

**CABINET MEETING: 27 JULY 2017**

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**HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN**

**REPORT OF DIRECTOR OF COMMUNITIES, HOUSING &  
CUSTOMER SERVICES**

**AGENDA ITEM: 7**

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**PORTFOLIO: HOUSING & COMMUNITIES (COUNCILLOR LYNDA THORNE)**

**Reason for this Report**

1. To present the Housing Revenue Account (HRA) Business Plan 2017-2018 for Cabinet approval.
2. 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.

**Background**

3. All Local Authorities in Wales have the responsibility to plan for the housing needs of their population in their role as Strategic Housing Authority. However only 11 of the of the 22 authorities in Wales have retained their council housing stock and consequently a role in the direct delivery of affordable, good quality homes as a social housing landlord.
4. The Council's landlord functions are managed within a ring-fenced Housing Revenue Account. Since 2015 stock retaining authorities have operated on a self-financing basis following a "buy-out" from the previous HRA subsidy system. A borrowing cap was imposed by UK Treasury as part of the buy-out arrangements but Cardiff was successful in obtaining borrowing capacity for new build homes having already achieved the Welsh Quality Housing Standard (WHQS) for its existing properties.
5. The 11 stock remaining authorities in Wales are required to present an "acceptable" Housing Revenue Account (HRA) Business Plan (including a 30 year financial model) to the Welsh Government each year in order that the Welsh Government can assess the progress of local authorities towards meeting and/or maintaining the WHQS and be eligible for the Major Repairs Allowance (MRA) Grant (currently £9.6m).

6. The Plan must conform to a structure and include business plan parameters set out by the Welsh Government.
7. This plan also provides the link with the Corporate Plan, and the Communities, Housing and Customer Services Delivery Plan.

## Issues

### Housing Revenue Account Business Plan

8. The HRA Business Plan attached in appendix 1 aims to;
  - set out Cardiff's purpose and vision as a social housing landlord;
  - set out it's objectives and standards for the service;
  - plan how the service aims to achieve the objectives and standards set out (the strategies);
  - plan resource and financial requirements;
  - provide a framework for monitoring and evaluating the progress of the housing 'business';
  - communicate Cardiff's plans to its tenants, members, the Welsh Government, other key stakeholders, partners and the wider community.
9. The Business Plan ensures;
  - efficient use of housing assets;
  - increased transparency of the HRA;
  - precise planning of our housing management strategy;
10. The Welsh Government set a recommended rent increase for 2017/18 of 2.5%, with the option to add an additional £2 per week to raise further rental income to invest in upgrading the existing housing stock and its environment or to build new properties. Cardiff has applied the increase of 2.5% + £2 per week to all tenants for 2017/18 and this was agreed at Budget Council on 23<sup>rd</sup> February 2017.
11. Cardiff Council was the first authority in Wales to declare achievement of the Welsh Housing Quality Standard, almost two months ahead of the Welsh Government deadline date of December 2012.
12. Following the completion of the WHQS for existing Council Housing, the Business Plan ensures the maintenance of the WHQS and sets out the Council's objective to deliver high quality and sustainable housing. A **new build housing** programme (Cardiff Living) is being undertaken which will deliver approximately 1,500 new housing units, with a minimum of 40% being affordable housing. These homes will be built over 40 sites across

Cardiff split into 3 phases of development. Phase 1 of this programme, a partnership with Wates Residential, is currently underway.

13. Other **new build housing projects** outside of Cardiff Living are being delivered in order to achieve an overall target of building 1,000 new council homes within the next 5 years. At least 150 of these will be from 'innovative solutions'. A number of delivery options are being implemented including:
  - Buying property from the open market.
  - Conversion of buildings for housing – (both general needs and supported housing schemes).
  - Innovative housing solutions such off-site modular systems.
  - Package deals (where we agree to buy new properties straight from a developer).
14. The first phase of the Cardiff Living has commenced at Willowbrook West with 192 units of which 58 are affordable housing units. The full details phase 1 of the "Cardiff Living" programme is included in the HRA Business Plan. Outside of the 600 new homes that comprise the affordable housing element of "Cardiff Living" additional sites are being brought on stream with a new development at Thornhill recently completed and land acquired for a development of 16 new homes in Careau. Close monitoring will take place to ensure that 1,000 new Council homes are delivered as part of the Capital Ambition objective.
15. As part of the overall strategy to build new homes the Authority working to identify suitable council owned land or property for council house development. In the case where General Fund land or property is identified as being suitable for development the appropriation of this land/property from the General Fund into the HRA will take place. In these cases a value representing a market value will be agreed.
16. The councils buy-back policy sets out the criteria attached to the purchase of properties (both flats and Houses) from the market. Usually these properties will be ex-council properties, although this will not always be the case. In determining which properties to purchase there is a focus on those in high demand and where the new build programme is unlikely to meet the need, targeting larger 3 or 4 bedroomed family homes, which would be costly to build, as well as adapted properties and ground floor flats suitable for tenants who are less mobile. It is planned that approximately 20 properties will be bought in 2017/18 and will be subject to affordability. An earmarked revenue reserve was set up during 2016/17 for this purpose. Properties will also be purchased where necessary to deliver redevelopment or improvement schemes and to meet social care needs. The properties are all surveyed and valued by an independent surveyor before purchase to ensure value for money. The application to suspend the Right to Buy has passed the first stage and been accepted by Welsh Government, this means that new applications will be held and no further council homes will be sold until the final decision is made. This means that any properties purchased or built will remain available for those in housing need in Cardiff. The

