

CYNGOR SIR POWYS COUNTY COUNCIL.

CABINET EXECUTIVE

March 2nd, 2021

**REPORT AUTHOR: County Councillor Iain McIntosh
Portfolio Holder for Housing, Planning & Economic
Regeneration**

**REPORT TITLE: Housing Revenue Account (HRA) Thirty Year Financial
Business Plan Starting 2021-2022.**

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 2021-2022.

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 5,389 affordable, secure homes across the county, as well as plans to develop a further 250 new homes scheduled for completion by the end of 2025.
- 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 annual Major Repairs Allowance (MRA) Grant (currently for Powys £3,699,000). 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 16th 2021 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.
- 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 2021-22 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 £1,000,000 (or 3% of expenditure).
 - Allows the Council to maintain WHQS for current homes.
 - Supports the development of at least 250 new homes by 2025.
 - 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 2021-2022. 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. A summary of the current proposals, for the five years beginning 2021-2022, is presented below. The figures for 2021-2022 will form the basis of the budgets for that particular year.
- 3.3 New Homes for Powys (Capital Programme)
 - 3.3.1 There were 3,326 (January 2021) people registered with Homes in Powys for affordable, rented homes. A new build housing programme is underway which will deliver at least 250 new council homes by 2025. Further schemes are being developed to expand this programme. Provision has been made in the HRA Business Plan to fund a potential increase to 425 homes both newly built and acquired (subject to land and development opportunities and any planning and regulatory consents being secured) by 2026. 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 2021-22 to 2025-2026

Financial Year	HRA Business Plan Investment	Number of New Homes Completed and Let	Notes
2021-2022	£13,480,000	17	Investment planned for each year will cover completing earlier schemes, progressing current developments and preparing for future projects. Completions will be dependent upon securing all necessary planning and other regulatory consents, securing viable development sites and where needed social housing grant.
2022-2023	£17,122,000	121	
2023-2024	£22,112,000	31	
2024-2025	£20,548,000	144	
2025-2026	£15,068,000	112	
Total	£88,330,000	425	

3.4 WHQS (Capital Programme)

3.4.1 This programme is designed to make sure the Council's homes continue to meet the WHQS. 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. Lower level of new resources are needed between 2023-2024 and 2027-2028 because the focus is now on maintaining rather than reaching the WHQS – the benefits of past investment will reduce the need for future expenditure. However, 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 2021-22 to 2025-2026

Investment	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Kitchens	£400,000	£600,000	£420,000	£400,000	£600,000
Bathrooms	£150,000	£473,000	£200,000	£200,000	£0
Rewiring	£200,000	£180,000	£120,000	£60,000	£100,000
Windows	£399,000	£399,000	£300,000	£0	£0
Roofing	£2,600,000	£1,500,000	£1,000,000	£400,000	£400,000
Walls	£500,000	£450,000	£400,000	£0	£0
Estate Works (contribute to Love Where You Live Programme)	£1,000,000	£1,400,000	£800,000	£800,000	£800,000

External Wall Insulation (contributes to Green Powys)	£500,000	£300,000	£0	£000,000	£0
Heating (contributes to Green Powys)	£1,500,000	£1,500	£1,400,000	£1,400,000	£1,400,000
Energy Efficiency (contributes to Green Powys)	£500,000	£500,000	£500,000	£500,000	£700,000
Asbestos Management (contributes to Compliance One Hundred)	£150,000	£150,000	£100,000	£250,000	£0
Doors	£104,000	£250,000	£200,000	£0	£0
Miscellaneous WHQS	£1,220,000	£651,000	£250,000	£250,000	£150,000
Total	£9,223,000	£8,352,000	£5,690,000	£4,260,000	£4,150,000

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 2021-22 to 2025-2026

Investment	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Fire Safety Works	£170,000	£100,000	£100,000	£100,000	£100,000
Water Supply and Sewerage Works	£200,000	£150,000	£150,000	£200,000	£300,000
Legionella	£150,000	£150,000	£200,000	£250,000	£250,000
WHQS Contributions to Compliance One Hundred (Asbestos Management)	£150,000	£150,000	£100,000	£250,000	£0
Day-to-day Repairs Contribution to Compliance	£430,000	£480,000	£400,000	£310,000	£310,000

One Hundred					
Total Compliance One Hundred Investment Programme	£1,100,000	£1,030,000	£950,000	£1,110,000	£960,000

3.6 Green Powys

3.6.1 The Green Powys programme is designed to increase fuel efficiency and reduce fuel poverty for tenants of the Council and make tangible improvements to the wider environment, with a particular emphasis on increasing planting of trees, shrubberies and other actions to promote biodiversity, encourage appreciation of the natural world and give a greener feel to our communities.

