Response Template: Social Housing Rents Consultation

If you are responding to this consultation by email or letter, it would assist us greatly if you could use the following template for your response.

What is your name?	Mr Stefan Garner
Are you replying as an individual or organisation?	Organisation
What is the name of your organisation (if applicable)?	Tamworth Borough Council
What is your position in the organisation (if applicable)?	Executive Director Finance & s151 Officer
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Date of completion	11/10/22

Consultation questions

Question 1: Do you agree that the maximum social housing rent increase from 1 April 2023 to 31 March 2024 should be subject to a specific ceiling in addition to the existing CPI+1% limit? To what extent would Registered Providers be likely to increase rents in that year if the government did not impose a specific ceiling?

No

Comment:

- The housing sector is reporting widespread concerns to the proposed rent cap. Inside Housing reported a potential loss of £1.3bn from Social Housing budgets next year if the governments preferred 5% rent cap is imposed.

- Tracey Harrison, CE, at Northern Housing Consortium warns that there will be a detrimental impact to tenants if there is an imposed cap, as this will materially impact on key services that housing providers provide. This inevitably impacts on Councils who manage their own stock as they bear the brunt of changes to social policy.

- Research by the National Housing Federation, published at the end of last month, revealed how new homes, repair and maintenance costs are rising above inflation. Annual construction costs are rising between 16.8% for repairs and maintenance and 12.3% for new builds. Tamworth Borough Council estimates its costs at above 20%. Therefore, a further cap will compound this impact, meaning less money to invest against higher costs of investing.

- A rent cap is not required as the Rent Standard requires housing providers to set rents in accordance with government policy. The rent standard provides for practical and flexible measures to ensure rents remain affordable. The Governments policy statement on rents requires consideration local market conditions, so to impose a rent cap would be contradictory to the regulators assumptions around this.

- In Tamworth Brough Council's case, it would assume a full CPI (10.1% as at July 2022 / 9.9% as at August 2022) + 1% = 11.1%/10.9% rent increase respectively. The proposed rent cap prevents us from having full regard to the local market context and significantly detriments the HRA business plan.

- Tamworth will be adversely affected through the cumulative impacts of a) likelihood of rising bad debt (District Council Network are forecasting bad debt will increase by a minimum of +10%); b) increases in repairs and maintenance costs and c) reduction in income through the proposed cap – all of which will challenge the Councils ability to deliver housing services.

- Tamworth Borough Council feels that the disproportionate impact on its HRA business planning ambitions is not justified by the overall reduction in rent payments to tenants. Specifically, on the basis that those in the lowest incomes on housing benefit will not see the impact of the increase as 55-60% of Tamworth council tenants are on housing benefit.

- Whilst the numbers fluctuate between approximately 55-60% of Tamworth Borough Council tenants that are on housing benefit/universal credit, a rent cap would not impact this group anyway, which suggests this is an attempt by the Treasury to reduce the housing benefit bill rather than provide targeted support for its customers.

- The rent cap provides a 'rent conundrum' as clearly housing providers want to balance tenant affordability for its direct payers with fulfilling its landlord obligations and ability to invest.

    - Customers paying c£100pw – CPI (10.1% July 2022) +1% = £111/£112pw on average as opposed to 5% cap = c£105pw – customer would still see an increase, but just not as much.

- The provision of good quality housing services is key to improving lives and life chances to all (and part of the levelling up agenda), including supporting not only the HRA but also in providing additional housing and tackling homelessness. Reducing the level of income to the HRA will seriously impact on business plans and will mean less funding for new homes provision. There is a point around the impact on the private rented sector, which see rents far in excess of council rents and the proposal that resources should be focussed on supporting those in need rather than a blanket rent cap for already lower council housing rents.

- Tamworth has already incurred expense by seeking to model the impact in relation to the proposed rent capping. The following tables highlight the key findings

  Early impacts show the following combined impact on Tamworth Borough Council's HRA Business Plan over the next 30 years – is in excess of £42m based on a 5% cap, shown in the table below

Impact over 30 years (Compared with Baseline)	Movement in HRA Balance £000	Increase in HRA Debt £000	Combined Impact £000
5% Rent Cap	-£69	£42,195	£42,264
7% Rent Cap	-£53	£32,473	£32,527
3% Rent Cap	-£86	£52,716	£52,802

The table below illustrates the financial impact on the Council's HRA balance and debt levels if a rent cap is introduced over the next 5 years. This shows the HRA impact would be over £6.9m based on a 5% rent cap.

Impact by 2027/28 (Compared with Baseline)	Movement in HRA Balance £000	Increase in HRA Debt £000	Combined Impact £000
5% Rent Cap	-£6,975	£0	£6,975
7% Rent Cap	-£5,414	£0	£5,414
3% Rent Cap	-£7,222	£1,344	£8,566
Rent Freeze	-£7,240	£3,722	£10,961

(* all the above scenarios assume the rents are constrained in 23/24 and continue to allow for full rent increases in line with current policy in 24/25, followed by CPI increases thereafter).

