Appendix 2

Derby City Council
Housing Revenue Account
Business Plan
2013/43

December 2012

Contents

Executive Summary

The HRA remains in a remarkably good financial position for now. While there are threats on the horizon, including the substantial ones of Welfare reform and Right to Buy, the short term position is that the stock is largely in good condition, has recently had substantial investment and financial reserves and debt capacity are both available for additional investment for the future.

The core proposals in the plan are:

Rents to continue to converge as previously planned – an average rent increase of 5.2% this year, rather than the potential average 9% increase that could be applied within the current constraints on rents. This is the same increase that would have happened under the previous HRA arrangements and that is assumed in the settlement.

Service Charges – with a few exceptions – to be increased in line with inflation only – 2.6%.

Investment in 300 additional Council homes over the next three years

Continuation of the Estates Pride programme - £2.1m of new funding to be targeted at large scale environmental improvements over the next couple of years and £0.5m additional spending each year after that.

Home Release programme - £0.5m added to the plan to enable the extension of the home release programme to try and reduce underoccupation of homes.

Derby Homes to be required to absorb the additional £0.2m costs of income collection from within its existing management fee.

The HRA plan still has debt capacity within it in the longer term, but it is constrained by the debt cap for around 20 years. The Local Government Association (LGA) will continue to press for an increase in this cap – at least by inflation – so that more Council homes can be built directly.

Overall the plan proposes the largest scale expansion of Council housing for the last 30 years, using the additional income expected from increased Right to Buy receipts, generating 100 homes a year directly through the HRA, and for around 50 a year after that. Core maintenance standards would be sustained over the whole 30 year plan.

Housing Revenue Account (HRA) Business Plan 2013/43 (HRABP)

This report is in 10 sections:

- Introduction
- Vision and Mission
- Governance and Tenant Empowerment
- Asset Management
  - Maintenance Standards
  - Regeneration and development
  - Climate Change
  - Repairs Standards
- Rent Policy
- Debt and Treasury Management
- Housing Management Standards
- Value for Money Strategy
- Risk
- Financial Plan

1. Introduction

1.1 The intention of this HRABP is to set out the broad plans that envisaged for the future of Council Housing in Derby

1.2 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.

1.3 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.

2. Vision and Mission

2.1 The Council's HRA Business Plan, HRABP, aligns with the following plans:

- Derby Plan 2011 – 2026
- Council Plan 2011 – 2014
- Council's Housing Strategy 2009 – 2014

It also aligns with Derby Homes'

- Mission, and
- Annual Delivery Plan.

2.2 The delivery of the HRA Business Plan will help realise the wider housing strategic priorities set out in the Council's Housing Strategy for housing across all tenures in Derby demonstrated in the table below.

HRA Business Plan contribution to the Council's Strategic Housing Priorities

Housing Strategy Priorities	HRA Business Plan Contribution
Cohesive and empowered communities	Derby Homes' policies and procedures for tackling Anti Social Behaviour and increasing residents ability to influence decision making through resident involvement, community initiatives and the neighbourhood management framework.
Affordable and accessible housing with appropriate and timely housing advice	As part of the asset management process, identifying potential for the development of new, affordable housing
Improving homes and the living environment	Through programmes of major repairs and improvements to the Council's housing stock, including work to improve energy efficiency
Supporting vulnerable residents	Via the provision of accommodation for homeless applicants, work to support vulnerable tenants to maintain their tenancies and support to vulnerable council tenants through sheltered and other housing services.

2.3 In addition 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. The following diagram shows the connection between these documents and this plan.

The Derby Plan 2011 – 2026 Key Outcomes					
…a thriving sustainable economy	…achieving their learning potential	…good health and well-being	…being safe and feeling safe	…a strong community	…an active cultural Life

The Council Plan 2011 – 2014 supports 'The Derby Plan' key outcomes focusing on areas where, as a local authority, improvements can be made. Two additional outcomes were developed, which are supported by the ***'one Derby, one council'*** transformation programme...	
...good-quality services that meet local needs	...a skilled and motivated workforce

Housing Strategy 2009 – 2014 Strategic Priorities			
Cohesive and empowered communities	Affordable and accessible housing with appropriate and timely housing advice	Improving homes and the living environment	Supporting vulnerable residents

HRA Business Plan – Themes			
Asset Management	Tenant Empowerment	Neighbourhood and Communities	Value for Money

Derby Homes' mission
'To secure the best future for council housing tenants and services in Derby'

Derby Homes Delivery Plan Strategic Objectives		
Decent Homes and Successful Neighbourhoods	Excellent Customer Service	Energy Efficient Homes and Services

2.4 The Council has now had an opportunity to consider the long term financial position relating to council housing and has placed it on a secure footing by agreeing the core rules that should drive the governance of the HRA for the future.

2.5 Four principles underpin the plan:

2.5.1 The first principle is to maximise income for the HRA by means of charging and recovering from tenants and leaseholders, rents and service charges that are adequate to manage and maintain homes and estates into the future. This will enable the best level of service to be provided to tenants in the long term and provide homes and estates where people want to live

2.5.2 The second principle is to enable tenants to participate in the determination of policy and priorities for spend using tenant involvement led by Derby Homes.

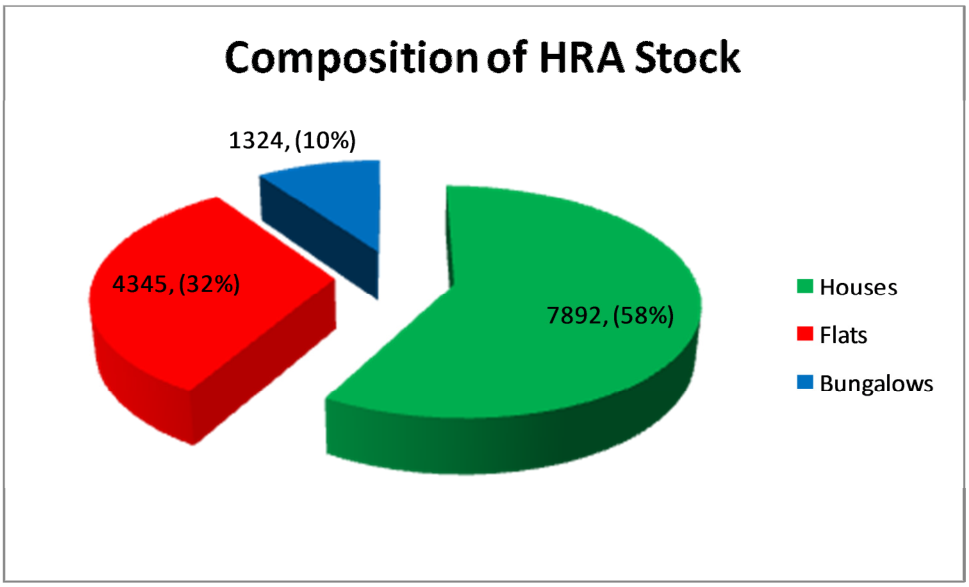
2.5.3 The third principle is to ensure value for money and efficiency, to challenge ourselves to ensure the funds in the HRA are spent as efficiently and effectively as possible,

2.5.4 The fourth principle is that the plan supports the Council's strategic aims, and the Council's Housing Strategy. As such it has a wider role to

- ensure cohesive and stronger communities,
- meet the housing needs of the City through new build
- sustain neighbourhoods through regeneration and neighbourhood management
- to meet the needs especially of vulnerable residents.

