setting process for 2023/24, namely,
1. The Renting Homes (Wales) Act 2016.
 2. The cost-of-living impact with a significantly high inflation rate.
- 2.7 The new Renting Homes (Wales) Act came into effect from 1st December 2022 and dictates that rents cannot increase more than once in any 12 month period and 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 Local Housing Authorities (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 £92k per month, on a 5% increase this equates to £230k per month.
- 2.8 Following the introduction of the Renting Homes (Wales) Act, we are now using two different secure occupation contracts, depending on when contract holders signed their agreements, and some rights and obligations are different, which causes confusion to our contract holders and their support providers. Unfortunately, the Act does not enable us to move all contract holders on to the same contract but we are planning to make changes to both

contracts to make the wording of the terms contained within the two contracts more alike, and to update some terms.

- 2.9 The Act dictates that rents cannot increase more than once a year. Currently rent increases can only be applied to converted contracts on a Monday, at least one year after the last rent increase, so the date of the increase would vary each year, unlike for those on the new contract where there is no restriction on the day a rent increase can be applied. One of the proposed variations will ensure that all tenants will be subject to their annual rent increase on the same date irrespective of the type of contract. We are proposing that all rent increases will come into effect on 3rd April each year irrespective of the day of the week that this falls or type of contract in place.
- 2.10 The last 2 years have 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. The 2024/25 policy was announced on 27th October 2023.
- 2.11 The Consumer Price Index (CPI) rate under the current policy has been confirmed as 6.7%.
- 2.12 WG have discretion to amend the “CPI plus 1%” rule if CPI falls below 0% or above 3%. Last year it was changed to a maximum uplift of 6.5% when CPI was 10.1% and the previous year the policy was changed to “CPI only” when CPI was 3.1%.
- 2.13 The Minister for Climate Change announced on the 27th October 2023 that from April 2024, the maximum limit by which social rents can increase will be CPI only at 6.7% which is in line with the current CPI rate. This is based on the governments assertion it will protect cash-strapped tenants. The Minister said, “It is vital that we continue to do all we can to support those who face severe hardship, which is why I have made the decision to set the maximum uplift cap at the level of inflation.” On this latest intervention The Minister added, “I am well aware of the impacts that the continuing cost-of-living crisis has put on social housing tenants and that this uplift may not feel “lower” to many people across Wales”. However, she acknowledged that, “the current economic climate continues to present challenges for both social landlords and their tenants”.
- 2.14 The Minister made reference to the voluntary agreement signed by all social landlords last year and urged all social landlords to carefully consider affordability and set rents appropriately across their housing stock. As part of the announcement, The Minister said there are also ongoing commitments from social landlords in Wales to support tenants struggling with the impacts of the ongoing cost-of-living crisis which includes the continuation of the ‘no evictions due to financial hardship policy’ for tenants that engage with their landlords. This will include targeted support to those experiencing financial hardship as well as investment in existing homes to keep them safe, warm, and affordable to live in. Caerphilly Homes continue to operate within this voluntary agreement. Therefore, as agreed with the sector, landlords will continue to implement these existing commitments and initiatives going forward (as noted in 2.5 above)
- 2.15 The latest Business Plan submitted for 2023/24 assumed a rent increase of 4% for 2024/25 reducing to 3% for 2025/26 and 2026/27. This, however, was on the basis, that inflation was expected to fall more sharply in the past 12 months than it has done. The Office for Budget Responsibility (OBR) stated in March 2023 that they expected CPI to have peaked in the last quarter of 2022/23, when it was at the highest rate seen in 40 years. Since April 2023 CPI has seen a steady reduction from 8.7% to 6.7% in September, but it has not fallen as much as predicted. Last year the Bank of England forecasted inflation to fall sharply from mid-2023, perhaps below the target of 2%, and expected inflation to level close to the 2% target by 2025/26.

