Planning, Housing and Leisure Board
19 February 2013

ITEM 8

Derby City Council

Report of the Strategic Director of Adults, Health and Housing

Housing Revenue Account Business Plan 2013/2014

SUMMARY

1.1 Self-financing for the HRA has changed the landscape of Council Housing finance. Subject to the longer term risks inherent in the new system – notably welfare reform, Right to Buy sales and long term interest rates – there are now sufficient resources within the system to maintain Council Housing into the future, as long as rents increase to target rent over the next few years as was always planned.

1.2 The HRA now has around £3m a year more than previously that can be spent on major works. It is also able to sustain current programmes, such as Neighbourhood working, Youth inclusion and minor works delegated to City Board and Housing Focus Groups. Higher basic funds for component replacement, an adequate cyclical maintenance programme (for example painting and fencing) can be sustained into the future. The overall effect of the reform is expected to provide sufficient funding to support long term sustainable council housing for Derby.

1.3 The key features in this year's update to the plan are:

- to propose that 300 additional homes be delivered through the HRA over the next three years, aiming to replace most of the homes expected to be lost through the Right to Buy.
- to continue the Estates Pride programme by adding a £0.5m a year capital budget to existing plans, with a higher amount of £2.1m spread over the next couple of years
- continuing to reduce Derby Homes' management fee in real terms

1.4 This report proposes a strategy for approval by Council Cabinet and is presented to the Planning Housing and Leisure Scrutiny Board for comment, in anticipation of the Council Cabinet meeting on 20 February.

RECOMMENDATION

2.1 To note and comment on the proposed 30 year Housing Revenue Account business plan (as set out in appendix 2) particularly the average rent increase of 5.2% as set out in section 5 of the plan.

2.2 To note and comment on the principle of approving increases to service charges at the level of cost, with exceptions requiring specific approval.

REASONS FOR RECOMMENDATION

3.1 The financial system for managing the Housing Revenue Account (HRA) has changed fundamentally. As Housing is a long term asset it is important that a longer term view is taken around asset management and the utilisation of resources to maximise the benefits that self-financing can bring. Therefore Council Cabinet approval will be sought for a proposed 30 year HRA business plan that sets a strategy to manage the HRA into the future.

3.2 Within the assumptions, for the self-financing settlement, is an implied rent increase for the current year and an implied rent policy for the following 2 years. Without the rent increases at the level implied by settlement, resources would be reduced considerably and the viability of the plan would need to be revisited.

SUPPORTING INFORMATION

4.1 Under the new rules for self-financing of Council Housing the Council has had to 'buy itself out' of the current system by taking on additional debt. In return for this extra debt the Council is be able to retain all of the receipts it generates from Council rents and service charges and spend them locally.

4.2 The approximate level of debt taken on was around £28.2 million bringing the total HRA debt – existing and new - to around £230 million. This debt is serviced entirely from HRA resources but, even allowing for this, the HRA is still significantly better off than under the previous HRA Subsidy system. Based on current estimates, the HRA has around £3 million more to spend on investment in the housing stock than at present.

4.3 The new self-financing regime also allows for much more certainty around the amount of funding available. Under the previous HRA Subsidy system the Council received an annual subsidy determination which largely dictated how much money was available to spend within the HRA. This made long term planning very difficult as funding could vary from one year to the next depending on national government policy. With the new self-financing system this uncertainty is largely taken away as the Council is able to retain all of the money that it generates from rents and service charges and also to determine the level of such charges.

4.4 There are other risk inherent under the new self-financing regime most notably welfare reform, Right to buy sales and long term interest rates. Management of these risks going forward will be crucial to the success of the plan.

4.5 To maximise the opportunities that self-financing represents, it is important to prepare a coherent plan that sets out a strategy to spend the additional resources available in the most effective way. A detailed 30 year HRA business plan has therefore been prepared which sets out this strategy. The detailed HRA business plan is shown at Appendix 2.

