

BY SUBMITTING THIS REPORT TO THE CABINET OFFICE, I, (SARAH MCGILL) (CORPORATE DIRECTOR, PEOPLE & COMMUNITIES) AM CONFIRMING THAT THE RELEVANT CABINET MEMBER(S) ARE BRIEFED ON THIS REPORT

**CARDIFF COUNCIL
CYNGOR CAERDYDD**

CABINET MEETING: 19th March 2020

HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN

HOUSING AND COMMUNITIES (Councillor Lynda Thorne)

AGENDA ITEM:

Reason for this Report

1. To seek Cabinet approval for the Housing Revenue Account (HRA) Business Plan 2020-2021.

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.
4. The 11 stock retaining 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 Welsh Housing Quality Standard (WHQS) in order to be eligible for the Major Repairs Allowance (MRA) Grant (currently £9.5m).
5. The Plan must conform to a structure and Business Plan parameters as set out by the Welsh Government.

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6. This plan also provides the link with the Service 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 its 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 the Council's housing management strategy;
9. The Welsh Government has introduced a new five year rent policy which provides for a maximum annual uplift of CPI +1% each year from 2020-21 to 2024-25 using the level of CPI from the previous September each year. The September 2019 CPI was 1.7%. CPI will be the maximum increase allowable in any one year but landlord decisions on rent must also take into account the affordability of rents for tenants. Should CPI fall outside the range of 0% to 3%, the Minister with responsibility for housing will determine the appropriate changes to rent levels to be applied for that year only.
10. In line with the above policy, it is proposed that rents increase by CPI & 1%. The average rent for a Council home in Cardiff will increase by £2.81 per week (£2.98 based on the 49 week collection) exclusive of service charges for 2020/21. This results in an average weekly rent of £106.24 for standard housing stock and is at the mid-point of the Target Rent Band set for Cardiff by WG (Low end of £101.83 per week and High end of £112.55 per week).
11. It is considered that the rent uplifts proposed above will allow for obligations to tenants and lenders to be met and help to support the financial viability of the Housing Revenue Account whilst ensuring that rents remain affordable for current and future tenants. This level of

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increase will also allow for the continuation of the Council's ambitious new build plans.

12. Cardiff will apply the full increase for 2020/21 and this was agreed at Budget Council on 27th February 2020.
13. 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.
14. 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.
15. A **new build housing** programme is being undertaken which will deliver at least 2,000 new council homes, of which 1,000 will be completed by 2022.
16. A summary of the various delivery streams is highlighted in the table below:

Scheme	Target Number Within 5 years	Complete (as at Jan 19)
Cardiff Living	250	69
Additional New Build	400	0
Open Market Buy-backs	100	52
Developer Package Deals	100	0
Converting Buildings to Council Homes	50	13
Meanwhile Use of Land	50	0
Council Assisted Home Ownership	50	16
Totals	1,000	150

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 600 of these being new council homes. These homes will be built over 40 sites across Cardiff split into 3 phases of development.
18. Other **Additional New Build** programmes (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 400 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.

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19. There is also a real focus on delivering exciting new **independent living** “care-ready” schemes offering quality, flexible homes for older people which in turn will free up family homes for rent.
20. Cardiff have also been successful in bidding for Welsh Governments **Innovative Housing Programme** (IHP) with around £3.8m of grant being awarded to deliver four new build schemes using innovative techniques.
21. 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. These would include properties 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. 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.
22. **Package deals** are where the Council buys new properties straight from a developer. The first scheme with Cadwyn Housing Association will deliver 30 flats.
23. **Converting Buildings to Council Homes** has been possible at two sites to date including one previous children’s home. Other sites will be considered as opportunities arise.
24. **Meanwhile use of land** includes temporary accommodation solutions located on land awaiting permanent development.
25. The **Council Assisted Home Ownership** scheme is available to first time buyers to help them get a foot on the property ladder. The council retains an equity share in the property, normally 70% owned by the resident and 30% by the Council.
26. 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.
27. 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.

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28. 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 71.3 which is well above the Welsh Government good practice level of 65.
29. In a response to the climate emergency the Council’s first PassivHaus (ultra-low energy efficiency in buildings) scheme is underway at Highfields in Heath. This will deliver 10 new council homes and will provide the opportunity to evaluate how PassivHaus works for tenants. The award of a Welsh Government Innovative Housing Programme grant of £3.8 million will allow the service to deliver the Council’s first Zero Energy housing scheme. The Cardiff Living development at the former Rumney High school site will deliver 214 new homes to a high energy efficiency specification incorporating solar PV with batteries, ground source heat pumps and electric vehicle charging points.
30. 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 have now been completed at Brentwood Court in Llanishen, Clos-y-Nant in Fairwater and Minton Court in Splott. The Council are now entering the next phase of improvements at Nelson House in Butetown and Poplar House in Whitchurch. Works are also expected to start later this year at Broadland Court in St Mellons and Worcester Court in Grangetown following final design and consultation with residents.
 - Major **Neighbourhood Regeneration**, works are underway at Anderson Place and Galston Street in Adamsdown and Bronte Crescent and Arnold Avenue in Llanrumney. Residents are also being consulted on proposals for a scheme in Round Wood, Llanedeyrn and initial scoping and design work has started on two estate regeneration schemes at Trowbridge green, Rumney and Lincoln Court, Llanedeyrn.
 - Other **smaller scale projects** are planned throughout the city and include garage sites refurbishments, courtyard improvements, gullies and alley gating schemes to tackle anti-social behaviour and crime issues.
 - Large scale **Capital Improvement Works** continue to be implemented including roofing to houses, front door upgrades to flats, window replacements to both flats and houses and high-rise safety works.

