

CYNGOR SIR POWYS COUNTY COUNCIL.

CABINET EXECUTIVE

March 3rd, 2020

REPORT AUTHOR: County Councillor James Evans
Portfolio Holder for Economic Development, Housing and
Regulatory Services

REPORT TITLE: Housing Revenue Account (HRA) Thirty Year Financial
Business Plan Starting 2020-2021.

REPORT FOR: Decision

1. Purpose

- 1.1 The purpose of this report is to present for approval the Housing Revenue Account (HRA) Thirty Year Financial Business Plan Starting 2020-2021.

2. Background

- 2.1 All councils in Wales in their role as the Strategic Housing Authority have the responsibility to plan for the housing needs of their population. Powys is one of the eleven stock retaining local authorities in Wales, providing 5,375 affordable, secure homes across the county, as well as plans to develop a further 250 new homes scheduled for completion by the end of 2023.
- 2.2 Landlord councils in Wales are required to present an “acceptable” HRA Business Plan, including a thirty year financial model, to the Welsh Government each year. The Plan must conform to a structure and Business Plan parameters set out by the Welsh Government. This is to allow the Welsh Government to assess the progress of local authorities in maintaining the Welsh Housing Quality Standard (WHQS) to be eligible for the Major Repairs Allowance (MRA) Grant (currently for Powys £3.68m). Powys achieved WHQS compliance in December 2018.
- 2.3 The HRA borrows to fund capital works such as the new build and improvement programmes. The level of borrowing is closely monitored as this is related to annual capital financing costs. All councils in Wales have reached agreement with Welsh Government to remove the borrowing cap from HRAs with effect from March 2019, introduced by the Housing Act 2014 settlement payment. The Council is required by regulation to have regard to the Prudential Code when carrying out its duties under Part 1 of the Local Government Act 2003. Any borrowing undertaken for the HRA Business Plan following the abolition of the borrowing cap will be ‘unsupported’, in so much as there will not be any financial support from the Welsh Government for the cost of such borrowing. Schemes, such as development of new homes, may however benefit from grants to help cover cost of such projects.
- 2.4 This means that the Council is able to borrow additional resources without statutory limit to fund investment in both existing and new homes, as long as

the income generated by the HRA from rents and other charges is able to cover the cost of servicing and repaying the debt.

- 2.5 On February 11th 2020 Cabinet approved an increase in rents and other charges levied by the HRA in line with the Welsh Government's policy for social housing rents, which calculates rent levels using a number of factors including economic and housing market data. For rent increases from 2021-22 onwards the Council will be required to make sure that any rent increase considers affordability for tenants and also assessments of cost efficiencies.
- 2.6 The impact of changes to the social security system has been taken into account in developing the Business Plan. Financial modelling has been carried out to account significant risks of increasing rent arrears and the additional resources needed to make sure that rent due to the Council is paid promptly.
- 2.7 The HRA Thirty Year Business Plan Starting 2020-21 for Powys:
 - Makes sure the HRA treasury management strategy is prudent and complies with the Council's approach to borrowing;
 - Sets a balanced budget with minimum reserve of £1,300,000 (or 3% of expenditure);
 - Allows the Council to maintain WHQS for current homes;
 - Supports the development of at least 250 new homes;
 - Balances the need to keep rents affordable with making sure that homes are maintained and kept in good condition;
 - Maximises revenue and expenditure efficiencies.
 - Complies with the Prudential Code

