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**HOUSING BUSINESS PLAN 2014/15**

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**SUMMARY REPORT**

**Purpose of the Report**

1. To provide the Adults and Housing Scrutiny Committee with an overview of the Housing Services 30 Year Business Plan.

**Summary**

2. The Housing Revenue Account (HRA) Business Plan covers the 30-year period from 2014/15 but is reviewed annually. The plan concentrates largely on those activities relevant to the management of the Council's housing related assets as well as the challenges facing key service delivery areas and contains an investment programme formulated on a five year and a 30 year basis.
3. The 30 year investment plan is based on a range of financial forecasts, outlined in detail in Table 3 and priorities for investment as identified by stock condition surveys. The plan is used to ensure that the Housing Service is being managed on a sound financial footing, identifying a sustainable investment plan which ensures properties are maintained to the Darlington Standard and reflects Council Tenants' key priorities. The five year investment plan is based on the same financial assumptions as the 30 year plan but is much more specific about the priorities and locations in which investment will be made.
4. The Business Plan confirms that the Council has both the financial resources and asset information to ensure we will continue to meet the needs of present and future tenants while ensuring the long-term viability of the stock.

**Recommendation**

5. It is recommended that Members comment on and note the content of this report.

**Richard Alty  
Director of Place**

**Background Papers**

N/A

Peter Akers : Extension 2312

S17 Crime and Disorder	Providing properties and a local environment which are both safe and secure contributes towards crime and disorder reductions.
Health and Well Being	The investment in improved energy efficiency measures within the Council's housing stock will improve the health and wellbeing of residents across the Borough
Carbon Impact	The investment in improved energy efficiency measures within the Council's housing stock will reduce the carbon impact of the Council's housing stock
Diversity	The proposal to re-designate up to 50 local authority dwellings will increase the accessibility of the Council's housing stock
Wards Affected	All wards are affected
Groups Affected	Any current housing tenants and leaseholders, neighbours of housing tenants and current and future applicants registered on the Tees Valley lettings database
Budget and Policy Framework	The issues contained within this report do not represent change to Council budget
Key Decision	This is a key decision
Urgent Decision	For the purpose of the 'Call-in' procedure this does not represent an urgent decision
One Darlington: Perfectly Placed	This report has implications for the 'Healthy Darlington' and 'Prosperous Darlington' themes of the Sustainable Community Strategy.
Efficiency	Robust Business Planning Processes help to ensure we are providing the most cost-effective and efficient services and reduces the need for more costly responsive work.

## MAIN REPORT

### Background

6. This Housing Revenue Account (HRA) Business Plan covers the 30-year period from 2014/15. The plan concentrates largely on those activities relevant to the management of the Council's housing related assets and the challenges facing key service delivery areas and contains an investment programme, formulated on a five year and a 30 year basis.
7. The Asset Management Strategy, produced in 2010, is a key component of the HRA Business Plan as it sets out priorities for the physical care and improvement of the housing stock and related housing assets, using stock condition information to inform the strategic framework within which decisions on investment or disinvestment are made. It recognises the natural tension between competing investment needs, for example investment in the existing housing stock, investment in new affordable housing and investment in housing management services.

8. Darlington is an area with high demand for affordable housing and demand for the Council's housing stock is generally high. The condition of our housing stock is very good with the Authority bringing all properties up to the Decent Homes Standard in 2006. There are however pockets of low demand within the Council's housing stock and this can largely be attributed to an oversupply of certain housing types within some geographical areas. The Council is also aware that there is a high level of interest from other social housing providers to build within Darlington and the increasing supply of social housing may have long term impacts on the future demand for the Council's housing stock. As a result it is critical that the Council anticipates and where possible forestall obsolescence in the housing stock and maintains housing to a standard which is attractive to potential tenants, meets the changing nature of household formation and responds to other demographic or cultural issues.

### **Housing Revenue Account**

9. In April 2012, the funding regime for local authority social housing changed radically. The abolition of the national (HRA) subsidy system, a national system for redistributing housing resources, was replaced with a locally managed 'self financing' system. Local authorities now retain the rental streams from their housing assets, alongside the responsibility for managing, maintaining and improving the housing stock and supporting an opening level of debt that was allocated to each authority.
10. HRA reform placed Councils in full control of their housing assets. The changes also resulted in a range of options for unlocking HRA investment capacity that remain consistent with government's current priority to control the national debt. The key aspect of HRA reform relevant to Darlington is that Councils will be able to shape their "housing business" to deliver against their local service and investment priorities.