- 2.16 The plan also allowed for a 5% increase in material costs in 2024/25. However, as inflation rates have increased above initial predictions this has also caused a continued increase in costs, including for materials and fuel, and these increases also need to be reflected in the next business plan to be submitted to WG in March 2024. Modelling various rent increases allowing for an indicative increase in materials is shown further in the report.
- 2.17 Further modelling has also been carried out under the Joseph Rowntree Foundation (JRF) affordability model, which was adopted by Cabinet in July 2022. This has continued to show favourably against our current rent level and a scenario of future rent increases.
- 2.18 An affordability survey managed by Caerphilly Homes, 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. This year we also asked tenants about the cost-of-living impact. The survey was launched during September 2023.
- 2.19 In addition to the affordability survey, as a landlord, we are obliged to survey our tenants under a standard STAR survey, as mentioned in 2.5 above, which is a consistent framework for social landlords to collect, report and measure on tenant's satisfaction. The most recent survey was sent out in early October 2023. The survey consists of the required core questions dictated by Welsh Government and one of these key questions include a direct reference to value for money. 1,847 tenants completed this survey in 2021. On the 24th October 1,350 responses had so far been received. An update on the number of returns will be available in early December but final results of the survey will not be available until January 2024.
- 2.20 2024/25 is the last year of the current 5-year rent policy. The Minister made reference to a new rent policy going forward in her consultation meeting with housing officials and confirmed that as more homes become more energy efficient (under the new WHQS 2023 legislation), this should be reflected in the rent. Wider consultation will be forthcoming as to what the new rent policy will look like.

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 13th December 2023.
- 3.2 Officers recommend to Cabinet the following increases for consideration from April 2024 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 6.7%. This would increase the current average rent by £6.68 per week from £99.72 to £106.40 per week over 52 weeks.
 - (ii) The level of rent for garages from April 2024 be increased by the same level at 6.7% to £9.44 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 77% 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 (Caerphilly CBC target is 1000 new homes over the next 10 years), 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 and the Cost of Living Crisis has significantly impacted on the HRA, in particular material costs, but with a considerable reduction in productivity and resource issues, meaning that our budget has been delivering less. This has resulted in a backlog of work which will increase costs going forward.
- 4.7 WG will have duly considered all options for the 2024/25 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 CCBC rent is currently one of the lowest rents across all the Welsh Local Housing Authorities (Data Stat Wales places CCBC 3rd lowest Local Authority for 2023/2024 rent) We estimate that our position for 2024/25 would remain in the lowest quartile.

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%. This year is therefore the final year under this policy. There has been no official engagement from WG in terms of what the rent policy will look like from 2025/26 onwards apart from a recent engagement session where the impact of energy efficient homes was mentioned. As an authority we will need to be mindful of this going forward, especially as it could affect our new build stock as well as our current stock under the new WHQS23 legislation. 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 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 change 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 6.7% then WG can determine the rent increase outside of the policy and has therefore announced a maximum uplift of 6.7% which reflects the latest CPI rate (September 2023).
- 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 DWP limit rent is increased by the rent policy, therefore it is assumed that the DWP rent limits will increase by the same meaning the rent increase recommended in this report will be covered by the same increase in Benefits. Approximately 77% of tenants are in receipt of financial support in the form of Housing Benefit or Universal Credit.

- 5.1.4 CCBC's average rent is £99.72 (52-week basis - as at October 2023). Caerphilly Homes charges over a 48-week period as tenants have 4 non-chargeable weeks each year. The 48-week equivalent rent is therefore £108.03.
- 5.1.5 CCBC rent is currently one of the lowest rents across all the Welsh Local Housing Authorities (Data Stat Wales places CCBC 3rd lowest Local Authority for 2023/2024 rent). We estimate that our position for 2024/25 would remain in the lowest quartile.
- 5.1.6 The latest business plan submitted to WG in March 2023 included a rent increase of 4% for 2024/25 reducing to 3% from 2025/26 onwards. For 2024/25 this was on the assumption of applying the CPI plus 1% policy, and at that time CPI forecasts for 2024/25 were expected by the Bank of England, to fall sharply (perhaps below the Government target of 2%) and level close to the 2% target by 2025/26. Therefore, the approach at that time is CPI would be prudently around 3% and following the CPI plus 1% policy would mean rent was calculated at 4%. However, although inflation rates have dropped (compare September 2022 rate 10.1% to September 2023 rate 6.7%) it has not dropped to the level suggested by experts. Therefore, the HRA is still experiencing a high level of cost increases such as for materials and fuel, and these increases need to be reflected in the next business plan to be submitted to WG in March 2024. The 4% estimated rent increase for 2024/25 therefore will not be enough to meet the current level of inflation. Since April 2023 the average rise in CPI has been 7.58%.
- 5.1.7 The table below at 5.1.8, 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 23/24 pay award which has yet to be confirmed but estimated to be a further £245k more than budgeted, and a further £680k estimated increase in 2024/25 based on a 3% pay award. The living wage increase in October 2023 will also have an impact which has increased by 10%. Construction and material costs continue to be influenced by factors such as labour shortages and energy prices. The increase in material costs is as a result of disrupted supply chains from the aftermath of the Covid-19 pandemic compounded by inflationary volatility, although there has been a reduction in some prices according to government figures, but this is explained by an overall decline in homebuilding figures. Key materials have seen significant shortages. The UK's brick supply is limited and there is a decline in ready mixed concrete, sand, and gravel. There is also a shortage of skilled workers in the sector which increases demand against supply, all contributing to driving up costs. Energy prices and the war in Ukraine are also factors. It therefore appears unlikely that costs will go down in the UK in 2024, although there are signs that products are increasing at a slower rate than the previous year.
- 5.1.8 Scenario 1 – shows the impact against the base plan if there was a nil increase on rents in 2024/25. The shortfall would increase by some £13m to £56.8m but the impact on the borrowing would be even more significant, increasing by £38.5m. This is because the knock-on effect of a nil increase in year 1 will be evidenced in later years when higher borrowing is needed to fund a bigger shortfall earlier in the plan. This means there is less funding going forward, impacting on future years.