3. Advice

- 3.1 To make sure that the Council continues to make efficient use of its housing assets and operates a sustainable landlord service, the HRA Business Plan, as proposed for approval, has been informed by a long term approach to important investment programmes.
- 3.2 Detailed proposals are set out in the HRA Business Plan narrative, attached as Appendix A to this report, for the five year period starting in 2020-2021 with outline proposals thereafter. This allows for a strategic approach to be taken to investment decisions and planning and allows for more informed consultation and communication with residents and tenants. Each year, the HRA Business Plan will be presented to Cabinet for consideration, allowing for programmes and investment profiles to be changed in the light of changing circumstances, needs and resources. A summary of the current proposals, for the five years beginning 2020-2021, is presented below. The figures for 2020-2021 will form the basis of the budgets for that particular year.
- 3.3 New Homes for Powys (Capital Programme)
 - 3.3.1 There were 2274 (Dec 2019) people registered with Homes in Powys for affordable, rented homes. A new build housing programme is underway which will initially deliver 252 new council homes by 2023. Further schemes are being developed to expand this programme, with provision being made in the HRA Business Plan to support 380 homes by 2025. This has been made

possible by the lifting of the borrowing cap on the HRA which means that there is no centrally imposed cap on the total amount of borrowing that the HRA can undertake. Developing homes available for let at social rents or sale at below market prices is not usually possible without direct grant support from the Welsh Government. This is to offset such expenditure as land acquisition and construction costs, which reflect open-market property values and rents. Such grant support is not available to fund core HRA borrowing. At a time of rising land and construction costs, the scale and pace of continued development of homes available for accommodation at sub-market rates will depend upon the availability of grant from the Welsh Government. If grant falls and land and construction costs continue to increase, the Council will need to consider alternative financial models which subsidise the continued development of new homes by the HRA.

Table 3.3.1: New Homes for Powys Financial Summary 2020-21 to 2024-2025

Financial Year	HRA Business Plan Investment	Number of New Homes Completed	Notes
2020-2021	£17,096,000	0	
2021-2022	£15,439,000	227	New Welsh Government grant regime assuming 40% grant/£2 m. per year
2022-2023	£5,916,000	79	
2023-2024	£6,432,000	0	Completions by Mar 2024 – 306 homes
2024-2025	£5,867,000	74	
Total	£50,750,000	380	

3.4 WHQS (Capital Programme)

- 3.4.1 This programme is designed to make sure the Council's homes continue to meet the WHQS. A sum of circa £3.1m will be carried forward from 2019-2020 to 2020-2021, which will help smooth the programme over the following years. This is because of the lower level of new resources available between 2023-2024 and 2027-2028. The programme has been structured to smooth the peaks and troughs of funding and investment needs, with the focus on those components where replacement is most needed. The age of the Council's housing is reflected in the need to invest in re-roofing works to reduce damp and increase thermal comfort. Many roofs are those originally installed when the properties were built. Investment in estates, including boundaries and fences, is considered to be an important part of the next phase of WHQS, which is to focus on the external environment of homes. Some of the investment activity within the WHQS programme also contributes to the objectives of the Green Powys and Compliance One Hundred programmes (see sections 3.5 and 3.6).

Table 3.4.1: WHQS Programme Financial Summary 2020-21 to 2024-2025

Investment	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Kitchens	£630,000	£530,000	£600,000	£420,000	£400,000
Bathrooms	£500,000	£500,000	£472,500	£200,000	£200,000

Rewiring	£150,000	£200,000	£180,000	£120,000	£60,000
Windows	£999,400	£399,000	£399,000	£300,000	£0
Roofing	£2,400,000	£2,400,000	£1,500,000	£1,000,000	£400,000
Walls	£500,000	£500,000	£600,000	£400,000	£0
Estate Works (contribute to Love Where You Live Programme)	£1,000,000	£1,500,000	£1,500,000	£600,000	£600,000
External Wall Insulation (contributes to Green Powys)	£1,000,000	£500,000	£300,000	£0	£0
Heating (contributes to Green Powys)	£2,000,000	£1,500,000	£1,500,000	£1,400,000	£1,400,000
Energy Efficiency (contributes to Green Powys)	£500,000	£600,000	£600,000	£500,000	£500,000
Asbestos Management (contributes to Compliance One Hundred)	£200,000	£200,000	£200,000	£100,000	£250,000
Doors	£415,000	£250,000	£250,000	£200,000	£0
Miscellaneous WHQS	£4,369,760	£1,696,907	£2,189,525	£536,255	£637,753
Total	£14,664,160	£10,775,907	£10,291,025	£5,776,255	£4,447,753

3.5 Compliance One Hundred

3.5.1 The Compliance One Hundred programme is designed to make sure that all of the Council homes and associated assets are one hundred per cent compliant with all relevant and applicable legislation and regulation. The investment schemes detailed below are in addition to those included within the WHQS programme, detailed above in section 3.4 and Day-to-Day Repairs and Maintenance which includes all inspections and servicing of safety-critical components and assets, such as heating systems and lifts.

