Appendix 2

HRA Business Plan 2015/45

Summary

The Housing Revenue Account (HRA) remains in a financially robust position as a result of a combination of strong cost control and rent increases above the level of inflation over the past decade, bringing council rents much closer to Housing Association levels. The HRA still, however, faces a number of challenges:

- **Welfare Reform** – Universal Credit's impact on rental income collection and collection costs, the under-occupation charge, personal independence payments replacing disability living allowance and the benefit cap – each of these may result in higher costs of collection, higher bad debt levels and higher levels of rent arrears for tenants.

- **Rental constraint**– the government has suggested that the appropriate level for rent increases in social housing is now 1% a year above the Consumer Prices Index (CPI) rather than the previous formula of Retail Prices Index (RPI) plus 0.5% plus £2 a week. This reduces the rent increase by 0.6% + £2 a year this year for those not already paying target rent, removing around £0.6m a year of income from the previous assumptions in the HRA modelling.

- **Continued Right to Buy (RTB) losses** – sales in 2013/14 were 138 (just over 1%, and up from only 25 in 2010/11). As a result of the recycling of RTB income, £2m can be retained to be spent on replacement homes, as long as this represents no more than 30% of the cost of that replacement programme. This requires spending of £6.7m a year on new build property that has to be funded within the HRA, or by borrowing within the HRA debt cap, or by giving RTB receipts to Registered Providers.

- **Service Charges** - there is a further potential impact of Universal Credit (UC) on the type of service charges that can be levied in future once UC is operational – some may no longer be recoverable but others may be. This remains an issue for the future when details of UC are clearer. At this stage an estimate has been made of the potential impact this might have on the plan.

The partnership of Derby City Council and Derby Homes remains strong and focussed on delivery of new homes. The HRA and Derby Homes both have plans to deliver additional homes and to add to the stock of well managed affordable homes in Derby. Overall, the plan indicates that there remains the financial capacity to deliver around400 homes through the HRA over the next few years.The availability of land of course remains an issue with meeting this objective, but plans are progressing well at this stage. The core service to existing tenants should be able to remain at its current level, with homes being actively managed and maintained to a decent standard.

The Overall Approach

The Council remain committed to providing good value for money for tenants, maintaining homes for the long term and providing homes at social or affordable rents, and delivering as many additional affordable homes as possible.

The Council in its partnership with Derby Homes has set aside resources to finance the building or acquisition of around 400 homes over the next four years within the HRA.

This plan includes sufficient funding to deliver that number. The HRA has already delivered 59 homes, has a further 80 in development and a further 103 agreed to be delivered in partnership with the Homes and Communities Agency (HCA).

Derby Homes will be additionally supplementing the HRA resource by setting aside funds to finance around a further 300 homes. Derby Homes' stock will reach 89 this year with a further 22 agreed with the HCA and 70 in outline agreement with the Osmaston Joint Venture with the Council and Keepmoat.

Background
Derby City Council owns just over 13,000 homes, of which around a third are flats and two thirds houses. Almost half of the stock is made up of 3 bed houses – almost 6,000 of these remain, with the rest roughly evenly split between one and two bed homes. There are very few larger properties, with most of these having been lost over the years through the Right to Buy (RTB).

Asset Management – Maintenance
The Council and Derby Homes consulted tenants in 2011 with a view to setting long term asset replacement cycles. These are now established and are working well. The core services have now reached a 'minimum' level following the massive effort and investment during Homes Pride (2002-6) which saw over £100m spent on improving kitchens, bathrooms, heating systems and double glazing. Further investment has followed in solar panels (£6m in 2011) and in insulation of homes part funded by Community Energy Saving Programme (CESP) funding.

There will be a significant increase in required spending from around 2022 onwards as kitchens and bathrooms replaced in the Homes Pride programme again come up for renewal. As a result, it is critical that the HRA builds sufficient resources adequate to deal with that future requirement of the stock. Lower spending now cannot be sustained for ever, but helps hugely with the plan to invest heavily in under a decade's time.

It is for this reason that the HRABP retains significant balances over the next few years which will then fall back as that planned investment is made. Without that reserve, insufficient funding leading to renewed backlogs in investment might arise. The key benefit of HRA reform is that such long term planning can be made sensibly by the Council.

Asset Management – Development of New Homes
The plan for new homes currently is to develop around 400 homes within the HRA over 4 years.Derby Homes' development will supplement this target, with around 300 homes – making a total Council owned programme of 700.Demand is currently greatest for one, two and four bed properties, and this is where the majority of development effort has been directed and will continue to go, in order to reduce the proportion of 3 bed properties in the Council's overall stock.