Housing Stock

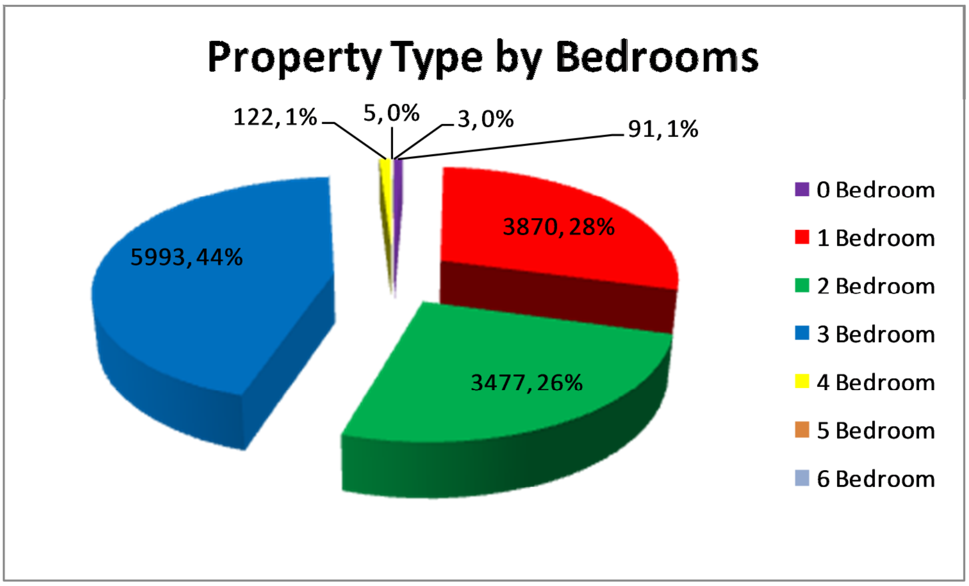
As at 31 April 2012, Derby City's HRA stock comprised of 13,561 rented properties and 490 leasehold properties.



32% of housing stock[1] comprises of flats and maisonettes, 10% comprises of bungalows and the remaining 58% of houses.

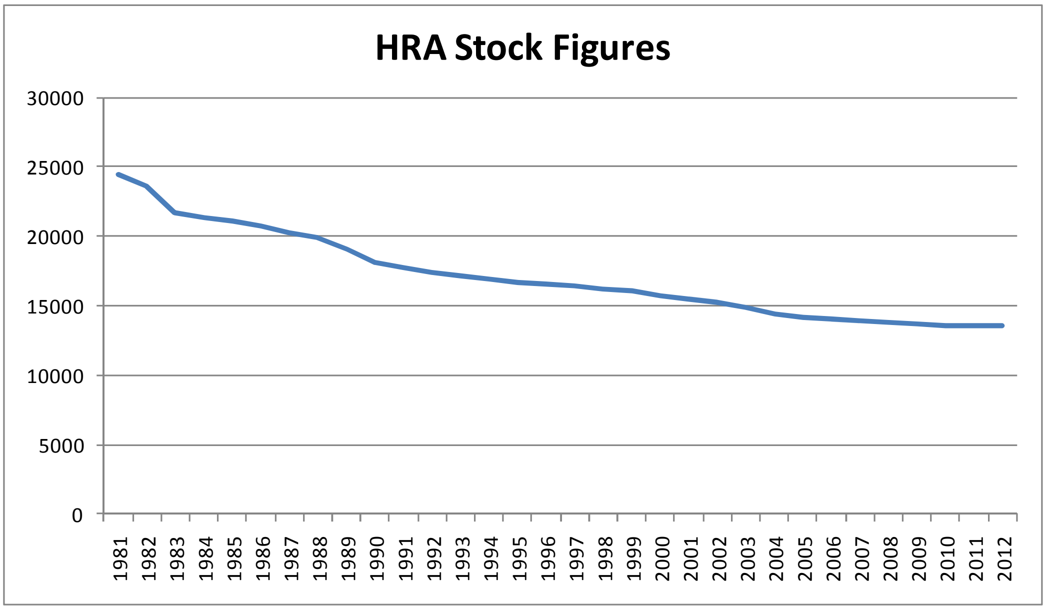
	Pre 1919	1919-1944	1945-1964	1965-1974	1975-1990	1991+	All Ages
Houses							
1 bed	0	66	0	0	2	0	68
2 bed	42	868	727	50	162	13	1862
3 bed	12	3215	1931	348	314	13	5833
4 bed	1	52	40	14	15	0	122
5+bed	0	7	1	0	0	0	8
All Houses	**55**	**4208**	**2699**	**412**	**493**	**26**	**7893**
Bungalows							0
0 bed	0	0	26	0	0	0	26
1 bed	0	155	650	138	3	0	946
2 bed	1	2	221	33	4	0	261
3 bed	0	0	83	1	7	0	91
All Bungalows	**1**	**157**	**980**	**172**	**14**	**0**	**1324**
Flats & Maisonettes							0
0 bed	0	0	0	4	61	0	65
1 bed	0	105	54	757	1940	0	2856
2 bed	0	14	468	501	367	4	1354
3 bed	0	0	26	22	21	0	69
All Flats & Maisonettes	**0**	**119**	**548**	**1284**	**2389**	**4**	**4344**
All Dwellings	**56**	**4484**	**4227**	**1868**	**2896**	**30**	**13561**

55% of Derby's HRA stock contains less than 3 bedrooms and 44% are family sized units (3+ bedrooms), however only 130 (1%) have four or more bedrooms.

