

## CABINET

<b>Date of Meeting</b>	Tuesday 21 <sup>st</sup> January 2020
<b>Report Subject</b>	Housing Revenue Account (HRA) 30 Year Financial Business Plan
<b>Cabinet Member</b>	Cabinet Member for Housing
<b>Report Author</b>	Finance Manager Housing and Commercial Services
<b>Type of Report</b>	Strategic

### EXECUTIVE SUMMARY

The purpose of this report is to present for consideration the draft HRA 30 year Financial Business Plan and the proposed HRA Budget for 2020/21.

### RECOMMENDATIONS

1	That Cabinet consider the HRA budget for 2020/21 as set out in the attached appendices.
2	Approve the proposed rent increase of up to 1.7% (plus up to £2).
3	That Cabinet consider a garage rent increase of £1.22 per week and a garage plot increase of £0.20 per week.
4	That Cabinet consider the phased increase in Service Charges recovery.
5	That Cabinet consider the rationale behind an increased level of reserves to 4%.
6	Consider the proposed HRA Capital programme for 2020/21 as set out in Appendix B.

## REPORT DETAILS

<b>1.00</b>	<b>EXPLAINING THE HRA BUSINESS PLAN 2020/21 UPDATE</b>
1.01	<p><b>Considerations</b></p> <p>The HRA is required to produce a 30 year business plan.</p> <p>The strategic context for this year's HRA budget setting includes the following:</p> <ul style="list-style-type: none"><li>• The need to ensure the treasury management strategy continues to meet the Housing Revenue Account's new and ongoing borrowing requirements;</li><li>• Delivers a prudent plan for income maximisation;</li><li>• Setting a balanced budget with a minimum of 3% surplus revenue over expenditure;</li><li>• Continued drive to ensure all service costs are efficient and that value for money can be achieved;</li><li>• Maximisation of revenue efficiencies to minimise the borrowing required to meet Welsh Housing Quality Standards (WHQS) by 2020;</li><li>• Delivery of new build Council housing.</li><li>• Provision of adequate ongoing capital to maintain WHQS levels.</li></ul>
1.02	<p><b>Borrowing</b></p> <p>The deed to terminate the voluntary agreement for the HRA borrowing cap was signed on the 2nd December 2019, it is therefore important that going forward, increased borrowing in the HRA is carefully managed and monitored to ensure that it is sustainable and affordable to the business plan. Work will be undertaken to develop a set of treasury KPI's for the HRA to enable transparent monitoring of this going forward.</p> <p>The total level of HRA prudential borrowing as at 31<sup>st</sup> March 2021 is anticipated to be £147.869m.</p> <p>All prudential borrowing is repaid at 2% per year in line with the HRA's Minimum Revenue Provision (MRP).</p> <p>The HRA is part of the single debt pool for the Council, all borrowing for the Council is managed within one pool and the average borrowing rate for the Council is applied to all new borrowing in the HRA. The rate assumed in the Business plan is 4.3%.</p>
1.03	<p><b>Rents</b></p> <p>On 18th December 2019, Welsh Government released the Minister for Housing and Regeneration's decision around the Welsh Government Rent Policy for commencement in 2020/21.</p> <p>This Rent Policy has been set for 5 years and it has been made clear that</p>

the rent policy settlement is a maximum amount which can be charged and landlords should consider value for money (as an annual assessment of cost efficiencies) alongside affordability for tenants (taking into account the whole cost of living in a property) as part of their rationale for setting rents.

The Rent Policy for Social Housing Rents from 2020/21 sets out the following:

- An annual rent uplift of up to CPI+1%, for 5 years to 2024/25 using the level of CPI from the previous September each year. September 2019 was 1.7%.
- The level of rents for individual tenants can be reduced, frozen or rise by up to an additional £2 over and above CPI+1%, on condition that total rental income collected by the social landlord increases by no more than CPI+1% (2.7%).

The new average rent band proposed by Welsh Government is shown in the table below. A maximum uplift of 2.7% (CPI plus 1%) would take the average rent paid in 2020/21 to £96.57 which is just above the low end of the target rent band.

	<b>2020/21 Target Rent Band</b>		
Average Rent	Low End	Mid-Point	High End
Flintshire	£ 95.82	£ 100.87	£ 105.91

The previous Rent policy enabled the Council to apply rent inflation plus £2 per annum for any tenants paying under the target rent band for their property. Flintshire currently have just over half its properties under the target rent band as shown in Appendix A.

