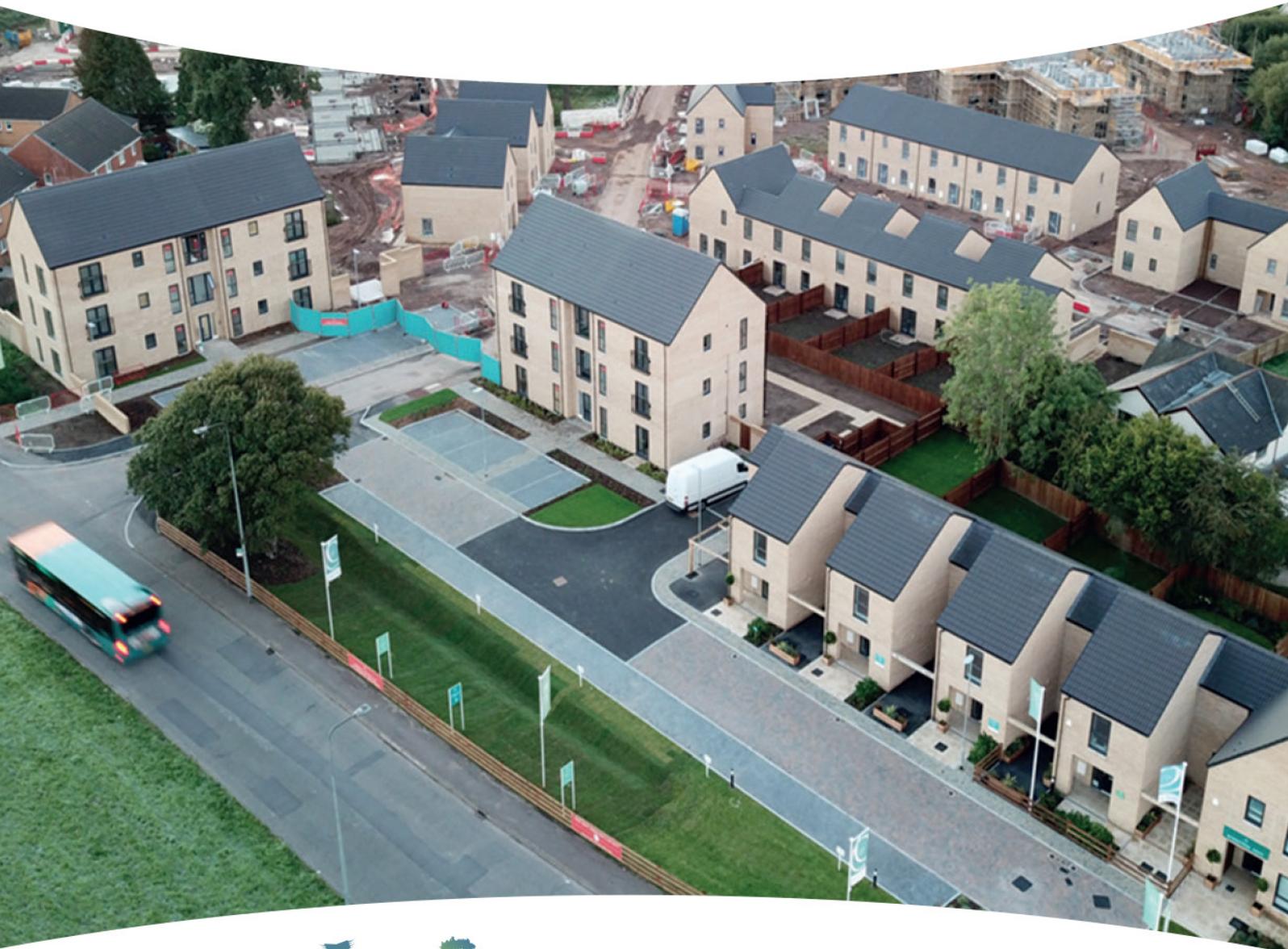


Housing Revenue Account 2020/21 Budget and Medium Term Financial Plan

Cardiff Council



Contents

1. Context and Outlook	Page
1.1 Introduction	3
1.2 Stock Typology	3
1.3 Demand for Social Housing	4
1.4 Key Objectives and Priorities	4