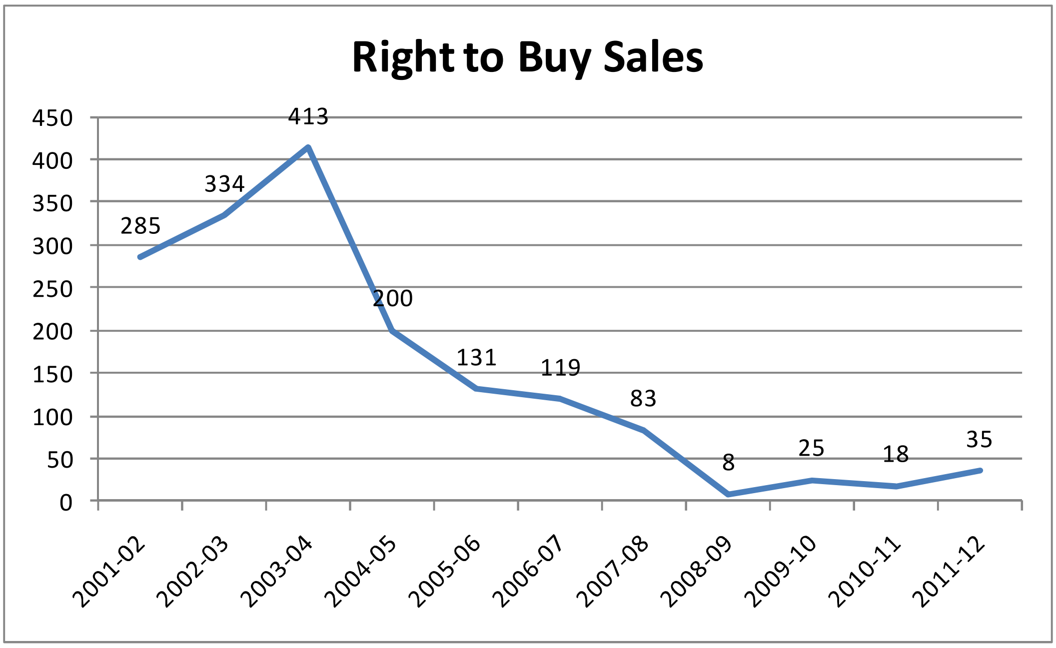


[1] As at 31/03/12

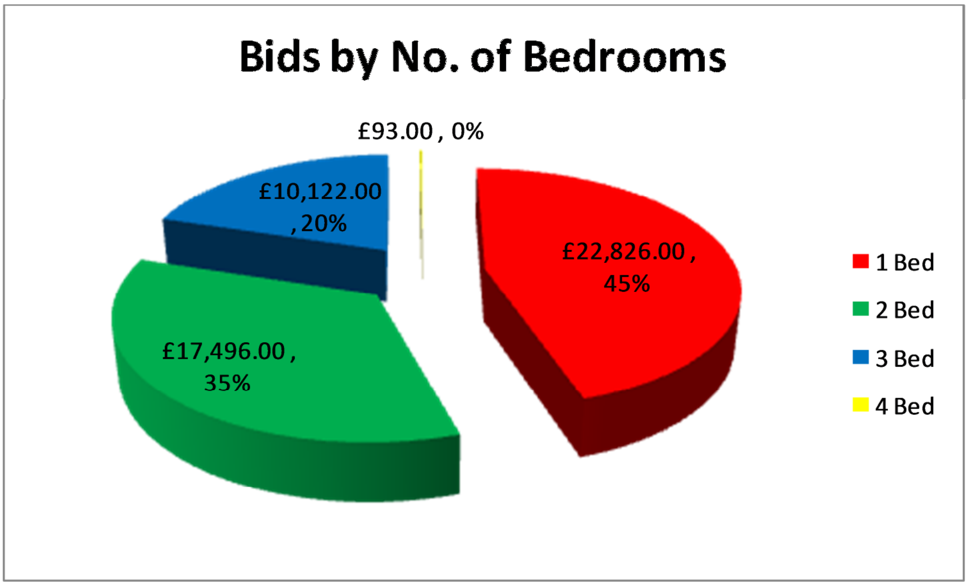
At its peak Derby City Council housing stock comprised of 24,476 properties. Since 1981 the council has lost 44.6% of its homes through 'Right to Buy' and other disposals with the figure reducing from 24,476 in 1981 to 13,561 in 2012. Of this total, only 48% of houses and bungalows have been retained, whereas the Council still owns 86% of its flats.



Under Right to Buy a total of 35 properties were sold in 2011/12, 18 were sold in 2010/11 and 25 were sold in 2009/10. Numbers are now 28 (to early November) in 2012/13, as a result of the increased discounts set by the government. At the moment the plan assumes an increase to 108 a year from next year.



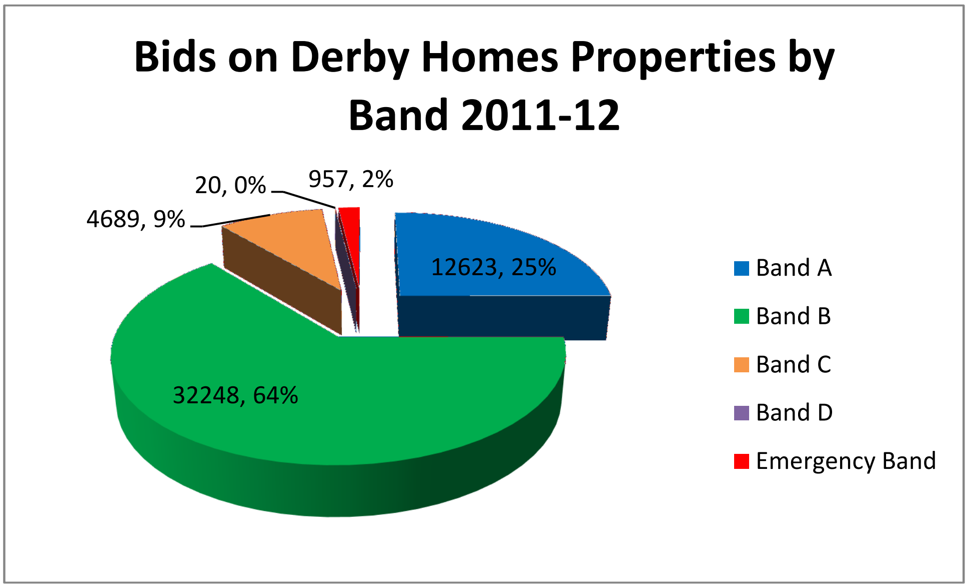
The demand for social housing is evidenced by over 6,500 active applicants, including existing Council tenants seeking to move, on the Housing Register at the end of March 2012.



Between April 2011 and March 2012, there were a total of 50,537 bids on Council properties. Of these 80% were for 1 and 2 bedroom properties. This proportion has increased by 10% in the last year, partly due to the new under occupation rules that will affect many applicants from next year.

56% of bids were for flats, maisonettes, bedsits and apartments and only 44% for houses.

Over half of those were assessed as non urgent need to move (Band B).



As a result of welfare reform and in particular under occupation deductions from benefits paid, it is expected that there will be a still greater demand for smaller properties, from those currently living in larger properties. In addition, the demographic pressure from increasing numbers of one person households and an increasing proportion of older tenants also increases the needs of both one bedroom general needs properties and older persons accommodation. As a result, it is expected that the current balance of Council housing supply will need to be slowly altered to focus more on these two areas. It is likely that the majority of new Council housing will be focussed on these two client groups, although more limited numbers of other home types will be needed within any individual development to maintain an overall balance of provision.

3. Governance and Tenant Empowerment

3.1 The HRA is controlled by Derby City Council, with Derby Homes integral to the delivery of the HRABP. Governance of the HRA therefore rests with the Council in terms of approving this plan, setting rents and service charges and approving the capital programme and treasury management arrangements. Derby Homes has considerable delegated authority to deliver those plans.

3.2 Derby City Council and Derby Homes have agreed to hold regular meetings of the HRA Strategic Partnership Board, HRASPB, to agree the principles of this plan and to concentrate on strategic issues that affect the HRA. Derby Homes' Executive Team also meets regularly with the Adults Health and Housing Department Leadership Team to discuss more detailed matters.

3.3 Service delivery is monitored by the Council through the approval and tracking of performance by Derby Homes within the Delivery Plan agreed by the Council.