Table 3.5.1: Compliance One Hundred Programme Financial Summary 2020-21 to 2024-2025

Investment	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Fire Safety Works	£200,000	£200,000	£100,000	£100,000	£100,000
Water Supply and Sewerage Works	£50,000	£50,000	£50,000	£150,000	£200,000
Legionella	£140,000	£150,000	£150,000	£200,000	£250,000
Asbestos & Radon	£50,000	£50,000	£50,000	£60,000	£60,000
WHQS	£200,000	£200,000	£200,000	£100,000	£250,000

Contributions to Compliance One Hundred (Asbestos Management)					
Day-to-day Repairs Contribution to Compliance One Hundred	£219,000	£305,000	£306,000	£307,000	£308,000
Total Compliance One Hundred Investment Programme	£859,000	£955,000	£856,000	£917,000	£1,168,000

3.6 Green Powys

3.6.1 The Green Powys programme is designed to increase fuel efficiency, reduce fuel poverty and build a solid foundation for the Council to contribute towards the Welsh Government's proposals to decarbonise homes across Wales. It is proposed to begin scaling back the installation of fossil fuel heating systems and begin ramping up more sustainable systems, such as Air Source Heat Pumps, and begin developing 'whole home' solutions. Progress will increase once further details are known about potential new decarbonisation standards with further guidance likely to be received from Welsh Government in 2020. The investment schemes detailed below are in addition to those included within the WHQS programme, detailed above in section 3.4.

Table 3.6.1: Green Powys Programme Financial Summary 2020-21 to 2024-2025

Investment	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Damp Prevention	£100,000	£150,000	£175,000	£175,000	£175,000
Photo-voltaic (Solar Panels)	£50,000	£75,000	£75,000	£75,000	£75,000
Decarbonisation and Energy Efficiency	£100,000	£100,000	£100,000	£100,000	£250,000
WHQS Contributions to Green Powys	£3,500,000	£2,600,000	£2,400,000	£1,900,000	£1,900,000
Day-to-day Repairs Contribution to Green Powys	£230,000	£375,000	£425,000	£375,000	£350,000
Total Green Powys Investment Programme	£3,980,000	£3,300,000	£3,175,000	£2,625,000	£2,750,000

3.7 Fit for Life

3.7.1 The Fit for Life programme is designed to make the Council's homes better suited to the needs of older people and those with health related needs that impair or adversely affect their mobility.

Table 3.7.1: Fit for Life Programme Financial Summary 2020-21 to 2024-2025

Investment	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Fit for Purpose	£2,400,000	£2,200,000	£2,000,000	£1,600,000	£1,200,000
Adaptations	£650,000	£650,000	£650,000	£650,000	£650,000
Total Fit for Life Investment	£3,050,000	£2,850,000	£2,650,000	£2,250,000	£1,850,000

3.8 Love Where You Live

3.8.1 The Love Where You Live tenancy sustainability strategy is designed to make the homes and estates managed by the Council places where people can enjoy their lives and we improve the wellbeing of our residents. The investment schemes detailed below are in addition to those included within the WHQS programme, detailed above in section 3.4

Table 3.8.1: Love Where You Live Programme Financial Summary 2020-21 to 2024-2025

