

**FLINTSHIRE COUNTY COUNCIL**

**REPORT TO:**           **CABINET**

**DATE:**                   **TUESDAY, 17<sup>TH</sup> FEBRUARY 2015**

**REPORT BY:**           **CHIEF OFFICER (COMMUNITY AND ENTERPRISE)**  
**CORPORATE FINANCE MANAGER**

**SUBJECT:**               **HRA REVENUE ACCOUNT 2015/16 & CAPITAL**  
**PROGRAMME 2015/16**

**1.00   PURPOSE OF REPORT**

1.01   To present for approval the draft HRA Budget for 2015/16, and HRA Business Plan developed for the introduction of self-financing in April 2015.

**2.00   BACKGROUND**

2.01   The UK Government and the Welsh Government have reached an agreement to change the financing arrangements for council housing in Wales from April 2015. A new rent policy has also been introduced which Flintshire is required to implement from April 2015. This sets the context for the proposed rent increase and for the requirement to start introducing charging for services.

2.02   Welsh Local Authorities have long argued for this change; which to date, has seen a negative subsidy system in operation which has required all eleven stock owning councils across Wales to make a total annual payment of £73m (in Flintshire's case c£6m) of rental income to Welsh Government and on to the UK Treasury. On the introduction of self financing this will cease;

2.03   The new arrangements negotiated by Welsh Government will see the annual subsidy payment replaced by a one off payment of c£920m. The eleven councils are required to take out loans from the PWLB which equate to £40m per annum in interest charges.

2.04   In addition to this, a total borrowing cap of £1.85b has been set for all eleven councils. This includes the borrowing needed to meet the settlement figure referred to above; existing HRA borrowing; planned borrowing to meet WHQS, and a small amount to start a new build programme.

2.05   The legislative framework to enable this change is contained in the Housing (Wales) Act 2014, which came into effect from 17th September. This act contains a duty to make the settlement payment;

and in the UK Government – Wales Bill , which is currently at report stage, and will set the all Wales limit of indebtedness and those for individual Local Authorities’.

- 2.06 Welsh Government has also set a requirement for all providers of social housing to reach the Welsh Housing Quality Standard by 2020. This will require some prudential borrowing in Flintshire’s case.
- 2.07 The council has an aspiration to build council housing to help meet unmet need for social housing and self- financing is providing an opportunity to take this forward in the next few years.
- 2.08 The detail on the distribution of the borrowing limits across the eleven councils is a Welsh Government decision. WG established an officer Steering Group and a number of work streams to take forward this work and make recommendations to the Minister. A consultation paper on the detailed options to implement self financing was issued by Welsh Government in May this year with a return date of July. Flintshire’s response to this was supported by Housing Scrutiny Committee and agreed by Cabinet prior to submission.
- 2.09 In summary, (although figures cannot be defined explicitly at this stage), Flintshire’s borrowing requirements and/or limits for borrowing will be (approximately) as follows :-
- Existing HRA borrowing- £25m
  - Borrowing to achieve settlement- £92m
  - Borrowing for WHQS- £25m
  - Borrowing for new build- £14.5m
- 2.10 The initial borrowing of c£92m for buy out will result in a basket of loans of varying lengths in accordance with the Councils treasury Management Strategy. External advice has been sought and the recommendation is that the council continues to operate a single debt pool approach, providing maximum flexibility.
- 2.11 Work is well underway to prepare for self financing. A HRA project group has been established for some time; this includes the Leader, Deputy Leader, Cabinet member for Housing, Chief Executive, Chief Officer, Finance and Asset Management colleagues. Housing Scrutiny Committee has taken a strong interest in this work. An elected member and tenant workshop was held in January to discuss self financing.
- 2.12 At its November 2014 meeting, subject to a risk assessment, Cabinet gave delegated authority for the Leader of the Council with advice and guidance from the Chief Officer Governance and Corporate Finance Manager to enter into a Voluntary Agreement in January 2015, to enable the introduction of self financing for the HRA from 1<sup>st</sup> April 2015. This was delayed on the advice of Welsh Government in early

January. Interest rates had reduced considerably since the first proposals were developed with Treasury to confirm the detail of the Buy out arrangements and Local Authorities and Welsh Government wanted to see whether they could adjust the original agreement to provide greater certainty to Local Authorities around interest rate variations, making the buy out payment more certain. These discussions have been positive but are not yet finalised. The figures quoted in this report are close to what the final figures are likely to be and demonstrate the positive benefit that self financing will provide. Subject to a final risk assessment it is expected that the Leader will be able to sign the voluntary agreement towards the end of February.

- 2.13 The HRA will benefit from circa £0.5m additional revenue in year 1 and this should grow in future years. This will provide additional resource for investment in tenants homes and will support achievement of the WHQS by 2020, (whilst minimising prudential borrowing). In addition the borrowing thresholds set will allow a council house building programme (of circa 200 homes over five years), to commence in early 2016 following the completion of the SHARP tender process.