2. Rent Policy	Page
2.1 Rent Policy Framework	5
2.2 WG Policy for Social Housing Rents	5
2.3 Council Policy for Social Housing Rents	5
2.4 Tenant Consultation	6

3. 2020/21 Budget and Medium Term Financial Plan	Page
3.1 Revenue Budget	7
3.2 Key Assumptions	7-8
3.3 Capital Investment Programme	8-9

4. Affordability and Value For Money	Page
4.1 Affordability	10
4.2 Comparative Rent Levels	10
4.3 Energy Costs	10-11
4.4 Value for Money	12
4.5 Cost Efficiencies	13
4.6 Financial Resilience	13

5: Key Risks and Uncertainties	Page
5.1 Key Risks and Uncertainties	14-15
5.2 Sensitivity Analysis	15-16

1. Context and Outlook

1.1 Introduction

The Housing Revenue Account (HRA) records income and expenditure in relation to Council Housing. This is required to be 'ring fenced' in accordance with the Local Government and Housing Act 1989. The ring fencing of the account means that local authorities must not subsidise costs relating to Council Housing from the General Fund (i.e. from Council Tax or from the RSG) or subsidise General Fund costs from the HRA.

The main expenditure items within the account include maintenance and repair costs, management costs (including rent collection, housing allocations and property and estate management) and capital financing charges on the HRA's outstanding loan debt (interest and provision for repayment). The major income streams include rents and income from service charges.

The Council aims to provide good quality, affordable homes in communities where all people feel safe and connected.

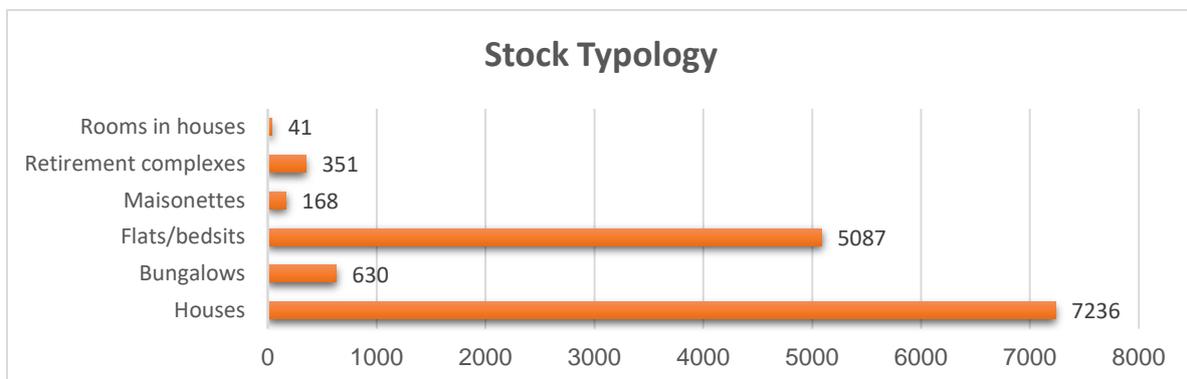
Good, energy efficient housing is vital to the health and wellbeing of tenants while regeneration and enhancement of the environment is important for all local residents.

Key services to tenants and leaseholders include management, repair and service costs of the housing stock, tenancy services including anti-social behaviour management, welfare advice and support including Into Work Services and the Community Hubs.

While recognising the importance of services to existing tenants the Council also understands the pressure of housing need in the city and has an ambitious new build programme to help address this and an allocations system that ensures that those with the greatest need are housed first.

1.2 Stock Typology

The Housing Revenue Account has a stock of 13,513 properties across the wards of Cardiff with a range of stock, as follows:



1. Context and Outlook

1.3 Demand for Social Housing

There is a high demand for social housing in Cardiff and a limited number of properties become available to let each year.

