

**CABINET MEETING:**

**15<sup>th</sup> March 2018**

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

**REPORT OF CORPORATE DIRECTOR**

**AGENDA ITEM:**

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**PORTFOLIO: HOUSING AND COMMUNITIES (Councillor Lynda Thorne)**

**Reason for this Report**

1. To present the Housing Revenue Account (HRA) Business Plan 2018-2019 for Cabinet approval.

**Background**

2. 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.
3. 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.
4. 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 £9.5m).
5. The Plan must conform to a structure and include business plan parameters set out by the Welsh Government.
6. This plan also provides the link with the Communities, Housing and Customer Services Delivery Plan.

## Issues

### Housing Revenue Account Business Plan

7. 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.
8. The Business Plan ensures;
  - efficient use of housing assets;
  - increased transparency of the HRA;
  - precise planning of our housing management strategy;
9. The Welsh Government set a recommended rent increase for 2018/19 of 4.5%, with the option to add an additional £2 per week to raise further rental income to invest in new build council housing and improving existing council housing and neighbourhoods. Cardiff will apply the full increase to all tenants for 2018/19 and this was agreed at Budget Council on 22<sup>nd</sup> February 2018.
10. Cardiff Council was the first authority in Wales to declare achievement of the Welsh Housing Quality Standard (WHQS), almost two months ahead of the Welsh Government deadline date of December 2012.
11. 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. The individual component details of every council property is held on a stock condition database which includes date it was installed or upgraded with an associated component lifespan e.g. kitchen lifespan 15 years. This enables planned programmes of work to be developed for future works and the setting aside of sufficient financial budgets.
12. A **new build housing** programme is being undertaken which will deliver 2,000 new council housing units, of which 1,000 will be completed by

2022. It is anticipated that the first phase will be structured as per the table below over the next four years.

Year	New units
2018/19	200
2019/20	400
2020/21	700
2021/22	1000

13. The speed of delivery for the second phase of the programme to complete the 2,000 unit total is subject to increasing the flexibility around the management of the current All Wales cap on borrowing. Discussions are underway with the Welsh Government regarding this issue.
14. A partnership with a national housing developer is already in place via the **Cardiff Living** innovative building partnership. 3 schemes are already on site and the first handovers are planned for autumn 2018. This 10 year development programme will deliver around 1,500 new homes in total with a minimum of 40% being affordable housing. These homes will be built over 40 sites across Cardiff split into 3 phases of development.
15. Other **new build housing projects** (outside of Cardiff Living) are being developed in order to achieve the overall target of building 1,000 new council homes by 2022. A number of delivery methods are being used 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 the Council buys new properties straight from a developer).
16. As part of the overall strategy to build 2,000 new homes work is underway to identify suitable council owned land or property for council house development. In the case where council land or property is identified as being suitable for development consideration will be given to the appropriation of this land/property from the General Fund into the Housing Revenue Account. Each case will be considered on its merits and if approved an assessed price representing a market value will be transferred.
17. The Council's buy-back policy sets out the criteria for the purchase of properties (both flats and houses) from the market. Often 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, such as 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 each financial year subject to affordability. 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.

18. The application to suspend the Right to Buy in Cardiff was approved by the Welsh Government in July 2017 which means that any properties purchased or built will remain available for those in housing need in Cardiff.
19. Delivering **energy efficiency** has been a key part of the HRA Business Plan in recent years with the upgrading of boilers in the housing stock being a key focus. 98.4% of all council homes have “A” rated energy efficient boilers delivering energy cost savings for tenants. The energy efficiency of a property is assessed using a government approved Standard Assessment Rating (SAP). Cardiff’s average SAP rating is 70.7 which is well above the Welsh Government good practice level of 65.
20. The Business Plan also sets out plans for:
  - The **Remodelling and Refurbishment** of existing homes over the life of the plan. Following a review of the suitability of the Council’s sheltered housing accommodation a phased plan to upgrade the schemes has been agreed. One sheltered block (Sandown Court) was refurbished and rebranded as the Council’s first Community Living Scheme. The official opening was in June 2017, and the scheme offers a modern and welcoming environment which allows older persons living outside of the scheme to access the health care and social activities on site. Improvements to individual flats included removal of bedsits, wheelchair accessibility and upgraded kitchen and bathrooms which are more flexible for residents. Similar works are programmed in three further sheltered blocks; Brentwood Court, Nelson House and Clos Y Nant.
  - Major **Estate Regeneration**, works are underway at 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**, including the upgrading of communal heating systems in sheltered accommodation and high-rise blocks; the re-commencement of the fire door installation programme and the remaining lift upgrades in the last 4 high-rise blocks in the city. The biggest single capital investment in 2018/19 is the high-rise upgrade work at the Maelfa high-rise flats which fundamentally improve the block through major ground floor modernisation works combined with window and balcony upgrades which will dovetail with the surrounding neighbourhood redevelopment.
  - **Fire Safety works** following the recent tragic events in London all high rise blocks in Cardiff will be fitted with sprinklers and 60 minute fire doors will also be installed in all blocks.

