

# REPORT OF THE DIRECTOR OF CORPORATE SERVICES

## CABINET

15<sup>th</sup> JANUARY 2024

### HOUSING REVENUE ACCOUNT AND HOUSING RENT SETTING 2024/25

#### - REVENUE AND CAPITAL

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#### 1. INTRODUCTION

1.1. This report explains the proposed 2024/25 Housing Revenue Account (HRA) budget for both revenue and capital. It has been prepared in conjunction with officers from the Communities Department. The Communities, Homes and Regeneration Scrutiny Committee considered the HRA budget on 13<sup>th</sup> December 2023 as part of the budget consultation process. The views expressed by that committee are attached to this report (Appendix D) for Cabinet's consideration when they set the 2024/25 HRA budget and Housing Rents.

1.2. The HRA budget for 2024/25 is being set to reflect:

- Welsh Government's Policy for Social Housing Rents (Rent Policy) issued 27/10/23, 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 6.7%
- 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 year 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 Social Housing Rents Policy and WG letter dated 27/10/23:-

- 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 2023 was 6.7%.
- 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.
- 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. **As CPI was 6.7% in September 2023 this clause was activated** and the Government Minister for Climate Change has instructed that the maximum

increase in the rent envelope for any local authority does not exceed 6.7%. 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. 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 2024/25 rents without Target Rent Bands.

Additional commitments and initiatives introduced previously should continue with some further developments:-

- Balance the needs of tenants together with the ability of social landlords to continue to provide the additional non-core services and wider package of support that have proved vital for many tenants as the cost-of-living crisis continues.
- No evictions due to financial hardship for the term of the settlement, (financial year 2024-25), where tenants engage with landlords.
- Provide targeted support to those experiencing financial hardship to access support.
- 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.

- Continue focused communication to encourage tenants to talk to their landlord if they are experiencing financial difficulties and access support available.
- Build on existing engagement with tenants in rent setting decisions, including explaining how income from rent is invested and spent.
- Continued commitment to invest in existing homes to keep them safe, warm and affordable to live in.
- Work in partnership with tenants, Welsh Government, funders and other partners to develop a consistent approach to assessing affordability across the social housing sector in Wales.
- Continue to strengthen approaches designed to ensure you minimise all evictions and work effectively with partners to deliver on the commitment not to evict into homelessness.
- Undertake a standardised tenant satisfaction survey and provide the data for publication on a central website to assist tenants in scrutinising and comparing landlord performance. The next submission date, based on the revised core questions, is 28 February 2024 for publication in April.

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.

All local authority budgets have been put under increased pressure due to the cost of living crisis, which has followed the difficult covid period and the ongoing war in Europe.

Social housing has not been sheltered from the impacts of the above. Below is a schedule of the main budget components to be impacted significantly (items with \* impacted positively):-

1. Capital Financing Charges\*
2. Payaward 2023/24
3. Payaward 2024/25
4. Interest on cash balances\*
5. Void loss assumption\*
6. Revenue R&M
7. Central Support Costs
8. Additional staffing costs for R&M delivery
9. Energy costs relating to Service Charges
10. Additional cost of in year ODR's
11. Rents\*

## **1.4 Capital investment**

A capital investment of £231M was undertaken to deliver the Carmarthenshire Homes Standard+(CHS+) by 2015. This included £117M 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 £115M will have been spent on maintaining the standard and £80M on providing additional affordable homes in the HRA by the end of 2023/24.

The HRA Business Plan 2024-27 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 £61M to maintain the CHS+ and £52M 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**

### **Welsh Housing Quality Standard (WHQS) 2023 driving towards a Net Zero Wales**

WHQS sets out Standards relating to the decarbonisation of social homes and aims to reduce carbon emissions from the Welsh housing stock. This Standard contributes towards governmental climate change goals expressed through the Net Zero Wales plan published in 2021 and updated in 2022. In time, it is anticipated that the Standard will apply to other types and tenures of housing, and this will be kept under regular review.