### **Financial Summary**

11. The introduction of self-financing resulted in the Council taking on £33m of additional debt from central government in March 2012. However the Council no longer has to pay the government an annual negative subsidy payment which varied each year but was in the region of £2m. Instead it was decided to make interest only repayments on the additional debt which has result in annual repayments of £1.3m.
12. The net impact of the self-financing initiative is that the Housing Service's current debt repayments are lower than the negative subsidy payments previously made to Government. Efficient operation of the HRA should generate surpluses of around £11m within the next five years which can be set aside as an Investment Fund to be used to regenerate priority areas and provide new build opportunities. To ensure the Business Plan is robust and future proofed, the following assumptions have been included:

**Table 1 – Assumptions underpinning the Business Plan**

General Inflation	Assumption that rent increase inflation in increase in line with general inflation
Rent Increase Inflation	
Rent Convergence	Assumed rent will converge by 2015/16. Due to recent changes Government changes 60 properties will not align in by 2015/16
External borrowing interest rate	4.20%
Minimum HRA balance	£4m per annum or £750 per property
Right to Buy Sales	30 per year  This is a slightly increased on current trends of 20 per year reflecting recent change in R2B legislation and anticipated upturn in economy
Void Rate	1.50%  Current this is 1%, the increase is based on the anticipated impact of universal credits and impact of decanting as part of the Red Hall regeneration works
Bad Debt	1.20%  Currently this is 0.9%, the increase is based on the anticipated impact of universal credits

13. The key financial investment points from the Business Plan are as follows:

Next 5 years

- (a) £11m investment fund to spend on regeneration, new build developments and conversions to existing stock to meet current and future demand.
- (b) £30m capital works programme to continue to maintain the condition of the Councils' existing housing stock to the Darlington Standard.
- (c) £35m revenue budget for management cost, responsive repairs and cyclical maintenance.
- (d) £17.5m budget for the repayment of capital finance costs.

Next 30 years

- (a) £207m will be spent on revenue costs including repairs and maintenance
- (b) £186m will be spent on routine capital works
- (c) £90m will be spent on the repayment of capital finance costs
- (d) £43m spent on new build, regeneration and other opportunities

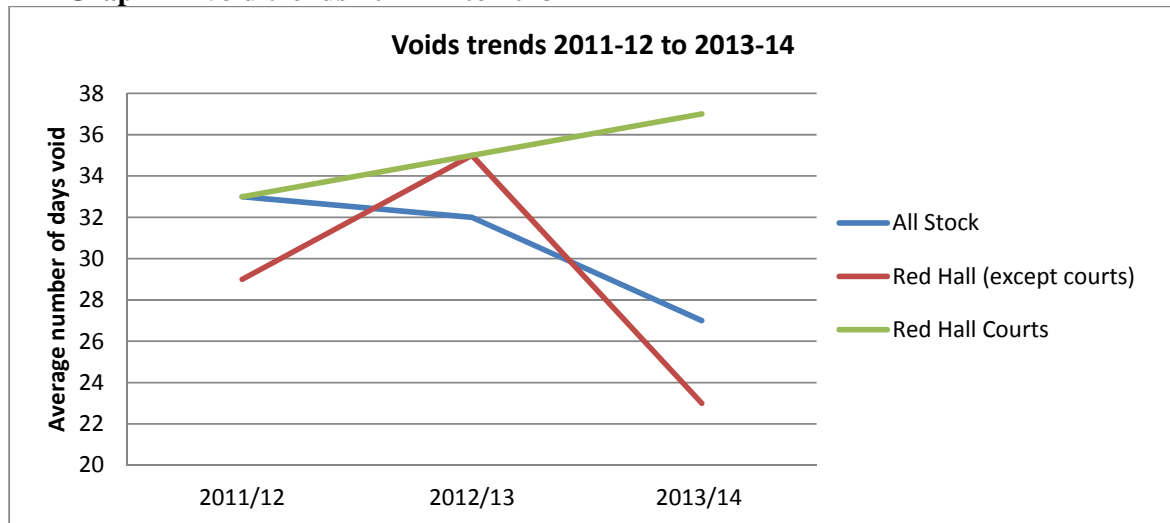
14. The Business Plan can be broadly broken down into five key areas where there are investment implications for the HRA major works. Each of these areas is outlined in more detail below.