Scenario 2 - For this scenario, the material and construction uplift has been increased to 7% for 2024/25 from the original 4% (materials) and 5% (construction) initially projected. The

rent increase remains at 4% as per the current plan. The shortfall will increase by some £12m which requires further borrowing of some £8.4m, and this borrowing has transgressed into later years in the plan similar to scenario 1, but not to the same extent. This shows that the tolerance level is limited in terms of additional pressure to the HRA before it impacts on future years.

Scenario 3 – if rents were increased to the CPI of 6.7% and the increase in materials and construction to 7% was included, this would have a minimal effect on the borrowing with an increase on borrowing of £500k. This shows the optimum level within the plan to maintain the current borrowing position.

More detailed costings will be analysed whilst preparing the 2024/25 Business Plan (due for submission to WG in March 2024) 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. There is a likelihood that the new build programme will also increase substantially as more schemes are added to the portfolio for investigation, and it has now been confirmed that the investment required to meet WHQS23 must be included in the business plan from 2025/26.

2023/24 BASE PLAN - ASSUMPTIONS MADE FOR 2024/25 YEAR							
	Rent	Materials	Construction	Shortfall	Borrowing	Borrowing movement to Base Plan	
Base Plan	4%	4%	5%	£43.5m	£55.7m		Plan submitted to WG March 2023
Scenario 1	0%	4%	5%	£56.8m	£94.2m	+£38.5m	0% rent increase yr 1. No other changes
Scenario 2	4%	7%	7%	£55.9m	£64.1m	+£8.4m	4% rent increase yr 1. Construction 7% year 1
Scenario 3	6.7%	7%	7%	£53m	£56.2m	+£0.5m	6.7 rent% increase. Construction 7% year 1

- 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 for current tenants are just under 7% of its rent debit, (approx. £3.9m) compared to 4.9% last year, and is in the top quartile when compared to the other 10 LHA's. However, ranking is in the mid to lower quartile for the number of NOSPs (Notice of Seeking Possession orders) actioned against tenants, leading to no evictions in the past year due to affordability. Instead, focus is on more intense tenant support with the aim of supporting tenants to sustain their tenancies, rather than lose them. This is in line with the current rent policy and the cost of living is having a considerable impact. As the cost-of-living rises, more tenants are asking for support which as a consequence leads to an increase in arrears. This is not unique to Caerphilly Homes. 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 (Office National Statistics (ONS) lowest quarter percentile weekly pay for 2022) show that even with a rent increase of 6.7%, all of our stock is lower than the JRF model by an average of 8.7%, with the exception of 1 bed flats. This is similar to the previous year where all of our stock was lower than the JRF model. Caerphilly is ranked the 5th highest earner for the

lowest quartile earners out of the 11 remaining Local Housing Authorities. The model therefore suggests that our rent is affordable, with the exception of 1 bed flats, which is higher than the affordability model by 37p a week, equivalent to £19.20 a year per property. 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. It is worth noting however that the statistics available publicly that are needed to calculate the JRF model are not updated regularly. The weekly earnings are based on 2022 and the tax calculations to work out the net pay are based on the 2023/24 tax year as HMRC are yet to announce the tax changes for the 2024/25 year.

