**Appendix 2**

## HRA Business Plan - Consultation Document

### Background

The Council wishes to consult on its plans for the HRA Business Plan, HRABP for the next thirty years.

The Council's aim is to keep the HRA sustainable and financially balanced while attempting to provide sufficient resources to allow the housing stock to be maintained to appropriate standards.

Over the last decade, the Council has been able to provide additional resources through the Homes Pride (£97m investment into improving homes themselves) and Estates Pride (£15m investment into various priorities including issues other than directly involved with the homes themselves). The Estates Pride programme is about to enter its final full year in 2010/11 and will then wind down. Homes Pride has already successfully concluded.

### Consultation

The timetable for consultation on these plans is as follows:

Consultation is due on these issues with:
Community Commission – meeting 19th Jan
HRA Strategic Working Party – meeting 21st Jan
City Housing Consultative Group – meeting 22nd Jan
Derby Homes' Board – meeting 28th Jan
Deadline for final reports to Cabinet 4th Feb
Council Cabinet 16th Feb
Council (for rents) 1st March

Unfortunately the timetable for consultation has been compressed this year as the draft determination of Housing Subsidy, HRAS, was not released until 10th December 2009.

### Subsidy

The HRAS determination shows the following key changes from last year:

| | **£/dwelling** | **(9/10)** | **Change %** |
|---|---|---|---|
| Management | 589.00 | (567.74) | + 3.7 |
| Maintenance | 1010.67 | (991.02) | + 2.0 |
| Major Repairs | 579.67 | (572.81) | + 1.2 |
| Total allowances | 2179.34 | (2131.57) | + 2.2 |
| Guideline rent | 3140.43 | (3031.12) | + 3.6 |
| Net | -961.09 | (- 899.55) | + 6.8 |

The allowances have been increased for inflation of 2.25% and management has had a further 0.8% increase to reflect the increased resource generated by rents at a national level. Overall, though, the net position continues to deteriorate, as is inherent to the existing system at present.

There has not been an increase in allowances of 5% to management and maintenance and 24% to Major Repairs as accepted by CLG in discussions about the long term future of the HRAS system. The opportunity to improve the existing system therefore does not appear to have been tackled at this point.

For the moment, Derby remains in a relatively neutral position for HRAS – the best estimate we have at this point is that we might be a net payer for the first time next year – but the margin for error is such that we may still receive some subsidy. Either way there is unlikely to be a large effect for 2010/11.

However, the position is set to deteriorate significantly in 2011/12 as the impact of an expected loss of our current 'ALMO bonus' funding hits home. This will lose the HRA around £4m a year in subsidy. Added to this will be a further loss from the natural operation of the system during rent restructuring. If the government sticks to its latest position for convergence in 3 years, this would imply very high rent increases and large withdrawals of HRAS over those years. At the moment we are estimating that we might be required to pay around £6m in HRAS in 2011/12, increasing by a further £1m a year. This is the imperative behind the need to reform the HRAS, and perhaps opt out of the system.

**Government offer**

The government has stated that it will make an offer early in 2010 – expected to be February 2010 to each local authority to come out of the HRAS system.

At that point, the Council will have to determine whether to accept the offer or not. The offer will be in the form of a requirement to accept more debt than is currently allocated to the Council within the system. If this debt is accepted then the requirement to pay negative HRAS would cease. As negative HRAS payments amount to hundreds of millions of pounds over the next thirty years, it is likely that the offer will be beneficial, unless the government attempts to take too much funding out of the system.

The Council would be taking on two major new risks in accepting the offer:

- (i) that rental income cannot be maintained at the rate assumed in the offer – in other words that government intervention was to cap rents and hence restrict Council income
- (ii) the risk of interest rates increasing substantially.

Both of these are realistic prospects and therefore have to be balanced against the apparent benefit of any offer. If the offer is not accepted, it is possible that legislation may be introduced to require Councils to accept a mandatory later date – but for now the offer would be voluntary.

