ITEM **10**

Cabinet report

1 September 2020

REFRESH OF THE HRA BUSINESS PLAN AND HRA CAPITAL FINANCING INVESTMENT

Name of Cabinet Member	**Councillor Emily Darlington** Cabinet Member for Housing & Regeneration **Councillor Rob Middleton** Cabinet Member for Resources & Innovation
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Exempt / confidential / not for publication	**No**
Council Plan reference	**None**
Wards affected	**All wards**

Executive summary

The Council has high ambitions for the housing and regeneration service, and these are articulated in this Business Plan. We will deliver on our commitment to build 500 new council homes by 2022 and a further 700 by 2030, totalling 1200. We will tackle climate change by improving the energy efficiency of our council housing stock and building carbon neutral council homes, helping MK reach its target of being carbon neutral by 2030 and carbon negative by 2050 through an investment in current council homes of £50m over the next three years. We will deliver our community led regeneration and estate renewal programme across MK, with planning for The Lakes Estate and Fullers Slade already underway, and early engagement planned to commence on Beanhill, Bradville, Coffee Hall, Netherfield, and Tinkers Bridge by March 2021.

We will aim, through the HRA investment proposed in this Business Plan, to create 375 jobs and 150 apprenticeships. We will work with partners to tackle anti-social behaviour, which we know causes misery and disruption for too many of our tenants and residents.

The Council's Housing Revenue Account Business Plan (HRA BP) was approved on 8 January 2019 and set out how we intended to achieve our ambitions to maintain and improve our existing housing stock, regenerate local estates, build new council homes and improve the services we deliver to our tenants. The HRA BP has undergone a thorough review and refresh, taking account of our revised housing and regeneration ambitions and the changes to the financial environment, notably the abolition of the cap on HRA borrowing.

The Business Plan is constrained by the resources available, made up from a combination of tenants' rents and service charges, capital receipts and prudent levels of debt finance. Following approval of the draft HRA BP, in October 2018 the Government removed the borrowing cap imposed on local authorities' housing revenue accounts. As noted in the January 2019 report, this change gives us more freedom to invest in council housing, something that we were unable to do previously, and this now informs the HRA BPM and the proposed changes to HRA debt management. This change gives us more freedom to invest in council housing, something that we were unable to do previously. It has given local authorities the power and flexibility to deliver their development and regeneration programmes in-house, by providing a more flexible funding regime, allowing for the recruitment of relevant in-house skills.

We have also reviewed the Council's Treasury Management arrangements to reflect the potential increase in investment that the draft HRA BP has modelled. We have set out a framework to ensure that future investment decisions can be made in line with the CIPFA Prudential Code for Treasury Management and to reflect the expected change in borrowing by the HRA, which is no longer compatible with a single debt pool arrangement.

At the December Cabinet, as part of the draft budget proposals, we will be setting out the planned budget for the HRA and new Prudential Indicator limits including a proposed borrowing limit for 2021/22 to 2024/25 which will enable additional investment to improve the current HRA stock and facilitate regeneration and an element of new build. The consultation on the HRA Business Plan will help inform the future investment choices and priorities.

1. Decision/s to be made

a) That the draft Housing Revenue Account Business Plan be approved for consultation with council tenants and leaseholders (Annex A)
b) That consultation (Annex E) lasts for six weeks starting on 14 September with the final version of the Housing Revenue Account Business Plan being considered by Cabinet at its 15 December 2020 meeting
c) That the proposed Prudential Indicators set out in Annex D are approved. The financial limits will be presented to Cabinet at its 15 December 2020 meeting as part of the draft budget proposals
d) That Cabinet note the current draft Business Plan Model at Annex B (which sets out the projected 30 year forecast based on achieving Decent Homes Standard and delivery of the approved new build, acquisition and regeneration capital programme) and at Annex C which outlines a forecast of the potential cost of future investment based on the ambitions in the HRA BP.

2. Why is the decision needed?

2.1 The Housing Revenue Account (HRA) Business Plan sets out the rental income stream and investment needs for our stock over a 30-year period to ensure it is maintained in good condition and that the HRA remains sustainable. In January 2019 Cabinet approved the Housing Revenue Account Business Plan 2019/2048 which showed that the council could invest in meeting the Government's Decent Homes Standard and deliver 366 new council homes and achieve a surplus of £323m over the 30-year lifespan of the plan.

2.2 The revised draft HRA BP is the overarching strategic document that sets out what our investment priorities are and reflects the renewed ambitions of the Council to build more council homes and to bring our existing homes up to a decent standard with a clear focus on carbon reduction and sustainability.

