



Report of the Cabinet Member for Homes and Energy

Cabinet - 21 February 2019

Development Programme Housing Revenue Account - Part 1

Purpose:	To outline the emerging development programme for new council homes funded by the Housing Revenue Account. The development programme sets out the schemes that will be delivered by the Council, and the opportunities for additional funding from Welsh Government to support the schemes.
Policy Framework:	More Homes Strategy, Local Housing Strategy, HRA Business Plan
Consultation:	Access to Services, Finance, Legal.
Recommendation(s):	It is recommended that Cabinet agree 1) the HRA development programme 2) that schemes within the development programme are approved via the annual HRA capital budget reporting process.
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1. Introduction

- 1.1 The report outlines the emerging Housing Revenue Account (HRA) development programme. The programme sets out the schemes that will be brought forward over the next three to four years to deliver new Council homes on sites within the HRA ownership, to support the Council's More Homes Strategy and increase the supply of affordable

housing in Swansea. The programme outlines the number of homes that can be delivered within affordability parameters relating to the HRA Business Plan set in the context of some considerable financial uncertainty around future funding streams and Welsh Government (WG) policy that will impact revenue available to support the programme. In addition to this report, a second report will follow outlining the General Fund Development Programme which will include further opportunities for future development of Council owned land.

- 1.2 Since Council agreed the More Homes Strategy in 2016, the Council has been building capacity to maximise the number of new affordable homes that can be delivered to help meet the growing shortage across the city. This has been done by balancing the overall financial viability of directly developing new Council housing, assessing alternative options for delivery, addressing the practical, organisational and capability issues, and developing and comparing specification options to balance the viability of the scheme with the affordability for the occupants and overall sustainability of the design.
- 1.3 This programme sets the minimum number of units that can be delivered within the current financial context of the overall HRA Business Plan. Should the financial situation change and additional finance becomes available, further schemes can be brought into the programme. The report also outlines further opportunities to add to the numbers by acquiring units from the General Fund Development Programme and by the redevelopment opportunities that are presented on 2 large HRA sites that are subject to a proposed master planning process.

2. Financial Context

- 2.1 To support the programme, the Council can access a number of funding opportunities that have been made available by WG. These are:
 - Affordable Housing Grant (AHG), which supports up to 58% of the HRA borrowing costs over 29 years. This is available for 18/19 and 19/20 only at present.
 - Innovative Housing Programme Funding (IHP), which only supports the provision of additional innovative technologies on the homes and is subject to an annual bidding round.
 - WG plans, subject to final confirmation, to remove the HRA borrowing cap.
- 2.2 These measures combined mean that the HRA will now be able to increase borrowing to support the new build programme subject to affordability within the overall HRA Business Plan. Until the WG announcement about the intended removal of the HRA borrowing cap, the capacity to borrow has been limited as the existing borrowing capacity has had to be committed to achieving Welsh Housing Quality Standard (WHQS) and maintaining the existing stock.

- 2.3 However, it must be noted that despite the plans to remove the cap there are still limitations and uncertainties influencing the HRA Business Plan, such as future Rent Policy, emerging WG priorities relating to decarbonisation of the existing housing stock and potential restrictions on the use of the Major Repairs Allowance (MRA), a grant afforded to the Council each year by WG. There is also uncertainty over any future potential grant opportunities that could support further borrowing. These financial constraints dictate the total number of units (142 currently) detailed in the plan. The Council has aspirations and ambitions to build significantly higher numbers of homes over the term of the plan. The programme can be expanded if the financial context changes to provide greater certainty. This uncertainty is linked to the Affordable Housing Supply Review (AHSR) that has been commissioned by Welsh Government.
- 2.4 Until the completion of the Affordable Housing Supply Review, the Minister has announced an interim rent policy for 19/20. This means that the maximum increase for 2019/20 will be in line with the Consumer Price Index (CPI) for September 2018 which was 2.4%. For Business Planning purposes, our previous assumption, in line with Welsh Government guidelines, was that rents would increase by CPI plus 1%. The Minister's decision will therefore reduce the funding available.