Appendix A also shows that the majority of tenants currently paying under target rent are those in 3 bed houses and bungalows (not subject to service charges) and those in smaller properties and flats are generally at target rent (higher proportion subject to service charges).

The new rent policy asks for affordability for all tenants to be taken into account when setting rents though it is also important for the Council to maximise rental income in order to invest in new homes and regenerate existing stock. With this in mind, it is recommended to utilise the flexibility given in the rent policy around setting the level of rents for individual tenants, to bring affordability into line for all tenants.

The recommended option would be to apply an overall uplift of 1.7% to all tenants and, in addition, apply the transitional uplift of £2 to tenants who are currently under target rent. This ensures that no individual tenant will pay more than the maximum allowed under the policy but moves towards readdressing the disparity between those rents under and those at target rent and seeks to make rent charges to all tenants more equitable.

The effect of this will be a lower inflationary increase for tenants who are already paying target rent and should help offset the additional impact of any service charge increases. Tenants currently paying under target rent will see an uplift of 1.7% plus £2 which will take their increase up to circa 2.7%.

**1.04 Garage Rents**

The proposed garage rent increase for 2020/21 is £1.22 per week which takes the garage rent per week to £9.83 (based on 52 weeks), the proposed garage plot increase is £0.20 per week taking the garage plot rent to £1.60 per week.

The business plan anticipates £0.529m in income for garages, however the garage review is ongoing and therefore this figure may be adjusted accordingly.

**1.05 Service Charges**

The rent and service charges policy was introduced in 2015 and expected all Local Housing Associations (LHA's) to be achieving full cost recovery for service charges, if this had not yet been achieved a clear transition plan should be identified to achieve this.

At 2019/20 the Council was at 70% service charge recovery for implemented charges, it is recommended that the increase in service charges to take the HRA to full cost recovery should be stepped over the next 2 years (2020/21 and 2021/22). Based on this proposal, the revised charges for 2020/21 would be:

Charge	19/20 Charge	20/21 Charge	Increase	Total income
Aerials	£ 1.20	£ 1.55	£ 0.35	£130,950
Cleaning	£ 3.77	£ 4.60	£ 0.83	£174,018
Laundry	£ 0.72	£ 0.79	£ 0.07	£29,424
Window Cleaning	£ 0.47	£ 0.75	£ 0.28	£17,075
<b>Totals</b>	<b>£ 6.16</b>	<b>£ 7.69</b>	<b>£ 1.53</b>	<b>£351,466</b>

As the above table indicates, the maximum increase that any one property would receive in 2020/21 would be £1.53 per week, if they were subject to all four service charges.

**1.06 Capital Programme**

The total proposed capital programme for 2020/21 is £30.464m. Which includes the following:-

£19.293m has been built into the WHQS and Asset investment programme for 2020/21. This includes provision for internal work streams, external enveloping works, environmental programmes, fire risks and Disability Discrimination Act (DDA) works, asbestos, off gas and energy efficiency works. Cabinet has approved the asset investment plan to achieve the

WHQS by 2020 and the budget set will ensure that the council is still on track to meet its commitment to achieve the standard. The 2020/21 Capital Programme proposals are summarised in Appendix C.

In addition, £11.171m has been built into 2020/21 for Council housing Batches 3 & 4 building schemes, which will increase the housing stock by 177 properties:

<b>Asset Investment Budget Breakdown</b>	<b>£m</b>
Batch 3	0.524
Batch 4	10.647
<b>Total</b>	<b>11.171</b>

The long term business plan assumes that post WHQS the major repairs allowance (MRA) will be used to fund decarbonisation of the Council's Housing stock in line with Welsh Government Policy and that these are new and additional costs to the HRA capital programme.

The Business Plan also assumes a programme of stock regeneration works from 2021/22, onwards.

1.07 **Capital Funding**

The £30.464m capital programme will be funded by:-

<b>WHQS &amp; Asset Investment Funding</b>	<b>£m</b>
Revenue Contribution (CERA)	12.653
Major Repairs Allowance	5.065
Energy Efficiency	0.275
Prudential Borrowing	1.300
<b>Total</b>	<b>19.293</b>

<b>New Build Funding</b>	<b>£m</b>
Prudential Borrowing	9.455
Capital Receipts	1.716
<b>Total</b>	<b>11.171</b>

1.07 **Reserves**

There is a requirement to hold a minimum level of reserves of 3% of expenditure. The 2019/20 Business Plan was based on a reserves level of 3%, however, as the level of financial risk in the HRA is rising due to increased borrowing levels for new build it is recommended that the HRA moves to 4% as a reserve level.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	The HRA is a ring fenced budget. This HRA budget and Business Plan demonstrates that the council can achieve the WHQS by 2020, can meet service improvement plans and commitments and with prudential borrowing can continue its Council house building programme in 2020.