2.3 The baseline HRABP model (Annex B) is the 30-year financial forecast of our statutory maintenance programme and our approved capital programme of new build. This shows that the council can invest in meeting the decent homes standard and build 148 new homes over the next 30 years and the surplus will be £262m. This 'surplus' along with any borrowing capacity represents the amount that the Council can invest in its key priorities over the next 30 years.

2.4 The Council has ambitious plans to improve its existing housing stock, build more council homes so more local people have good quality, safe, secure and affordable housing and invest in the regeneration of its estates and communities. The removal of the borrowing cap provides an opportunity to increase the future level of investment. However, it is essential that this is undertaken prudently and is therefore why we are proposing to set Prudential Indicators specifically for the HRA and also change the debt pooling arrangement as outlined in Annex D.

2.5 A 30-year financial forecast of potential future investment scenarios (Annex C) has also been modelled to give a high-level indication of the potential financial impact of the ambitions outlined in the HRA BP, regarding new build and acquisition and regeneration. This does not represent any commitment by the Council, and all individual development schemes would be subject to viability, affordability and value for money assessments before being approved.

2.6 The draft HRA Business Plan refreshed for 2020/21 to 2049/50 is included at Annex A and the consultation questions that residents will be asked, is at Annex E. The key ambitions of the Business Plan are as follows:

Existing Homes

2.7 In April 2019 the Council embarked on a £165m five-year planned investment programme aimed at bringing all of the Council's housing stock up to the Decent Homes Standard. In 2018 the percentage of council homes that failed to meet this standard stood at 35%; by July 2020 this had fallen to 13%. The proposed investment outlined in this plan (£997m over 30 years) will ensure that all of the Council's properties meet and are maintained at this standard as a minimum. Further work will be undertaken in consultation with tenants and leaseholders to consider and agree a new Milton Keynes standard that will exceed the national minimum. The potential cost of this is not reflected in the draft updated financial model but will be assessed as part of ongoing updates of the financial forecast as discussions progress and the implication is quantified.

2.8 This will include ambitious proposals to contribute towards our plans to become a carbon negative council through improved insulation, the use of solar panels and energy centres and consideration of moving away from the use of fossil fuels.

2.9 In July 2020, a three-year extension to our repairs and maintenance contract with Mears was approved. This will run to March 2024 and will include a reduction in the time taken to carry out repairs from an average of 12 days to an average of nine days, an extension to the programme of local repair surgeries and a change to the way we calculate customer satisfaction with only scores of eight and above (on a scale of 1 to 10) being classed as customers satisfied. This is currently seven and above. We will invest in the Council's Asset Management and Investment

Team to ensure that the management of the contract is robust and that continuous improvement in service delivery is achieved. We will also shortly begin planning for the delivery of the repairs and maintenance service post March 2024.

New Council Homes

2.10 The draft plan has modelled potential future investment of £287.4m to reflect our aspiration to build and acquire 1,258 new council homes by 2030. This would make a significant contribution to alleviate homelessness in the City and ensure that residents have access to good quality, safe, secure and affordable housing.

Regeneration

2.11 Consultation on the latest iteration of the regeneration strategy ended on 30 June 2020 and a delegated decision report will be brought forward for consideration in October 2020. The draft strategy is centred on four themes (community, jobs, health and housing) and will be delivered co-operatively with local residents, parish councils and other key stakeholders. In addition to the two areas currently being brought forward (The Lakes Estate and Fullers Slade), discussions have begun with residents of Netherfield following the demolition of Buckland Lodge, and Mellish Court following the health and safety work to the balconies. We will also prioritise discussions with residents who live in REEMA blocks across the city as these properties are particularly energy inefficient and we need to identify bespoke solutions for these properties (there are 16 REEMA blocks located in Bletchley). Within the draft HRA BP (Potential Future Investment Scenarios) a forecast has been included of £303.7m to support the delivery of this programme. These schemes are at different stages of development and will be subject to further due diligence.

2.12 As we commence discussions with residents of other areas of MK, we will prioritise early meetings with parishes and residents in the remaining five priority areas highlighted in the earlier iteration of the strategy. These conversations with Bradville, Beanhill, Coffee Hall, Netherfield and Tinkers Bridge will take place before March 2021. These will be community led discussions with local people and local parishes working with council officers to develop proposals. Any proposals which come forward from this engagement will need to be fully assessed.

2.13 We will adopt a commissioning and procurement approach that focusses on social value and makes a positive contribution to Milton Keynes by supporting and increasing local jobs, training and apprenticeship opportunities.

2.14 We will retain a strong focus on environmental sustainability and support the ambitions set out within the Sustainability Strategy 2019-2050 for Milton Keynes to be carbon neutral by 2030 and carbon negative by 2050.