3.4 Resident involvement is primarily about working alongside tenants in order to obtain value for money for the HRA by listening to tenants' feedback about our service so that performance is continuously improved. Regular housing focus groups are held across the city to discuss issues and to consider the use of 'quick fix' funds of £60,000 for each area for local improvements and issues. Resident involvement helps to increase both accountability and value for money.

3.5 The Homes and Communities Agency (HCA) requires local 'co-regulation' where tenants and the landlords work together within a framework set by the national regulator. This recognises the huge variation in local conditions and means that there is much more emphasis on locally derived standards from tenants driving continuous improvement of the service. The HCA will only get involved where a landlord's co-regulatory relationship with its tenants breaks down.

3.6 The arrangements involve the production of Local Offers (see Appendix 1) and an Annual Report to Tenants which details performance against these offers.

3.7 Tenants make up one third of the Board of Derby Homes, and also have a considerable presence on the Derby Homes City Board.

3.8 Tenants also attend the Excellence & Value for Money Steering Group and Derby Homes Environmental Renewable Energy (DHERE). Quarterly Housing Focus Groups of tenants and leaseholders meet across the city to discuss housing services. In addition, there is a wide range of forums that give tenants and leaseholders the opportunity to comment and influence policies and practices. These include a review group set up to regulate the tenants services provided by Derby Homes, as well as the Derby Association of Community Partners (DACP) who are the tenants' federation and provide feedback from tenants and leaseholders. They also include specific groups dealing with issues from minority ethnic and disability points of view. Tenants from the DACP also attend peer reviews to assess our services against other organisations and conduct Mystery Shops, Customer Journey and Void Inspections. They report their findings to the City Board on a quarterly basis.

3.9 Derby City Council and Derby Homes are working with OSCAR (Osmaston Community Association of Residents) on the redevelopment of Osmaston. We also hold regular consultations on the budget and are using social networking sites (for example Facebook,Twitter) to communicate with tenants alongside established methods.

3.11 The Community Initiatives Team also work with tenants to get them involved in local initiatives as volunteers, and interventions in local community issues.

4. Asset Management

4.1.1 Asset management is crucial to the future of council housing. Providing and maintaining all homes to a standard that is adequate and that people want to live in are the core service that the council provides to its tenants. Since the provision of £97m of additional funding between 2002 and 2006 for the purposes of clearing the considerable backlog of works that had arisen at that point, the extent of inadequate standards is much less than it was. Funding under the subsidy system was much reduced after 2006 and has been adequate only because of the additional ALMO subsidy funding that was available until 2011. However, under the subsidy system, there remained a deficit against future needs measured by a stock condition survey in 2009 in excess of £250m. Under the reform of the HRA, the funding implied within the settlement for long term maintenance has been increased by around 40% or £3m a year. While this will not provide for the whole of the stock condition survey work, it should prove to be more than adequate to maintain all homes properly, as long as rental income is raised as implied by the settlement – that is to convergence by 2015/16, meaning further real term increases of 9% on average by that time. This additional funding should now be sufficient to maintain homes to the standards set out below, giving the Council the ability to manage and maintain homes into the foreseeable future.

4.1.2 It is important that the stock is managed intelligently, to ensure our estates are sustainable and supporting stock renewal. There are examples where selective demolition or individual property disposals can benefit the overall portfolio of assets by adopting a stock rationalisation approach.

Examples include:

- Disposing of stock that have high maintenance costs and possible issues with demand, and invest any receipts in either the existing stock or in the provision of new homes. Recent examples include the demolition of the 'Derbyshire' blocks – now being replaced by Riverside Housing Association under a PFI agreement - and out dated sheltered blocks (Rodney House, Sancroft Court) which were replaced by Derby Homes owned properties funded in part by HCA grant.

- Disposing of stock when it becomes vacant to increase tenure diversification in an area, again re-investing the receipts in an appropriate way, where such a policy would lead to a greater overall provision for tenants and the Council.

- Building new homes to regenerate areas for example Osmaston – through different legal structures as may be required by various funding bodies to deliver viable developments.

- Considering Council owned garage sites and other surplus Council land for new development of HRA housing.

4.2 Maintenance Standards

4.2.1 The following average lifecycle of replacement components of homes can now be supported in the long term – please note that this does not equate to all items being replaced at that exact age as some will require earlier replacement, so it might be expected that the 'normal' life could be up to 10% longer than these averages:

Kitchens	20 years
Bathrooms	25 years
Windows and Doors	30 years
Boiler	13 years

Heating distribution System	26 years
Roofing	60 years
Wiring	40 years
Aids and Adaptations	£700,000 a year

4.2.2 These standards were adopted following extensive and detailed tenant consultation during 2011, and are expected to be set for the long term.

4.3 Investment priorities

4.3.1 Investment priorities for the future need constant review in the light of the overall business plan and sources of funding. As a result of the Council's acceptance of an agreement with the Communities and Local Government (CLG) department to recycle Right to Buy (RTB) receipts above a certain threshold, the Council may have additional funds to spend on replacement homes. Alternatively, if RTB sales remain low such funds would not be available. The investment programme therefore has to be actively monitored and adjusted according to sales levels.

4.3.2 The Council will have up to three years to incur spending on replacement homes above the level implied by the RTB sales. In effect the requirement is that RTB funds cannot be used for more than 30% of the cost of the replacement homes. As a result, borrowing or HRA reserves are required to meet the remaining cost.

4.3.3 The ability of this funding to deliver will be limited by the extent of borrowing capacity and reserves therefore. Borrowing capacity is currently limited by the HRA debt cap of £238.6m. What will happen to this cap after the current Comprehensive Spending Review (CSR) period ends is unclear at present. The working assumption is that it would remain at the same level, but should it be increased by inflation for instance, this would have a very positive effect on the ability of Councils to borrow against future rental income, and deliver more homes.

4.3.4 Even without any funding from RTB receipts, the Council will have sufficient resources to directly invest in new homes. The need is clearly there, evidenced by a lack of void properties and a considerable waiting list. The plans set out here include significant investment in new property. As discussed above, the strategic need is for an increase in both one bedroom general needs properties and for older persons accommodation. In addition, there is also a strategic Council need for properties relating to other vulnerable groups.

4.3.5 A five year investment plan is set out below. This plan will enable the following:

- completion of replacement kitchen and bathroom work to all pre-war Homes
- completion of the Upvc window programme
- continuation of the programme to improve the energy efficiency of homes, insulating any uninsulated walls and lofts, providing modern efficient heating systems to all homes and installing solar panels to as many homes as we possibly can utilising external funding incentives while the business case continues to support the investment.
- maintaining a healthy programme of specialist equipment renewal, such as door entry systems, smoke alarms and lifts.
- The following programme is proposed for the next five years for the core of the programme. This is substantially lower than previous years as the majority of programmes have been completed or are nearing completion. The major bulge in work will be for kitchens and bathrooms in around 15 to 20 years time as Home Pride work (2002-6) needs replacing. For the next few years, therefore, significantly lower capital will be necessary.