3. HRA Development Programme

- 3.1 The HRA Development Programme recommended for approval is outlined below. The table shows the schemes that will be started each year and the estimated numbers of units that can be delivered in the term of this plan. The table also shows the indicative procurement route for each scheme. Over the next 4 years, the plan can deliver around 140 new council homes.
- 3.2 There are also other opportunities to add to this number through acquisitions, where the HRA can purchase properties from the open market or from developers where there is a demonstrable need and where the purchase represents value for money. There are also further opportunities to develop new properties as part of the redevelopment of existing HRA sites. These schemes are not included in this programme due to timing and funding issues, which are highlighted later in the report.

Scheme Name	Total number of homes	Indicative Procurement Route
Scheme Commencement 18/19		
Parc Yr Helyg	16	Direct Build
Colliers Way Phase 2	18	Direct Build
Acacia Road Acquisition and Works	2	Renewals framework

Gors Avenue	1	Acquisition
Oakwood Avenue	1	Acquisition
Hillview and Beaconsview - pre planning work		In-house design
Acquisitions	4	Acquisition
Total 18/19	42	
Scheme Commencement 2019/20		
Hillview and Beaconsview	28	Package with school contractor
Total 19/20	28	
Scheme Commencement 2020/21		
Creswell Road	12	Direct Build
The Circle	6	Direct Build
Total 20/21	18	
Scheme Commencement 2021/22		
Scurlage	20	Mixed Tenure Partnership
Ty Draw	30	Mixed Tenure Partnership
Sparks Centre	4	Direct Build
Total 21/22	54	
Programme Total	142	

- 3.3 The full development programme with estimated costs is at Appendix A. The full plan also shows the Affordable Housing Grant (AHG) allocation for the schemes in 18/19 and 19/20. AHG is an annual revenue grant available from WG over 2 financial years to support up to 58% of the borrowing costs of the scheme over 28 or 29 years.
- 3.4 The current programme projects delivery of 142 units up to 2022. Subject to affordability, there is however a large HRA land supply to enable the subsequent ongoing delivery of more units as the capacity, scale and

pace of Council building increases. There are 28 sites in total that have been considered for inclusion in the Council's LDP (Local Development Plan) with the potential capacity of delivering approximately 550 additional units over the term of the LDP. The full list of these sites is at Appendix B. There are also a large number of smaller infill sites that can potentially be developed in the future.

4. WHQS Sites

- 4.1 In addition to new build of properties on vacant HRA land, there are further sites with existing properties on them where WHQS improvement in isolation may not be the best course of action. In this respect, provision in the longer term development plan and in the additional borrowing calculations also needs to be made for the Tudno Place/Heol Emrys and Griffith John St sites. Both are part of an intended wider master planning approach, which the Council is commissioning. Until the masterplans have been developed and the scale of redevelopment is known, there is no additional funding allocated for the new build elements of these schemes in the initial draft programme.

5 General Fund Development Programme and Section 106 units

- 5.1 No provision has been made for the HRA to acquire new build units from the General Fund Development Programme in the programme. Once there is certainty over the timing of these schemes, further borrowing will be needed to ensure the HRA can acquire the affordable units on the schemes. Provision can also be made for any future Section 106 acquisitions as and when they arise. Assuming a policy compliant affordable housing provision can be achieved, approximately 42 units can potentially be acquired, subject to affordability, by the HRA from the proposed General Fund Development Programme, which forecasts delivery of around 180 units in total.

6. Procurement Routes

- 6.1 Discussions have taken place with Building Services to ensure that where possible and where capacity allows, the majority of the schemes will be delivered by the internal contractor.

7. Partnership Options for Mixed Tenure Sites

- 7.1 The Council has also been assessing the feasibility of developing larger HRA sites for mixed tenure development including market sale. The project was split into 2 distinct phases –the valuation and viability work on the sites and the assistance in the procurement of a partner to develop the agreed programme. This work is ongoing and until the study has been completed, only 2 schemes from this shortlist have been included in the development programme for 2021/22. These are sites in Scurlage and Ty Draw Road in Bonymaen. The further sites can be included once the work has been completed.

