REPORT OF THE DIRECTOR OF CORPORATE SERVICES

COMMUNITY SCRUTINY COMMITTEE

5th FEBRUARY 2020

HOUSING REVENUE ACCOUNT AND HOUSING RENT SETTING 2020/21

- REVENUE AND CAPITAL

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1. INTRODUCTION

1.1. This report explains the proposed 2020/21 Housing Revenue Account (HRA) budget for both revenue and capital. It has been prepared in conjunction with officers from the Communities Department. This report is presented to this Community Scrutiny Committee as part of the budget consultation process. The views expressed by this Committee will be fed back to Executive Board for their consideration when they set the 2020/21 HRA budget and Housing Rents.

1.2. The HRA budget for 2020/21 is being set to reflect:

- Welsh Government's Policy for Social Housing Rents (Rent Policy) issued 18/12/2019, incorporating the recommendations of the Independent Affordable Housing Review Panel.
- Proposals contained in the Carmarthenshire Homes Standard *Plus* (CHS+)
- Affordable Homes Delivery Plan

1.3. The HRA budget is prepared to maintain the CHS(+) Business Plan, deliver our affordable homes aspirations and manage and maintain our homes on a daily basis. As a ring fenced account this expenditure is balanced by income primarily generated through rents charged to tenants. Supporting the CHS(+) Business Plan is a 30 years financial model which is submitted to and scrutinised/approved by WG annually (as part of the Major Repairs Allowance application).

Carmarthenshire County Council along with the other 10 local authorities (LAs) in Wales who retained their Housing Stock, exited the Housing Revenue Account Subsidy (HRAS) system on 1/4/15, which allows Local Authorities more flexibility in the management of their stock going forward.

Part of the agreement to exit included LAs with retained stock were required to adopt the new Social Housing Rents Policy set by the Welsh Government (WG). It aimed to develop a coherent and consistent rent policy framework that would apply to all social landlords, reflect local variations in affordability and housing market values, providing for a more equitable distribution of rents for social sector tenants across Wales, while at the same time ensuring the viability of individual social landlords. County Council approved the implementation of the policy on 24/02/15.This policy provided consistency for 4 years from 2015/16 to 2018/19. WG provided an interim policy for 2019/20 while they await the results of the Affordable Housing Supply Review. The result of this review was to retain the existing policy for a further 5 years with some additional/amended requirements. The policy will be applied to all our social housing including new build, properties bought from the private sector as well as our existing stock. Below are the main points detailed in WG letter:-

- An annual rent uplift (total rent envelope) of up to CPI+1%, each year for 5 years from 2020-21 to 2024-25 using the level of CPI from the previous September each year. September 2019 was 1.7%.

- CPI+1% will be the maximum increase allowable in any one year but CPI+1% must not be regarded as an automatic uplift to be applied by social landlords. Landlords decisions on rent should take into account the affordability of rents for tenants as set out below.

- The level of rents for individual tenants can be reduced or frozen or can rise by up to an additional £2 over and above CPI+1%, on condition that total rental income collected by the social landlord increases by no more than CPI+1%. This provision is designed to enable social landlords to restructure rents payable where necessary. However, the freezing or reducing of rents will only apply to local authorities who have the scope to do so within their target rent band and they continue to comply with the social housing rent policy.

- Should CPI fall outside the range of 0% to 3%, the Minister with responsibility for housing will determine the appropriate change to rent levels to be applied for that year only.

- Social landlords should advise the Welsh Government where they have concerns about the impact that rent policy has upon their business plan or financial viability, or on their ability to meet their obligations to tenants and lenders.

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

The letter also refers to shortage of social housing and the need to build homes near carbon zero and decarbonisation of existing stock. WG want LA's to consider the "whole cost of living in a property", looking at not only rent and service charges but energy costs also in order to reduce the financial burden on tenants. In recognition of the greater stability and certainty due to the rent policy WG also want to strengthen joint working with LA's in a wider rental agreement. WG also want LA's to produce annual assessments of affordability, value for money and demonstrate finding efficiencies as part of monitoring compliance.

1.4 Capital investment

A capital investment of £231m has been undertaken to deliver the CHS+ by 2015. This included £117million of unsupported borrowing. This investment was being funded by Major Repairs Allowance received from the WG, capital receipts from the sales of land and dwellings, HRA revenue funding, external grants and borrowing. This ensured the delivery of work programmes to all our tenants homes (with the exception of where the work was declined by tenants). Since achieving the CHS, a further £49M will have been spent on maintaining the standard and £36M on providing additional affordable homes in the HRA by the end of 2019/20.

