Appendix 2

HRA Business Plan 2016/46

1. Summary

The Housing Revenue Account (HRA) is in a financially robust position due an advantageous financial self funding settlement 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:

 Loss of assumed rental income– In July's Summer Budget, the Government announced that social rents would decrease by 1% per year for the four year period from 2016/17 to 2020/21. The rent reduction is a significant departure from the 2014 Budget statement that rents would increase at a rate of Consumer Price Index (CPI) +1%. The impact of the rent decrease will mean a reduction in rental income of around 13% after the 4 years to the Council's HRA. Furthermore as the current Business Plan has assumed income that was expected to rise by 9% over these 4 years, the net deficit is more significantthan the 4% direct loss of rent.

 Continued Right to Buy (RtB) losses – sales in 2014/15 were 131 (compared to 140 in 2013/14, and up from only 25 in 2010/11). Indications are for 2015/16 that sales will be around the 130 level. RtB sales reduce the revenue receivable and the reduced income will impact upon the Council's investment plans. The Council is allowed to retain RtBreceipts for re-investment in affordable housing as long asRtBgrant funding is no more than 30% of the cost of development or acquisition. As receipts have to be committed within 3 years of receipt, this requires spending of c£6.7m a year on new affordable housing within the HRA, or throughgrant fundingRtB receipts to Registered Providers.

 HRA debt cap - The Council's investment aspirations are tempered by the Government imposed cash cap on HRA debt, which is frozen not in real terms but at 2012 prices. This contains and constrains the borrowing of the HRA following the self funding settlement and the HRA needs to operate and invest within the financial parameters set.

2. Stock profile

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).

3. The key objectives

The Council remains committed to:

- providing good value for money for tenants
- maintaining investment in council housing to the Derby Standard
- sustaining high quality management and reactive repairs services
- maintaining affordable rent levels
- delivering as many additional affordable homes as possible

- working to support broader Council objectives and priorities

Of these objectivesa key driver for the Council and Derby Homes following determination of the self-funding settlement in 2012 has been the delivery of affordable new homes, either through newbuild or acquisition. The stated target for delivery of new council housing is around 400 from the self funding settlement. This is to be supplemented by around 300 dwellings provided by Derby Homes subject to revised loan to value considerations.

4. Investment

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 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.

Nonetheless as part of this year's proposed Business Plan, there are annual reductions to the capital programme allowance due to the increasingly competitive supply chain prices reported by Derby Homes. This situation will continue to be monitored.

The Estate Pride capital programme will also be reduced by £30,000.

Asset Management – Development of New Homes
The plan for new homes currently is to develop around 400 homes within the HRA.Derby Homes' development will supplement this target, with around 300 homes making a total 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.

There is also significant demand for bespoke adapted for residents with severe physical and learning disabilities. Much of the acquisition programme is focussed upon the delivery of specialist accommodation.

The ability to reinvest RtBproceeds 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.

It is probable that the delivery timetable will need to be extended, which raises concerns around the ability of the HRA programme to absorb RtB receipts. The Council will need to focus more on delivery with external partners.

RTB grant funding

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. It is prudent to develop external funding strategies in the event that the borrowing or delivery capacity within the HRA is not sufficient to absorb the useable Right to Buy in which case they will need to be returned to Government with interest payable.

5. Services

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.

The 2014/15 outturn showed a permanent underspend of £472,000 together with a one-off underspend of £625,000, slippage of £259,000 and budget not required of £173,000. These and other areas could be looked at to find a permanent reduction in the repairs fee, which could in turn be re-invested in new housing delivery.

The report proposes a £200,000 reduction to the base maintenance paid to Derby to contribute toward balancing the Business Plan. Given the efficiency in procurement mentioned above, there should be no reduction in the overall service to tenants but this will be monitored. The net maintenance fee position is shown in Table 4.

Management

Savings for both the HRA and General Fund were presumed following the introduction of the 'partnership model' between the Council and Derby Homes. 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. To this end a £250,000 reduction has been proposed to the core management fee.

6. Rent and Service Charges

As stated, the Governments Summer Budget announcement on 8 July 2015 included a number of proposals contained within the Welfare Reform and Work Bill 2015/16, including a 1% reduction in the level of rent that Local Authorities and Housing Associations can charge to their tenants for a 4 year period from 2016 to 2020.

The rent reduction is however a significant departure from the government's previous 2014 commitment that rents would rise at a rate of CPI +1%. The impact of this reduction will be to reduce rental income by around 13% after the 4 years to the Council's HRA. This is compounded as under the previous plan, income was expected to rise by 9% over these 4 years and the combined impact is that the HRA is likely to now be reduced by some £200M over the 30 year life of the plan.

On 8th February, the Government announced that the mandatory 1% decrease would be deferred for one year during 2016/17 in the case of 'Supported Housing'**.** With the September 2015 CPI figure recorded at -0.1% the Government's formula of CPI plus 1% would enable a net increase of 0.9% for qualifying housing.

In line with national guidance, service charges need to be broadly in line with costs incurred over time. It is proposed that service charge increases, with the exception of those services specifically identified below, be linked to RPI, which should deliver value for money for tenants and leaseholders whilst ensuring these services are not subsidised by other Council resources.