- 5.1.14 The loss of income by applying a rent freeze compared to that in the business plan (4%) would be about £2.2m compounded each year. To put this into context, the proposed pay award for the HRA for 2024/25 and the additional cost for 2023/24 is just under £1m alone. We then have to consider and add to the equation; the increased challenges on building safety, the continuing increase on the cost of materials and fuel, the demands for reaching net zero carbon with WHQS2023 set to start this year (with an estimated price tag of £650 - £850m over a minimum of 10 years), combined with a need to upskill and recruit more staff, together with our commitment to build 1000 homes. It is then 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 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. 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.
- 5.1.17 Under the 2023/24 Rent Policy, it was collectively 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.
- 5.1.18 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 from 2023-24, where tenants engage with their landlords, although Caerphilly Homes were already operating under this model prior to the Ministers request and continues to do so. The agreement is still required under the 2024/25 rent policy.
- 5.1.19 During this time social landlords will continue to provide targeted support to those experiencing financial hardship to access support available.
- 5.1.20 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.
- 5.1.21 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.

- 5.1.22 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, including income maximisation. 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.
- 5.1.23 Caerphilly Homes have also embraced the Transitional Accommodation Capital Programme which has been extremely successful with officers acquiring circa 13 properties with the majority ex-council, together with returning to use 4 long term void flats, in addition to assisting the private sector in the provision of flats for affordable rent in previously empty properties. Officers continue to work with private sector landlords under Caerphilly Keys are considering building modular homes on council owned land and reviewing our ability to convert 'out-moded' sheltered stock where possible, to build new homes, more quickly.
- 5.1.24 There is a significant lack of suitable single person move on accommodation options in the borough which is significantly impacting on the 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 there is a very clear and determined new build plan, RSLs need to work in partnership with Caerphilly Homes to build the accommodation needed to meet this demand.
- 5.1.25 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.
- 5.1.26 Caerphilly Homes and other social landlords across Wales will also be required to evidence an annual assessment of affordability for tenants 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. Each landlord must complete a self-certification monitoring form which will be used to monitor compliance with the WG rent standard.
- 5.1.27 Caerphilly Homes support consistent messaging, and we do this direct to all tenants in updates and surveys. A Cost-of-Living newsletter has been sent out twice to all CCBC residents explaining the support that is on offer, with another one due to be sent out in the Autumn.
- 5.1.28 in 2021 Caerphilly Homes carried out tenant focus groups and received a clear request from tenants to show them how all the rent is being spent across the relevant housing services. We sent this information out earlier this year with the rent charge letters in the form of a leaflet for the financial year 2021/22 spend. A commitment has been given to provide this to all our contract holders every year.
- 5.1.29 Caerphilly Council would welcome a consistent approach to an affordability model. In fact, Caerphilly Homes engaged with WG colleagues when reviewing the 2023/24 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. Based on the latest available information from the Office of National Statistics data, against the JRF model, Caerphilly Homes rents are affordable for 88% of its stock, with the remaining 12% being just above the threshold by 37p per week. The maximum rent increase that could be applied to make sure 100% of our stock is

affordable would be 6.25%, but this is to ensure the 1 bed flats fall in line with the JRF affordability model. The rest of the stock could absorb increases between 7.7% and 24.63% across the property types before reaching the JRF affordability threshold, however this would contravene the WG rent policy.

- 5.1.30 On the 23rd May 2023 Council agreed to a £100m 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, or the increases due to continued higher inflation rates and the cost of living. The WHQS 2023 guidance was very recently launched on 26th October 2023 and requires all landlords to update their business plan to reflect the new legislation by 31/3/25. The current plan therefore does not include the costs associated with the new legislative demands (e.g. decarbonisation) and also does not include the changes within a new build programme of this scale where schemes may turn out to be unviable and new schemes are added.
- 5.1.31 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 2023-2028 and Wellbeing Objective 2 which will enable our residents to thrive by building new Council houses, providing more affordable homes and reducing homelessness, together with Wellbeing Objective 5 which will enable our environment to be greener by meeting zero carbon targets not only on new council homes but on the existing 10,600 council homes already in Caerphilly CBC's portfolio.
- 5.1.32 A nil increase for 2024/25 would mean the rent would remain at £99.72/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 £2.2m 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.
- 5.1.33 A 6.7% increase for 2024/25 would mean the rent would be set at £106.40/wk. (52 wk.) which would result in additional income of some £3.7m which is £1.5m more than assumed within the Business Plan (which was based on a 4% increase). However, based on the increases explained in 5.1.7 and 5.1.8 of this report, this increase will just about sustain the current borrowing level using the current business plan format.
- 5.1.34 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 take resources away from the HRA to manage and maintain our housing stock and support our tenants.
- 5.1.35 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" surveys have been available to tenants each year since 2020.
- 5.1.36 Since 2014/15 the average rent increase for Caerphilly Homes is 3.3%