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:-

- Promoting Affordable Warmth
- Improving Energy Performance
- Alignment with Council's net zero principles

## 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 hasn't been received yet (last year 12/12/22) and requires a submission of a viable plan by 31/03/2024.

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 2023 CPI fell outside the 0%-3% parameters in the policy, the Minister for Climate Change set a maximum increase of 6.7%. It is proposed in this report that the rent envelope is increased by 6.5%.
- **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 2024/25.
- **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 planned receipts from 2026/27 in the current plan.
- **Grants** This is an increasingly important element of our financing. We are likely to receive over £9.3M in 2024/25 and £33M in total over the next 3 years. These include Social Housing Grant, Housing with Care Fund, Optimised Retrofit Programme plus others.
- **Void Loss** incurred on dwellings currently set on long term basis at 2%. Current performance has improved at 2.5% from 3.5% previously. We have assumed this will continue for 2024/25.
- **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 circa £600k based on an interest rate of 5% (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+, meet the requirements of WHQS 2023 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 £18million in 2024/25. This is an increase on the 2023/24 budget (£17.2million) which reflects local building costs, forecast outturn for 2023/24 and changes in stock numbers.

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 2024/25 the capital programme to maintain the CHS+ is £18.8M. This gives an overall spend of £36.1M on stock improvement and maintenance (the total for 2023/24 was £38.3million). This will be further informed by stock condition data which will be gathered in 2024/25.

## **Affordable Housing Commitment**

Housing Finance Grant 2 (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 £246k annually.

We have been successful in securing other additional grants totalling £33M over 3 years to support our Affordable Homes delivery.

We have set aside £52million over the next three years as part of the capital programme to increase the supply of affordable homes. Within 2024/25 £17.4M has been identified for the housing development programme (including development costs).

The capital programme and funding sources for this programme up to 2026/27 are detailed in Appendix B.

## **Validation**

The proposed Business Plan includes the following validations for 2024/25, which is in line with the proposed budget strategy:

- general payroll costs are +5% (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%
- efficiency savings programme to be introduced delivering £330k over 3 years.

## **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 2026/27 is shown in Appendix A.

#### 4. INCOME

4.1. As outlined in Paragraph 1.3 above, WG have confirmed the policy up to 2024/25 increases in rent being CPI plus 1%.

Carmarthenshire’s current average rent for 2023/24 is £99.43. In the private sector median rents are currently for 2 bedrooms are £155, 3 bedrooms are £183 and 4 bedrooms are £230.

#### 4.2. Target Rents

Target rents bands have been removed for 2024/25 (as detailed in 1.3), actual rents including a 6.39% increase are detailed below: -

	Houses and Bungalows (£)					Flats (£)				Bedsits (£)
	1Bed	2Bed	3Bed	4Bed	5+Bed	1Bed	2Bed	3Bed	4+Bed	
<b>Actual Rent 2024/25 with 6.39% increase for 53 weeks</b>	94.97	105.52	116.06	126.60	137.18	85.90	95.49	105.01	114.58	76.37

This produces average rent of £105.90 for 2024/25

WG have advised LA’s that a 6.7% increase should be the maximum applied in 2024/25.

#### 4.3.

Implementing the 6.5% 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 2023) @6.7%-0.31% = 6.39%**

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

**Consumer Price Index (CPI for Sept 2023) @6.7%-0.31% = 6.39%**

**plus a maximum of £1 progression in order to achieve an average rent increase of 6.5%.**

Those rents above target are frozen until such time that they meet the target, there is only 1 property remaining. When a property becomes empty it is placed at the appropriate rent.

**Based on applying the above for 2024/25 at 6.5% rent increase this would produce an average rent of £105.90 (increase of £6.47).**

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

Receive an increase of :-	6.5% increase
No increase	1
£4.00 to £4.99	70
£5.00 to £5.99	2,280
£6.00 to £6.99	5,920
£7.00 to £7.99	1,040
£8.00 to £8.99	15
	9,326

Table : No .of Householders affected by average increases.