Investments	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Brecon Area Estate Improvements	£20,000	£20,000	£36,000	£36,000	£36,000
Newtown Area Estate Improvements	£20,000	£20,000	£36,000	£36,000	£36,000
Welshpool Area Estate Improvements	£20,000	£20,000	£36,000	£36,000	£36,000
Wye Valley Estate Improvements	£20,000	£20,000	£36,000	£36,000	£36,000
Ystradgynlais Estate Improvements	£20,000	£20,000	£36,000	£36,000	£36,000
Car Parking	£0	£0	£75,000	£75,000	£75,000
Communal Area Improvements	£50,000	£75,000	£75,000	£75,000	£75,000
Garage Strategy	£100,000	£200,000	£200,000	£400,000	£400,000
Penybryn Regeneration	£300,000	£700,000	£700,000	£300,000	£0
Play Area Improvements	£0	£50,000	£50,000	£50,000	£50,000
WHQS Contributions	£1,000,000	£1,500,000	£1,500,000	£600,000	£600,000

to Love Where You Live (Estate and Boundary Works)					
Day-to-day Repairs Contribution to Green Powys	£408,960	£560,000	£585,000	£610,000	£635,000
Total Love Where You Live Investment	£1,958,960	£3,185,000	£3,365,000	£2,290,000	£2,015,000

3.9 Community Alarms (Capital Programme)

3.9.1 During 2019-2020, a review has looked at the future of the Careline service for tenants of the Council. The review was prompted by the need to replace the current equipment, which is of an age that it is beyond economical maintenance and repair. The HRA Business Plan for 2020-2021 includes a one off provision of £600,000 for the necessary capital investment to replace the Careline equipment with up to date kit that will be more reliable, less costly to maintain and able to offer a greater range of services.

3.10 Repairs and Maintenance (Revenue Programme)

3.10.1 Repairs and maintenance covers day-to-day repairs and cyclical maintenance to the Council's homes. The majority of this work is undertaken for the Council by its joint venture with Kier, Heart of Wales Property Services (HoWPS). The current contract with HoWPS will be subject to a review in 2022. HoWPS is paid an annual sum to undertake all works set out in a Service Agreement between it and the Council. Any day-to-day works not covered in the agreement have to be funded on an as-needs basis by the Council.

Table 3.10.1: Repairs and Maintenance Programme Financial Summary 2020-21 to 2024-2025

Investments	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
HoWPS (subject to confirmation)	£5,381,331	£5,494,339	£5,609,720	£5,727,524	£5,847,802
Estate and Grounds Maintenance	£205,221	£209,531	£213,931	£218,423	£223,010
Day-to-day repairs not covered by HoWPS Service Agreement	£1,792,448	£2,302,359	£2,429,290	£2,634,302	£2,651,681
Miscellaneous Expenditure	£259,540	£304,540	£317,540	£335,540	£343,540

Total Repairs and Maintenance Investment	£7,638,540	£8,310,769	£8,570,481	£8,915,789	£9,066,033
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3.11 Housing Management System (Capital Programme)

3.11.1 The Council's current housing management system, QL, has a servicing agreement in place until 31st October 2021 with a provision to extend to 31st October 2022. Under current procurement rules, this cannot be extended beyond that date. Accordingly, provision has been made in the HRA Business Plan for the full cost of purchasing, installing and bringing into use a new housing management system. Work on this, with associated expenditure, will start in Q3 of 2020-2021 and be completed in 2021-2022. The total cost is estimated at £1,000,000, with 20% spent in 2020-2021 and 80% in 2021-2022.

3.12 Acquisition of Properties (Capital Programme)

3.12.1 The Council has over the past few years purchased on the open market policy a number of homes, the majority of which have been ex-municipal homes. In determining which properties to purchase there has been a focus on those in areas of high demand and where the new build programme is unlikely to meet the need. For 2020-2021, it is proposed to restrict the programme to Welshpool where demand is high and there to date no opportunities for substantial new development of social housing. All such purchases are subject to the same viability criteria as new build, with additional allowances made for any works needed to bring the properties up to WHQS.

