
DRAFT HOUSING REVENUE ACCOUNT BUSINESS PLAN 2017-18

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 2017-18 prior to its consideration by the Cabinet. A copy of the draft Cabinet Report, including the draft HRA Business Plan, is attached at **Appendix A**.
2. The scope of the scrutiny is twofold: first, to examine progress with maintaining the Welsh Housing Quality Standard (WHQS); and secondly, to examine the financial assumptions built into the Plan and the use of resources post WHQS. Members will then be able to decide what comments, observations or recommendations they wish to pass on to Cabinet for their consideration prior to making their decisions.

Background

3. The Housing Revenue Account (HRA) 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) or use council housing monies to subsidise the general fund.
4. 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.

5. All Welsh Councils are required to submit 30 year HRA Business Plans annually on a rolling basis to the Welsh Government. These Plans detail the Council's arrangements for meeting and maintaining the requirements of the Welsh Housing Quality Standard (WHQS). Cardiff Council achieved the WHQS in 2012 and now has to plan how to maintain this standard.
6. Councils are required to demonstrate that they have the financial resources available to pay for the works required to maintain council housing stock to 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.

Financial Model & Assumptions

7. Members can see a summary of the resource planning underpinning the HRA Business Plan on **pages 52-59, Appendix 1 of Appendix A**. The quality of the financial model used to predict these resources and the appropriateness of the assumptions within this model are factors that will affect whether the WHQS can be maintained. Members will note 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, as follows:
 - i) the rate of inflation, based on Consumer Price Index and Retail Price Index (*between 1% and 3% throughout the 30 years*);
 - ii) the level of voids that is deemed acceptable (*1.40% currently, increasing to 2.03% at Year 7 through to Year 30*);
 - iii) the level of bad debts that is deemed acceptable (*0.74% currently, increasing to 1.36% at Year 7 through to Year 30*);

- iv) the level of rent increases that is deemed acceptable (*from 2018, 2.35% - 3% per annum for rent; service charges mostly frozen, with a small number increased for full cost recovery*); and
 - v) the amount of Major Repairs Allowance for 2017/18, received from the Welsh Government (£9.6 million).
8. Given the current economic climate, no provision has been made for land receipts in the financial model used. This has been the case since 2009-10. In addition, no provision for council house sales (Right to Buy receipts) is included post 2017-18¹.
9. The Sensitivity Analysis on **Page 54, Appendix 1 of Appendix A** illustrates how changes to the various parameters assumed within the financial model could have an impact on financial outcomes, requiring the Council to borrow money to maintain the Welsh Housing Quality Standard.
10. The draft HRA Business Plan, on **page 56, Appendix 1 of 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.
11. In 2014, the Council decided to buy itself out of the UK Government Housing Revenue Account Subsidy (HRAS) system. The report on this was taken to Cabinet in July 2014 and is available at:
- <http://cardiff.moderngov.co.uk/CeListDocuments.aspx?Committeeld=151&MeetingId=482&DF=17%2f07%2f2014&Ver=2&LLL=0>
12. Prior to this, the Council was a net contributor to HM Treasury, with a £15.1 million subsidy payment made in 2013/14. Having bought itself out of the HRAS, the Council is circa £2 million per annum better off, once repayment of debt costs (incurred from 'buying out' from HM Treasury) are taken into account. To finance the 'buy out', the Council took out a basket of loans totaling circa £190 million from the Public Works Loan Board. This is included in the Council's treasury

¹ Following a public consultation, the Council has applied to Welsh Government to suspend Right to Buy/Acquire social housing across Cardiff for a period of 5 years. A decision is awaited.

management strategy. Having taken into account repayment costs, there is circa £31 million headroom for prudential borrowing.

Use of resources

13. The HRA Business Plan sets out how resources will be used to maintain properties to WHQS. It also sets out how resources will be used to deliver new affordable housing, via Cardiff Living and other projects.
14. Cardiff Living aims to deliver 600 affordable housing units, in partnership with Wates Residential, over three phases of development. **Pages 48 – 51 of Appendix 1 of Appendix A** provide more details of this scheme along with a map showing the sites in Phase One.
15. The other projects to deliver affordable housing are listed at **points 13 – 16** of the report to Cabinet, **Appendix A**, and include using HRA resources to buy suitable council owned land or property for council housing development, at market value.

Pre-decision scrutiny

16. Pre-decision scrutiny aims to inform the Cabinet's decisions by making evidence based recommendations. Scrutiny Members are advised to:
 - i) Check the financial implications section of the Cabinet report to be aware of the advice given;
 - ii) Check the legal implications sections of the Cabinet report to be aware of the advice given;
 - iii) Look at the recommendations to Cabinet to see if these are appropriate and based on the evidence provided in the report and its appendix.
17. The recommendations to Cabinet are:
 - i) The Cabinet approve the HRA Business Plan 2017-2018
 - ii) The Cabinet note that the approved Plan will be submitted to the Welsh Government.

- iii) To agree the principle of appropriating General Fund land or property deemed suitable for the development of new council housing from the general fund into the HRA for an agreed value representing market value.

Previous Scrutiny

18. The previous Committee considered the draft HRA Business Plan 2016-17 at their meeting on 6 January 2016, prior to consideration by the Cabinet. The outcome of this scrutiny was a letter to Councillor Elsmore, Cabinet Member Health, Housing and Well Being², attached at **Appendix B**. At this meeting, Members noted the following:

- i) Officers explained that proposed rent increases will not have an impact on the majority of tenants as the increase will be covered by housing benefit. Those households covered by the 'benefit cap' will be affected by the rent increase. Those households affected by the 'Bedroom Tax' will have an increased cost of approximately 14% of the overall increase.
- ii) Officers provided assurances that the debt repayment relating to the Housing Revenue Account Subsidy exit is prudent, sustainable and affordable in the longer term.

Way Forward

19. At this meeting, the following witnesses will be in attendance to give a presentation and to answer Members' questions:

- i) Councillor Lynda Thorne (Cabinet Member for Housing and Communities)
- ii) Sarah McGill (Director, Communities, Housing and Customer Services)
- iii) Jane Thomas (Assistant Director, Communities and Housing),
- iv) Colin Blackmore, (Estates Improvement Manager) and
- v) Dave Jaques (Housing Development Manager).

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.

² Letter from Chair, Cllr McGarry, to Cllr Elsmore, Cabinet Member, dated 8 January 2016

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 2017-18 and appendices provided to this cover report;
- ii) note the content of the presentation provided at the committee meeting;
- iii) agree comments, observations and any recommendations for consideration by the Cabinet at their forthcoming meeting; and
- iv) decide the way forward with regard to any further scrutiny of this issue.

DAVINA FIORE

Director of Governance and Legal Services and Monitoring Officer

13 July 2017