<b>3.00</b>	<b>IMPACT ASSESSMENT AND RISK MANAGEMENT</b>	
3.01	All households will benefit from the Councils WHQS programme. The impact of the investment planning and efficiencies is being modelled for various customer groups to ensure that there is no disproportionate impact on any groups with protected characteristics.	
3.02	The Business Plan assumes a confirmation of Major Repairs Allowance (MRA) for 2020/21 and beyond, however, Welsh Government have indicated that the purpose of the funding will be reviewed in the future.	
3.03	The potential impact of BREXIT on interest rates and inflation has been mitigated by increasing the estimated assumptions included in the business plan.	
3.04	<b>Ways of Working (Sustainable Development) Principles Impact</b>	
	Long-term	Positive – There is a commitment to increase supply to provide the right types of homes in the right location.
	Prevention	Positive – It is our aim to provide support to ensure people live and remain in the right type of home.
	Integration	Positive - Achieving WHQS for all existing council houses and delivering new social housing will contribute to the integration within communities.
	Collaboration	Positive - To deliver in partnership with stakeholders to support positive impacts for all our tenants.
	Involvement	Positive - Communication with tenants, Members and other stakeholders.
	<b>Well-being Goals Impact</b>	
	Prosperous Wales	Positive – Existing social homes are WHQS compliant and meet the changing housing needs. Also Providing good quality new social homes.
	Resilient Wales	Positive – Developing low / zero carbon homes through modern methods of construction and technologies. Ensuring

		that all statutory compliance requirements are adhered to.
	Healthier Wales	Positive – Ensuring all existing homes and new homes are fit for purpose and meet the needs of all people.
	More equal Wales	Positive - Provide good quality homes for the most vulnerable people in society.
	Cohesive Wales	Positive – Contributing to attractive, viable and safe communities
	Vibrant Wales	Positive – Ensuring all communities housing needs are supported
	Globally responsible Wales	Positive – The HRA Business Plan will contribute to the improvement of the economic, social, environmental and cultural wellbeing of Wales.

<b>4.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
4.01	Detailed consultation has been undertaken with tenants and elected members to inform the preparation of the WHQS investment programme.
4.02	Full local consultation is carried out for each new build scheme.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix A – Summary HRA Rent Charges 2020/21.
5.02	Appendix B – Draft 30 Year HRA Financial Business Plan Summary.
5.03	Appendix C – Draft Capital Programme 2020/21.
5.04	Appendix D – Draft Pressures and Efficiencies 2020/21.
5.05	Appendix E – HRA Account Narrative

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	None.

<b>7.00</b>	<b>CONTACT OFFICER DETAILS</b>
7.01	<b>Contact Officer:</b> Neal Cockerton, Chief Officer (Housing & Assets) <b>Telephone:</b> 01352 702500 <b>E-mail:</b> <a href="mailto:neal.cockerton@flintshire.gov.uk">neal.cockerton@flintshire.gov.uk</a>

**8.00 GLOSSARY OF TERMS**

**8.01 Financial Year:** the period of 12 months commencing on 1 April 2020

**Revenue:** a term used to describe the day to day costs of running Council services and income deriving from those services. It also includes charges for the repayment of debt, including interest, and may include direct financing of capital expenditure.

**Capital expenditure:** money spent by the organisation on acquiring or maintaining fixed assets, such as land, buildings, and equipment.

**Budget:** a statement expressing the Council's policies and service levels in financial terms for a particular financial year. In its broadest sense it includes both the revenue budget and capital programme and any authorised amendments to them.

**Treasury Management:** the Council has adopted the Chartered Institute of Public Finance Accountants (CIPFA) Treasury Management in the Public Services: Code of Practice. Treasury Management is conducted in accordance with the Council's Treasury Management Policy and Strategy Statement and Treasury Management Practices which are both reviewed annually. All borrowing and long term financing is made in accordance with CIPFA's Prudential Code.

**Major Repairs Allowance:** Welsh Government grant paid to local authorities in Wales who still manage and maintain their council housing.