- 7.2 Following the viability work and initial site survey work, a report recommending next steps will be produced. Following this, the Council can commence the process for procuring a strategic partner to deliver the sites that have been prioritised. This procurement process could take up to 12 months.

8. Specification

- 8.1 It is assumed for the purposes of this report, that the new build specification will be the Swansea Standard for new council homes as agreed by Cabinet on 21st June 2018. The Swansea Standard is a Fabric First approach, which is thermally efficient and 25% above current building regulations. This can be combined with renewable technologies to improve the energy efficiency even further.
- 8.2 Two of the proposed schemes in 18/19 (Parc Yr Helyg and Colliers Way Phase 2) have been awarded Innovative Housing Programme Funding (IHP) by Welsh Government to fund the additional renewable technology in the homes. Funding opportunities will be sought for future rounds of innovation funding to improve the specification and test new renewable technologies if the opportunity arises. Specification of any market homes built as a result of any partnership schemes will be negotiated at the time, and will be determined by viability.

9. Financial Implications

- 9.1 The current HRA Business Plan makes provision to fund £8.9M for More Homes Schemes. The removal of the HRA borrowing cap means that a further £13.9M can be borrowed to fund a total of £22.8M needed to deliver the schemes in the initial development plan. It is important to emphasise that additional borrowing will have to be affordable in terms of the overall HRA business plan. However, there is now more flexibility over when the borrowing is required which will allow for schemes to be added or moved back a year for example. This will help the Council develop a strategic plan for the HRA that is affordable and deliverable based on available resources.
- 9.2 Despite the removal of the HRA borrowing cap, the ability to borrow is dependent on the ability of the HRA to repay borrowed funds. In this regard there are still limitations on the ability to plan long term due to a number of external variables and unknowns outside of Council control that will impact the income received to the HRA business plan. These include potential changes to Rent Policy that will reduce revenue below previously modelled levels, new Welsh Government priorities relating to decarbonisation of the housing stock that are not modelled in the business plan and potential changes in permitted use for the Major Repairs Allowance (MRA), a grant afforded to the Council each year by Welsh Government.

- 9.3 Subject to approval, the schemes listed in the Development Plan will be added to the HRA Capital Programme and reported in line with FPR7 requirements.
- 9.4 The 18/19 and 19/20 schemes are being funded by Affordable Housing Grant (AHG) (revenue grant to support up to 58% of borrowing) and Innovative Housing Programme (IHP) Grant to support the additional renewable technology on Parc Yr Helyg and Colliers Way Phase 2. As indicated, additional funding opportunities to subsidise schemes will also be pursued where opportunities arise.
- 9.5 Current understanding of the City Deal funding arrangements for the Homes as Power Stations (HAPS) project is that the City Deal can fund the design and monitoring element only. This equates to approximately £5k per property. The renewable technology required can cost around £30k per unit and this additional cost will need to be accessed via the WG Innovative Housing Programme, if available, which is subject to an annual bidding process.
A third round of Innovative Housing Programme (IHP3) is due to be launched in February 2019. Once again the process will involve a bidding process decided by a panel. IHP is only available for the innovation elements of schemes only.

10. Sensitivity Analysis

- 10.1 WG is currently undertaking a major review of the funding and capacity available to build more affordable housing in Wales. This review is looking at Rents Policy, the Major Repairs Allowance grant, other funding streams and HRA borrowing. The review is due to publish its findings in April 2019. The outcome of the review could have a significant effect on the funding available to build more affordable housing.
- 10.2 Any change to the Welsh Governments Rents Policy could also have a major impact. The current HRA Business Plan has assumed an ongoing annual rent increase of CPI plus 1% in line with the WG guidelines. Any reduction in the rate of increase would reduce the funding available for the development plan. For example, WG have recently announced the interim rent policy for 19/20 at CPI only, a 2.4% increase. The Minister's decision to increase rents by 2.4% is lower than had been previously forecast. As a result the amount of rent income will reduce. The impact of this decision is compounded as any future increases start from a lower base.
- 10.3 Assuming that the WG will revert to their guideline increase from 2020/21 (CPI Plus 1%) and this is not guaranteed, the reduction in income for the 2 year period remaining to achieve the WHQS will be £1.354m. For the 10 year period up to 2028/29 the reduction will be £8.84m. The combined impact of the lower than expected rent increase and the increase in bad debt provision due to the impact of Welfare Reform and Universal Credit