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 previous year's rent setting processes 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 5.1.13 the JRF Affordability model was agreed by Cabinet on the 13th 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. The authority have been limited to certain media platforms due to GDPR concerns, which has restricted ability to reach all tenants. However, as in the previous two years, officers have developed a full consultation process including an online "your rent, your view" survey during September/October 2023, together with two focus groups, and one online discussion. The survey was posted on Facebook and Twitter and was also available on the Council's website. An opportunity to win high street shopping vouchers was also used as an incentive to return the survey. EGov bulletins were sent to those tenants who have registered with the link and emails were also sent to tenants where email records were held. Engaged community groups and tenants were also contacted, and front-line officers dealing with contract holders during the survey period encouraged take up of the survey. 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 recall that Caerphilly Homes were approached by TPAS Cymru last year to present at a rent consultation webinar and share best practice 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 also presented at TPAS Cymru conference in November 2022 on our rent and affordability consultation, and in July 2023 we were asked to be part of an online TPAS Cymru session about involving tenants in the rent setting process, so whilst it has proven challenging to try and engage with as many tenants as possible through different media, it is clear that we are leading the way on how we approach it.
- 5.2.4 Overall, there were 267 tenant responses to the survey with a mix of areas and tenures being represented. Unfortunately, this was a similar take up to the previous year, despite the efforts made.
- 5.2.5 37% of the tenants were represented from the East of the Borough, 30% from the South and 33% from the North.
- 5.2.6 The majority of responses were from tenants in the age group 50-65 (36%) followed by the age group 26-39 (26%) but all ages were represented, with the main source of income being from employment in full or part time work (45%) followed by sickness, disability or unemployment benefits (32%), and pension (17%).
- 5.2.7 56% of the respondents received some form of benefit support towards paying their rent. 43% of respondents received no support and 1% preferred not to say.
- 5.2.8 63% of responding tenants think our rents are fair and affordable (compared to 68% last year) and 37% do not. Mixed responses vary from "Because I get benefits to help it is affordable", "By comparison to private landlords", "I have always found the rent with the council to be fair and affordable" to "Bedroom tax is cancelling out housing benefit", "With the cost of living going up and energy prices it's getting more and more difficult to manage", and "I live alone with only one wage".

5.2.9 When asked how concerned tenants would be about being able to afford their rent if there was an increase in April 2024, 62% of tenants were extremely or very concerned.

5.2.10 46% of tenants said the cost of living had affected them a lot in the last 12 months where they have struggled to pay bills, and 42% said it had affected them quite a bit where they had to make a few changes and sacrifices, 9% said it had affected them a little, but it is manageable. 54% did not have a prepayment meter. 45% did and 1% preferred not to say. When asked to prioritise the most expensive service that tenants had struggled to afford over the last 12 months the outcome was as follows:

54% Food
25% Gas
6% Electric
4% Car/Transport
4% Council Tax
2% Rent
1% Water
1% Clothing
1% White goods

5.2.11 Tenants listed the 3 most important services as being:

- Tenancy Support
- Day to Day Repairs
- Fitting homes with new kitchens/bathrooms etc

5.2.12 Additional comments tenants expressed at the end of the survey included: -

- You're doing a fair job in difficult circumstances. Not perfect (!) – nobody is – but a fair job.
- I believe rents in the council shouldn't be increased. It is a deprived area, and the cost of living should be low to reflect that. I do believe the right to buy should come back.
- I have always said that I feel privileged to have my council house.
- Times are hard. Councils are not exempt from hardship. Note Birmingham Council. Do what you have to maintain things. I hope it doesn't make life impossible for people.
- In general, I am very proud of CCBC, however there are occasions where I think money could be better spent.
- Bedroom tax is unjust.
- I've been in touch with Tenancy Support and currently getting help.
- Things are extremely costly at the moment and there is no help for people who work when we are struggling just as much as people who don't work or work part time.
- Caerphilly has got to be the best council I have lived in, and I lived in Cornwall for 36 years.