- The current and future investment in **Neighbourhood Regeneration** and **Area Improvement Strategies** included garage site & courtyard improvement projects.
  - 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.
21. The Business Plan also sets out how the Council manages its homes as effective housing management is a key part of WHQS. This includes:
- Using key **Performance Indicators** and **Tenant Satisfaction Surveys** to measure the success of services.
  - Focusing 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.
  - **Supporting vulnerable tenants**, assisting the elderly with independent living services or housing vulnerable homeless people through hostels and rough sleeping projects.
22. **Providing advice and information to tenants is a key focus of the Business Plan. Community Hubs** are designed to bring together services, share resources and enable integrated investment in better quality facilities. Services delivered through the community hubs are responsive to the needs and priorities of individual neighbourhoods with housing services being a key component. During 2017/18 the following Hubs were delivered:
- **Powerhouse Hub (Llanedeyrn)**
  - **Llanishen Hub**
- Building on this success, during 2018 we will further rollout the Hub Programme through the development of:
- **St Mellons (Phase 2 Hub).**
23. 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 the impact of the change as far as possible.

## **Scrutiny**

24. The draft HRA Business Plan was presented at Communities and Adult Services Scrutiny Committee on 14th March 2018. The letter from Scrutiny is tabled and considered as part of the Cabinet meeting.

## **Reasons for Recommendations**

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

## **Legal Implications**

26. 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**

27. The financial model includes many assumptions, particularly in respect of expenditure forecasts, capital financing, projected income levels and inflation rates. Due to the long term nature of the forecasts within the Business Plan, the uncertainty of the economic climate and the demands on the housing environment generally, these assumptions are extremely sensitive to change.

28. A number of crucial assumptions are, as follows:

- Rent increases of 3% are forecast for the financial years 2019/20 through to 2021/22 and at 2.5% thereafter.
- Service charges are increased for future years in line with inflation for full cost recovery.
- Void rent loss projections vary within a range of 1.46% to 2.96%.
- Bad debts vary within a range of 1.06% and 3% over the life of the plan. This takes into account the potential impact of Welfare Reform and the transfer to Universal Credit 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.
- CPI is estimated to be at 2% and RPI at 2.9% throughout the model.
- The Welsh Government Major Repairs Allowance receivable is assumed to remain at previous levels of £9.5 per annum over the course of the Business 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 allocation of Major Repairs Allowance to Cardiff in 2018/19 will be communicated by WG following submission of this business plan.

29. 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. Viability or payback assessments should be undertaken before approval of new developments or acquisitions. This should be against set benchmarks to ensure value for money for rent payers and to ensure investment is repaid over a prudent period.

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 based on its Capital Financing Requirement. Discussions are taking place with WG to determine how the cap can be increased in the medium term to allow further development of new council houses.
31. Subject to remaining within any approved Cap over the life of the plan, consideration will be given to bringing budgets forward for dwellings construction as well as for the acquisition or appropriation of other suitable Council owned sites. This would only be after consideration of viability and affordability. Any increase in costs of capital schemes must be managed within the medium term HRA Capital Programme approved by Council in February 2018.
32. The 30 year business plan should be subject to regular review to ensure new expenditure to be paid for by borrowing is for essential improvements or for schemes that have an element of pay back so that there are no long term issues of affordability and sustainability in respect of borrowing. Any plans for additional borrowing should also consider the impact that future regulation changes can have on income levels and therefore the proposals included in the plan.

## **RECOMMENDATIONS**

It is recommended that:-

- (1) The Cabinet approve the HRA Business Plan 2018-2019.
- (2) The Cabinet note that the approved Plan will be submitted to the Welsh Government.

**Sarah McGill**

Corporate Director for People and Communities

*The following Appendix is attached:-*

*Appendix 1 - HRA Business Plan 2018-2019*

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

- *Communities, Housing and Customer Services Directorate Delivery Plan*
- *30 Year Business Plan for Welsh Housing Revenue Accounts - Financial Model*

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