Cardiff Council in partnership with Cadwyn, Cardiff Community, Hafod, Linc Cymru, Newydd, Taff, United Welsh and Wales and West Housing Associations operate a Common Housing Waiting List for social housing, from which suitable applicants are identified to be offered available properties.

The number of applicants on the Common Waiting List was 7,882 at the beginning of January 2020, with 617 identified as homeless. The number of council properties let between April and December 2019 was 680.

Cardiff Council has set a target of building at least 1,000 new Council homes by May 2022 and at least 2,000 new Council homes in the longer term to meet the increasing demand for good quality, affordable social housing. This represents the largest council house build programme in Wales with £256 million to be invested into delivering new council homes and acquisitions between 2020/21 and 2024/25.

1.4 Key Objectives and Priorities

Key objectives and priorities for the HRA in the medium term include the following:

- Providing assistance to tenants with debt management and budgeting to minimise the impact of Universal Credit
- Maintenance of the Welsh Housing Quality Standard and capital improvement works to ensure high quality and sustainable housing
- A new build housing programme to deliver 1,000 new council housing units by 2022 with a further 1,000 to follow, including the continuation of the 10 year Cardiff Living innovative building partnership
- Remodelling and refurbishment of existing homes, such as improvements to sheltered blocks
- Ensuring our estates are good places to live through improved estate management, regeneration and area improvement works
- Investing in energy efficiency works and exploring the challenges and opportunities of a carbon neutral future
- Helping to address the issues of an aging population, and ensuring that our tenants can stay independent for as long as possible
- Helping to address the increasing pressures and complexity of homelessness and housing need
- Continued delivery of community benefits through our contracts linked to Into Work opportunities for our tenants and other residents
- Tenant participation and consultation.

2. Rent Policy

2.1 Rent Policy Framework

Whilst the responsibility for setting rents for dwellings rests with the Council, it is necessary to operate within a policy framework set by the Welsh Government (WG). This is usually based on a set percentage increase above the rate of the consumer price index (CPI).

An independent review of the WG rent policy was carried out by Heriot Watt University as part of its Affordable Housing Supply Review. This has informed a new rent policy approved by the WG recognising the requirement to balance the needs of landlords with the interests of tenants.

Consequently, the new rent policy includes a requirement that social landlords make an annual assessment of affordability and cost efficiencies which demonstrate that their homes and services represent value for money. This assessment is set out in section 4.

2.2 WG Policy for Social Housing Rents

The new five year policy 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 + 1% 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.

2.3 Council Policy for Social Housing Rents

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).

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

The table below sets out the proposed average rent per property type for Cardiff for 2020/21.

No. of Bedrooms	Estimated Average Rent 2020/21
1	£94.62
2	£109.23
3	£125.82
4	£139.42

2.4 Tenant Consultation

Consultation on the rent increase took place between 23rd December 2019 and 20th January 2020. Consultation forms were sent to all recognised Tenant and Residents Associations, the Tenant Reading Group and to 1,350 randomly selected individual tenants. The consultation was also advertised on the Cardiff Tenant website and on Facebook.

Unfortunately, due to the timing of the rent policy notification from the Welsh Government, there was limited time to consult tenants. The return rate was disappointing with only 8 responses received in total (6 postal responses and 2 via the website). 4 responses expressed concern about the rent increase with the main issues raised being around affordability. The Council's annual tenant survey received responses from 1,195 tenants in 2019 and is a better reflection of tenants' views. The survey showed that 81.2% of tenants thought their rent was good value for money with 46.8% being very satisfied. Only 9% of tenants expressed dissatisfaction. Council rents remain very good value for money compared to private sector rents.

Further information about the affordability of Council rents can be found in section 4.