3.6.2 As the 'Green Heart of Wales' Powys County Council is working to improve the thermal comfort of its council-owned homes and at the same time helping to reduce the carbon footprint of the county. The cost of decarbonising all homes currently owned by the Council is difficult to quantify. However, a broad-brush estimate based on research undertaken by Inside Housing suggests a possible investment of £112,000,000 will be needed for Powys. The Council is exploring sustainable heating systems, such as ground source heat pumps and replacing gas-fired boilers with ones that can easily be converted to use hydrogen.

Table 3.6.2: Green Powys Programme Financial Summary 2021-22 to 2025-2026

Investment	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Damp Prevention	£150,000	£175,000	£175,000	£175,000	£200,000
Photo-voltaic (Solar Panels)	£75,000	£75,000	£75,000	£75,000	£75,000
Decarbonisation and Energy Efficiency	£90,000	£90,000	£100,000	£250,000	£250,000
WHQS Contributions to Green Powys	£2,500,000	£2,300,000	£1,900,000	£1,900,000	£2,100,000
Day-to-day Repairs Contribution to Green Powys	£300,000	£300,000	£325,000	£350,000	£350,000
Total Green Powys Investment Programme	£3,115,000	£2,940,000	£2,575,000	£2,750,000	£2,975,000

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 2021-22 to 2025-2026

Investment	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Fit for Purpose	£1,800,000	£1,700,000	£1,400,000	£1,200,000	£1,000,000
Adaptations - Capital	£250,000	£250,000	£250,000	£250,000	£250,000
Adaptations - Revenue	£515,000	£528,815	£536,860	£548,130	£559,640
Total Fit for Life Investment	£2,565,000	£2,478,815	£2,186,860	£1,998,130	£1,809,640

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 2021-22 to 2025-2026

Investments	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Brecon Area Estate Improvements	£20,000	£25,000	£36,000	£36,000	£36,000
Newtown Area Estate Improvements	£20,000	£25,000	£36,000	£36,000	£36,000
Welshpool Area Estate Improvements	£20,000	£25,000	£36,000	£36,000	£36,000
Wye Valley Estate Improvements	£20,000	£25,000	£36,000	£36,000	£36,000
Ystradgynlais Estate Improvements	£20,000	£25,000	£36,000	£36,000	£36,000
Car Parking	£0	£75,000	£75,000	£75,000	£75,000
Communal Area Improvements	£75,000	£75,000	£75,000	£75,000	£75,000
Garage Strategy	£200,000	£200,000	£400,000	£400,000	£400,000
Penybryn Regeneration	£700,000	£700,000	£300,000	£0	£0
Play Area Improvements	£50,000	£50,000	£50,000	£50,000	£50,000
WHQS Contributions to Love	£1,000,000	£1,400,000	£800,000	£800,000	£800,000

Where You Live (Estate and Boundary Works)					
Day-to-day Repairs Contribution to Green Powys	£819,900	£1,345,000	£1,371,400	£1,379,700	£1,406,300
Total Love Where You Live Investment	£2,944,900	£3,970,000	£3,251,400	£2,959,700	£2,986,300

3.9 Community Alarms (Capital Programme)

3.9.1 During 2019-2020, a review 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. Plans to replace the equipment in 2020-2021 were put on hold due to service restrictions introduced to manage the impact of the Covid-19 pandemic. The HRA Business Plan for 2021-2022 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). HoWPS is paid an annual sum to undertake all works set out in a Service Agreement between itself and the Council. Any day-to-day works not covered in the agreement are funded on an as-needs basis by the Council.

3.10.2 A review of the services provided for the Council by HoWPS took place in 2020 with appropriate responses to the review's findings to be agreed early in 2021.

Table 3.10.2: Repairs and Maintenance Programme Financial Summary 2021-22 to 2025-2026

Investments	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
HoWPS Service Agreement	£5,303,130	£5,414,500	£5,528,200	£5,644,290	£5,762,820
HoWPS Service contingency	£170,000	£0	£0	£0	£0
Day-to-day and cyclical repairs not covered by HoWPS	£2,326,900	£2,518,170	£2,523,120	£2,493,720	£2,529,930

Service Agreement					
External Painting	£350,000	£357,350	£364,850	£372,510	£380,330
Estate and Grounds Maintenance	£888,970	£907,640	£926,700	£946,160	£966,030
Miscellaneous Expenditure	£142,320	£145,310	£148,360	£151,480	£154,660
Total Repairs and Maintenance Investment	£9,181,320	£9,342,970	£9,491,230	£9,608,160	£9,793,859

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 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 between 2019 and 2021 purchased 20 homes on the open market, 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 or due to planning and land restrictions, unable to meet the need. 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. The programme will continue to be a significant part of the work undertaken by the Council to increase the availability of genuinely affordable, secure rented homes across Powys.

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 2021-2022.