5.2.13 Any tenant who expressed difficulties with paying their rent within the survey comments, will be contacted and offered support by the Tenancy Support Team (if they gave their permission for us to contact them).

- 5.2.14 25 tenants participated in the focus groups. When asked about a potential rent increase 10 of the group gave a positive response, 10 weren't sure and 4 gave a negative response. Tenants understood the reasoning for applying a rent increase and the impact on the housing service by not applying a rent increase, albeit they wanted the increase to be as low as possible. Some said, "it's got to happen for the upkeep of the homes" and other comments were "Understand why there needs to be an increase but still unsure", "Accept it is going to happen but worried how people who are already struggling will manage?".
- 5.2.15 One group prioritised the Caerphilly Homes services with Tenancy Support being the highest importance, followed by, dealing with anti-social behaviour, and disabled adaptations. Generally, between the groups, food prices were a concern and the removal of school meals in the holidays has also had a major impact. Energy price increases were causing some to be more careful with heating, using blankets instead, and those with access to a car were using it less and only when necessary. Most agreed that they had to cut out luxury items, and there was a general consensus that now the water rates are no longer collected with the rent that people feel that they have extra bills to pay.
- 5.2.16 21 of the group said their rent was affordable at the moment and 4 said it wasn't. Comments included "rent is a priority, have to keep a roof over your head, have had to cut back!", "Compared with private sector council rent is more reasonable", "Had a change in circumstances and finding it difficult to pay full rent".
- 5.2.17 As a result of the focus groups 2 new tenants were recruited to our engaged list and officers are liaising with tenants about bringing a Cost of Living/Welfare Benefit outreach forum to areas within the Borough. 22 people completed an evaluation form. All 22 said the focus group was worth attending and comments included "really informative session", "Loved the meeting, liked getting to know what was going on and sharing our views, really good – I was happy" and "could have been a bit longer".
- 5.2.18 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.
- 5.2.19 The average social rent for Caerphilly CBC in 2023/24 at the time of reporting and publishing in Data Stat Wales was £93.80/wk., which is 5.2% lower than the All-Wales Average for Local Authorities of £105.08/wk. The All-Wales Average for Registered Social Landlords is £107.64/wk. Caerphilly CBC is ranked the 3rd lowest Local Authority in Wales in terms of its weekly rent according to Data Stat Wales.
- 5.2.20 Data Stat Wales latest publication for Private rents in Caerphilly CBC only go as far as 2019/20. Officers have therefore used a well-known estate agent and compared private rents on average throughout the borough against Caerphilly Homes average rent for the same property type. The comparisons are shown below.

		52 week charge	
		Private	CCBC
House	2 bed	184.61	99.59
House	3 bed	186.74	107.06
House	4 bed	253.84	111.89
Flat	1 bed	129.92	84.29
Flat	2 bed	158.65	91.62

- 5.2.21 The Office of National Statistics earnings data (2022) ranks Caerphilly CBC 5th 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. The Living Wage has also recently been uplifted by 10%, giving more financial assistance to the lower earners, and indications are that State Pension could increase in April 2024 by 8.5% in line with earnings,

- 5.2.21 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.
- 5.2.22 These statistics together with the tenant's affordability survey suggest that the rent is affordable. 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. The JRF affordability model currently shows Caerphilly Homes rent is affordable with a 6.7% increase.