HOUSING CAPITAL PROGRAMME

	2012/13	2013/14	2014/15	2015/16	2016/17
	£000	£000	£000	£000	£000
Estates Pride	1,750	2,514	7360	527	535
Maintenance of current stock	9,482	9,753	10,102	9,497	9,395
Replacement Homes	385	12,035	10,517	12,396	7,610
Total HRA	**11,617**	**24,302**	**21,355**	**22,420**	**17,540**
Financing:					
Revenue funding	0	3,559	5,888	633	1,495
Borrowing	0	0	0	6,065	0
RTB receipts -	913	3256	3178	3140	3161
MRR / depreciation	10,704	17,4874	12,289	12,583	12,884
Total	**11,617**	**24,302**	**21,355**	**22,420**	**17,540**

4.3.6 The replacement homes part of the capital programme needs to be proactively managed by the Council as a result of uncertain levels of RTB funding, but if there were to be low levels of RTB resulting in no RTB funding, the following could still be supported within this plan:

New homes already being delivered:

Max Road / Rocket – 17 bungalows for older people in Chaddesden and Derwent – this project will start during 2012/13 and will complete in 2013/14

Oakvale House – refurbishment of the previous Oakvale House to supply 22 homes for retirement living in this former Sheltered Housing block. This work will complete in 2013/14

The potential is there to invest over £40m over the next four years where suitable sites become available for such investment to be delivered. The detailed programme for this funding will need to be developed further, but could include for instance an extra care scheme or further bungalows for older people.

4.3.7 General needs homes are also clearly required to meet demand, not least following underoccupation deductions from welfare benefits, meaning that there is now greater demand for one and two bedroom properties than ever before, and in particular one bed properties are very underrepresented within the stock compared to the need. The problem with investing in new HRA general needs properties is that the RTB rules require substantial discounts to be offered well before the debt is brought down to a manageable level where the HRA would not incur a loss. While this risk might be borne in the case of smaller houses, the much higher discounts (70% after 15 years) means that flats and maisonettes are much more problematic. If the Council were to invest in a flat costing £80,000 the debt after 15 years would still be around £72,000 but the receipt would be only around £35,000, resulting in a loss of £37k to the Council.

4.3.8 The priorities for the HRA are therefore mainly around those properties that are clearly exempt from the RTB, but also a limited number of smaller general needs properties that are needed to reduce the pressure on tenants from underoccupation deductions. Tenants moving on will need to have costs covered, such as for removals, connections and a limited contribution towards carpets/curtains etc. A fund of £0.5m has been set aside within these plans to meet such costs over the next few years. Any such moves will however, free up larger family homes which are currently underoccupied.

4.3.9 Four models have been run with different levels of Right to Buy funding – around 60 a year (current level of sales this year), an increase to around 108 a year (core assumption in the draft plan), around 135 (1% a year) and around 270 or 2%. The programme above can be sustained in all of these options. At this moment in time, the central model has been based on an estimate of 0.8% a year. The following table illustrates the impact of these different levels of sales on the long term plan:

	0.5%	**0.8%**	1%	2%
RTB sales	68	**108**	135	270
Replacement homes 12/13	44	**44**	44	44
Replacement homes 13/14	100	**100**	100	100
Replacement homes 14/15	100	**100**	100	100
Replacement homes 15/16	100	**100**	100	100
Replacement homes 16/17	43	**69**	79	116
Replacement homes yr 7-30	1,003	**1,562**	1,770	2,180
New stock	1,390	**1,975**	2,193	2,640
Existing Stock remaining	11,561	**10,492**	9,804	6,654
Stock at year 30	**12,951**	**12,467**	**11,653**	**9,294**

What this means is that at current low levels of RTB, the stock should be sustainable with most of the homes lost being replaced. With sustained high levels of RTB the stock size would diminish substantially over the period of the plan. The first three years plan though can be sustained in all of these options, meaning that the Council should be able to plan this level of further development within the HRA at all likely levels of RTB sales, although very low levels of sales (below 0.5%) might mean that the programme would be required to be delivered over a slightly longer period.

4.4 Estate improvements and community sustainability

4.4.1 The successful Estates Pride programme has now drawn essentially to a close, although a few smaller programmes are yet to finish and will do so during 2013/14. The HRA Business plan will continue much of this work, and has balanced the benefits of such work with the needs for management and maintenance spend, new build costs and other calls on the funds of the HRA. The plan includes maintaining current levels of support for the following elements of the Estates Pride programme:

- Housing Focus Groups funding of £300,000 a year
- Neighbourhood Working – maintaining Derby Homes' support of that initiative at current levels
- Youth intervention work – maintaining £100,000 a year
- Family Intervention Project – supporting this with £50,000 a year

4.4.2 In addition to this, it is proposed that the core of the Estates Pride programmet – large scale environmental improvements – be continued, with some further one off capital funding (£2.1m over two years) to be targeted at LED lighting, hard standings, car parks and other general improvements of a similar nature, including schemes to improve Brook Street and Stockbrook Street streetscenes. After that, £0.5m a year can be funded for an ongoing programme of such works across the City.

4.4.3 Cyclical maintenance funding now totals in excess of £1.5m a year which should provide sufficient funding for adequate maintenance into the future, and will also contribute to slowly improving the direct surroundings of estates.

4.5 New Build and Regeneration of estates

4.5.1 Derby City Council and Derby Homes are both supporting the successful bid for Homes and Community Agency (HCA) funding towards development of new homes to be owned by the Osmaston Community Association of Residents (OSCAR). Derby Homes has been appointed as development agent and managing agent by OSCAR, and the Council has given outline approval to a loan to fund the proposals. This will mark the first step in the wider redevelopment of Osmaston which is being considered by the Council in partnership with developers and Derby Homes. Innovative new structures are being considered to deliver the maximum investment for the area.

4.5.2 In addition to HCA funding for OSCAR, there are also some considerable funds for a programme of new build within the HRA to be considered. These would be funded from within the remaining debt cap plus any HRA revenue reserves. It would be imprudent to commit all such funds, but as long as around 5% of the debt cap (£12m) was available between these two sources – preferably in revenue as this is more flexible – then the balance could be considered as potentially 'available' for investment as long as the long term plan does not exceed the debt cap. Over time as debt is repaid, it can be reborrowed, so this is one source of potential future funds for capital investment. It is also the case that where grant can be attracted to a project this will stretch numbers further.

4.5.3 Right to Buy funding when/if available will be one source of funding towards developments. These funds can be applied to a maximum of 30% of the cost of works and purchases relating to replacement homes, above a threshold where the existing debt and commitments to government and the Council have been met. Where sales are over 50 a year (or one a week) then it is likely that some funding will flow. The first half of 2012/13 has produced fewer sales than this and no such funds, but it is possible that these numbers could increase in the future, and there are proportionately sufficient sales to date in October and November 2012 to create some funding to come through.

4.5.4 While more sales would mean more cash available for investment, the amount of the receipts is unlikely to be sufficient to replace on a one for one basis in the longer term. In most scenarios, a ratio of about half to two thirds replacement can be sustained. In addition, though, there is a one off opportunity represented by the debt capacity of the HRA and reserves which amounts to in excess of £20m, as well as the short term cash generated by current low levels of interest rates which combine to enable the potential for the Council to deliver around 100 new Council houses a year for three years, as outlined in this plan.

