REPORT OF THE DIRECTOR OF CORPORATE SERVICES

COUNCIL

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HOUSING REVENUE ACCOUNT AND HOUSING RENT SETTING 2022/23

- REVENUE AND CAPITAL

DIRECTOR & DESIGNATION.	DIRECTORATE	TELEPHONE NO.
C Moore Director of Corporate Services	Corporate Services	01267 224120
AUTHOR & DESIGNATION	DIRECTORATE	TELEPHONE NO
A Thomas Group Accountant	Corporate Services	01267 228742

1. INTRODUCTION

1.1. This report explains the proposed 2022/23 Housing Revenue Account (HRA) budget for both revenue and capital. It has been prepared in conjunction with officers from the Communities Department. The Community and Regeneration Scrutiny Committee considered the HRA budget on 31st January 2022 as part of the budget consultation process. The views expressed by that committee are attached to this report (Appendix C) for Cabinet's consideration when they set the 2022/23 HRA budget and Housing Rents.

1.2. The HRA budget for 2022/23 is being set to reflect:

- Welsh Government's Policy for Social Housing Rents (Rent Policy) issued 30/12/2021, which this year is governed by the Welsh Government's Minister for Climate Change instruction that the maximum increases in the rent envelope for any local authority does not exceed 3.1%
- Proposals contained in the Carmarthenshire Housing Revenue Account Business Plan
- Housing Regeneration and Development Delivery Plan

1.3. The HRA budget is prepared to maintain the HRA 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 HRA 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 which was implemented in 2020/21 with some additional/amended requirements. 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 2021 was 3.1%.

- 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.

- 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. **<u>As CPI was 3.1% in September 2021 this clause was activated</u>** and the Government Minister for Climate Change has instructed that the maximum increase in the rent envelope for any local authority does not exceed 3.1% The Minister also commented that affordability remains at the heart of the rent settlement and excessive financial burdens should not be placed upon tenants in these very challenging times**.**

- 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 Cabinet/Council.

- During the pandemic, governmental resources have been re-prioritised meaning this year's rent data-set collection was suspended at the start of the COVID 19 crisis, therefore there is no up to date, robust data available to generate Target Rent Bands for the year ahead. WG have therefore considered the role of the Target Rent Bands in conjunction with representative bodies and individual stakeholders. Discussions revealed that whilst Target Rent Bands played a valuable role when they were introduced, the landscape today is very different and for most landlords they do not play a significant role in local rent setting. WG have therefore taken the decision to suspend them again for this year*.* The impact of this decision in next year's rent setting, and if there are unexpected and unintended matters arising from this decision, will be re-considered. This results in setting the 2022/23 rents without target rent bands.

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 £83M will have been spent on maintaining the standard and £62M on providing additional affordable homes in the HRA by the end of 2021/22.

The HRA Business Plan 2022-25 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 £64million to maintain the CHS+ and £56million 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 potential sale of HRA land is being kept under review to ensure that receipts are maximised to support the Business Plan however there are no anticipated sales in current plan and current land is retained for development of housing. 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 B. 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 HRA 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 is due to be received shortly and will probably require a submission of a viable plan by 31/03/2022.

Underpinning the HRA Business Plan is the 30 year financial model which has many assumptions including:

- **Rents** The WG Social Housing rents policy allows local authorities to increase rent by CPI plus 1%. As September 2021 CPI fell outside the 0%-3% parameters in the policy, the Minister for Climate Change set a maximum increase of 3.1%. It is proposed in this report that the rent envelope is increased by 2.9%
- **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 £6.2million for 2022/23.
- **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. There are no intentions for any land sales in current plan.
- **Grants** This is an increasingly important element of our financing. Social Housing Grant can now be utilised by local authorities as well as RSL's.
- **Void Loss** incurred on dwellings currently set on long term basis at 2%. Current performance, partly due to covid is higher at 3.78% due to restricted activity in 2021/22 but is reducing steadily. We have allowed for voids at 3.78% for 22/23.
- **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 £6k based on an interest rate of 0.05% (average interest earned).

2.2.

Members will be aware that 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.

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. An officer working group has been developed with WG to establish some key ratios to help manage these plans. Work is currently ongoing.

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 anticipated Business Planning guidance.

Maintenance and Stock Improvement

Revenue repairs and maintenance expenditure is forecast to be £12.3million in 2022/23. This is an increase on the 2021/22 budget (£11.8million) which reflects local building costs, forecast outturn for 2021/22 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 Housing Regeneration and Development Delivery Plan commitments

Maintain our Stock

For 2022/23 the capital programme to maintain the CHS (+) is £17.3million. This gives an overall spend of £29.6million on stock improvement and maintenance (the total for 2021/22 was £31.6million). This will be further informed by stock condition data which will be gathered in 2022/23.

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 £7million of capital expenditure, the revenue consequence of this is generating £296k annually.

