
DRAFT HOUSING REVENUE ACCOUNT BUSINESS PLAN 2016-17

Purpose of Report

1. This report provides the Committee with background information to enable Members to scrutinise the draft Housing Revenue Account (HRA) Business Plan 2016-17 prior to its consideration by the Cabinet. A copy of the draft Business Plan is attached at **Appendix A** with a background note for scrutiny explaining the context for the Plan attached at **Appendix B**. The HRA Business Plan must be submitted to the Welsh Government by 29 February 2016.
2. The scope of the scrutiny is twofold: first, to examine progress with maintaining the Welsh Housing Quality Standard (WHQS), which was achieved in 2012; and secondly, to examine the financial assumptions built into the Plan and the use of resources post WHQS. At the time of writing this report, the Council is waiting to hear from the Welsh Government regarding some of the parameters to be used in determining the financial model. This is clearly indicated in **Appendix A** and **Appendix B** where appropriate and updates will be provided where possible at Committee, via a presentation.
3. The Chair has been advised that this item needs to come to scrutiny at this meeting so that Members have the opportunity to scrutinise the proposals regarding rent setting, so that the timescales for informing tenants of rent increases can be met.

Background

4. The Housing Revenue Account is a ring-fenced account that records income and expenditure in relation to council housing. The Local Government and Housing Act 1989 placed a statutory duty on local authorities to maintain a separate

account for the costs associated with the management and maintenance of council housing. The ring-fencing of the account means that local authorities may not subsidise council housing from the general fund (i.e. from Council Tax or Revenue Support Grant).

5. The main expenditure items within the HRA include management (rent collection, allocations and property & estate management), maintenance and repair costs and capital financing charges on the HRA's outstanding loan debt. The major income items include council housing rents and income from service charges.
6. Councils are required to demonstrate that they have the financial resources available to pay for the works required to maintain the WHQS. This requires:
 - i) a detailed and up-to-date knowledge of the condition of the housing stock and therefore of the works required to maintain WHQS;
 - ii) assumptions of the likely expenditure requirements e.g. costs of works required to maintain the WHQS;
 - iii) assumptions of the likely income e.g. revenue streams and capital receipts.
7. The Background note attached at **Appendix 2** provides further contextual information on the HRA Business Plan.

Financial Model & Assumptions

8. The resource planning underpinning the HRA Business Plan is detailed on **pages 48- 55, Appendix A**. Members will know from previous scrutiny of the HRA Business Plan that the Council uses the parameters set by the Welsh Government for the key assumptions used within the base line model for the business plan. The Council is waiting to hear from the Welsh Government regarding some of these parameters, including:
 - i) the rate of inflation, based on Consumer Price Index and Retail Price Index;
 - ii) the level of voids that is deemed acceptable;
 - iii) the level of bad debts that is deemed acceptable; and
 - iv) the amount of Major Repairs Allowance for 2016/17.

9. However, the Welsh Government has provided details of the minimum rent increase for 2016/17, which is 1.4% with flexibility to raise further rental income to invest in upgrading the existing housing stock and its environment or in building new properties. This additional rental increase is limited to £2 per week above the minimum 1.4%. The information provided in **Appendix B, page 3**, states that

‘It is proposed that use is made of the increased flexibility to raise rent at a rate of 1.4%, plus £2, to ensure the long term sustainability of the Housing Revenue account, and to allow the development of new council housing. Tenants will be consulted about this proposal and about their priorities for using the funds.’

10. The information on rent setting was received in the middle of December and work is underway to model the average weekly rents per bedroom size. This information will be provided at Committee, via the presentation, and will include comparator data with market rents and intermediate (Local Housing Allowance) rents.
11. Members will also be provided with an update on the position regarding the other parameters set by the Welsh Government. These will inform the proposed financial model used to predict the resources available to maintain WHQS.
12. Given the current economic climate, no provision has been made for land receipts in the financial model used for 2016-17. This has been the case since 2009-10. A low rate of Right to Buy sales receipts is included in the draft HRA Business Plan 2016-17.
13. Following their scrutiny in July 2014, Members are aware of the decision to buy the Council out of the UK Government Housing Revenue Account Subsidy (HRAS) system. All Members were provided with an update on progress with this decision, as part of the Treasury Management mid-year 2015/16 report to Full Council in November; the relevant section is attached at **Appendix C** for information.

Issues

14. The Sensitivity Analysis on **Page 50, Appendix A** needs to be completed following receipt of the parameter information from Welsh Government. The text in this section states that changes to the various parameters assumed within the financial model could significantly impact on financial outcomes, requiring the Council to borrow money to maintain the Welsh Housing Quality Standard.

15. The draft HRA Business Plan, **page 51, Appendix A**, highlights the impact of Welfare Reforms and states that consideration has been given in the draft HRA Business Plan to the likely impact of Welfare Reforms.

Previous Scrutiny

16. The draft HRA Business Plan 2015-16 was considered by this Committee on 3 December 2014, prior to consideration by the Cabinet.

17. The outcome of this scrutiny was a letter to Sarah McGill, Director of Communities, Housing and Customer Services¹, stating that Members were content with the draft HRA Business Plan 2015-16 and accepted officers' assurances that the assumptions underpinning the Plan were robust. Members also noted the tension between wishing to ensure new build social housing assists in developing balanced and sustainable communities whilst at the same time needing to meet the requirements of the Local Development Plan, in particular regarding density requirements.

18. With regard to the changes to the HRA Subsidy reforms, this Committee carried out pre-decision scrutiny of a report to Cabinet on this, at their meeting on 2nd July 2014, following which Members confirmed that they were content with the Cabinet Report².

¹ Letter from the then Chair, Cllr Groves, to Sarah McGill, Director of Communities, Housing and Customer Services, dated 9 December 2014

² Letter from Councillor Groves, Chair CASSC, to Councillor Elsmore, Cabinet Member, dated 7th July 2014

Way Forward

19. At this meeting, Councillor Susan Elsmore (Cabinet Member for Health, Housing and Well Being), Sarah McGill (Director, Communities, Housing and Customer Services), Jane Thomas (Assistant Director, Communities and Housing), Colin Blackmore, (Business Planning and Compliance Manager) and Anil Hirani (Operational Manager, Capital and Treasury) will be in attendance to give a presentation, which will cover rent setting and update Members on the position with regard to the parameters set by Welsh Government, and to answer Members' questions.

Legal Implications

20. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

Financial Implications

21. There are no direct financial implications arising from this report. However, financial implications may arise if and when the matters under review are implemented with or without any modifications.

RECOMMENDATIONS

It is recommended that Members:

- i) note the scope and content of the draft Housing Revenue Account Business Plan 2016-17 and appendices provided to this cover report;
- ii) note the content of the presentation provided at the committee meeting;
- iii) agree observations and comments for consideration by the Cabinet at their forthcoming Meeting; and
- iv) decide the way forward with regard to any further scrutiny of this issue.

MARIE ROSENTHAL

County Clerk and Monitoring Officer

29 December 2015