delegations, if approved, will enable a wider range of properties to meet critical housing need.

17. Under the Welsh Government's rent policy an annual target rent band is set for each social landlord. The responsibility for setting the rents for individual dwellings still rests with the Council. The Welsh Government guidance on rent levels provides a target rent level incorporates a quality factor by the inclusion of energy efficiency ratings. Those LA's where average SAP (Standard Assessment Procedure) are above the Welsh Housing Quality Standard threshold of 65 benefit from a higher target rent level. The average SAP rating for Cardiff Council's housing stock is 68.8.
18. Other key objectives included in the Business Plan are:
  - The **Remodelling and Restructure** of existing homes over the life of the plan. There has been a review as to the suitability of the Council's sheltered housing accommodation and one sheltered block (Minton Court) has already been modernised to keep pace with tenant needs. A second block (Sandown Court) was also completed this year having undergone significant remodelling to make the building fit for purpose. Similar works are programmed in three further sheltered blocks; Brentwood Court, Nelson House and Clos Y Nant. These works are due to commence early 2018.
  - Major **Estate Regeneration** works at Trowbridge Mawr have recently been completed and new regeneration schemes will commence in Anderson Place, Belmont Walk & Alice Street. Other smaller scale projects are planned throughout the city and include garage sites, courtyard improvements, gullies and alley gating schemes.
  - Large scale **Capital Improvement Works** include upgrading communal heating systems in sheltered accommodation and high-rise blocks, continuation of the 'A' rated boiler upgrade programme, roofing replacements and new front doors for flats.
  - The continued delivery of **Community Benefits** in partnership with our external building contractors, delivery apprenticeships for people living in Cardiff communities and the volunteering of staff time.
  - The scrutiny of **Performance Indicators** and **Tenant Satisfaction Surveys** against targets to measure Housing Management Services.
  - Focus on improving **Tenant Participation and Consultation** including examples of community projects and information on grants available and advice on how to make a difference in a community.
  - The current and future investment in **Neighbourhood Regeneration and Area Improvement Strategies**.
  - Significant budgets have been set aside over the next three financial years (2017/18 £2m, 2018/19 £5.7m & 2019/20 £4.3m) for **High-rise**

**Upgrades.** These budgets will also cover any fire safety recommendations following the recent tragic events in London.

- Spotlight on the financial commitments and resource implications via the 5 Year **Capital & Revenue Budgets**.
19. **Community Hubs** are designed to bring together services, share resources and invest in better quality facilities, in a way which is responsive to the needs and priorities of individual neighbourhoods, housing services are a key component of all our Hubs and during 2016/17 we delivered:
- **Fairwater Hub**
  - **Splott/STAR Hub** with onsite leisure facilities
  - **Llanedeyrn Hub** and
  - **Llandaff North/Gabalfa Hub**

Building on this success, during 2017 we will further rollout the Hub Programme through the development of:

- **Llanishen Hub** and
  - **St Mellons Phase 2 Hub**.
20. The impact of Welfare Reform has been taken into account in developing the business plan. Financial modelling has been carried out to account for potential increases in rent arrears and the additional costs of collection. The service has put in place various measures to minimise this impact: tenants have been provided with detailed information about the changes that may affect them and their options have been set out including home swapping and property transfers for those tenants who need to downsize. Assistance has been made available to tenants who transfer to Universal Credit and there has been an increase in staffing to assist and advise tenants with debt management and budgeting, minimising impact of the change as far as possible.