Both the grounds maintenance and cleaning service charges are affected by minimum wage proposals that will see the national minimum wage increased from £6.50 to £9 an hour by 2020. This has increased the cost of these services and the service charges will need to increase to meet the increased cost if they are not to be subsidised by other Council resources. In the case of grounds maintenance the cost increase is around 7%. The average increase for grounds maintenance charges at 7% would be 20 pence.

HRA Income and Expenditure – 2016/17

Table 1

Income	£000
Rents and Service Charges	52,966
Other Income	3203
Total	**56,169**

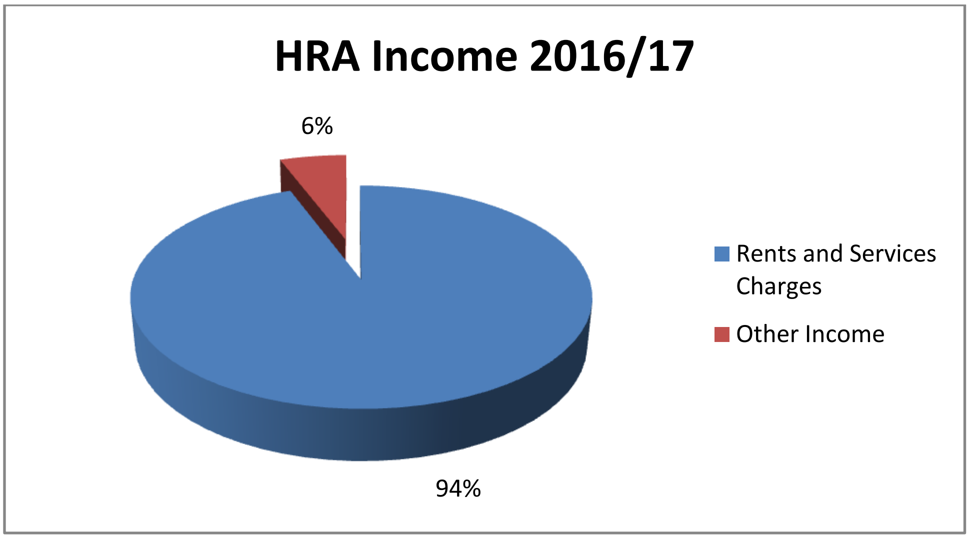
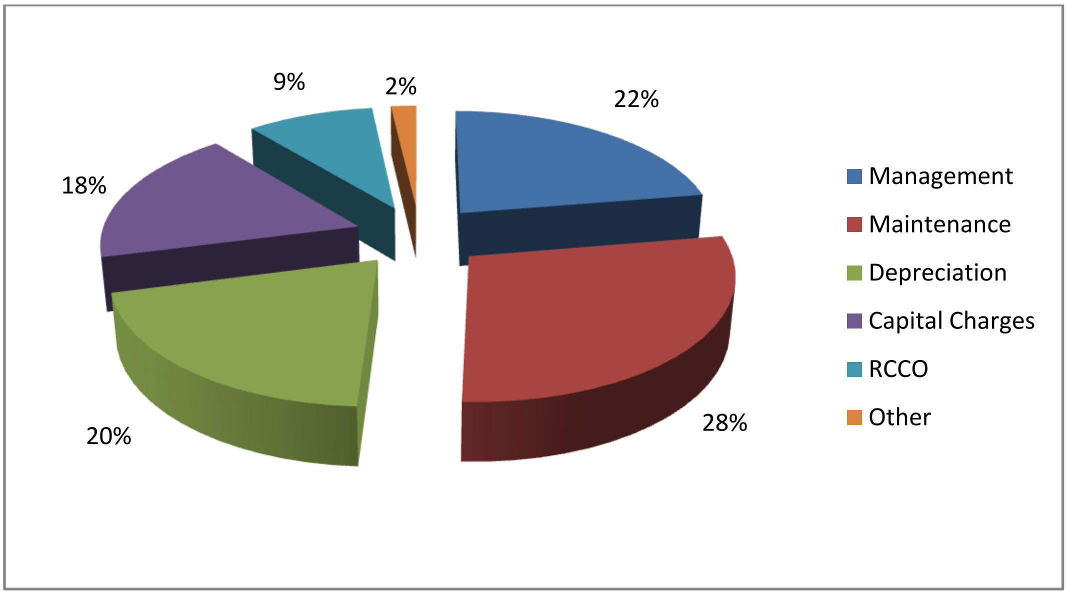


Table 2

Expenditure	**£000**
Management	13,192
Maintenance	16,446
Debt	10,621
Depreciation	11,903
RCCO	5,406
Other	1,081
Total	**58,649**



Proposed Derby Homes Management & Maintenance Fee – 2016/17

Table 3

Management	**£000**
Core Fee (Inc. Service Charges	9,830
Fee Reduction	(250)
NI increase	122
Service Charges	75
RTB Loss	(36)
Total Fee	**9,741**

Table 4

Maintenance	**£000**
Core Fee	15,730
Fee Reduction	(200)
NI increase	116
Service Charges	859
RTB Loss	(59)
Total Fee	**16,446**