We will 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. Current year grants include ICF and Land & Development Grant, due to support £2.4M & £8M respectively of capital expenditure.

We have set aside £56million over the next three years as part of the capital programme to increase the supply of affordable homes. Within 2022/23 £17.3million has been identified for the housing development programme (including development costs).

The capital programme and funding sources for this programme up to 2024/25 are detailed in Appendix B.

Validation

The proposed Business Plan includes the following validations for 2022/23, which is in line with the proposed budget strategy:

- general payroll costs are +4% (average). It is recognised that the Chancellor of Exchequer has expressed a view regarding a pay freeze but currently impact of this is unclear and therefore not to allow for pay-award would be imprudent.
- general inflation has been accommodated at +4%
- revenue R&M at 4.8%

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 2024/25 is shown in Appendix A.

4. INCOME

4.1. As outlined in Paragraph 1.3 above, WG have now re-confirmed the original policy that was in place up to 18/19 with increases in rent being CPI plus 1% for the next 5 years (subject to certain parameters).

> Carmarthenshire’s current average rent for 2021/22 is £91.60. In the private sector median rents for 2 bedrooms are £126, 3 bedrooms are £150 and 4 bedrooms are £196 in 2021.

4.2. Target Rents

Target rents bands have been removed for 2022/23 (as detailed in 1.3), actual rents including a 2.9% increase are detailed below: -

	Houses and Bungalows (£)					**Flats (£)**				**Bedsits (£)**
	1Bed	2Bed	3Bed	4Bed	5+Bed	1Bed	2Bed	3Bed	4+Bed	
Actual Rent 2022/23 with 2.9% increase	84.73	94.13	103.54	112.95	122.37	76.63	85.18	93.68	102.22	68.13

This produces average rent of £94.26 for 2022/23

Carmarthenshire's 2021/22 actual rent is the 2nd lowest of eleven stock retaining authorities at £91.60 (Welsh LA's average £96.53)

WG have advised LA's that a 3.1% increase should be the maximum applied in 2022/23.

4.3.

Implementing the 2.9% 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 2021) @3.1%-0.36% = 2.74%

For those properties where <u>rent is below target</u> rent, the increase can be:

Consumer Price Index (CPI for Sept 2021) @3.1%-0.36% = 2.74%

plus a maximum of £1 progression in order to achieve an average rent increase of 2.9%.

Those rents above target are frozen until such time that they meet the target, there are only 6 of these properties remaining. When a property becomes empty it is placed in the target rent band.

Based on applying the above for 2022/23 at 2.9% rent increase this would produce an average rent of £94.26 (increase of £2.66)

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

Receive an increase of :-	2.9% increase
No increase	6
£1.00 to £1.99	38
£2.00 to £2.99	7,560
£3.00 to £3.99	1,366
£4.00 to £4.99	182
	9,152

Table : No .of Householders affected by average increases.

27% tenants are now in receipt of universal credit , 28% of tenants are on full Housing Benefit (HB), 18% are on partial HB and 27% receive no HB.

The proportion of dwellings below the rent they should be paying is 17% as a result of the £1 progression implemented last year and the rent being changed 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 remain at £9.00 per week. Garage bases will similarly not increase and remain at £2.25.

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 2022/23 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 & HelpU365 schemes for tenants has reduced this commission receivable by approximately £100k.The HelpU tariffs assists tenants with low household income (less than £15,600 per annum) by reducing their water bills by £200/£300 per annum.

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 2,400 tenants on Universal Credit.

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. If a rental increase is set at 2.9%, the overall proposed budget will result in a deficit on the Housing Revenue Account of £3.4million for the year, however this has been accommodated in the long-term plan leaving £11million in balances at the end of 2022/23. It should also be noted in Appendix A 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 CABINET:-

1. **To increase the average housing rent as per the WG Social Housing Rents Policy.**
    a. Properties at target rents will increase by 2.74% and

b. Properties where rent is below target rent, rent will increase by 2.74% plus a maximum progression of £1.00
c. Those rents above target are frozen until such time that they meet the target.
d. This will produce an increase on the average housing rent of 2.9% or £2.66 per week

This will produce a sustainable Business Plan, maintain CHS+, resource our Housing Regeneration and Development Delivery Plan and is supported by the Housing and Regeneration Strategic Team.

2. **To implement maximum progression of £1.00, for rents below target, until target rents are achieved.**
3. **To maintain garage rents at £9.00 per week and garage bases at £2.25 per week.**
4. **To apply the service charge policy to ensure tenants who receive the benefit from specific services pay for those services.**
5. **To increase charges for using our sewerage treatment works in line with rent increases.**
6. **To approve the Housing Revenue Account Budget for 2022/23 (with 2023/24 and 2024/25 being soft budgets) as set out in Appendix A.**
7. **To approve the proposed Capital Programme and applicable funding for 2022/23 and the indicative spends for the future years 2023/24 to 2024/25 as set out in Appendix B.**