3. 2020/21 Budget and Medium Term Financial Plan

3.1 Revenue Budget

The forecast financial position for the Housing Revenue Account for the financial years 2020/21 to 2024/25 is set out below:

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	
Expenditure	Employees	19,499	20,247	21,141	22,453	23,849
	Premises - Council House Repairs	19,387	19,969	20,568	21,184	21,820
	Premises - Other Repairs & Maintenance	1,501	1,517	1,534	1,551	1,569
	Premises - Other Premises Costs	3,028	3,078	3,131	3,182	3,235
	Transport	235	238	241	244	247
	Supplies & Services	4,691	4,749	5,002	5,114	5,304
	Support Services	6,077	6,142	6,208	6,275	6,344
	Capital Financing	29,971	31,716	33,429	37,296	39,492
	Contribution to reserves/General balances	1,000	1,000	1,000	1,000	1,000
Total Expenditure	85,389	88,656	92,254	98,299	102,860	
Resources	Rents and Service Charges	(81,460)	(84,685)	(88,242)	(94,245)	(98,760)
	Fees & Charges	(753)	(754)	(755)	(756)	(757)
	Other Income	(3,176)	(3,217)	(3,257)	(3,298)	(3,343)
	Total Resources	(85,389)	(88,656)	(92,254)	(98,299)	(102,860)

3.2 Key Assumptions

Key assumptions and factors which make up the HRA budget proposal include the following items:

- Rent increases in line with WG guidelines taking account of forward indicators for inflation factors (CPI assumed at 2%)
- In the absence of an agreed pay award, 2% annual uplifts are included which is broadly in line with CPI forecast inflation. Provision is made for employers' National Insurance and Superannuation contributions, employee incremental pay progression as well as other full year impacts of the costed establishment including Apprenticeship levies and the Voluntary Living Wage
- General inflation increases of 2% for non-employee budgets
- A £19.3 million budget has been set for Council Housing Repairs for 2020/21 reflecting the estimated requirements for both planned and responsive maintenance
- Provision is also made for a contribution to earmarked reserves to offset any risk within the construction industry including inflationary increases in material and labour costs above the 3% currently assumed
- The direct revenue financing budget for capital expenditure assumes a contribution of £2.4 million in 2020/21

3. 2020/21 Budget and Medium Term Financial Plan

- Continued receipt of the Major Repairs Allowance of £9.5 million is assumed
- Provision is made for the ongoing estimated impact of Welfare Reform under the Universal Credit scheme on rent income levels, additional costs of collection and recovery, bad debts provision and the potential impact on void allowances
- Capital financing requirements in line with the borrowing requirements proposed in the HRA Capital Programme including significant additional borrowing commitments following the removal of the Housing Borrowing Cap
- Significant investment proposals will deliver new Council social rented homes through a combination of open market buy-backs, the Cardiff Living Partnership, developer packages and new builds in order to meet demand for affordable housing in the city and to help meet national targets
- Receipt of approved Affordable Housing Grant
- The majority of service charges will increase in line with costs
- A small number of charges have been increased in line with inflation
- Some standstill charges where cost recovery is being achieved
- Some charges have decreased in line with reduced cost and service usage
- Some new charges are being introduced where additional services are now operational.

3.3 Capital Investment Programme

		2020/21	2021/22	2022/23	2023/24	2024/25	Total	
		£000	£000	£000	£000	£000	£000	
Expenditure	Regeneration and Area Improvements	2,900	2,900	2,750	2,750	2,750	14,050	
	External and Internal Improvements	11,150	17,100	16,250	9,500	9,350	63,350	
	New Build and Acquisitions	39,375	64,215	64,980	40,205	46,780	255,555	
	Disabled Facilities Adaptations	3,350	3,350	3,350	3,350	3,350	16,750	
	Total Expenditure	56,775	87,565	87,330	55,805	62,230	349,705	
Resources	Major Repairs Allowance Grant	(9,500)	(9,500)	(9,500)	(9,500)	(9,500)	(47,500)	13
	Additional Borrowing	(35,570)	(69,565)	(72,080)	(37,905)	(43,730)	(258,850)	74
	Direct Revenue Financing	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(12,000)	4
	Grant estimates and contributions	(7,705)	(5,300)	(2,000)	(3,700)	(3,900)	(22,605)	6
	Capital Receipts	(1,600)	(800)	(1,350)	(2,300)	(2,700)	(8,750)	3
	Total Resources	(56,775)	(87,565)	(87,330)	(55,805)	(62,230)	(349,705)	100