Unfortunately the details of the offer remain unclear until any offer is made in February. What is clear, though, is that the government will reserve some form of power to intervene where they consider that debt levels are unacceptable. We therefore need to continue to demonstrate our current long term planning approach is being maintained to maintain credibility.

**Consultation issue:**

1. Do you have a view about the offer at this point?

**Overall financial position**

The HRA remains approximately where it has been for the last few years as a result of the current draft determination. The Business Plan will balance overall with a small surplus and might be able to consider some minor improvements to key issues but will not be in a position to tackle the more fundamental difficulties created by the loss of subsidy.

Last year's HRABP report highlighted a deficit of around £250m if adequate resources were made available to tackle most of the longer term maintenance issues. This is likely to be a similar figure with the latest determination position.

The figures published only balance because it has been assumed that the ending of Estates Pride and the ending of temporary additional funding for additional investment in heating and insulation and also to maintain existing spending on aids and adaptations can be managed. While this is obviously possible, it is hardly desirable, but it is necessary to produce a balanced plan for the long term.

Reserves have been maintained at what for Derby could be considered to be quite a high level of more than £1000 a home. However, if full levels of spending need be added to the programme rather than the current planned levels, the position would rapidly deteriorate to a huge negative amount. Should reserves be spent, it will not be as easy to replenish them in future as it has over the last few years while the 'ALMO bonus' funding has been available.

If the offer to opt out of the system were to be accepted, it is quite possible that there could be a reduction in funding in the short term whilst an improvement in the longer term. This is because the probable offer may require additional debt to be serviced but then cap the amount of debt that is permitted. The exact details are unclear at the moment, but the availability of reserves will allow any such restrictions to be considerably mitigated. It is therefore suggested that reserves at current levels are maintained in the short term until this position becomes clear. If the position then allows additional spending, this can be considered at that point.
Reserves are being held in order to smooth the transition either to a new system or the loss of HRAS in the old one should opting out not prove to be

workable. Without them, the full impact of the loss of subsidy would be felt each year – and in particular in 2011/12.

**Derby Homes' Fee**

Derby Homes' Fee increased in 2009/10 by 3%, but the pay award for staff was 1.25% and inflation has remained negative for most of the year. The base fee for 2010/11 has therefore been adjusted back to an increase of 1.25% and increases of 1.5% a year for the next three years are suggested in line with other Council budgets.

It is not proposed to clawback the overpayment of fee for 2009/10 itself in recognition of the investments that Derby Homes have made in assisting the Council with the transfer of some properties for those with Learning Difficulties (£125,000), bringing back voids into use (£80,000) and a contribution to the repairs account (£100,000).

**Repairs account**

The repairs account has been struggling financially for a number of years and is again likely to overspend in 2009/10. The problem relates to the balance between management and maintenance overall – management costs are higher than average while maintenance costs are lower.

There is therefore a need to rebalance the total spending between these two areas by increasing repairs and major investments over time. The aim is that the vast majority of any increased resources available through either the opt out or through the current system are therefore focussed on the maintenance part of this equation.

In order to tackle this issue, the following actions are proposed this year:

- A 3% allowance to the base calculation of the repairs account rather than the 2% received in HRAS.
- £35,000 additional resource to cover the increased gas heating checks required as a result of increasing that replacement programme
- £160,000 additional resource to cover the increased costs resulting from an increase to the home decoration service over the last few years.
- Consulting on the possible transfer of DSO staff. This will allow Derby Homes to manage the staff directly and to implement efficiency improvements directly, and have direct control of costs incurred.

These actions amount to a considerable boost to the repairs account, but probably only tackle the existing problems. The longer term solution would ideally have around another £2m a year of spending but this is not affordable under the current system.

**Consultation issues**

2. If only a small additional resource can be released – is the proposal above to concentrate on the repairs account in the short term the right approach?

3. If larger resources are available from an opt out scenario – which is by no means clear at this point – what would be the priorities for further targeted increases in spending? The current approach would suggest that the main emphasis would be on maintaining the stock more appropriately over the longer term. To opt out we will need to demonstrate a long term approach to asset management.