4.5.5 As a result, the Council can contemplate medium sized developments – for instance the wider Osmaston regeneration and possibly an extra care scheme or variant on this using the bungalow model being developed in Chaddesden.

4.5.6 The plans will need to stay flexible due to the nature of development opportunities and levels of Right to Buy and other funding opportunities.

4.5.7 The overall plans at this stage therefore include a few possible developments which will require specific approval by the Council once a business case has been developed. The indicative programme attached means that the plan sets aside an initial sum to enable such detailed plans to be drawn up with a reasonable amount of confidence that sufficient funds would be available within the debt cap to allow such approvals to be given.

4.6 Climate Change

4.6.1 The Council is committed to reducing its carbon footprint and this includes council housing.

4.6.2 As fuel prices increase it is important that our customers are able to afford to live comfortably in the homes we manage.

4.6.3 There are a number of areas that we need to address to cut running costs and reduce emissions from council housing these include:

- Improving the thermal efficiency of homes

Much of this work has been carried out in the past, all homes have benefitted from loft insulation and cavity wall insulation and most have had solid walls insulated in the past too. We are currently tapping into external funding through the Community Energy Saving Programme (CESP) to carry out a lot of this work. All homes will have the benefit of wall and loft insulation by the end of 2012. In addition all homes will have double glazing fitted by 2013 funded through an existing programme.

- Improve the performance of the heating systems used to heat homes

We have been fitting energy efficient gas condensing boilers for over 12 years and the majority of the homes have these types of heating system. We have used the CESP funding to complete the renewal of any old, inefficient boilers in certain parts of the City. It is important that the new plan is able to support the renewal of these systems. Modern efficient boilers have a limited lifespan and need to be replaced every 10-15 years to avoid hefty repair liabilities. The plan allows for an average 13 years replacement cycle.

We have piloted other heating solutions on our new build schemes and are yet to be convinced that the new technology is able to provide a cost effective practical alternative to gas central heating.

- Help reduce the use of energy by encouraging changes in behaviour

It is important that we do all we can to encourage tenants to make small changes to their behaviour to control the amount of energy used. Simple tips like switching lights off to detailed advice on how to get the most out of solar panels makes a real difference to fuel bills, doing all we can to help tenants cope with the ever increasing costs of fuel.

- Installing renewable energy solutions like solar panels to help supplement the energy used in the home

The major investment carried out in solar panels during 2011/12 using £6m of HRA funds has been hugely successful in both operational and financial terms. The generation tariff of 43.3p / Kwh obtained on those installations is expected to produce a return of at least £850k a year for the HRA for 25 years, a gross return of 14%, as well as benefitting the tenants through free electricity.

4.7 Repairs Standards

4.7.1 There will always be a need to carry out responsive maintenance work. Components require attention through general wear and tear or the failure of specific parts.

4.7.2 Our Vision is: ‘Delivering a World Class Customer Focussed Service’

4.7.3 In broad terms our service standards are:

- To provide a reliable appointment based Day to Day repair service delivered right first time.
- To turn around all empty homes in a timely manner ensuring all homes are safe , clean and in a decent state of repair
- To provide a value for money service, always seeking out efficiency savings to support the quality of the service
- To ensure customers feel they have received an excellent service across all areas

4.7.4 We have not noticed a reduction in demand for repairs following the decent home investment. This is a trend that is being found in other ALMOs. Further analysis is being carried out to identify repair demand across the city and this information will be used to inform different approaches. We are also noticing an increase in the number of homes becoming vacant by about 5% per year, if this trend continues we will require additional resources to fund the work required when the home is empty.

4.7.5 Cyclical maintenance work forms a core basis for our maintenance activities. The ‘repairs prior to painting’ programme gives us the opportunity to carry out a range of external maintenance work to the housing stock on a periodic basis. We are also planning internal inspections at the same time, to identify and carry out internal repairs in a planned, cost effective way. We have now shifted back to a five year programme for this work, using the resources freed up by HRA subsidy reform.

4.7.6 We have set up our own in-house team to service and repair gas appliances, adapting to ever changing gas regulations. We are now servicing appliances on an 11 month cycle to be confident that in the majority of cases the service is carried out before the expiry of the current safety certificate. We have also established an electrical inspection team, who carry out periodic inspections to all homes. These will now also be carried out over a five year cycle.

4.7.7 The Council provides resources for repairs through the HRA. This is under considerable pressure to provide adequate resources for us to deliver services and needs to keep pace with increases in building costs and the increased number of new gas appliances. So far these additional costs have been contained within the planned increase overall in repairs resources as a result of the reduction in both management and maintenance costs resulting from the business transformation programme undertaken by Derby Homes over the last three years.

4.7.8 We have worked hard to contain expenditure within the Repair Account. Costs have been contained in the short term through reductions in the amount spent on cyclical maintenance and identifying efficiency improvements through the Repairs team. This will need to continue into the future as the HRA plan projects continuing pressure on repairs spending, favouring investment in major repair works which have a longer term benefit for our tenants. Our action plan for reducing cost and improving efficiency includes the following:

- Seeking out efficiencies through the supply chain, examples of this include changes in materials suppliers saving over £250k per year so far.
- Renewing the fleet of vehicles, with modern racking systems and imprest stock. This will increase the productivity of our workforce by an estimated 15%. At the same time we are reducing the number of vehicles by teaming the workforce in certain areas of the service. This should also reduce fuel consumption. In addition, we are moving from a leased to a purchased solution for the fleet, requiring a longer life span between replacements of seven years rather than five, and a lower cost of interest and end of lease costs as a result.
- Investing in new IT systems to help us to deliver the service more efficiently, we are installing a new works system to support all work delivered through the Repair team. In addition we have adopted the National Federation of Housing Associations' schedule of rates to enable better job costing and have the ability to benchmark our value with others.
- We will continue to work closely with customers to drive down the costs of repairs over time with a full understanding of service standards.

5. Rent Policy

5.1 Rental policy – increasing rents to a level based on convergence of rents to Housing Association levels by 2015/16 – is built into the debt settlement. Without generating the additional rent implied by the settlement – which is on average 9% above inflation spread over the next three years, the funds to invest into the stock assumed in the asset management section would reduce very sharply – for every 1% less rent generated around £500,000 a year permanent reduction in spending would be required. It is critical that the maximum rental income be generated in order to maximise the ability to maintain Council homes into the future and support other plans within the HRA.

5.2 Rent will in future continue to be constrained by the 'limit rent' - that is the level of rent that the DWP is prepared to allow Councils to set without suffering a penalty relating to Housing Benefit. Rents can be set higher than this but in effect will generate income for the HRA solely from self funders and in effect will raise no further funding from housing benefit as the DWP 'clawback' the excess rent above limit rent. The limit rent will converge with the target rent in 2015/16. Following reform of the HRA subsidy system, there is no longer any other constraint on Council rents other than the limit rent and market rent. In effect, the Council could choose to move to the limit rent immediately and face no financial sanction from the government. This would, however, mean that the average Council rent would increase by around 9% next year, with some tenants facing possible increases of over 30%. This is not proposed by the Council and instead the existing policy of continuing to move in a gradual way towards the expected rent convergence level over three years, with a limit to individual tenants' increases is proposed.