3. 2020/21 Budget and Medium Term Financial Plan

Expenditure commitments proposed over the next 5 years include:

- Regeneration and area improvement projects aim to create better and safer places to live by undertaking Environmental works including defensible space, demolition, conversion and road/footpath realignment; energy efficiency schemes; improvements to flats, garages, gullies and open spaces.
- Planned maintenance projects aim to enhance the standard and safety of existing dwellings and maintain the achievement of the Welsh Housing Quality Standards. Works to the internal and external fabric of housing stock include central heating, fencing, roofing, high rise upgrades, door entry systems, window and door upgrades, kitchens and bathrooms, improvements to sheltered housing and energy efficiency measures.
- In order to meet the increasing demand for good quality, affordable social housing, new homes will be delivered via a number of routes such as construction by the Council, open market buy backs and working together with developers to acquire completed sites. Proposals include the acquisition of land as well as consultation on redevelopment proposals such as for the Channel View estate.
- Disabled adaptations to dwellings aims to help eligible tenants to live independently and improve their movement in and around the home.

The programme is reviewed annually in line with the 30 year HRA Business Plan.

4. Affordability and Value For Money

The Welsh Government Rent Policy recognises the need to balance the needs of landlords and the interest of tenants and therefore the policy includes a requirement that social landlords make an annual assessment of affordability, cost efficiencies and demonstrate that their homes and services represent value for money.

4.1 Affordability

The WG have made it clear that affordability should include all costs of living in a property including rent, service charges and energy costs. A review has therefore been carried out of the affordability of living in a council property in Cardiff.

4.2 Comparative Rent levels

As set out above, an uplift of CPI +1% would result in an average rent increase of £2.81 and an average rent of £106.24. The table below shows average gross rents including service charges. Council rents are below the Local Housing Allowance (LHA) rates for Cardiff, and well below market rents. It is estimated that private tenants claiming benefits are paying on average £25 per week above LHA levels.

No. of Bedrooms	Market Rent	Local Housing Allowance Rate 2019	Current Average Rent 2019	Estimated Average Rent 2020
1	£138.00	£103.56	£92.13	£94.62
2	£172.00	£126.92	£106.36	109.23
3	£213.00	£150.00	£122.51	125.82
4	£286.00	£190.38	£135.76	139.42

Council rents are broadly aligned with the rents of other social landlords in Cardiff, with rents for some property types, including one bed flats, being considerably lower than housing association rents.

It is clear that Council rents are considerably more affordable than private sector rents.