### **Scrutiny**

21. The draft HRA Business Plan was presented at Communities and Adult Services Scrutiny Committee on 19 July 2017. The letter from the Scrutiny Chair following this meeting is attached at appendix 2.

### **Reasons for Recommendations**

22. To comply with the requirement to forward the HRA Business Plan to the Welsh Government.

### **Legal Implications**

23. There are no direct legal implications but the requirement for a plan is set out in the body of the report. The approval of the business plan is an executive function which does not have to be referred to Council.

## **Financial Implications**

24. The Housing Revenue Account Business Plan must be supported by a 30 year financial model. This financial model assesses the viability of the HRA over a 30 year time period. The model is also used to estimate the planned investment and the related capital and revenue implications over the period.
25. The financial model must by definition include many assumptions, particularly in respect of expenditure levels, capital financing, projected income levels and inflation rates. Obviously, this is further complicated by the uncertainty of the economic climate, the potential impact of Welfare Reform and the transfer to Universal credit, the demands on the housing environment generally and the long term nature of the forecasts within the Business Plan. As a result, all of these assumptions are extremely sensitive to change.
26. A number of crucial assumptions are built into the model, as follows:
  - From 2018/19 onwards, the model assumes that rent increases will be within a range of 2.35% to 3% per annum. With respect to service charges those charges which are normally increased in line with inflation have been frozen and a small number of charges have been increased for full cost recovery. There are some standstill charges where cost recovery is being achieved and some charges are decreased in line with reduced costs. Void rent loss projections vary within a range of 1.4% to 2.1% and bad debts vary with a range of 0.74% and 1.36% over the life of the plan. This forecast takes into account the potential impact of Welfare Reform on rent arrears and void properties, particularly as a result of the continuing reductions in Housing Benefit due to property rent/size restrictions. Any increase above this level is likely to impact on available revenue resources and may necessitate further offsetting operational savings.
  - Consumer and retail price indexes are estimated to be within a range of 1% and 3% throughout the model.
27. In line with the current financial year, the projected receipts from future council house sales are kept at a very low level and no new receipts are assumed from 2018/19 onwards.
28. The assumption in the model is that the Welsh Government Major Repairs Allowance remains at its current level of £9.6m p.a. over the course of the plan. Any allowance less than this will have an impact on the sustainability of the plan and the ability to maintain investment already incurred in the housing stock. The final allocation of Major Repairs Allowance to Cardiff in 2017/18 has been approved.
29. Consideration will be given to bringing budgets forward for direct land purchase to prepare for further phases of dwellings construction as well as appropriation of other suitable Council owned sites where

opportunities arise and affordability allows. Any increase in costs of capital schemes must be managed within the HRA Capital Programme approved by Council in February 2017.

30. Any financial deficit and liabilities of the HRA are ultimately liabilities of the Council. As part of the agreement to exit from the subsidy system, the Council must adhere to a debt cap of £316 million. The Business Plan details the capital and revenue funding implications of the proposed Capital Programme. The Programme assumes additional borrowing to be undertaken in order to build new housing and support investment in the existing stock. This will result in additional revenue implications in terms of interest payments and provision of repayment for borrowing. Accordingly any new expenditure to be paid for by borrowing should be prioritised to ensure that improvements are either essential or have an element of pay back, to ensure that there are no long term issues of affordability and sustainability in respect of borrowing. The position will be reviewed and may result in a requirement for offsetting revenue savings in future years which will be identified and reported through the financial monitoring process. Any plans for additional borrowing should also consider the impact of future regulation changes on income levels. Viability or payback assessments should be undertaken before investment in new build, open market acquisition or redevelopment proposals. This should be against set benchmarks to ensure value for money for rent payers and that investment is undertaken over a prudent period.

## **RECOMMENDATIONS**

Cabinet is recommended to:-

- (1) approve the HRA Business Plan 2017-2018.
- (2) note that the approved Plan will be submitted to the Welsh Government.
- (3) 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.

### **SARAH McGill**

Director of Communities, Housing & Customer Services  
21 July 2017

*The following Appendices are attached:-*

Appendix 1 - HRA Business Plan 2017-2018

Appendix 2 – Scrutiny Letter from Community & Adult Services Scrutiny Committee dated 21 July 2017

*The following Background Papers have been taken into account:-*

- Communities, Housing and Customer Services Directorate Delivery Plan 2017-2018
- Cardiff Corporate Plan 2017-2020
- 30 Year Business Plan for Welsh Housing Revenue Accounts - Financial Model