

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

**HOUSING AND COMMUNITIES (COUNCILLOR LYNDA THORNE)**

**AGENDA ITEM:11**

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**Reason for this Report**

1. To seek Cabinet approval for the Housing Revenue Account (HRA) Business Plan 2019-2020.

**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 22 authorities in Wales have retained their council housing stock and consequently play 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 which restricted the Council's ability to build new homes despite having already achieved the Welsh Quality Housing Standard (WHQS) for its existing properties.
4. The UK Government announced plans to lift the Housing Revenue Account Borrowing Cap at the Autumn Budget on 29 October 2018 and agreed for the Cap to be fully abolished in Wales. It is anticipated that this will be in place by 31<sup>st</sup> March 2019.
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 in order to be eligible for the Major Repairs Allowance (MRA) Grant (currently £9.5m).
6. The Plan must conform to a structure and Business Plan parameters as set out by the Welsh Government.
7. This plan also provides the link with the Service 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 rent policy and the 5 year rent uplift formula agreement ended in March 2019. An independent rent policy review is underway which will consider issues such as affordability and comparisons with rents in England. 2019/20 is a transitional year and the Welsh Government has set a recommended rent increase of CPI only (2.4%). This increase is less than anticipated and will impact on the Council's ability to maximise investment in new build & existing housing as well as improving housing services and neighbourhoods. Cardiff is working with the Welsh Government and the Welsh Local Government Association to raise awareness of potential issues.
  
11. It should be noted that future rent policy decisions resulting in lower increases than the 2.5% assumed within the plan will have a significant impact on the available revenue resources to support the plan and deliver key commitments. There is a risk that the level and quality of service provision to tenants could be affected as well as a potentially very significant impact on plans for new build affordable housing programmes and other capital expenditure aspirations.
  
12. Rent increases/decreases via the rent policy impact directly on the affordability of new housing. In broad terms for every £1m extra income in rent after all additional costs are met, circa 100 properties can be built through additional borrowing. The Council will continue to maximise its ambition to deliver new affordable housing but will also ensure any plans are financially viable.
  
13. Cardiff will apply the full increase to all tenants for 2019/20 and this was agreed at Budget Council on 28th February 2019.

14. 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.
15. 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 dates of installation or upgrade with associated component lifespan e.g. kitchen lifespan of 15 years. This enables planned programmes of work to be developed for future works and the setting aside of sufficient financial budgets.
16. 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 May 2022.
17. A partnership with a national housing developer is already in place via the **Cardiff Living** innovative building partnership. 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.
18. Other **new build housing projects** (outside of the Cardiff Living scheme) are being developed in order to achieve the overall target of building 1,000 new council homes by 2022 and 2,000 in the long term. 22 Development sites have already been identified which vary in density from 16 to 250 units. One such scheme which has recently undertaken public consultation is the proposed redevelopment of the Channel View estate in Grangetown. It will replace existing housing with new, sustainable, energy efficient homes.
19. 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.
20. A summary of the various delivery streams is highlighted in the table below:

<b>Scheme</b>	<b>Target Number Within 5 years</b>	<b>Complete (as at Jan 19)</b>
Cardiff Living	300	13
Other New Build	400	0
Buying Property from the Market	100	32
Package Deals	100	0
Converting Buildings	50	8
Meanwhile Use of Land	50	0
<b>Totals</b>	<b>1,000</b>	<b>53</b>

21. **Package deals** are where the Council buys new properties straight from a developer.
22. **Meanwhile use of land** includes temporary accommodation solutions located on land awaiting permanent development.
23. 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.
24. The application to suspend the **Right to Buy** in Cardiff was approved by the Welsh Government in July 2017 which meant that any properties purchased or built will remain available for those in housing need in Cardiff.
25. 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% 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 71.2 which is well above the Welsh Government good practice level of 65.
26. 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 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. Similar works are now progressing in two other Community Living Schemes at Brentwood Court and Clos Y Nant.

- Major **Neighbourhood Regeneration**, works are underway at Anderson Place and Galston Street in Adamsdown and Belmont Walk and Alice Street in Butetown. 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** continue to be implemented including roofing to houses, front door upgrades to flat, window replacements to both flats and houses and high-rise safety works.
  - **Fire Safety works** - following the tragic events in London the cladding has been removed from 5 of our 6 high-rise blocks. The cladding from the final block will be removed in 2019 and all high rise blocks in Cardiff will be fitted with sprinklers and 60 minute fire doors.
  - The continued delivery of **Community Benefits** in partnership with our external building contractors, delivery of apprenticeships for people living in Cardiff communities and the volunteering of staff time.
27. 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, 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, housing vulnerable homeless people through hostels and rough sleeping projects, and providing additional support to help them sustain their tenancies.
28. **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 2018/19 St Mellon's Hub was the latest to bring services and facilities to the heart of the community.
29. The impact of **Welfare Reform** has been taken into account in developing the Business Plan. Financial modelling has been carried out to account for significant 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. This support is available from the Welfare Liaison Team which has increased staffing numbers from 5 to 14 in order to deal with the volume of complex cases.

## **Scrutiny**

30. The draft HRA Business Plan was presented at Communities and Adult Services Scrutiny Committee on 6th March 2019. The letter from Scrutiny is attached at Appendix 2.

## **Reasons for Recommendations**

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

## **Legal Implications**

32. 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**

33. 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.
34. A number of crucial assumptions are, as follows:
  - Rent increases of 2.5% are forecast for the financial years 2020/21 through to 2048/49.
  - Service charges are increased for future years in line with inflation for full cost recovery.
  - Void rent loss projections vary within a range of 1.45% to 2%.
  - Bad debts vary within a range of 1.29% and 2.5% over the life of the plan. This takes into account the potential impact of Welfare Reform and the transfer to Universal Credit.
  - 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 million per annum.
35. Future rent policy decisions resulting in lower increases than the 2.5% assumed within the plan will have an impact on the available revenue resources to support the plan and deliver key commitments. There is a

risk that the level and quality of service provision to tenants could be affected as well as a potentially significant impact on plans for new build affordable housing programmes and other capital expenditure aspirations.

36. Whilst the Council recognises that preparation of a thirty year Business Plan is best practice, in addition to future rent policy decisions, other key risks to the plan remain outside of the control of the Council. The risks include the certainty and level of Major Repairs Allowance. The Business Plan includes a risk assessment setting out a number of key variables and any changes in these are likely to necessitate a review of priorities both in capital investment and for revenue budgets.
37. The Business Plan details the capital and revenue funding implications of the proposed Capital Programme. The Programme assumes a significant increase in additional borrowing to be undertaken in order to build new housing and support investment in the existing stock, following the proposed removal of the debt cap. This will result in additional revenue implications in terms of interest payments and provision of repayment for borrowing.
38. Viability or payback assessments should be undertaken before approval of new developments or acquisitions in line with an approved governance process. This should be against set benchmarks to ensure value for money for rent payers and to ensure investment is repaid over a prudent period.
39. Consideration will be given to bringing forward future year's budget to allow flexibility to acquire sites and buildings at an earlier stage as part of the overall programme. 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 2019.
40. The thirty 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.
41. Any financial deficit and liabilities of the HRA are ultimately liabilities of the Council.

## **RECOMMENDATIONS**

Cabinet is recommended to approve the HRA Business Plan 2019-2020.

<b>SENIOR RESPONSIBLE OFFICER</b>	<b>SARAH MCGILL</b> Corporate Director People & Communities
	15 March 2019

*The following Appendix is attached:-*

Appendix 1 - HRA Business Plan 2019-2020

Appendix 2 – Letter from Chair of Scrutiny

*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*