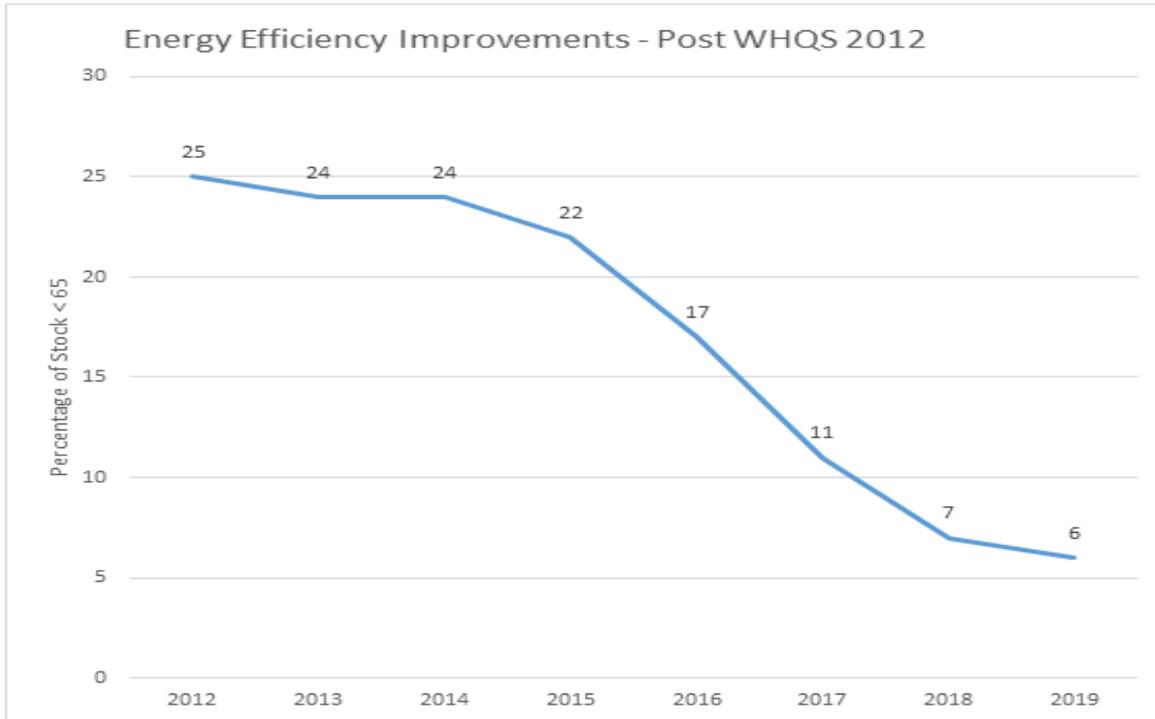
Further work is being undertaken to review Council rents against the Joseph Roundtree Foundation (JRF) Living Rents and this will be built into a review of rents and service charges due to take place in 2020/21.

4.3 Energy Costs

Existing Council homes significantly exceed the energy efficiency requirements as set out in the Welsh Housing Quality Standard (WHQS) guidance. The Standard states “the annual energy consumption for space and water heating must be estimated using the Governments Standard Assessment Procedure for Energy Rating of Dwelling (SAP 2005) method. A minimum of 65 out of 100 must be achieved”. The current average SAP rating for the Council’s 13,501 properties is 71.3.

The Council has worked to continually improve SAP levels in all its stock and the graph below shows how the number of poor performing properties has reduced since 2012 with only 6% now below the required standard.

4. Affordability and Value For Money



Every effort is being made to improve energy efficiency where possible, including increasing the amount of loft and wall insulation and by installing more efficient heating systems. “A” rated energy efficient boilers have been fitted to 98% of all Council properties. Moving forward the service intends to pilot the retrofitting of renewable energy sources such as solar panels, in partnership with other social landlords.

A ‘Cardiff standard’ has been set for all council new builds which requires a fabric first approach to delivering energy efficient homes. This means that the external fabric of the building is as effective as possible in reducing heat loss thereby reducing bills and helping to tackle fuel poverty.

Currently, on average, Council new build properties are achieving a high B SAP rating. Moving forward, Welsh Government are considering requiring all new build affordable homes (which are allocated grant) to achieve a SAP rating A. To achieve this it would be necessary to install renewable technology as well as continuing with the Fabric First approach or adopt a construction method such as PassivHaus.

The Council’s first PassivHaus 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.

4. Affordability and Value For Money

4.4 Value for Money

Value for Money is achieved by focusing on key priorities in the pursuit of social objectives that benefit a range of stakeholders / service users and delivering these priorities in an effective and efficient way. Cardiff aims to achieve this in the following ways:

- Maintaining homes to a high standard
- Building new homes
- Delivering a high standard of tenancy services
- Community investment such as work to increase employability, financial and social inclusion
- Meeting the housing needs of the most vulnerable
- Preventing evictions
- Supporting people to live independently
- Supporting national and local policy objectives

We recognise that tenants have a right to expect good value for rents and to obtain maximum impact from available resources. We consult service users when setting rents and charges to get the balance right between service costs, service levels, priorities for investment, the need for new homes and affordability.