The further table below illustrates the financial impact on the Council's cumulative rent loss over 5 and 30 years. This shows that based on 5% rent cap rent losses would be almost £5.5m over 5 years with over c£22m over 30years

	Lost Rent over 5 years £000	Lost Rent over 30 years £000
5% Rent Cap	-£5,426	-£22,489
7% Rent Cap	-£4,220	-£17,491
3% Rent Cap	-£6,632	-£27,487
Rent Freeze	-£8,441	-£34,983

(* the lost rent is the difference in net rent (after voids), compared with the baseline position).

- The direct consequence of managing this impact would put the HRA business planning ambitions at risk, including

  - £46.5m planned capital investment over its medium term (5yrs)
  - £188m planned capital investment over 30 years
  - £5m planned capital is unfunded and relies on borrowing to support zero carbon projects, total £7.5m over 5 years
  - Rent freeze would move HRA into a deficit in 2027/208 which is unlawful (as detailed in the financial table above) and require intervention

All of this capital investment is now at risk as the impact of a 5% cap would see HRA debt increase by c£42m over 30 years. Subject to policy considerations and tenant choice the high-level risks over the **medium term** (5 years) are: -

- Acquisitions and New building ambitions will not be funded – resulting in c50 less homes
- £750k Garage Investment – Future Garage project would have no onward spend unless efficiencies are found elsewhere
- £2.5m in Neighbourhood Investment (£500k pa) would be removed
- c1500 Kitchens & Bathrooms replacements programmed for the next 5 years would have to be revisited and the programme reduced &/or specification amended which may not meet decent home standards as 'modern facilities' current 15/20-year life cycles may have to be increased
- Future Compliance work around the Regulators requirements on net zero; decent homes plus and fire safety may not be fundable. For example, match funding on the decarbonisation funding cannot be signed off without confidence that match funding and borrowing potential is available
- Income will have to increase – meaning full cost recovery across all service charges
- Management Costs and expenditure will have to reduce, limiting HRA cross subsidy to wider place-based initiatives

- If social rents are capped below 10.1% which appears very likely, then the gap between social rents and market rents will further widen and so even more likely that social rents will be lower than LHA levels. Further the gap between social and market rents in Tamworth is around 40% and therefore undermines the levelling up agenda and could impact homelessness.

- As Tamworth seeks to update its HRA baseline position; sensitivity analysis and scenario planning involving onward compliance under the Social Housing (Regulation) bill for retrofitting, additional compliance costs, EPC work will not be funded without significant income/expenditure reassessment elsewhere. This is likely to impact the Councils viability and compliance with Government's legislation going forward.

- Following self-financing in 2012 under Council Housing Finance Reform; Tamworth paid c.£45m which represented the Net present value of the net rent income over the next 30 years – this assumed annual rent increases and not the government rent reductions and/or proposed rent cap since.

- A settlement valuation was produced for Tamworth using a Price Waterhouse Coopers (PWC) model - based on assumed levels of income and expenditure over 30 years, using up-rated allowances. The aggregated assessed annual surpluses were then discounted back to the introduction date using a discount factor of 6.5%. In other words, the settlement valuation was deemed to be supportable over the life of the 30-year business plan with interest rates of 6.5%, which was demonstrated as sustainable by showing that debt could be fully repaid within the 30 years. This is undermined by continued Government intervention impacting rent levels being charged.

  However, since then:

- We had 4 years of rent reductions of -1 % during the austerity years from 2016, for which the HRA wasn't compensated.

- We've had Covid pressures including:
  - Over £1m in direct additional costs - responding to cleaning / disinfecting prior to & after each repair work
  - Increased costs arising from the inflationary cost pressures lost Covid - 10% pa increase in contract costs
  - No grant for HRA due to Covid but general fund did

- Increased Right to Buy sales following the government intervention – again reducing income / meaning the Council has had to find funds to build new housing to replace those lost through sales.

- The requirements from the building safety act – fire doors, sprinkler systems retro fit etc.

- As well as facing increased costs and reduced rent income arising from the current economic situation.

- Now rent cap at 3, 5 or 7 % which will further reduce the sustainability of the HRA.

Tamworth recommends the following questions are answered by Government &/or taken in consideration at it makes its decision around the latest rent cap.

- If the rent cap is imposed then similar to GF compensatory allowances we would expect the Government to support local councils.

- Should a national or local rent cap go ahead, we would suggest DLUHC make a debt repayment to PWLB for each Council, to compensate the HRA for the lost income. The PWC modelling from 2012 could be used to calculate the impact, this would seem a fair and equitable approach. Otherwise, we face HRA becoming unsustainable i.e., significant & detrimental impact on HRA Business Plan; reducing the Councils ability to meet its Capital & planned investment needs to sustain decent homes standards, building safety act requirements as well as prohibits investment in stock / carbon zero targets (including EPC 'C' requirements) /decency homes plus standards.