3.13 Other expenditure within the HRA Business Plan includes Supervision and Management Costs, which cover the costs of managing the service, for example staff, support services and office costs, and the cost of funding debt taken on when the HRA became self-financing in 2014 and any additional borrowing secured to fund investment programmes.

4. Resource Implications

4.1 The HRA Business Plan submission to the Welsh Government sets out how the Council will fund the service, aggregating certain categories of expenditure within generic headings set by the Welsh Government to help manage the allocation of MRA. Councils are however free to allocate investment across programmes of their own choosing. Table 4.1 sets out how Powys County Council proposes to invest in and fund the HRA Business Plan for next five years. All data is sourced from the HRA Thirty Year Financial Business Plan 2020-2021.

Table 4.1: HRA Business Expenditure, Income and Financing Summary 2020-2-21 to 2025-2026

	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Capital Expenditure					
Sub Total	36,071,000	38,807,000	22,828,000	16,014,000	15,706,000

Capital Funding					
Funding b/fwd	0	0	0	0	0
Major Repairs Allowance	3,680,000	3,680,000	3,680,000	3,680,000	3,680,000
Capital Receipts	0	0	0	0	0
Borrowing	17,096,000	15,440,000	5,916,000	6,432,000	5,867,000
Other Funding Sources	7,773,000	13,404,000	7,527,000	0	0
Capital Expenditure Funded by HRA	7,522,000	6,283,000	5,705,000	5,903,000	6,159,000
Sub total	36,071,000	38,807,000	22,828,000	16,014,000	15,706,000
Revenue Expenditure					
Supervision & Management Costs	6,768,000	6,917,000	7,069,000	7,224,000	7,383,000
Repairs and Maintenance	7,733,000	8,268,000	8,631,000	8,976,000	9,321,000
Interest	3,539,000	4,034,000	4,574,000	4,863,000	4,855,000
Capital Financing Charge	1,928,000	2,232,000	2,499,000	2,568,000	2,646,000
Sub total	19,967,000	21,451,000	22,773,000	23,631,000	24,205,000
Revenue Funding					
Gross Rental Income	25,739,000	26,919,000	28,397,000	29,482,000	30,326,000
Garages	687,000	702,000	717,000	733,000	749,000
Service Charges	430,000	439,000	449,000	459,000	469,000
Other Commercial Rental Income	0	0	0	0	0
Voids	(779,000)	(800,000)	(821,000)	(843,000)	(866,000)
Bad Debts	(558,000)	(573,000)	(589,000)	(604,000)	(621,000)
WG Affordable Housing Grant (AHG)	203,000	203,000	203,000	203,000	203,000
Interest on Balances	19,000	10,000	8,000	8,000	8,000
Other Income	168,000	172,000	176,000	180,000	183,000
Sub total	25,909,000	27,072,000	28,539,000	29,616,000	30,451,000
Surplus / - Deficit For Year	5,941,000	5,621,000	5,767,000	5,985,000	6,246,000
Capital Expenditure Funded by HRA	7,522,000	6,283,000	5,705,000	5,903,000	6,159,000
Voluntary Loan	0	0	0	0	0

Repayment					
Balance Brought Forward (HRA Reserve)	3,279,000	1,698,000	1,036,000	1,098,000	1,179,000
Surplus / - Deficit after Capital Expenditure from Revenue Account (CERA)	(1,581,000)	(662,000)	61,000	82,000	87,000
Balance Carried Forward (HRA Reserve)	1,698,000	1,036,000	1,098,000	1,179,000	1,267,000

4.2 The financial model includes many assumptions, the primary ones are detailed below in section 4.3. Due to the long term nature of the forecasts within the Business Plan, the uncertainty of the economic climate and the demands on the housing environment generally, these assumptions are extremely sensitive to change.