In order continue to demonstrate value for money, during 2020/21 and in future years, the Council will undertake the following:

- Review key cost drivers
- Review support recharges and overheads
- Seek opportunities to undertake external benchmarking and self-assessment with peers
- Continue to follow the Councils best practice in relation to procurement of goods and services
- Secure maximum value from assets through an understanding of stock and making intelligent (social) business decisions based on that understanding. This will necessitate:
 - Understanding condition of stock
 - Maintenance costs and investment needs
 - Demand within our communities
 - Performance of the stock at an appropriate and proportionate level of detail
 - Variation in performance across the stock
 - Priorities for improvement

A range of high quality services are provided to council tenants including a dedicated Welfare Liaison Team to maximise income and prevent arrears and a Tenancy Sustainment service to support more vulnerable tenants. The clear aim of the housing service is to prevent unnecessary legal action and evictions. A wide range of additional services are also available locally through the Hubs, including Into Work help and support.

A Tenants Satisfaction Survey is carried out each year. In the 2019 survey, 1,195 tenants responded to the survey and satisfaction levels were high across a range of indicators including satisfaction with the council as a landlord, their home and neighbourhood. 81.2% of tenants thought their rent was good value for money, with 46.8% being very satisfied. Only 9% expressed dissatisfaction with their rent level.

4.5 Cost Efficiencies

In 2019/20 the service commenced a review of spend and costs, to ensure that good value for money is being achieved, this included a review of spend on external contractors. This work will be continued into 2020/21 with a full review of central costs and overheads.

4.6. Financial Resilience

As well as recurring financial risks, the Council has embarked on a significant expansion of a new build programme to meet the housing needs of current and future generations. This creates a number of risks to financial resilience which needs to be monitored and managed closely.

The Council will do this by:

- Ensuring that a HRA General reserve is maintained and maintained at a prudent level
- Create specific earmarked reserves to mitigate against increasing and unforeseen costs such as the price of materials, uncertain rent policy in the medium / long term
- Annually updating and submitting to the Welsh Government for approval a 30 year business plan
- Ensuring strong asset management practices and understanding of the condition of existing stock
- Continuing to develop indicators to support assessment of financial resilience such as the existing measure of Capital Financing costs as % of Net Revenue Stream
- Maintaining a prudent approach to repayment of capital expenditure
- Regular monitoring and review of expenditure against approved budgets.

5. Key Risks and Uncertainties

5.1 Key Risks and Uncertainties

Key risks and uncertainties which could impact on the budget proposals for 2020/21 and the medium term include, but are not limited to, the following:

Risk Description	Impact	Pre Mitigation Risk Analysis	Mitigating Controls	Post Mitigation
Restricted rent uplift for 2020/21 and future years due to the impact of lower CPI	Significant reduction in available revenue resources to support the HRA budget and key commitments impacting on level and quality of service provision to tenants and capital schemes that can be taken forward. Affordability, prudence and sustainability of additional borrowing. Impact on local and national affordable housing targets	Red	Ongoing multivariate sensitivity and stress testing to determine potential impact. Identify operational efficiencies and savings. Revise budget and avoid over commitment of new build programme.	Green
Delay to the timing of lettings of new build properties	Reduction in rental income receivable and resources available to support the HRA budget	Red	Ongoing review of new build programme development and resources required	Amber
Cost inflation increase above rent uplifts	Increase in costs of supervision, management and repairs and maintenance	Amber	Review and reprioritise revenue operating costs and consider a reduction in planned expenditure proposed to be funded by borrowing	Green
A reduction in the (£9.5m per annum) Welsh Government Major Repairs Allowance (MRA) grant following the conclusion of the Affordable Housing Supply review	Impact on the achievability of the Capital Programme	Red	Review and reprioritisation of the Capital Programme allowing for committed spend but realigning future spend plans	Amber
Impact of Welfare Reform and Universal Credit	Impact on tenants' ability to pay rent, resulting in increased rent arrears, requirement for bad debt provision and increased debt collection and recovery costs	Amber	Understanding of the Welfare Reform regime and risks. Information and advice to tenants, for example through Into Work Services. Maximisation of funding for promotion of available benefits and specific support e.g. the Hardship Fund and Discretionary Housing Payments grant. Regular review of bad debts provision.	Amber/Green
Failure to meet new build housing programme targets	Non achievement of Capital Ambition targets. Failure to reduce housing waiting list and impact on temporary accommodation and homelessness. Holding costs of vacant sites and revenue costs of development teams.	Red	Contractual commitments are closely monitored by the New Build Board. Individual project viability is reviewed at all key stages of the scheme development.	Amber