4.6 One of the major priorities for Council is the creation of new Council Housing within the city. The proposals contained with the HRA business plan allow for the building of around 300 new properties over the next 3 years. Other investments proposed within the plan include:

- Continuation of the Estates Pride programme - £2.1m
- Home Release programme - £0.5m

4.7 Tenant involvement is strong within the city with Tenants make up one third of the Board of Derby Homes. Residents' views are sought at a variety of levels, for example they were widely consulted on maintenance priorities that form the basis of this plan. Tenants are also involved in a number of other areas for example, regular housing focus groups are held across the city to discuss issues and to consider the use of 'quick fix' funds for each area for local improvements and issues. Resident involvement helps to increase both accountability and value for money.

4.8 A key element that underpins the HRA business plan is the level of rents that are charged to tenants. The self-financing proposals, although offering more autonomy, do assume a certain level of rent increase in the first few years of the new regime. For the first four years of self-financing it is assumed that the existing rent restructuring policy, as established under the previous HRA business plan, is maintained – that is increases of RPI plus 0.5% plus an element to reach rent convergence, limited by an individual constraint of RPI + 0.5% + £2 a week. This means that for 2013/2014 the average rent increase would be around 5.2% followed by further increases of totalling around 5% over and above inflation spread over the remaining 2 years. Clearly these are not insignificant rises, however it is crucial that these assumptions are implemented or resources available within the HRA – services and investments for tenants - would be severely restricted and the viability of the plan would need to be revisited. Rents remain well below market levels and the level of the Local Housing Allowance.

4.9 A detailed rent policy is the subject of a separate cabinet report; however the proposed policy is also outlined within section 5 of the HRA business plan at appendix 2.

4.10 In summary, the proposals in the HRA Business Plan allow for the replacement of around 100 homes a year for the next three years, an increased capital allowance for estate based improvements, and some additional funding for a home release scheme to free up larger homes and tackle under occupation, as well as maintaining the higher level of spending on general maintenance approved as a consequence of HRA reform. The details of these and other issues are set out in the detail of the plan, attached at Appendix 2.

OTHER OPTIONS CONSIDERED

5.1 The proposed HRA business plan has been subject to extensive consultation with officers, members and tenants and Derby Homes. It now considered that the plan in its current form reflects the views of those consulted.

5.2 A range of rent options were considered but given the current economic climate and the need to adhere to the assumptions within the self-financing settlement, the current rent proposals offer the best solution.

This report has been approved by the following officers:

Legal officer	Olu Idowu
Financial officer	Peter Shillcock
Human Resources officer	Not Applicable
Estates/Property officer	Not Applicable
Service Director(s)	Brian Frisby
Other(s)	Ian Fullagar

For more information contact:	Peter Shillcock 01332 642787 peter.shillcock@derby.gov.uk
Background papers:	Derby Homes Annual Report Derby City Council Protocol for HRA Debt Finance HRA Risk Register HRA - Operating Account HRA – Major Repairs and Improvements Financing HRA – Debt Profile
CMIS link to background papers:	https://cmis.derby.gov.uk/cmis5/meetingscalendar/tabid/73/ctl/viewmeetingpublic/mid/410/meeting/7119/committee/1760/default.aspx
List of appendices:	Appendix 1 – Implications Appendix 2 – Housing Revenue Account Business Plan

Appendix 1

IMPLICATIONS

Financial and Value for Money

1.1 Set out in the detailed HRA business plan at appendix 2.

Legal

2.1 The Council is required to set a balanced budget for its Housing Revenue Account and that costs are charged appropriately to either the HRA or to the General Fund.

Personnel

3.1 None directly

Equalities Impact

4.1 Many of the Council's tenants belong to the Council's equality target groups

Health and Safety

5.1 None directly

Environmental Sustainability

6.1 Several environmental initiatives are included with the HRA business plan such as improving thermal efficiency, installation of photovoltaic cells and installation of modern energy efficient heating systems.

Property and Asset Management

7.1 A detailed asset management plan is included with the HRA business plan shown at appendix 2.

Risk Management

8.1 A risk register has been included within the HRA business plan shown at appendix 2.

Corporate objectives and priorities for change

9.1 The delivery of the HRA Business Plan will assist the Council to achieve its key strategic outcomes set out in the Derby Plan 2011 – 2026 and the Council Plan

2011 – 2014.