- 4.3 The primary assumptions made to inform the HRA Business Plan are:
- Rental income will increase by CPI + 1% per year, the maximum allowed by the Welsh Government's Rent Policy. Scenario planning is under way to assess the impact if the Welsh Government does not approve a maximum increase, which may occur if the Council is unable to fulfil the as yet unknown efficiency parameters the Welsh Government will use to determine future rent increases for individual social landlords.
 - Service charges are increased for future years in line with inflation for full cost recovery.
 - It is as yet unclear how the Welsh Government will in future years allocate grant to support the development of social and low cost housing. For the purposes of forward planning, a grant rate of 40% has been assumed.
 - The Welsh Government Major Repairs Allowance receivable is assumed to remain at previous levels of £3.68 million per year.
 - Void loss and bad debt has been assumed at 5.15%. Work continues with HoWPS, the Council's principle void works contractor, to reduce void turnaround times. This assumption also takes account of growing challenges collecting income from people reliant upon the social security system for all or part of their income.
 - Prudential borrowing interest rates have been assessed at 3.48 % per annum.
 - General inflation at 3.4% for RPI in 2019-2020 and 2.2% afterwards and 2.4 % for CPI in 2019-2020 and 1.7% annually afterwards
 - A minimum balance of £1m will be maintained over the medium term to mitigate against any future risks.

4.4 The Business Plan is subject to regular review to make sure new expenditure to be paid for by borrowing is for essential improvements or for schemes that have an element of pay back, such as the development of new homes. This is

to make sure that there are no long term issues of affordability and sustainability in respect of borrowing.

- 4.5 The Business Plan process requires the Council to assess the impact of a number of key variables and how changes in these may impact on priorities both in capital investment and for revenue budgets.
- 4.6 It should be noted that the HRA is ring fenced. This means it can only draw income from rental income, self-generated income and approved grants from the Welsh Government. It cannot benefit in any way from General Fund income. By the same token, the HRA can only be used to fund services and investment of direct benefit to domestic tenants of the Council. It cannot be used to fund General Fund services or investment. Welsh Government will later this year be issuing a revised HRA guide detailing what the HRA can and cannot fund.
- 4.7 The Council's Section 151 Officer has noted the contents of this report and is satisfied that the HRA business plan is acceptable, that the assumptions contained within the report are appropriate and that the plan conforms to the structure and business plan parameters set out by Welsh Government. The plan is therefore viable and can be supported from a financial perspective.

5. Legal implications

- 5.1 There are no direct legal implications but the requirement for a plan is set out in this report. The approval of the Business Plan is an executive function which does not have to be referred to full Council.
- 5.2 The Head of Legal and Democratic Services (Monitoring Officer) has commented as follows: "I note the legal comment and have nothing to add to the report".

6. Data Protection

- 6.1 The proposals and recommendations contained in this report do not involve the processing of personal data.

7. Comment from local member(s)

- 7.1 This matter has equal effect across the Council.

8. Integrated Impact Assessment

- 8.1 An Impact Assessment is attached to this report as Appendix B.
- 8.2 The Impact Assessment shows that the proposals for the HRA Thirty Year Business Plan 2020-2021 set out in this report contribute positively to maintaining and developing the Council's role as responsive and viable social landlord. A balanced approach has been taken between maintaining and improving existing homes and increasing the range of affordable housing options available for the people of Powys. Risks arising from changes by the Welsh Government to rent and affordable housing grant policy and inflationary construction costs are well mitigated. The Powys HRA Thirty Year

Business Plan makes a substantial contribution towards making Vision 2025 a reality, which now includes Affordable Housing as one of its top priorities.

- 8.3 The impact on the Council of not approving the proposed HRA Thirty Year Business Plan, set out in this report, will be considerable. There will be a high risk of the Council not being to comply with the Welsh Government's requirement for the Council to have in place by April 1st, 2020 a sustainable and viable HRA Thirty Year Business Plan. This may result in the loss of MRA (£3.68m per annum) and direct intervention by the Welsh Government in the management of the landlord service.

9. Recommendation

- 9.1 Cabinet is recommended to approve the Housing Revenue Account (HRA) Thirty Year Business Plan Starting 2020-2021.

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