The Right to Buy risk is set to increase further with the proposed reduction in the qualifying period from 5 to 3 years. Each time a property is lost through the RTB the HRA loses the relevant income (around £4k a year) offset by reduced management and maintenance paid to Derby Homes (around £1.3k a year). The latter of course translates into budget pressure for Derby Homes. More importantly, a home is lost to social renting, adding to the pressure on the waiting list for homes.

The ability to reinvest RTB proceeds remains welcome but will only enable the scale of reinvestment set out in this plan as a result of the debt cap. In the short term of the next three years, funds are being set aside to broadly replace the homes being lost, but this cannot be maintained indefinitely within the current rules. In the longer term, funds will only be available to replace around half of the homes lost.

The Council has the ability to use RTB receiptsnot only for direct investment in replacement Council housing but also to give grants of up to 30% of cost to Registered Providers (RPs) (except those in which it holds a controlling interest – i.e. Derby Homes) towards their costs of development. As a result, the Council has asked for bids from RPs for such grants which can then be considered for funding from the Council. Such grants would be given to enhance the overall number of affordable homes being delivered in Derby beyond the 400 funded target for HRA delivery. For planning purposes at this stage a figure of £1m a year for two years, followed by £0.5m a year thereafter has been set aside for this purpose. The actual amount will be determined by the Council depending on the quality of submission and the Council's RTB receipts pool at the time of the bid.This process remains a useful option for the Council to enhance its overall delivery programme in partnership with local RPs as well as Derby Homes.

Debt Cap
The government has imposed a cash cap on HRA debt, which is frozen not in real terms but at 2012 prices. This means that the debt constraint will get tighter in real terms over the years. If the debt cap could be adjusted to allow for inflation, additional financial capacity would be created within the HRA to deliver more homes, whilst remaining within any sensible alternative constraint on debt which could be agreed. If such an approach could be adopted, it is estimated that between 1,000 to 1,300additional homes might be possible over 30 years, increasing the longer term RTB replacement rate to almost one for one, subject to the constraints the Council faces over land availability.

Maintenance
Maintenance standards will be maintained into the future. Void levels have returned to previous, more normal levels of around 100 a month from last year's peak, which if maintained should allow a reduction in costs overall. Day to day efficiency will improve with the implementation of a new contract with Buildbase for supply and delivery of materials from a single base.

Management
Further savings for both the HRA and general fund have been implemented following the introduction of the 'partnership model' between the Council and Derby Homes. Savings have been generated which will help further to support the delivery of homesby Derby Homes. Further savings are anticipated in order to balance the loss of management fee as a result of RTB losses.

Derby Homes management and maintenance fees have received an upward adjustment for 2015/16 of £625,000 to reflect increased pension costs resulting from the underlying deficit on the scheme.

Rent Levels
The government has set out a policy for social rents for the next ten years. In essence, it involves an increase of the Consumers Prices Index (CPI) plus 1% each year as a maximum expected increase. There is no allowance for increases above this level for those whose rent remains below the target rent level – the formula level by which all rents were supposed to have converged by this year. The Council may, however, increase rents to target rent when re-let for a new tenant. Therefore over time, rents should increase slowly towards target rent overall – the average rent is currently around 2% below that long term target. Around 10,000 tenants are now at Target rent, with the other 3,000 tenants benefitting from their current discounted level.

The Council can legally set any rent level it chooses as long as it is below market rented levels, but the Council would have to pay rent rebate subsidy limitation (RRSL) penalties to the government if the average rent it sets is above Target rent. The current HRABP is set on the basis of rents being in line with government policy of CPI plus 1% and it is therefore proposed that the Council continues with its long standing policy to increase rents at the recommended level with a view to reaching Target rent over time.

