

CABINET

Date of Meeting	Tuesday, 19 th February 2019
Report Subject	Housing Revenue Account (HRA) Budget 2019/20, HRA Business Plan & Capital Programme 2019/20
Cabinet Member	Leader of the Council and Cabinet Member for Finance Deputy Leader of the Council and Cabinet Member for Housing
Report Author	Chief Officer (Housing & Assets) Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

The purpose of this report is to present for approval the draft Housing Revenue Account (HRA) Budget for 2019/20, HRA Business Plan Narrative and the summary HRA 30 year Financial Business Plan.

RECOMMENDATIONS

1	Approve and recommend to Council the HRA budget and Business Plan for financial year 2019/20 as set out in the attached.
2	Approve the proposed rent increase of up to 2.4% (plus up to £2).
3	Approve a garage rent increase of £1 per week and a garage plot rent increase of £0.20 per week.
4	Approve the proposed HRA Capital programme for 2019/20 as set out in Appendix C.

REPORT DETAILS

1.00	BACKGROUND								
	Considerations								
1.01	<p>The HRA is required to produce a 30 year business plan. The strategic context for this year's HRA budget setting and business plan includes the following:</p> <ul style="list-style-type: none"> • The need to ensure the treasury management strategy continues to meet the Councils new and ongoing borrowing requirements; • Delivering a prudent plan for income maximisation, based on the delivery of high quality services; • Setting a balanced budget with minimum general un-earmarked reserves of 3% of expenditure; • Continued drive to ensure all service costs are efficient and that value for money can be achieved; • Achieving WHQS by 2020 and providing adequate ongoing capital to maintain WHQS levels. • Maximisation of revenue efficiencies to minimise the borrowing required to meet WHQS by 2020; • Delivery of new build Council housing • Ongoing transition of rents to target. 								
	Prudential Borrowing								
1.02	On the 29 th October 2018, the Welsh Government Minister for Housing & Regeneration wrote to all Local Housing Authorities to confirm that the decision to lift the cap on local authority HRA borrowing will now also apply in Wales.								
1.03	Work is currently underway through legal colleagues to terminate the Voluntary Agreements under which each authority exited the former Housing Revenue Account Subsidy scheme. The draft business plan proposals do not breach the existing debt cap during 2019/20.								
	Current Borrowing								
1.04	<p>The levels of HRA prudential borrowing on WHQS and new builds at 31st March 2019 are anticipated to be as follows:</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;">Purpose</th> <th style="text-align: right;">£m</th> </tr> </thead> <tbody> <tr> <td>WHQS</td> <td style="text-align: right;">16.7</td> </tr> <tr> <td>New builds</td> <td style="text-align: right;">14.3</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">31.0</td> </tr> </tbody> </table> <p>This excludes a Vibrant & Viable Places (VVP) loan of £0.850m which supported the former Dairy Site new build housing scheme.</p>	Purpose	£m	WHQS	16.7	New builds	14.3	Total	31.0
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1.05	<p>The current prudential borrowing assumptions for 2019/20 are:-</p> <table border="0" data-bbox="624 232 1050 376"> <thead> <tr> <th data-bbox="624 232 756 264">Purpose</th> <th data-bbox="995 232 1050 264">£m</th> </tr> </thead> <tbody> <tr> <td data-bbox="624 264 727 295">WHQS</td> <td data-bbox="995 264 1050 295">4.2</td> </tr> <tr> <td data-bbox="624 295 788 327">New Builds</td> <td data-bbox="995 295 1050 327">9.3</td> </tr> <tr> <td data-bbox="624 327 703 358">Total</td> <td data-bbox="983 327 1050 358">13.5</td> </tr> </tbody> </table> <p>In the event the borrowing cap isn't lifted during 2019/20 (because of delays in removing the voluntary agreements), start on site dates for future new builds may need to be held back in the business plan.</p>	Purpose	£m	WHQS	4.2	New Builds	9.3	Total	13.5
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1.06	<p>Prudential borrowing interest rates have been included in the business plan at 4.3% per annum. The HRA currently benefits from any non-recurring savings generated by the single debt pool arrangement it holds with the Council Fund.</p>								
	<p>Rents</p>								
1.07	<p>Each year, the Minister with responsibility for housing makes a decision on the level of increase to be applied to the Welsh Government's Policy for Social Housing Rents (Rent Policy).</p>								
1.08	<p>The existing policy (CPI + 1.5% + up to £2 per week) expires on 31st March 2019 and the outcome of the Affordable Housing Supply Review will provide details of the future policy.</p>								
1.09	<p>In 2019/20 a one year interim policy will apply.</p> <p>The Minister has agreed the following:-</p> <ol style="list-style-type: none"> <li data-bbox="304 1263 1043 1294">1. <i>The annual uplift will be set at CPI only i.e. 2.4%.</i> <li data-bbox="304 1339 1375 1514">2. <i>The maximum amount a social landlord can increase an individual tenant's weekly rent is 2.4%. For the avoidance of doubt, the discretion to apply "up to £2 per week" has been removed for those social landlords whose average weekly rent is within or above their Target Rent Band.</i> <li data-bbox="304 1559 1375 1702">3. <i>Where a social landlord's average weekly rent is below their Target Rent Band and is required under the Rent Policy to be within the Target Rent Band, the maximum amount they can increase an individual tenant's weekly rent is 2.4% + £2.</i> <li data-bbox="304 1747 1375 1809">4. <i>This decision will apply for one year only (2019-20) while we are awaiting the outcome of the Affordable Housing Supply Review.</i> 								
1.10	<p>The following assumptions have been made for rent loss relating to empty properties (voids) and bad debts.</p> <p>The percentage allowance for void rent loss has been increased from 1.41% to 1.75%. The financial impact of this change is approximately £0.119m (when compared to the 2018/19 business plan).</p>								