34% of tenants are now in receipt of universal credit, 24% of tenants are on full Housing Benefit (HB), 15% are on partial HB and 27% receive no HB. Of those receiving no assistance in the form of universal credit or housing benefit there are approximately 817 of pensionable age.

The proportion of dwellings below the rent they should be paying is 12% 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 £126k per annum. This equates to a weekly charge of £9.00 per week. Garage bases are £2.25 per week. It is proposed to increase these in 2024/25 by the same average increase as dwelling rents of 6.5%.

#### 4.5. Service and Heating charges

Service charges are calculated in line with the policy adopted in 2011. Service charges are payments made by tenants that share communal areas or facilities within our blocks of flats, sheltered schemes, or supported housing projects. It is where we as the landlord provide additional services that are over and above the general rent, therefore Service Charges **will not** be subject to our general rent increase and are **excluded** as part of the rent setting policy.

The way that we determine Service Charges for the forthcoming year is to calculate this on the actual expenditure in the previous year. Therefore, no assumptions are made and again the tenants only pay for what they have received. These charges will vary annually as they are based on actual expenditure. We are directed by the Welsh Government Rent and Service Charge Standard 2020-2025 to set service charges which are reasonable and affordable. We are required to review service charges on an annual basis, ensure they provide value for money for our contract holders and are affordable. We are required to list their service charges separately to the rent to allow for transparency. It is necessary that tenants can clearly identify the rent charge and any services charges separately in their bills. Therefore, we make it clear that £X is rent and (a separate sum of) £Y is being charged for (specific) services, which amounts to £X+Y.

The current policy allows for a maximum increase of £3 per tenant per week and is applicable to approximately 1250 tenants. We are proposing an amendment to the maximum increase by introducing a gradual incremental removal of the Cap over a 3-year period to bring all service charges in line with full cost recovery. The cap will only come into effect where charges exceed the agreed weekly cap. This will be reviewed in year 2 to ensure the policy is delivering as intended. Service charge policy cap amendment is attached as appendix C.

#### 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 2024/25 that current charges are increased as per our rent increase.

#### **4.7. Commission on Collection of Water Rates**

Dwr Cymru served notice of their intention to repatriate this service from April 2023 not only for Carmarthenshire but all the local authority and Registered Social Landlords (RSL's) in Wales which has resulted in losing an income stream of £350k.

#### **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 approx. 3,171 tenants on Universal Credit.

We anticipate, unless things change, that a further 4,000 tenants could transfer over the next year. 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 6.5%, the overall proposed budget will result in a surplus on the Housing Revenue Account of £293K for the year, this has been accommodated in the long-term plan leaving £12.6M in balances at the end of 2024/25. 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

- **To increase average housing rent by 6.5% (£6.47) per dwelling per week as per WG Social Housing Rents Policy.**
  - Properties at target rents will increase by 6.39% and
  - Properties where rent is below target rent, rent will increase by 6.39% plus a maximum progression of £1.00
  - Those rents above target are frozen until such time that they meet the target.
- **This will produce a sustainable Business Plan, maintain CHS+, resource our Housing Regeneration and Development Delivery Plan and is supported by Housing and Regeneration Strategic Team.**
- **To increase garage rents by 6.5% from £9.00 to £9.60 and garage bases from £2.25 to £2.40.**
- **Apply the Service Charge Policy to ensure tenants who receive the benefit from specific services pay for those services. Inclusive of amendments in Appendix C.**
- **To increase charges for using our sewerage treatment works in line with rent increase.**
- **To approve the Housing Revenue Account Budget for 2024/27 (2025/26 & 2026/27 being soft budgets) as set out in Appendix A.**
- **To approve the proposed Capital Programme and applicable funding for 2024/25 and the indicative spends for 2025/26 to 2026/27 as set out in Appendix B.**