The (CHS+) Business Plan 2020-23 highlights the approach that will be taken over the next three years and will be presented by the Head of Homes and Safer Communities in this meeting. It includes further investment over the next 3 years of £49million to maintain the CHS+ and £52million for our Affordable Homes programme. This will be supported by an on-going cost certainty exercise to ensure our investment is targeted to maintain the CHS+ and deliver our Affordable Homes targets.

The timing and method of sale of HRA land is being kept under review to ensure that receipts are maximised to support the Business Plan. Land sales are scrutinised on an individual basis , decisions on sale/retention depend on housing demand within that area.

The profile of capital expenditure required to maintain the CHS+ and invest in affordable homes is detailed in appendix A. The plan is extremely sensitive to change and is currently being fully reviewed every 6 months, with ongoing monthly monitoring to identify any potential issues.

1.5 Decarbonisation

WG ministers commissioned a report "Better Homes, Better Wales, Better World". The report recommended that "Political parties in Wales should make a strategic commitment to national residential decarbonisation and stick to it."

This included "setting ambitious energy targets for homes to achieve net zero carbon by 2050"

This will have a significant impact on future investment plans.

The CHS+ business plan details our proposed approach to decarbonisation of our HRA stock headlines include :-

- Make Fabric Energy Efficient
- Monitoring, Evaluation, Development, Training, Skills through using research, smart technologies etc.
- Reduce Demand through working with tenants
- Off Grid Solutions – Decarbonise Supply by harnessing the natural environment.

2. BUSINESS PLAN ASSUMPTIONS

2.1. There are many assumptions within the Business Plan, including future rental levels, interest rates, inflation, pay awards etc. Business Plan guidance from the WG (received 2/12/19 for 2020/21) requires submission of a viable plan by 31/03/2020.

Underpinning the CHS(+) Business Plan is the 30 year financial model which has many assumptions including:

- **Rents** The WG Social Housing rents policy allows local authorities within their target rent band to increase rent by CPI only (the County Council is currently marginally within the target rent band). The increase in target rent for 2020/21 has been notified as 2.7%.
- **Major Repairs Allowance (MRA)** is a grant from WG which is provided to support our works in maintaining the standard and is audited annually. This has not been increased for future years, but

has been varied for changing stock numbers. Our MRA is estimated to be £6.1million for 2020/21.

- **Capital Receipts** We have suspended our Right to Buy for tenants (WG has also subsequently suspended RTBs) so there are no planned receipts from sales of houses. The programme of land sales is now reviewed on an individual parcel basis. This strategy allows us to consider what is required for our Affordable Homes ambitions.
- **Void Loss** incurred on dwellings currently set at 2.9% in line with current performance.
- **Central Support Costs** are based on services received by departments, these have been validated accordingly.
- **Stock Numbers** have been updated based on affordable homes delivery plan.
- **Interest on Balances** is estimated to be £139k based on an interest rate of 0.75% (average interest earned).

2.2. Members will be aware as part of the HRAS exit agreement in 2015, Local Authorities were required to agree a Borrowing Cap, which was a requirement put in place by the UK Government. This restricted what a Local Authority could borrow in respect of the HRA, for this Authority the limit was set at £228M. The minister for Housing and Regeneration wrote to LA's 29/10/2018 detailing that the Chancellor of the Exchequer had confirmed that the removal of HRA borrowing caps applied to Wales as well as England. This was a significant change in policy designed to encourage LA's to build at pace and scale and to deliver their affordable homes ambitions. This places a responsibility on LA's to develop Business Plans which are financially sustainable as well as ambitious. This has led to a review of how we fund our capital investment programme to release additional resources in a prudent manner. We are therefore now developing the New Build programme with a greater number of schemes being commissioned and developed by the Council internally, e.g. Glanmor Burry Port and Maespiode, Llandybie.

However, although the borrowing cap has been released, it should be noted that there is a significant responsibility on the County Council to ensure any borrowing for the HRA is sustainable, prudent and affordable within the HRA financial business plan.

As most of the schemes delivering Housing projects have a significant lead in time, there will be an ongoing review of what is needed to maintain CHS+ and deliver our Affordable Housing ambitions, which will utilise the borrowing available as we develop our plans.

3. EXPENDITURE

The expenditure levels in the Business Plan have been set in line with the Business Planning guidance.

Maintenance and Stock Improvement

Revenue repairs and maintenance expenditure is forecast to be £11.3million in 2020/21. This is an increase on the 2019/20 budget (£10.3million) which reflects local building costs, forecast outturn for 2019/20 changes in stock numbers and additional revenue costs relating to void properties.