5. Key Risks and Uncertainties

Treasury Management	Increased costs of interest and prudent repayment of any borrowing undertaken to pay for capital expenditure proposed in the HRA Capital programme	Amber	Integrated Council wide Treasury Management policies and strategy. Regular reporting in line with best practice and independent treasury advice. Review of programme in line with affordability and government policy changes such as rent. Commitment to Wellbeing and Future Generations (Wales) Act.	Amber / Green
Challenge of Decarbonisation	<p>Failure to plan and invest strategically in order to meet carbon reduction targets could result in failure to meet WG target and will impact on tenants energy costs.</p> <p>The requirement to meet the cost of decarbonisation without additional funding will impact on other spend – could reduce borrowing capacity and reduce funds available for new build.</p>	Red/Amber	<p>Work closely with WG to understand key requirements, targets, delivery methods and costs.</p> <p>Plans in place to pilot renewable technology in order to meet the challenge.</p>	Amber

Review and monitoring of the above financial and wider risks identified for the Housing Revenue Accounts takes place as part of the Directorate’s risk identification and monitoring process.

HRA risks are considered within the Directorate Operational Risk Register which is reviewed and updated quarterly. The development and progress of the New Build programme is reported to and monitored at the Housing Development and Capital Finance Board which meets bi-monthly whilst the revenue and capital financial position is considered as part of regular monthly monitoring and reporting processes.

5.2 Sensitivity Analysis

The assumptions as detailed within 3.2 above are based on best information and will be subject to a risk of change. The table below sets out key areas of sensitivity and their potential annual impact based on the financial year 2021/22.

Assumption	£'000
CPI 0.5% lower than anticipated	381
CPI 1% higher than anticipated	762
Employers’ Pay Award 1% higher than budgeted	202
Construction inflation 1% higher than budgeted	194
Void rent loss 1% higher than budgeted	786

5. Key Risks and Uncertainties

This is on the assumption that all other factors remain constant and no mitigation/offsetting actions are in place. In reality, as set out within the Risk Matrix table above, mitigation would take the form of numerous and varied measures to bring the budget back into a viable financial position.

CPI and Rent increases

Rent increases of 3% (CPI+1%) are assumed within the budget from 2021/22 onwards in line with the WG forward indicators for inflation factors. A reduction in CPI to 1.5% would reduce rental income due by £381,000 which would have a significant impact on planned development and new build aspirations, unless mitigating actions were taken.

Conversely, an increase in CPI to 3% would generate an additional £762,000. Rent increases/decreases via the rent policy impacts 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.

Employers' pay award

In the absence of an Employers agreed pay award, a 2% uplift has been assumed. A pay award increase 1% higher than budgeted would result in an increased funding requirement of £202,000.

Construction Price Inflation for revenue repairs and maintenance

CPI as related to the costs of materials and labour for revenue repairs and maintenance is assumed at 3% within the model. An increase to 4% would require additional funding of £194,000.

Void property percentage

The level of void properties is budgeted at 2% with an estimated rental loss of £1.573 million for standard housing stock based on the 2021/22 budget. A 1% deterioration in this position would result in reduced rental income of £786,000 million.