5.3 At the moment, average council housing rents per week in Derby are as follows:

Actual	£68.49
Limit	£71.45
Target	£73.99

5.4 The debt settlement implies that actual rents have to move to the target rent over the next three years – about £1.83 (2.7%) a week increase over and above the increase in target rent of September's RPI of 2.6%%plus 0.5%. This would total about 5.8% average rent increase next year.

5.5 The rental policy needs to be considered over the three year period and set in order to enable stability in planning expenditure on maintenance of council homes.

5.6 It is recommended that the Council sustains its current policy with regard to rent setting – that is to increase rents in line with the government's assumptions in the HRA settlement of converging rents by 2015/16, with individual rents being capped at RPI+0.5%+£2 a week. Even though rents will increase in real terms, rents will also continue to remain below those charged by other social landlords until at least 2015/16. This policy would reduce the average rent increase to 5.2% and prevent any individual tenant from facing increases above 3.1% plus £2 a week. While the rent increases are above inflation, they remain well below market levels, which varies but is around £125 a week. The average Council rent therefore is currently less than two thirds of the average market rate. In addition, the rental increase each year is now translating into real resources that will remain at a local level rather than being transferred to central government as in the past.

5.7 Last year, the Council agreed to increase service charges by cost each year unless there was a particular need to review a particular charge. This policy should continue except where there is a need to do something different – for example utility costs where charges may have to rise above inflation in line with energy costs, and concierge charges where increases are being phased in.

5.8 Derby Homes have identified a need to increase their staffing resource relating to debt collection and rental collection as essential given the introduction of Universal Credit and the imposition of under occupation deductions from benefits to more than 2000 Council tenants. It is proposed that Derby Homes be required to absorb such an increase by further increasing their overall efficiency. This will equate to a short term cost pressure of roughly a further 2.5% of the management fee.

Debt and Treasury Management

6.1 The HRA debt settlement in April 2012 was that the additional payment to the CLG was £28.5m, increasing HRA debt to £230m.

6.2 The government also imposed a debt cap on the HRA of £238.6m, leaving an initial debt capacity of just under £9m.

6.3 The Council has arranged its debt so that specific, fixed debts of £189m are set against the HRA at an average interest rate of 4.55% and an average tenure (length remaining) of 38 years. The protocol governing this arrangement is attached at Appendix 2.

6.4 In general, this plan aims to restrain spending to stay within a limit of a minimum of £12m (5% of the debt cap) between the amount below the debt cap – borrowing capacity - and revenue reserves – which are more flexible resources that can be deployed on capital or revenue spending. This will allow for any external risks moving against the plan – such as higher bad debts, higher interest rates, higher right to buys and other risks.

6.5 The current plan's debt should peak at around £237m in 2027/28 as a result of the reinvestment planned in kitchens and bathrooms in around 10 years time onwards, and only moving back below £200m in about 25 years time. Over 30 years the debt is not anticipated to be fully repaid, as would occur in a stock transfer plan, but it is anticipated that there should still be a significant reduction in debt over time. Final debt after 30 years in this version would be around £140m or around £5000 a property at today's prices. Clearly there will therefore be considerable additional investment capacity in the last ten years of the plan.

Housing Management Standards

7.1 There is a strong link between housing management and efficient asset management. In narrow funding terms, if the costs of housing management can be reduced, then this releases funds that can be spent on the maintenance of the homes and estates. However reduction in housing management could have a detrimental impact on asset management, for example:

- Allocations of properties to some tenants with a record of neglect of their home
- Inadequate monitoring of tenancy conditions and anti social behaviour leading to neglect of properties and vandalism by some tenants
- Low collection of rents and arrears resulting in a reduction of income into the HRA
- High concentrations of deprivation can lead to some estates and blocks of flats suffering a high turnover in tenants, on some estates and blocks of flats, with increased costs to void properties and increased need to spend money on anti social behaviour and other staff

7.2 The HRA Business Plan needs to be sensitive to demographic changes and the mismatch of supply and demand for council housing. There is a need to provide for the growing numbers of elderly, many of whom occupy family sized council houses. Funding to support moving such under occupation can help meet the needs of both elderly and free up houses for families. Similar moves for those facing underoccupation deductions also need to be considered as set out above.

7.3 There is a comprehensive range of housing management standards which include key service performance standards jointly agreed with the Council each year, specific customer service standards and most importantly 23 local offers (Appendix 1) which were set by our tenants and leaseholders. In addition, Derby Homes is regulated by the Homes and Communities Agency as a Registered Provider of social housing.

7.4 Derby Homes is committed to achieving continuous improvement against service standards whilst working within a Business Transformation agenda. Linking with the customer service strategy, there is an ongoing service access review which seeks to shift access to services through the most economical routes whilst still providing excellent standards of customer service.

7.5 Derby Homes has implemented significant improvements to the website and are evidencing an increasing number of customers registered on the site and accessing services through this route. Further improvements to the site will see increased options for customers to initiate enquiries on a wider range of services. Through the implementation of improved information technology we are improving communication with tenants through the use of SMS and social media networks which will increase feedback on our services.

7.6 A new contact point has been established in the city centre at the Council's Corporate Customer Service Centre and this will form the basis for greater collaboration and shared service provision from the refurbished Council House from 2013.

7.7 Derby Homes will continue to operate Housing Management Services on a geographic basis and increase our involvement in neighbourhood and partnership working to achieve greater levels of sustainability on our estates and enable successful and stable communities.

7.8 Derby Homes continues to invest resources in non-core activities of community development. The successful Junior Warden scheme operates in six areas of the city and is proving successful in increasing the involvement of younger people in our services and developing more community pride and ownership amongst the younger generation. Working with other third sector groups our community initiatives team have enabled the redevelopment of community facilities in the most deprived areas of the city.

7.9 The management of empty properties and income collection is a high priority as the HRABP relies on maximising income. Allocations and voids teams have been integrated to achieve more efficient working processes and there are further work streams in progress to increase numbers of 'back to back' lettings and the possibility of daily rather than weekly rents to further minimise void rent loss.

7.10 A review of the income management team has created a flat structure team with generic posts which will enable greater flexibility within the team and increase our ability to respond to challenges presented by welfare benefit changes.

7.11 Analysis of the current and future customer base is underway to enable us to better forecast levels of under-occupation within the stock and develop strategies to manage the impact of benefit changes affecting tenants in these circumstances.

8. Value for Money Strategy

8.1 Council housing remains good value for money overall. It is cheaper than most if not all alternatives and is likely to remain the cheapest option for somewhere decent to live. Standards are applied in construction, maintenance and management that are higher than most other landlords although the housing stock is generally now older than most Housing Associations.

8.2 Within the HRA, the Council has determined that the previous balance of management and maintenance costs did not reflect its priorities and Derby Homes agreed to reduce its management fee in real terms by £1m over four years as part of its transformation programme to drive down costs with the minimum impact on services to tenants. At the moment, the transformation programme well ahead of target, with £935,000 savings delivered so far and completion of the target by 2013/14. In addition, a further £1m of efficiencies within repairs and capital are also being delivered, to be reinvested as they arise to make the existing budgets stretch further. This programme has enabled the replacement of a large proportion of the van fleet, restructuring of the London Road depot and reduced costs of the Public Buildings operation, as well as lower overall costs in managing voids and day to day maintenance. Further van replacements are being rolled out to extend the new fleet to still more operational teams.