	The percentage allowance for bad debts increases from 1.75% to 2.00% during 2019/20 as per the 2018/19 business plan. This change provides for the increase in bad debts that have arisen since the introduction of Universal Credit.																								
	Garage Rents																								
1.11	Garage rents are currently charged at £7.61 per week and garage plots £1.20 per week. An increase of £1 per week is proposed for garages and £0.20 for garage plots.																								
	Capital Programme																								
1.12	<p>£22.9m has been built into the WHQS and Asset investment programme for 2019/20. This includes provision for internal work streams, external enveloping works, environmental programmes, fire risks and Disability Discrimination Act (DDA) works, asbestos, off gas, energy efficiency works and strategic acquisition. 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.</p> <p>An additional allocation of £0.500m has been included in the WHQS programme for external enveloping works and £0.275m has been set aside to reinvest the monies generated by Solar PV into energy efficiency across the housing stock.</p> <p>In addition, £11.3m has been budgeted in 2019/20 for Council housing building schemes. This includes estimated rollover from 2018/19 following slippage on batch 3 schemes.</p> <p>The £34m capital programme will be funded by:-</p> <table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;">WHQS & Asset Investment Funding</th> <th style="text-align: right;">£m</th> </tr> </thead> <tbody> <tr> <td>Prudential Borrowing</td> <td style="text-align: right;">4.162</td> </tr> <tr> <td>Revenue Contribution (CERA)</td> <td style="text-align: right;">13.442</td> </tr> <tr> <td>Major Repairs Allowance</td> <td style="text-align: right;">5.065</td> </tr> <tr> <td>Solar PV Feed in Tariff</td> <td style="text-align: right;">0.275</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">22.944</td> </tr> </tbody> </table> <table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;">New Build Funding</th> <th style="text-align: right;">£m</th> </tr> </thead> <tbody> <tr> <td>Prudential Borrowing</td> <td style="text-align: right;">9.254</td> </tr> <tr> <td>Innovative Housing Programme Grant</td> <td style="text-align: right;">1.100</td> </tr> <tr> <td>Capital Receipts</td> <td style="text-align: right;">0.375</td> </tr> <tr> <td>Commuted Sums</td> <td style="text-align: right;">0.535</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">11.264</td> </tr> </tbody> </table>	WHQS & Asset Investment Funding	£m	Prudential Borrowing	4.162	Revenue Contribution (CERA)	13.442	Major Repairs Allowance	5.065	Solar PV Feed in Tariff	0.275	Total	22.944	New Build Funding	£m	Prudential Borrowing	9.254	Innovative Housing Programme Grant	1.100	Capital Receipts	0.375	Commuted Sums	0.535	Total	11.264
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	Inflation																								
1.13	Price inflation has been included in the business plan at October CPI - 2.4%																								

	<p>Non-standard inflation has been included for the following:- Gas 15% Electricity 11.8% Materials & Subcontractors 3% Capital 3%</p> <p>As more local authorities and RSLs begin to build, labour and materials become more expensive. BREXIT may also create its own inflationary pressures.</p>
	Abolition of the Right to Buy and Associated Rights (Wales) Act
1.14	<p>Right to Buy was temporarily suspended in Flintshire on 21st February 2017 for a period of 5 years. Right to Buy will now be abolished in Wales on 26th January 2019 for existing properties, one year after Royal Assent. To encourage investment in new homes, the rights ended for homes that are new to the social housing stock and therefore had no existing tenants two months after Royal Assent on 24th March 2018.</p>
1.15	<p>Attached to this report for Informal Cabinet consideration: -</p> <ul style="list-style-type: none"> • Appendix A – HRA Business Plan Narrative • Appendix B – 30 Year HRA Financial Business Plan Summary • Appendix C – HRA Capital Programme 2019/20

2.00	RESOURCE IMPLICATIONS
2.01	<p>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 2019.</p>
2.02	<p>Additional staff have been appointed to deliver an accelerated WHQS programme. The funding for these posts is provided for in the WHQS programme.</p>

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	<p>The draft budget was discussed with the Tenants Federation at their January 2019 meeting.</p>
3.02	<p>The draft HRA business plan and recommendations set out above were supported by Community & Enterprise Scrutiny Committee on the 23rd January 2019.</p>
3.03	<p>Detailed consultation has been undertaken with tenants and elected members to inform the preparation of the WHQS investment programme.</p>
3.04	<p>Full local consultation is carried out for each new build scheme.</p>

4.00	RISK MANAGEMENT
4.01	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 (with the exception of SHARP properties). This decision was taken to safeguard affordability for tenants.
4.02	Stock investment delivery plans will enhance the appearance of the environment and will contribute toward the Council's CO2 reduction targets.
4.03	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.
4.04	The Business Plan assumes a confirmation of Major Repairs Allowance (MRA) for the full 30 year life of the Business Plan.
4.05	The potential impact of BREXIT on interest rates and inflation has been mitigated by increasing the estimated assumptions included in the business plan.

5.00	APPENDICES
5.01	Appendix A – HRA Business Plan Narrative Appendix B – 30 Year HRA Financial Business Plan Summary Appendix C – HRA Capital Programme 2019/20

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	None. Contact Officer: Neal Cockerton, Chief Officer (Housing & Assets) Telephone: 01352 702500 E-mail: neal.cockerton@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	Financial Year: the period of 12 months commencing on 1 April 2019. 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.

Affordable Housing Grant: Welsh Government revenue grant paid to local authorities to fund up to 58% of borrowing costs of new build developments.