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. There are more staff within the team that focus on tenancy support than on rent recovery and arrears. This is evidenced by the increase in arrears mentioned in 5.1.12 as officers are focused more on supporting the tenant to sustain the tenancy rather than rent recovery. 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 77% since December 2020.
- 5.3.3 In the last financial year, our staff have assisted tenants to claim over £3m 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.
- 5.3.4 In addition to this:
- 2700 tenants have been provided with advice and support.
 - 712 successful applications for Discretionary Housing Payments (DHP's).
 - 310 referrals to Citizen Advice Bureau for formal debt and money advice.
 - Working in partnership with Citizens Advice Caerphilly, energy advice and emergency top up vouchers provided to 369 tenants.
 - Arranged 410 food parcels.
 - 2 cost of living newsletters sent to all residents within CCBC.
 - No evictions as a result of affordability issues.
- 5.3.5 A statement from Caerphilly and Blaenau Gwent CAB said:
"Citizens Advice Caerphilly and Blaenau Gwent's Warmer Wales 2 energy advice project has provided essential energy advice during the cost-of-living crisis. Working in partnership with Caerphilly Housing, we have developed the project to offer fuel vouchers to vulnerable individuals experiencing severe hardship and unable to heat their homes. Working together we have jointly promoted the benefits of the project, increased the number of people accessing advice and provided key support to communities across Caerphilly Borough. Working with Housing has not only allowed us to meet the needs of more people but has helped us to deliver a successful energy product more effectively than we could have done working alone. In the last year this partnership has supported over 500 residents providing them with fuel vouchers and key energy advice. We have prevented vulnerable families from disconnection and provided key energy advice tips and support".
- 5.3.6 When asked in the most recent Your Rent Your View Survey to list the 3 most important services, Tenancy Support was the top service chosen by tenants. This support is integral to the Rents Team and will continue to be offered to all tenants.

5.3.7 In addition to the direct support offered to tenants by the Rents Team and via Caerphilly Cares, there is a cost-of-living workstream set up by the Affordable Homes Partnership of which Caerphilly Homes is a member. The aim is to set up consistent support to tenants by researching good practice throughout the sector. The Councils Local Housing Strategy delivery plan also includes creating a cost-of-living support package which ties in with the Affordable Homes Partnership objectives. The HRA will contribute towards this using the earmarked balances specifically set up to support 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. Caerphilly Homes currently own 886 garages of which 146 (16%) are let to council tenants and 478 (54%) are let to private residents. The remaining 262 (30%) are void.

5.4.2 The rent on garages was not 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 around £380k per annum in charges if all garages are let. Currently our garage charge is £8.85 per week and only 16% of garage tenants are council tenants. This is an issue that we need to review. The 2023/24 business plan assumed a 3% increase for the 2024/25 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 8.9% with sources estimating this is likely to fall to 1.6% next year. The Business Plan therefore is not viable in terms of the income collected to meet the inflation rate currently although it is set to fall in the future. It is recommended that the increase for garages falls in line with the rent increase this year to optimise the revenue whilst there is a shortfall in the plan. This would also align more with a CPI increase rather than the historic RPI increase. For the 16% who are council tenants a 6.7% increase would equate to £9.44 per week (an additional 59p per week) and for the non-council tenants this would equate to £11.33 which includes VAT.

Tenants in receipt of benefit

5.4.3 Garage rents are not eligible for housing benefit and the majority of garage tenants are not tenants of Council homes.

Financial impact

5.4.4 The Business Plan has included a 3% increase on garage rental income, but this was based on predictions that the inflation rate would fall lower than it actually did. Not increasing the income in line with predicted inflation will mean a loss of approximately £14k.

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 spent 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 63% of tenants who were surveyed through the "Your rent your view" survey confirmed that their rents were deemed fair and affordable. 76% of tenants who were surveyed on the latest 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 rank Caerphilly CBC in the lowest quartile in terms of Local Authority rent (9th out of 11 LHA's) and 5.2% below the Wales average, also 5th highest in terms of workplace earnings (lower quartile). 77% 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 in line with the current inflation rate
- 7.6 [Hyperlink 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
- 10.2 The proposed contract variations referred to at Items 2.8 and 2.9 above will be progressed in accordance with the requirements of the Renting Homes (Wales) Act and will include consultation with all contract holders, with all agreed variations incorporated into contracts prior to 3rd April 2024.

11. STATUTORY POWER

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

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Consultees:

Cllr Andrew Whitcombe	- Chair Housing and Environment Scrutiny Committee
Cllr Shane Williams	- Vice Chair Housing and Environment Scrutiny Committee
Cllr Shayne Cook	- Cabinet Member for Housing
Dave Street	- Deputy Chief Executive
Nick Taylor-Williams	- Head of Housing
Robert Tranter	- Head of Legal Services/Monitoring Officer
Stephen R Harris	- Head of Corporate Finance and S151 Officer
Sandra Isaacs	- Rents Manager
Amanda Main	- Acting Benefits Manager
Fiona Wilkins	- Housing Services Manager
Jane Roberts-Waite	- Head of Housing Development and Strategy
Catherine Edwards	- Head of Assets Maintenance and Repairs
Kerry Denman	- Housing Solutions Manager
Mandy Betts	- Tenants and Community Involvement Manager

Background Papers: N/A