The capital programme provides resources to:-

- maintain our stock to the CHS+ (including carrying out improvements to previously declined properties)
- deliver our Affordable Homes commitment

Maintain our Stock

For 2020/21 the capital programme to maintain the CHS (+) is £18.4million. This gives an overall spend of £29.7million on stock improvement and maintenance (the total for 2019/20 was £25.7million). This includes increasing capital resources available for works relating to structural works on estates (£1million), roofing works (£0.3million), investment in sheltered schemes (£1.5million), risk reduction measures (£0.35million) and boiler replacements (£0.6million). This will be further informed by stock condition data which will be gathered in 2020/21.

Affordable Housing Commitment

Housing Finance Grant (HFG2) funding for new affordable housing ended in 2019/20.This funding was provided as a revenue source, requiring the authority to borrow the money and WG repaying the capital charges. It effectively supported £4.6million of capital expenditure. We will be receiving a specific grant to support our new build scheme at Gwynfryn totalling £4.7million as part of Innovative Housing Programme. We will also be bidding for any other additional resources available to support our Affordable Homes delivery. WG are yet to confirm the details of additional/alternative funding for delivering more Affordable homes but a working group has been established.
We have set aside £52million over the next three years as part of the capital programme to increase the supply of affordable homes. Within 2020/21 £16million has been identified for the Delivery Plan (including development costs).

The capital programme and funding sources for this programme up to 2022/23 are detailed in Appendix A.

Validation

The proposed Business Plan includes the following validations for 2018/19, which is in line with the proposed budget strategy:

- general payroll costs are +2.75% (average)
- general inflation has been accommodated at +2.1%
- Electricity +5.1%, gas +5.3%, oil +5.2%.
- Increased pension costs from 18% to 18.19%

Capital Financing and Subsidy

The capital financing costs reflect the borrowing requirement inclusive of the exit from HRAS.
Details of the budget for Housing Revenue Account for the period up to 2022/23 is shown in Appendix B.

4. INCOME

4.1. Previously we have applied the WG Social Housing Rent Policy to progress to the mid-point target rent (County Council approved on 24/02/15). This WG policy ended in 2018/19.

A one year policy of maximum of CPI only was issued by WG for 2019/20.

However as outlined in Paragraph 1.3 above, WG have now re-confirmed the original policy with increases in rent being CPI plus 1% for the next 5 years (subject to certain parameters).
Setting at a lower level than CPI + 1% rent increase, will impact on the current proposed Business Plan.

> Carmarthenshire's current average rent for 2019/20 is £87.41 per week, which leaves us between the low-end WG target rent level of £86.67 and the mid-point target £91.23. Housing Association rents in Carmarthenshire average £93.52 for 2019/20. In the private sector median rents for 2 bedrooms are £110 and 3 bedrooms are £126 as at October 2019. At the present time there are 2 homes above target rent, 2500 homes below this level with the remainder at target rent.

When setting rents for 2020/21 the WG policy will need to be applied.

4.2. Target Rents for Carmarthenshire

Target rents and forecast rents for 2020/21 are set out overleaf:-

	Houses and Bungalows (£)					Flats(£)				Bedsits (£)
	1Bed	2Bed	3Bed	4Bed	5+Bed	1Bed	2Bed	3Bed	4+Bed	
Target Rent (mid-point) 2020/21 as notified by WG	84.32	93.69	103.06	112.43	121.79	76.29	84.76	93.24	101.72	67.81
Actual Rent 2020/21 with 2.7% increase	81.30	90.33	99.36	108.39	117.44	73.54	81.74	89.90	98.08	65.38

WG policy rent band, 2020-21		
Low end (£ per week)	**Mid point** (£ per week)	**High end** (£ per week)
89.67	94.39	99.11

For Carmarthenshire our average target rent for 2020/21 is £94.39 (mid point) with the all Wales average being £98.79 .Carmarthenshire's 2019/20 actual rent is the 2nd lowest of eleven stock retaining authorities at £87.41

WG have advised LA's that a 2.7% increase should be the maximum applied in 2020/21. The lowest increase possible (incorporating a £1 progression) while complying with the policy of remaining within the target rent band is 2.43%.

4.3.

Implementing the 2.7% overall increase for Carmarthenshire and implementing rental progression of £1, has the following impact :

For those properties at target rent the increase will be:-

Consumer Price Index(CPI for Sept 2019) @1.7%+0.83% = 2.53%

For those properties where rent is below target rent, the increase can be:

Consumer Price Index (CPI for Sept 2019 @ +1.7%)+0.83% = 2.53%

plus a maximum of £1 progression in order to achieve an average rent increase of 2.7%.

Those rents above target are frozen until such time that they meet the target, there are only 2 of these properties remaining. When a property becomes empty it is placed in the target rent band.

Based on applying the above for 2020/21 at 2.7% rent increase this would produce an average rent of £89.77 (increase of £2.36).