roll out means a reduction in rent funding of £2.3m for the period up to March 2021 and a reduction of £9.4m over 10 years.

- 10.4 Any changes to the MRA grant could also affect the funding available. The Council currently receives £9.1m per year from the WG to fund the maintenance of our existing housing stock. If the WG were to change this funding then any reduction would need to be made up through the revenue budget.
- 10.5 As part of the AHSR, the WG is also considering changing the requirements around the thermal efficiency of the existing social housing as part of its decarbonisation agenda. Initial indications are that the WG want to set challenging targets, which could result in the need to invest substantial sums in our existing Council housing stock to bring them up to the new standard.
- 10.6 The removal of the HRA borrowing cap does provide the opportunity to be flexible in its use of additional borrowing to fund the Development Programme. However, as has been stated, the repayment of any additional borrowing must be affordable over the long term within the context of the HRA Business Plan. The current HRA Business Plan forecasts that the level of HRA borrowing will reach £220.5m by the end of 2020/21. The annual revenue cost to fund this borrowing is forecast to be £14.4m. The draft Development Programme requires additional borrowing of £13.9m by the end of 2021/22 which will increase the annual revenue costs of funding HRA debt to around £15m. These additional borrowing costs will be partially offset by AHG with the net additional annual revenue cost to be met by the HRA of £0.654m.

11. Equality and Engagement Implications

- 11.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above.

- 11.2 An EIA screening form has been completed and reviewed. The agreed outcome was that a full EIA report is not required at this time. This will be reviewed as the projects progress and all developments will be subject to normal planning procedures. All new homes will be built to Design Quality Requirement and Lifetime Homes Standards to ensure that accessibility is

part and parcel of the design. Housing will be allocated in line with the Council's agreed Allocations Policy.

12. Legal Implications

- 12.1 All external goods and services will be procured in line with Contract Procedure Rules and European procurement regulations as appropriate.
- 12.2 Any appropriation, acquisition and disposal in respect of HRA land will be done in accordance with the powers in the Housing Act 1985 and in accordance with the Constitution.
- 12.3 Any powers and works will be carried out in line with the Well-being of Future Generations Act (Wales) 2015. This lists seven well-being goals which provide a shared vision for Public bodies to work towards.

These are:

- A globally responsible Wales;
 - A prosperous Wales;
 - A resilient Wales;
 - A healthier Wales;
 - A more equal Wales;
 - A Wales of cohesive communities;
 - A Wales of vibrant culture and thriving Welsh Language.
- 12.4 In addition to the above, the Act states that public bodies need to ensure decisions they make take into account the impact they may have on people living their lives in Wales in the future. Public bodies must take into account five considerations in order to show they have applied the sustainable development principle. These ways of working are aimed at ensuring public bodies work together better, avoid repeating past mistakes and tackle some of the long term challenges faced:
 - Long Term - The importance of balancing short-term needs with the need to safeguard the ability to also meet long-term needs.
 - Prevention - How acting to prevent problems occurring or getting worse may help public bodies meet their objectives.
 - Integration - Considering how the public body's well-being objectives may impact upon each of the well-being goals, on their other objectives, or on the objectives of other public bodies.
 - Collaboration - Acting in collaboration with any other person (or different parts of the body itself) that could help the body to meet its well-being objectives.
 - Involvement - The importance of involving people with an interest in achieving the well-being goals, and ensuring that those people reflect the diversity of the area which the body serves.

Background Papers: EIA Screening Form

Appendices:

- Appendix A HRA Development Programme
- Appendix B HRA Sites