Asset Management Plan and Value for Money

2.15 The Asset Management Plan (AMP) sets out the Council's approach to managing its housing related assets held in the Housing Revenue Account. It covers a range of activities that ensure the housing stock meets the needs and standards required, both now and in the future.

2.16 Central to the HRA BP and AMP is the need to demonstrate value for money (VFM). Key considerations when assessing VFM will include:

a) Income stream vs. cost in net present value terms – demonstrating the income form the scheme can cover the cost of delivery
b) Comparison with other relevant alternative options to understand the relative costs and benefits, e.g. market benchmarks to new build.
c) Cost vs. impact – demonstrating that investment reduces costs and/or generates savings or income elsewhere (both within and beyond the HRA)
d) Cost vs. benefit – how investment benefits our customers

Engagement

2.17 Tenants and leaseholders are entitled to have a say on how their rent and service charges are spent. Once approval of the draft Business Plan is given by Cabinet, we will commence a six-week consultation exercise, giving every tenant and leaseholder the opportunity to tell us how they would like us to prioritise our investment plans.

3. Implications of the decision

Financial	Y	Human rights, equalities, diversity	Y
Legal	Y	Policies or Council Plan	Y
Communication	Y	Procurement	N
Energy Efficiency	Y	Workforce	N

a) Financial implications

The financial implications of the updated draft HRA BP, and the Baseline Business Plan Model (BPM) are set out in Annex B. In summary the Baseline BPM shows that debt will still be repaid within the BP period.

The financial implications of potential future spending, largely on building new council housing and regeneration schemes, are set out as potential future investment Scenarios in Annex C. In summary this shows that debt would not be repaid within the BP period.

The financial modelling is still subject to independent review and this will be finalised ahead of the draft budget report in December 2020.

The HRA Business Plan Model provides a snapshot of the current projected income and expenditure using a range of assumptions. The actual resources available will vary significantly as changes arises, for example as a result of annual inflation. The magnitude of potential investment, especially in the Potential Future Investment Scenarios BPM, and the duration of the BP period mean that there is considerable risk involved in the delivery of the BP. This risk can be mitigated by incremental approaches to approving additional expenditure, keeping the HRA BP and BPM up to date to ensure that operational and financial planning is based on good recent evidence, and awareness of risk indicators as shown in the sensitivity analyses included in Annexes B and C with appropriate mitigating actions being taken promptly. It will be necessary to have clear prioritisation across the programme to ensure that investment decisions are balanced against affordability and the Council optimises value through the appropriate delivery option.

The financial implications of proposed changes to HRA borrowing arrangements, and potential prudent limits to new HRA borrowing, are set out in Annex D. Cabinet should note that as part of the budget we will be proposing an HRA Prudential Borrowing Limit which will take into consideration an assessment of the key risks and provide a sufficient risk margin to ensure the longer term sustainability of the HRA.

Planned spending, and the changes to borrowing arrangements, will be updated and included within the updated BP and BPM to be reported post-consultation to Cabinet in December, and will also inform recommendations for the approval of capital and revenue budgets as part of the 2021/22 budget-setting process. As part of this process Housing staff will liaise with other services so that budget and service changes are coordinated across the council.

b) Legal implications

The Council has a statutory duty to approve a balanced Housing Revenue Account each year. There are no other direct legal implications.

c) Other implications

A consultation with tenants and leaseholders needs to take place to allow them an opportunity to influence our plans and tell us what their priorities for investment are. As the HRABP is going to December Cabinet for final approval, there is only scope for a six-week consultation.

An Equalities Impact Assessment has been undertaken and has not identified any adverse impact in terms of equalities and diversity.

4. Alternatives

Not approving the draft revised Business Plan will make it more difficult to prioritise our resources in the strategic manner contained within it. This could lead to delays to our development programme and potentially negatively impact on the stock improvement programme.

Not considering the HRA BP Model and changes to HRA borrowing arrangements will restrict our ability to understand the financial consequences of planned spending and borrowing.

5. Timetable for implementation

- Sept-Oct – Consultation with tenants and leaseholders
- 19 Nov – CLT approval of finalised HRA BP
- 15 Dec 2020 – Cabinet approval of finalised HRA BP, HRA BPM, and finalised HRA borrowing arrangements

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List of annexes
Annex A – Housing Revenue Account Business Plan
Annex B - Housing Revenue Account Business Plan Model – Baseline
Annex C - Housing Revenue Account Business Plan Model – Future Potential Investment Scenarios
Annex D - Housing Revenue Account Borrowing Arrangements
Annex E – Consultation on HRA Business Plan

List of background papers

Cabinet Report and Annex of 8 January 2019