8.3 Changes to management arrangements continue to be implemented as part of the transformation of Derby Homes, resulting in lower overall costs and more efficient working. Mobile working continues to be extended in particular wherever possible, using area offices as hubs for hot desks.

8.4 The move to the Council House in 2013 is anticipated to further reduce overall costs as Derby Homes moves out of its current rented headquarters. Derby Homes' use of the London Road depot will increase as a consequence, and a major investment in new offices and demolition of outlying unused buildings has been agreed with the Council as Landlord. This investment is being funded by Derby Homes' reserves (generated by the efficiency savings from the business transformation programme) at no additional cost to the Council.

9. Risk

9.1 A risk register for the HRA under the new arrangements has been drawn up and is attached at Appendix 3. This indicates that there are a number of considerably sized risks that could impact on HRA plans. The key ones are:

- That rental income does not keep pace with the expected levels of increase set out in the settlement and this plan
- That service charges are removed from benefit funding under welfare reform. There are around £3m a year of existing service charges of which over £2m a year would be potentially at risk in the future, which would severely damage the capacity of the HRA to invest in new homes.
- That bad debts increase above planned levels as a result of universal credit and underoccupation and other welfare reforms
- That interest rates rise considerably
- That right to buy numbers increase well above the expected levels
- That void numbers increase in future – for instance as a result of underocccupation requiring more existing tenants to move
- That the stock is not adequately maintained to a lettable standard
- That business planning is not effective
- That customer profiling is inadequate to enable flexibility in the approach to rents and reasons for leaving to be understood.
- That HRABP focuses on assets management to the detriment of broader priorities, such as environmental improvements and community initiatives
- That economic decline leads to reduction in income of tenants, and reduction in services provided by all agencies on housing estates, resulting in increased deprivation and reduced rental income and increased management and maintenance costs

These are all being mitigated as far as possible within the actions set out in the risk register. The balance of risk in this plan is considered acceptable.

10 Financial Plan

10.1 The Council is in the fortunate position of starting the reform period £9m below the debt cap, with a housing stock that is in a reasonable state and having relatively few backlog issues. In addition, rents are lower than equivalent housing association rents and will need to increase in real terms to meet the overall rent convergence criteria, increasing still further local resources under the reformed HRA funding system. The resources generated by that extra rent have been built into this plan and are delivering additional real terms spending and improvements.

10.2 As a result, and with the Council's borrowing being relatively low cost at around 4.55% on the historic debt, the Council should be able to service its debt, maintain homes to the standards indicated in section 4, and provide services at broadly the current level once the period of business transformation and efficiencies currently being undertaken has concluded next year. The future for the HRA should then be reasonably stable as long as the major risks do not materialise. Indeed over time the debt should be able to be reduced in absolute terms albeit slowly at first. As a result, there should be scope for further investment into the stock and / or new stock.

10.3 The financial plan is attached at Appendix 4. It profiles the future debt and operating account for the HRA. A short summary is included below:

	2011/12 £m	2012/13 £m	2013/14 £m
Income (Rent/Service Charges, grants eg CESP)	**48.5**	**53.1**	**51.3**
Management – Derby Homes	10.3	9.0	9.0
Management – retained DCC	3.1	3.7	3.8
Maintenance – responsive/cyclical	**12.4**	**14.7**	**15.3**
Other	1.4	0.9	1.0
Capital – interest on debt	9.4	9.2	9.6
Capital – depreciation /major repairs	**8.0**	**11.8**	**12.1**
HRA subsidy payment to government	**5.0**	**0**	**0**
Total spending	**49.6**	**49.4**	**50.5**
Net Operating Expenditure	(1.1)	3.7	0.5

Reserves end of year	17.4	21.1	18.3

10.4 The highlighted rows in the table above illustrate the considerable benefit of the ending of the HRA subsidy system. As a result of that, the HRA is now able to invest in new homes as well as increasing spending on maintenance of Council homes both now and in the future, as well as reducing the level of debt held by the HRA, reducing costs still further and ensuring that the resources are there for the long term.

10.5 At the same time, the reduction in Derby Homes' management fee – which in real terms is even greater (inflation is currently 2.6%) – has also been delivered to add to the funds available within the HRA, and is to absorb the pressures of both inflation and an increased need for staff to assist with income recovery as welfare reform starts to take effect. This is worth around £0.4m a year more to the HRA in real terms (£0.2m each).

10.6 The expected higher income in 12/13 relates to the success in getting CESP grants which will be no longer available in 13/14.

10.7 The plan also includes the following developments since last year's major increase in planned spending:

- Significant plans to invest in new homes, amounting to around £26m over the next three years.
- A proposed extension to the Estates Pride programme relating to large scale environmental improvements of a capital nature. £2.1m additional funding has been built in to the capital programme for the next couple of years, and £0.5m a year thereafter to continue this successful programme into the future, so that it isn't just homes but also estates that are maintained and improved.
- Continuing – albeit at a lower rate of £500 - the Home release programme to free up larger homes, and tackle underoccupation.
- Funds set aside to cover potential redundancy and retirement costs as a result of the refusal of the DWP to fund support for intensive housing management.

10.8 The plan indicates that debt should peak at around £238m in 2027/28. This would be just below the current debt cap of £238.6m. We will continue to support the LGA's lobbying to get the cap lifted to enable still greater investment in new Council homes. Once the peak point for debt has been passed and the debt begins to fall, the potential for further investment increases unless the risks materialise. Discussions on those options will need to continue, but there is clearly significant long term additional HRA capacity available for investment by the Council in sensible developments.

10.9 There is, however, a real concern about the impact that welfare reform will have on the income of the HRA. The plan is predicated on an assumed level of bad debts which is higher than current levels, anticipating a significant loss of income. The Council and Derby Homes are working on mitigating the effects of the reforms, but a large increase in arrears and subsequent write offs are very likely. Should welfare reform result in even greater levels of write offs or increased costs of collection than assumed, or if Right to Buy numbers increased markedly on the assumed level, then investment levels may have to be reconsidered, but the indicated levels of investment should be affordable for at least the next three years on most likely scenarios.

10.10 The programme will continue to need to be reviewed annually to make sure that the plans remain affordable in the long term.

10.11 To conclude, as a result of reform, good management of HRA debt by the Council, and planned increases of rent to the converged level by 2016, this HRA business plan sets out to maintain the long term approach to Council Housing finances, with adequate levels of investment to sustain the current housing stock. While risks remain, there are opportunities for the Council to set up funding arrangements which would enable the start of a long term plan to renew and refresh some Council housing through the selective use of receipts and any funding opportunities that arise. In particular, 300 new homes can be planned within this plan. The core plan still contains sufficient resources to sustain the proposed standards and fund them in the long term as long as the main risks – rent levels, arrears as a result of welfare changes, Right to Buy – do not materialise beyond the limited levels expected within the plan.