Details of the rent increases on individual households are below :-

Receive an increase of :-	2.7% increase
No increase	2
up to £1.00	9
£1.00 to £1.99	1,101
£2.00 to £2.99	5,677
£3.00 +	2,409
	9,200

Table : No .of Householders affected by average increases.

There are just under 1200 tenants who are now in receipt of universal credit (13% of our tenants). 33% of tenants are on full Housing Benefit (HB), 23% are on partial HB and 31% receive no HB.

The proportion of dwellings below target rents is 27% as a result of the £1 progression implemented last year and the target rent being charged as a result of properties becoming vacant. This was over 85% when we began the harmonisation process.

4.4. Garage Rental Income

The HRA currently receives a net rental income of £125k per annum. This equates to a weekly charge of £9.00 per week. It is proposed that garage rents are maintained at £9.00 per week. Garage bases will similarly remain at £2.25 per week..

4.5. Service and Heating charges

Service charges are calculated in line with the policy adopted in 2011. These charges are made to cover the additional services we provide as a landlord that are not covered within the rent and to ensure that all communal areas are kept in a good condition.

These charges will vary annually as they are based on actual expenditure from the previous financial year. By implementing the Service Charge Policy we are ensuring that tenants who receive additional services pay for them in a fair and transparent way.

4.6. Sewerage Treatment Works

We have 15 pumping stations serving approx. 154 properties, the cost of running and maintaining the stations falls on the HRA. We also have 8 cesspits. It is proposed for 2020/21 that current charges are increased as per our rent increase.

4.7. Commission on Collection of Water Rates

In addition to the rent collection process we act as an agent on behalf of Dwr Cymru/Welsh Water, which generates an income of £400k in the form of commission. The implementation of the HelpU scheme for tenants has reduced this commission receivable by approximately £100k.The HelpU tariff assists tenants with low household income (less than £15,300 per annum) by reducing their water bills by nearly £200 per annum. The value of support also depends on number of residents per dwelling.

4.8. Universal Credit

Universal Credit (UC) is a new monthly payment for people who are either unemployed, or working, but on a low income. It will eventually replace six legacy benefits, including Housing Benefit. For Carmarthenshire, it was introduced in December 2018. We currently have nearly 1,200 tenants on Universal Credit. This is a fifth of our working age tenancies.

We anticipate, unless things change, that a further 4,000 tenants could transfer over the next two to three years. From a business point of view, evidence from other social housing providers has shown that rent arrears

will increase in the short to medium term and we have allowed for this within this plan in terms of our bad debt provision.

To date, there has only been a slight increase in rent arrears overall. This is lower than we had been expecting and certainly compares very favourably with the experience of other social housing providers.

The CHS+ Business Plan presents more detail on this, including the actions that are being undertaken to mitigate the impact for Council tenants.

5. BALANCES

5.1. Responsibility for setting adequate level of balances sits with the section 151 officer. In recent years we have carried relatively higher balances to ensure we had the capacity for the funding required for the business plan while implementing the CHS+. With the main work on our stock now complete and a clear direction in respect of our Affordable Housing Strategy it is felt that it is prudent to stabilise these balances as part of the forward pan.

It is felt that in the current challenging and changeable financial climate a prudent and realistic level would be £400-£500 per property (approx. £4M) as we aim to deliver more affordable homes as well as maintain the CHS+. If a rental increase is set at 2.7%, the overall proposed budget will result in a deficit on the Housing Revenue Account of £5.4million for the year, with the balances falling to £4.8m over the three years. It should also be noted in Appendix B that balances are required to support the current strategy of funding our capital expenditure and continue to make our business plan affordable over a 30 year period.

6. PROPOSED RECOMMENDATIONS TO EXECUTIVE BOARD

- **To increase average housing rent as per WG Social Housing Rents Policy.**
    - Properties at target rents will increase by 2.53% and
    - Properties where rent is below target rent, rent will increase by 2.53% plus a maximum progression of £1 per week
    - Those rents above target are frozen until such time that they meet the target.
    - This will produce an increase on the average housing rent of 2.7% (CPI +1%) or £2.36

- **This will produce a sustainable Business Plan, maintain CHS+, resource our Affordable Homes programme and is supported by DCHS Steering Group.**
- **To maintain garage rents at £9.00 per week and garage bases at £2.25 per week.**
- **To implement maximum progression of £1, for rents below target, until target rents are achieved.**
- **To apply the service charge policy to ensure tenants who receive the benefit from specific services pay for those services**
- **To increase charges for using our sewerage treatment works in line with rent increase.**

7. RECOMMENDATION

That as part of the budget consultation process, Community Scrutiny Committee consider and comment on the Revenue and Capital Budget of the Housing Revenue Account and rent setting proposals 2020/21.This will be considered by Executive Board on 24th February 2020 and subsequently County Council.