- The conversation is a difficult one given the current cost pressures but what could help is for DLUHC to communicate that a rent increase in-line with CPI plus 1% is in-line with the rent standard; with the recognition that for 55%-60% of people who receive housing benefit they shouldn't see an impact of such and for the remaining 40%-45%, targeted support will be given to those where it is needed most through a substantial increase in the discretionary housing payment budgets (which have reduced in recent years). Plus, local interventions round tenancy sustainability, financial inclusion (which the Council have heavily invested in and have significant support teams in place) and hardship funding allocations. This would direct resources to those who need it and not put the future viability and needed housing interventions around house building, net zero, decent homes and the regulatory agenda at significant risk.

- Another point would be for the restrictions around the formula rent cap to be lifted to allow convergence where rents are lower than the formula rent, as well as lifting the restrictions on right to buy receipts spending (including use of Home England funding, Section 106 funding etc.) to allow spending on areas most needed like decarbonisation and decent homes works.

- Equally important is that the Government confirm asap the position so that this can be built into the budget and rent setting processes. Tamworth attended the recent round table sessions hosted by DLuCH and it was suggested an announcement wouldn't be confirmed until December 2022. This is too late and will result in more assumptions being built into the process which is confusing for tenants.

Question 2: **Do you agree with imposing a ceiling of 5%, or are there alternative percentages that would be preferable, such as a 3% or 7% ceiling? Do you have any comments or evidence about the potential impact of different options, including of the 3%, 5% and 7% options as assessed in our Impact Assessment (Annex D)?**

No

Comment:

- Answered in full above

Question 3: Do you agree that the ceiling should only apply to social housing rent increases from 1 April 2023 to 31 March 2024, or do you think it should apply for two years (i.e., up to 31 March 2025)?

No
Comment:

- This is impossible to model without knowing the proposed caps/restrictions for the two years. Tamworth Borough Council's baseline CPI for 2024/25 assumed CPI back to 6.5% so 5%cap or 3%cap would have relative impacts; whereas 7% no impact. It requires sensitivity analysis but a two-year freeze at 5 % would mean a further estimated HRA rent loss of c£20m – rising HRA debt levels to between £60-£70m.

- Provides greater uncertainty if national caps are ongoing and is detrimental to the HRA business plan, with an additional impact of c£20m on the HRA business plan if applied over two years.

- Currently Tamworth Borough Council's performance shows c99% of tenancies are sustained in the first year; disproportionate charging could impact this and put greater pressures on its homeless services as providers struggle to remain viable and there is a potential for indirect impacts on homelessness.

- Tenant choice and consultation is undermined locally by imposing a national cap when this should be part of the local decision making on rent choices. DLuCH know that Tamworth (as with all councils) budget consultation as already commenced in line with LA budget setting cycles. Why would a two-year decision be taken, when the rent cap is late for 2023/2024 and yet early for 2024/2025.

Question 4: Do you agree that the proposed ceiling should not apply to the maximum initial rent that may be charged when Social Rent and Affordable Rent properties are first let and subsequently re-let?

No

Comment:

- Formula rent increases at maximum policy level – rent cap applies to those existing tenants with new rent charges as at 1st April – any **new tenants** after 1st April 2023 that would be at the rent formula level which CPI+1% (which would be at the higher CPI rate). Tamworth Borough Council agrees and does not support any capping to the formula rent, as capping the formula rent would seriously undermine its HRA business plan even beyond the rent cap impacts.

- Differential charges of either social/affordable rent levies (and different rent increases through CPI) could lead to community tensions if rent charges were different between neighbours – simply because the tenancy is newer. There are already case examples where we have affordable and social rents.

- Affordable rent levels – these should be based on a market re-valuation so Tamworth Borough Council does not know how it would apply a rent cap as this is driven by a market assessment regulated under the rent standard. Applying a cap seriously undermines and intervenes in this assessment of local market conditions.

- There could be legal challenges around the equitability of this – if it is not perceived to be fair resulting in judicial review and other litigious actions.

Question 5: We are not proposing to make exceptions for particular categories of rented social housing. Do you think any such exceptions should apply and what are your arguments/evidence for this?

YES

Comment:

- Local exemptions should apply for supported /specialist /sheltered housing where there is already an enhanced housing management charge and rents should be seen to be equitable, although stress testing would be required around this.

- Wider affordability impact needs to be reviewed in terms of hardship and targeted support rather than 1 size fits all approach. E.g., at some of Tamworth's sheltered housing scheme service charges are fixed based on predicted costs and have increased by £10 on average per week. Whilst a reduction in rent might offset this, the issue is more around the wider impact of utility costs and fuel poverty.

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