### **3.00 CONSIDERATIONS**

- 3.01 The HRA has to have both short and long term financial planning in place. The short term (more detailed) planning shows how the WHQS standard can be achieved, Choices document promises kept, and new council housing commissioned. The longer term plan shows a viable account with surplus income over expenditure needs. This presents opportunities to do more to improve service delivery; provides reassurance that once achieved, the WHQS standard can be maintained, and could provide further capital funding for new build (subject to borrowing limits).
- 3.02 The strategic context for this year's HRA budget setting includes the following:
- The introduction of self- financing and the need to implement a treasury management strategy to meet the councils new and ongoing borrowing requirements
  - Delivering a prudent plan for income- ensuring that rents are affordable in a local context, and phasing in service charging for new tenants
  - Setting a balanced budget with 3.1% surplus revenue over expenditure
  - Continued drive to ensure all service costs are efficient and that value for money can be achieved.
  - Maximisation of revenue efficiencies to minimise the borrowing required to meet WHQS by 2020.
  - Review of WHQS investment strategy to meet tenant and elected member expectation and the new achievable deadline of 2020

- Planning for the delivery of new build council housing in 2016

### **Rent increase**

- 3.03 Councils are required to implement the new Welsh Government rent policy from April 2015. Target rent bands are set for each landlord based on a consistent set of principles and a common methodology across Wales for both local Authorities and Housing Associations. Landlord rents will be based on locality, size quality and type of dwelling. Rents will be higher for houses and bungalows compared to flats and maisonettes. This framework will be fixed until 2018/19. There is flexibility for each landlord to set the rent band at target, 5% below or 5% above. Cabinet decided to set Flintshire rents at target to support tenant affordability.
- 3.04 Where a landlords weekly rent is lower than the rent band, rents are set at the September CPI figure plus 1.5% plus up to £2 per week, to work towards rent convergence. Where rents are above target (this applies to circa 1000 Flintshire homes), then the rent increase will be inflation (1.2%) plus 1.5% up to minus £2 until the weekly rent falls within the target rent band. The September 2014 figure was 1.2%. This means an average Flintshire rent increase of 2.7% plus or minus up to £2 for 2015/16. Approximately 67% tenants are in receipt of full or partial Housing Benefit.
- 3.05 The business plan attached to this report describes the average rent currently payable and the target rent for each property type. Some tenancies could take 7 years to achieve the target rent.

### **Capital programme**

- 3.06 The WHQS and Asset investment programme for 2015/16 has been set at a total of £20.3m. This includes provision for internal work streams, external enveloping works, fire risk works, DDA, Asbestos, off gas and energy efficiency works. Cabinet has approved the Asset investment plan to achieve the WHQS by 2020 and this budget will ensure that the council meets the commitments in that plan to achieve the standard by 2020.
- 3.07 In addition £0.9m has been budgeted to commence the council house building programme.
- 3.08 Attached to this report for Cabinet approval: -
- The 3 year HRA business plan – Appendix A
  - 30 year revenue and capital account.- Appendix B
  - Efficiencies and service investment proposals –Appendix C
  - WHQS programme to achieve the standard in 2020.- Appendix D

#### **4.00 RECOMMENDATIONS**

- 4.01 Cabinet is asked to approve and recommend to the Council:-
- 4.02 The proposed HRA budget for 2015/16 as set out in the Business plan at Appendix A, with the 30 year financial assumptions in Appendix B and service efficiency and investment proposals in Appendix c
- 4.03 The level of rents for 2015/16 as set out in the business plan with target rents applied for new tenancies and the introduction of service charges for new tenancies.
- 4.04 The proposed HRA Capital programme for 2015/16 as set out in Appendix D

#### **5.00 FINANCIAL IMPLICATIONS**

- 5.01 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 commence a council house building programme in 2016.

#### **6.00 ANTI POVERTY IMPACT**

- 6.01 Self-financing in the HRA will provide additional revenue to improve property standards and to meet service improvement objectives. The council has agreed a Rent Policy which will see rents at benchmark levels, rather than taking the opportunity to set at 5% per cent above the benchmark. This decision was taken to safeguard affordability for tenants.

#### **7.00 ENVIRONMENTAL IMPACT**

- 7.01 Stock investment delivery plans will enhance the appearance of the environment and will contribute toward the council's CO2 reduction targets.

#### **8.00 EQUALITIES IMPACT**

- 8.01 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.

#### **9.00 PERSONNEL IMPLICATIONS**

- 9.01 Additional staff will be required to deliver an accelerated WHQS programme. The funding for these posts is provided for in the WHQS

programme.

**10.00 CONSULTATION REQUIRED**

10.01 The proposed rent increase will be discussed with the Tenants Federation at their February meeting.

**11.00 CONSULTATION UNDERTAKEN**

11.01 Detailed consultation has been undertaken with tenants and elected members to inform the preparation of the revised WHQS investment programme.

**12.00 APPENDICES**

12.01 HRA Business Plan- Appendix A

12.02 30 year HRA Revenue and Capital Account- Appendix B

12.03 Efficiencies and service investment proposals – Appendix C

12.04 WHQS programme- Appendix D

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985  
BACKGROUND DOCUMENTS**

None.

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