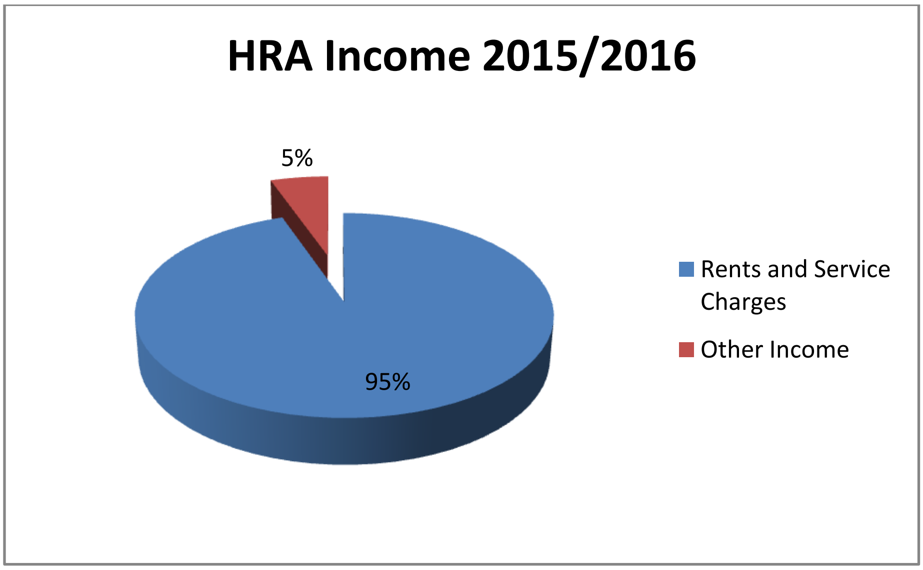
This year's proposed increase of 2.2% if approved, would be the lowest for many years, and be indicative of the more moderate increases in rent that can be expected for council tenants from now on.

Other detailed proposals for change to last year's plan
The Estates Pride Programme is now established in the HRABP at an underlying £0.5m a year. It is proposed that the underlying level that is required for this service be increased to £750k a year, with £1m a year for the next 3 years to help to clear any backlog of works.

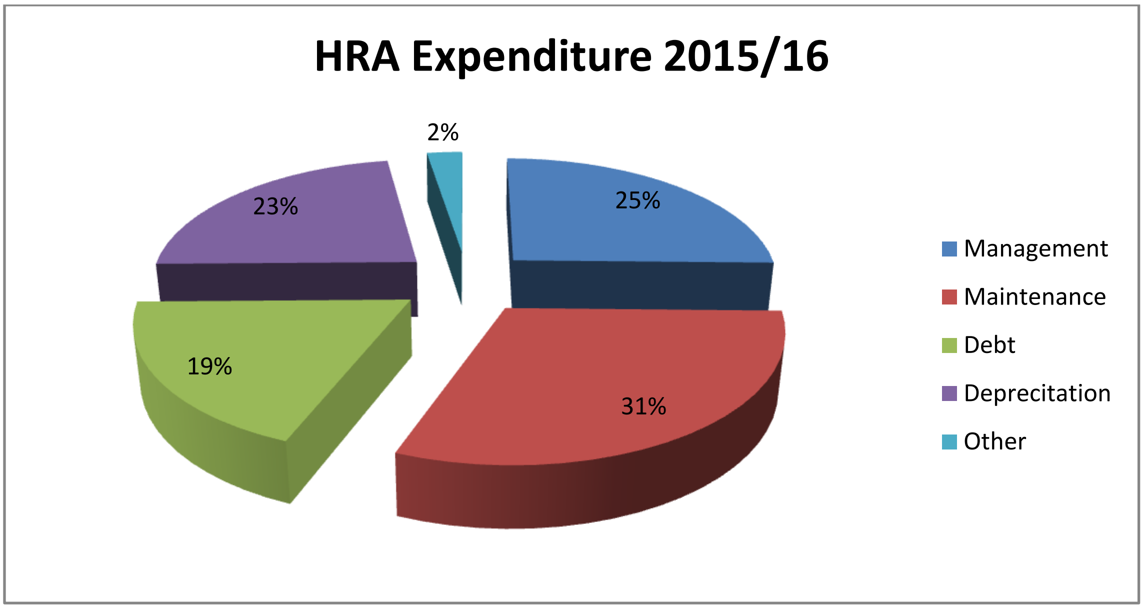
Service Charges – it is proposed that service charges rise in line with RPI of 2.3% as normal, with the following exceptions:
Energy bills at sheltered schemes – these have been increasing at around 10% a year with energy costs. It is proposed that these should be frozen in line with the general energy market cost at the moment.
It is also proposed to freeze furniture packs charges for a second year in succession.

HRA Income and Expenditure – 2015/16

Income	£000
Rents and Service Charges	52,886
Other Income	2,989
Total	**55,875**



Expenditure	**£000**
Management	13,626
Maintenance	16,446
Debt	10,167
Depreciation	12,224
Other	1,365
Total	**53,828**



Proposed Derby Homes Management & Maintenance Fee – 2015/16

Management	**£000**
Core Fee (Inc. Service Charges	9,136
Inflation	145
Housing Options/Advice	10
Pensions increase	296
Service Charges	326
RTB Loss	(72)
Total Fee	**9,841**

Maintenance	**£000**
Core Fee	15,184
Inflation	287
Pensions increase	329
Solar Panel monitoring	47
Service Charges	849
RTB Loss	(120)
Total Fee	16,576