Table 4.1: HRA Business Expenditure, Income and Financing Summary 2021-2022 to 2025-2026

	2021/22	2022/23	2023/24	2024/25	2025/26
Capital Expenditure					
WHQS Improvements & Maintenance	£9,223,000	£8,472,000	£5,848,000	£4,436,000	£4,373,000
<i>New build</i>	£11,880,000	£15,520,000	£19,112,000	£12,492,000	8,72,0000
Regeneration / Remodelling of existing stock	£4,480,000	£3,890,000	£3,322,000	£2,792,000	£1,121,000
<i>Acquisition of existing properties (Tab 8)</i>	£1,600,000	£1,600,000	£1,600,000	£1,600,000	£1,800,000
<i>Acquisition of Land</i>	£0	£0	£0	£0	£0
Other Improvements	£720,000	£492,000	£600,000	£711,000	£824,000
Other Capital Expenditure	£0	£0	£0	£0	£0
Slippage	£0	£0	£0	£0	£0
Sub Total	£27,903,000	£29,974,000	£30,482,000	£22,031,000	£8,992,000
Capital Funding					
Funding B/Fwd	£0	£0	£0	£0	£0
Major Repairs Allowance	£3,699,000	£3,699,000	£3,699,000	£3,699,000	£3,699,000
Capital Receipts	£0	£0	£0	£0	£0
Borrowing	£14,454,000	£15,980,000	£15,243,000	£9,127,000	£0
Other Funding Sources	£4,204,000	£5,815,000	£7,249,000	£4,932,000	£935,000
Capital Expenditure funded by HRA	£5,546,000	£4,481,000	£4,291,000	£4,273,000	£4,357,000
Sub Total	£27,903,000	£29,974,000	£30,482,000	£22,031,000	£8,992,000
Capital Funding Shortfall	£0	£0	£0	£0	£0
Capital Cumulative Shortfall	£0	£0	£0	£0	£0
Revenue Expenditure					
Management Costs	£7,088	£7,188	£7,291	£7,398	£7,518
Repairs & Maintenance	£8,292	£8,537	£8,771	£8,978	£9,259
Interest	£3,223	£3,484	£3,789	£4,036	£4,111
Capital Financing Charge	£2,597	£3,031	£3,499	£3,928	£4,137

Sub Total	£21,200	£22,239	£23,350	£24,341	£25,025
Revenue Funding					
Gross Rental Income	£26,332	£27,069	£27,857	£28,721	£29,815
Garages	£743,000	£752,000	£761,000	£770,000	£779,000
Service Charges	£290,000	£294,000	£297,000	£301,000	£304,000
Other Commercial Rental Income	£0	£0	£0	£0	£0
Voids	-£1,052,000	-£1,006,000	-£960,000	-£843,000	-£726,000
Bad Debts	-£790,000	-£679,000	-£605,000	-£628,000	-£657,000
WG Affordable Housing Grant (AHG)	£203,000	£203,000	£203,000	£203,000	£203,000
Interest on Balances	£0	£0	£0	£0	£0
Other Income	£97,000	£88,000	£89,000	£90,000	£91,000
Sub Total	£25,823,000	£26,720,000	£27,642,000	£28,613,000	£29,809,000
Surplus / - Deficit for Year	£4,623,000	£4,481,000	£4,291,000	£4,273,000	£4,783,000
Capital Expenditure funded by HRA	£5,546,000	£4,481,000	£4,291,000	£4,273,000	£4,357,000
Voluntary loan repayment	£0	£0	£0	£0	£0
Balance Brought Forward (HRA Reserve)	£1,924,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000
Surplus / - Deficit after CERA	-£924,000	£0	£0	£0	£426,000
Balance Carried Forward (HRA Reserve)	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,426,000

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.
 - Service charges are increased for future years in line with inflation for full cost recovery.
 - The Welsh Government will in future years allocate grant to support the development of social and low-cost housing on a scheme-by-scheme basis. For the purposes of forward planning, an average grant rate of 35% has been assumed.

- The Welsh Government Major Repairs Allowance receivable is assumed to remain at previous levels of £3,699,000 per year.
- Void loss and bad debt have been assumed at 7% (4% voids and 3% bad debt). Work continues with HoWPS, the Council's principal 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 2.9% per annum.
- General inflation at 2.2% for RPI in 2020-2021 and 1.2% afterwards and 1.7% for CPI in 2020-2021 and 0.5% annually afterwards
- A minimum balance of £1,000,000 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 Head of Finance (Section 151 Officer) notes the content 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 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 2021-2022 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, 2021 a sustainable and viable HRA Thirty Year Business Plan. This may result in the loss of MRA (£3,699,000 per annum) and direct intervention by the Welsh Government in the management of the landlord service.

9. Recommendation

9.1 Cabinet is therefore recommended to approve the Housing Revenue Account (HRA) Thirty Year Business Plan Starting 2021-2022.

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