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- **Fire Safety works** – work has commenced to install sprinklers in all high rise blocks. An options appraisal for the recladding of 5 high rise blocks has been completed and work is underway to procure a contractor. It is anticipated that this work will commence on site later this year.
 - 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.
31. 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 people**, assisting older people with independent living services, housing vulnerable homeless people through hostels and rough sleeping projects, and providing additional support to help them sustain their tenancies.
32. **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.
33. 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 in order to deal with the volume of complex cases.

Scrutiny

34. The draft HRA Business Plan was presented at Communities and Adult Services Scrutiny Committee on 4th March 2020. The letter from Scrutiny is tabled and considered as part of the Cabinet meeting.

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Reason for Recommendations

35. To comply with the requirement to present the HRA Business Plan to the Welsh Government.

Financial Implications

36. The HRA Business Plan has a prescribed format and content which is a requirement of application for the Major Repairs Allowance grant (MRA) from Welsh Government. It informs Welsh Government about plans for development of new homes and should be used by local authority landlords to drive improvements and value for money in the HRA.

The Business Plan is underpinned by a thirty year financial model which sets out estimates of planned Capital and Revenue income and expenditure over the period. This model is intended to be used as a planning and modelling document forming the basis of the HRA business, to safeguard the interests of current and future tenants and other service users and to demonstrate the long term sustainability of the HRA.

Any financial deficit and liabilities of the HRA are ultimately liabilities of the Council.

Whilst the assumptions are robust in the very short term, medium and longer term assumptions are based on a number of judgements and parameters set out by WG. It is essential that the Capital Investment Programme is based on deliverability and a sound understanding and modelling of the condition of existing housing stock to ensure all future requirements are captured.

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 model, the uncertainty of the economic climate and the demands on the housing environment generally, these assumptions are extremely sensitive to change.

37. A number of crucial assumptions are, as follows:
- Rent increases of 3% are forecast for the financial years 2021/22 through to 2049/50. This level has been stipulated by Welsh Government to all retaining authorities in Wales for the purposes of financial modelling.
 - Service charges are increased for future years in line with inflation for full cost recovery.
 - Void rent loss projections vary within a range of 2.17 % and 2.5%.
 - Bad debts vary within a range of 1.87% and 2.2% 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 2.7% throughout the model

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- The Welsh Government Major Repairs Allowance receivable is assumed to remain at previous levels of £9.5 million per annum.
38. Rent modelling is based on rent increases of 3% (CPI +1%) from 2021/22 as set out in Annex 2 of the Budget Proposals Report February 2020. Lower rates of CPI, and lower rent increases than assumed within the model will have an impact on the available revenue resources to support the plan and deliver key commitments.
39. Other risks include the certainty and level of Major Repairs Allowance which is being considered as part of the outcomes of the Affordable Housing Supply Review.
40. The Capital Investment Programme assumes a significant increase in additional borrowing to build new housing, investment in disabled adaptations and to support investment in the existing stock. This will result in additional revenue implications in terms of interest payments and provision of repayment for borrowing. Affordability is considered as part of the budget including consideration of prudential indicators.

Where capital investment is proposed this must be based on informed criteria, including viability or payback assessments. This is essential to demonstrate value for money, effective use of rent payer funds and to mitigate against future risks to the affordability and viability of the HRA. There should be a robust governance process that sets out the requirements and approval of investment proposals at agreed stages, reviews costs before they are incurred and as projects progress as well as the effectiveness of delivery of targets. Value for money should be assessed against set benchmarks and to ensure investment is repaid over a prudent period having regard to future rent payers. The effectiveness of that governance should be reviewed and assessed regularly.

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 must only be after consideration of viability and affordability and relevant governance processes.

41. Given the significant uncertainties and risks included in the financial modelling, 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 terms of capital investment and for revenue budgets.
42. A robust risk review and monitoring process should be set in place to review the HRA risk register specifically and any emerging issues that could impact on the viability of the HRA. This is to ensure that the level and quality of service provision to tenants is not affected and the HRA continues to be viable. Where necessary, mitigating actions will need to be taken including reducing revenue costs or reviewing plans for new build affordable housing programmes and other capital expenditure aspirations.

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Legal Implications (including Equality Impact Assessment where appropriate)

43. 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.

HR Implications

44. There are no direct HR implications for this report.

Property Implications

45. To follow

RECOMMENDATIONS

- (1) Cabinet is recommend to approve the HRA Business Plan 2020-2021 for presentation to Welsh Government.

SENIOR RESPONSIBLE OFFICER	Sarah McGill
	February 2020

The following appendices are attached:

Appendix 1 - HRA Business Plan 2020-2021

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*
- *Equality Impact Assessment*