Cabinet report

milton keynes council

2 February 2021

REFRESH OF THE HRA BUSINESS PLAN AND HRA CAPITAL FINANCING INVESTMENT

Name of Cabinet Member	**Councillor Emily Darlington** Cabinet Member for Public Realm and Housing Services **Councillor Rob Middleton** Cabinet Member for Resources
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Exempt / confidential / not for publication	**No**
Council Plan reference	
Wards affected	**All wards**

Executive summary

The draft Housing Revenue Account Business Plan (HRA BP) was presented to Cabinet on the 1 September 2020 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. Since this time much has changed in the economic environment of the UK and it is clear that significant intervention is required in the future of Mellish Court and the Gables. Despite this uncertainty, the Business Plan delivers a significant investment programme, putting us on a sustainable path to realising our ambitions for council homes in Milton Keynes.

A thorough review of the consultation feedback from current council tenants and leaseholders has been undertaken which has emphasised the importance of investing in our housing stock so that our tenants and leaseholders can feel safe and secure in a decent home. Due diligence on the 30-year rolling financial model has incorporated the economic uncertainties due to the impact of COVID-19 and Brexit, and key factors such as updated rent figures.

These are unprecedented times for the country and Milton Keynes Council. The Business Plan will be updated annually and as the true economic impact of Covid19, Brexit and the recession are understood, the 30-year outlook will become clearer.

The consultation with tenants and leaseholders was a core component of the refresh. 2,384 responses were received, and the results and comments have been carefully analysed. Tenants and leaseholders told us that their priority areas for investment in their homes were:

- Repairs and maintenance of existing council homes
- Improvements to existing homes, prioritising kitchens, bathrooms, energy efficiency and dealing with mould
- Estate improvements, with a focus on paving and paths, fences and gates, pest control, and grass and shrub cutting
- Improved entrance security for communal areas and sheltered accommodation

Further details of the consultation can be found in Annex C.

In the September 2020 report to Cabinet, we set out proposals to adopt two debt pools (currently we operate a single debt pool), splitting the General Fund and HRA debt and thereby ensuring future decisions can be made independently, reflecting the different needs and investment requirements in the HRA. This change is in line with the CIPFA Prudential Code for Treasury Management and will help support greater investment into the HRA. As part of this we also adopted a Voluntary Minimum Revenue Provision to ensure that new investment funded through debt is sustainable. These changes are fully reflected in the updated rolling forecast.

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. The removal of the debt cap now allows for greater investment in new stock subject to the overall affordability of new debt.

The Council's Treasury Management Strategy sets out the approach that we have adopted to setting an affordable borrowing limit for the HRA (replacing the former statutory debt cap). We have used this to set out the overall level of debt that the HRA can afford in the latest rolling business plan. The borrowing limits are based on the ability of the HRA to service debt costs and therefore changes to the operating surplus within the HRA model will impact on future debt capacity. The level of debt that the HRA can take on will change as the Council decides and finalises its investment priorities. This will be reviewed annually to reflect external economic factors and to balance new service priorities.

1. Decision/s to be made

1.1 That the updates to the Housing Revenue Account Business Plan be noted (Annex A)

1.2 That Cabinet note the Rolling Business Plan Model at Annex B (which sets out the projected 30-year forecast based on achieving Decent Homes Standard and investment in approved new build and regeneration schemes) and forecast borrowing capacity based on these current assumptions

1.3 That the Rent and Service Charge Policy at Annex D be approved which sets out the principles MKC applies in calculating rents and service charges for its housing stock and creates the procedural framework for rent setting, service charges and income collection.

2. Why is the decision needed?

2.1 The HRA BP is the overarching strategic document that sets out what our anticipated resources and 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.

2.2 The rolling baseline HRA BP Model (Annex B) is the 30-year rolling 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 290 new homes, and that the surplus left in the HRA will be £110m based on current economic forecasts. This surplus, along with any borrowing capacity, represents the amount that the Council can invest in its key priorities over the next 30 years, such as aiming to deliver 1,200 new council homes by 2030. This will be reviewed and updated annually to reflect changes in economic forecasts and assumptions.

2.3 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 Council will seek to attract external government funds to support the maintenance, regeneration and build programmes. The removal of the statutory borrowing cap provides an opportunity to increase the future level of investment. However, it is essential that this is undertaken prudently. Details of the Council's approach to setting a Prudential Borrowing Framework are set out in the Council's Treasury Management Strategy which is annexed as part of the main budget report on this agenda.

2.4 Work is progressing well to assess the key priority schemes and finalise our Investment Plan which will deliver more investment in our tenants' and leaseholders' priorities. We will be presenting this in summer 2021 once we have completed the viability and project programming work currently in progress.

The HRA Business Plan (Annex A)

2.5 The HRA Business Plan refreshed for 2020/21 to 2049/50 is included at Annex A. The key priorities of the Business Plan have been refocussed around the consultation feedback, a clearer understanding of the need for investment in our two tower blocks and due diligence on the financial modelling, and are as follows:

Existing Homes

2.6 In April 2019 the Council embarked on a £165m five-year planned investment programme aimed at bringing 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 significantly improved and moved 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 Decent Homes 'Plus' 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.

2.7 This will include ambitious proposals to contribute towards our plans to become a carbon neutral council by 2030 and carbon negative by 2050, through an improved 'whole house' approach to external walls, insulation, the use of solar panels, clean energy centres, and moving away from the use of fossil fuels towards renewable, greener energy solutions. The Council will work with Mears and Engie to apply for external government grants to support this programme which is expected to be £50m from the planned maintenance investment over the next 3 years.

2.8 In July 2020, a three-year extension to our repairs and maintenance contract with Mears was approved. This will run to March 2024 and includes a reduction in the time taken to carry out repairs from an average of 12 days to 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. 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 potential direct delivery of the repairs and maintenance service post March 2024.

2.9 The tenants' consultation feedback highlighted the importance of good housing management. The Council will invest more in looking after and maintaining estates, including a review of the pest control provision and working with Public Realm on a solution for pest control across MKC housing land and assets.

New Council Homes

2.10 The draft plan has modelled potential future investment in a supply of new homes to reflect our aspiration to build and acquire 1,200 new council homes by 2030. This would make a significant contribution to alleviate homelessness and ensure that residents have access to good quality, safe, secure and affordable housing. There are several government schemes that can help support this ambition and the Council will seek to attract external funds so it can meet the needs of our growing city.

Mellish Court and the Gables

2.11 The Council owns and manages two tower blocks – Mellish Court and The Gables. The Council commissioned its structural engineering specialists to carry out intrusive surveys of both buildings. These surveys identified compartmentation issues at both blocks and concluded that neither block meets current health and safety standards given their age, as both were built in late 1960s. As a priority, short term mitigating measures have been put in place to ensure the safety of residents. This includes upgrades to smoke/heat detectors and fire doors, evacuation plans and procedures, a 24/7 warden patrol service, increased presence of caretakers and housing officers and a decant plan. Extensive engagement is ongoing with residents to ensure they have every opportunity to ask questions or raise concerns. An eight-week consultation on whether the Council should refurbish the blocks or demolish them and build new council homes on the site commenced on the 14 December 2020, with a delegated decision report to be considered on 2 March 2021 following the consultation.

Regeneration

2.12 Following a 20-week consultation, the Council's new Community-led Regeneration and Estate Renewal Strategy was adopted in October 2020. This strategy sets out our strategic priorities for community led regeneration and estate renewal under six key themes:

- **Housing:** increase the supply and quality of council homes to meet housing need and tackle the housing crisis
- **Communities:** improve the quality of the local environment with better green and open spaces, supported by good infrastructure and community facilities
- **Environmental sustainability:** reduce our carbon footprint and contribute towards the aim for MK to be carbon neutral by 2030 and carbon negative by 2050
- **Health and wellbeing:** promote a high quality of life for people of all ages and backgrounds, in connected and healthy neighbourhoods
- **Community safety:** tackle crime and antisocial behaviour (ASB) to ensure that people feel safe and secure in their homes and neighbourhoods

- **Better jobs and skills:** enable people to maximise economic opportunity in Milton Keynes through targeted support for training, employment and enterprise

2.13 The strategy provides a clear vision of how we will work with residents and other stakeholders to achieve our community led regeneration and estate renewal ambitions for Milton Keynes and build strong communities across the borough.

2.14 We remain committed to regeneration, with a greater focus on jobs, skills and life chances built around estate renewal, strengthening the work already being delivered. We want to ensure that proposals are financed from a range of sources and that communities define their own needs and priorities.

2.15 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.

2.16 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.

2.17 Following planning consent being received in 2020 for Phase A and outline for Phase B of the Lakes estate renewal project, we will undertake a procurement exercise in 2021 linked to the delivery of Phase A. This will allow for the construction of the new council homes required to cater for the decanting of Serpentine Court. Alongside this, environmental works will begin on-site, following engagement and consultation with residents to improve sections of the public realm. The works are:

(a) to improve courtyards;
(b) to renew play areas; and
(c) to carry out cycle route improvements.

<u>Asset Management Plan and Value for Money</u>

2.18 The Asset Management Plan (AMP) is under development and 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 our housing stock meets the needs and standards required, both now and in the future.

2.19 Central to the HRA BP 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 that the income from 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

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 rolling 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, with a balance of £110m surplus.

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 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 Annex B and 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 B.

We will be reviewing and updating the base assumptions moving forward on a six-monthly basis and publishing the 30 Year Rolling Model annually.

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

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

4. Alternatives

4.1 Not approving the revised Business Plan would 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 investment programme.

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

List of annexes

Annex A – Housing Revenue Account Business Plan
Annex B – Housing Revenue Account Business Plan Model – Rolling Baseline
Annex C – Consultation results
Annex D – Rent and Service Charge Policy

List of background papers

Cabinet Report and Annex of 8 January 2019
Cabinet report and Annex of 1 September 2020