**Investment Priority 1 – Regeneration**

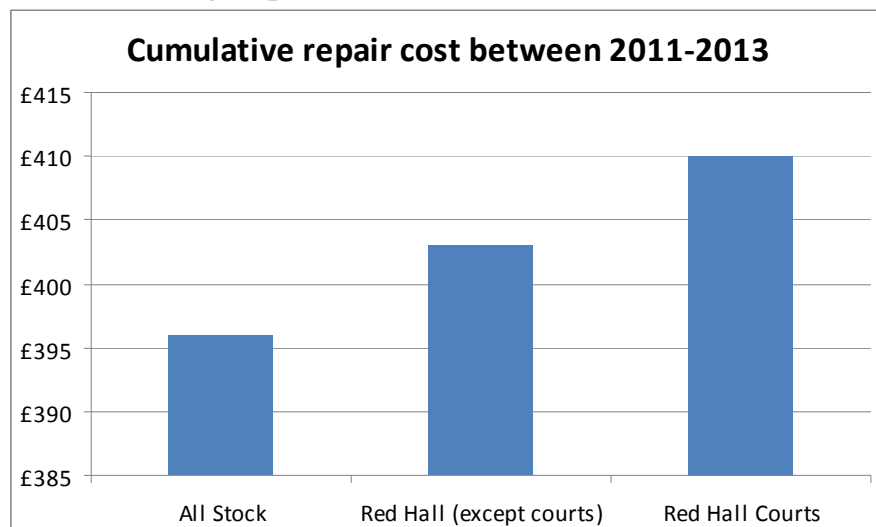
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Housing Business Plan 2014/15

15. As part of the Council's Core Strategy, which was adopted in 2012, the Haughton East ward was identified as a priority area for regeneration work alongside Cockerton West and Park East wards. The regeneration works to both Parkside and Cockerton are now complete and the Housing Strategy 2012 identified the regeneration of Red Hall as the final priority area for regeneration work.
16. Red Hall has been identified as an area for regeneration primarily because of low demand and high repair cost within the 'Courts' area of the estate. These issues are highlighted in Graphs 1 and 2 below.

**Graph 1 – void trends 2011-12 to 2013-14**



**Graph 2 – Total average repair costs between 2011-2013**



17. Initial consultation with residents of Red Hall concerning the proposed regeneration of the estate was completed in July 2013 and a draft master plan is currently being prepared based on feedback from the initial consultation. Based on the core values developed as part of the wider master plan

consultation a number of investment proposals were developed and these were discussed with Red Hall residents in December 2013. The feedback from this further consultation event was positive and the investment plan for the area has now been finalised with the key elements outlined below:

- (a) Demolish 56 properties within the courts area of Red Hall
- (b) Complete environmental works to improve the front and rear access to the properties remaining on the courts receiving selective demolition (22 properties)
- (c) Maximise fully grant funding for the provision of external cladding to properties on the estate that would benefit from this work
- (d) Provide double glazed windows and composite doors to all remaining properties within the courts area of Red Hall receiving external cladding work
- (e) Provide new rear dividing fencing between properties where appropriate within the courts area of Red Hall
- (f) Complete environmental works across the estate to improve public areas such as improved street lighting and public highways

18. Within the Business Plan a budget of £3m has been set aside for the regeneration of Red Hall from 2014/15 onwards. This will include the cost to demolish and re-house any residents affected by the demolition as well as refurbishment work mainly in the Courts area.

### **Investment Priority 2 – New Build**

19. The Strategic Housing Market Assessment completed for the Tees Valley in 2012 identified that there is a shortfall of over 300 affordable dwellings across the borough of Darlington each year. When taking into consideration with the Council's recent regeneration work, which has resulted in the loss of 107 council houses, and proposed regeneration work at Red Hall which may result in the loss of further properties, there is a clear need for the Council to build new affordable housing.

20. Not only is there a need to build affordable dwellings to meet local need, it is also a business need for the Housing Service. The Business Plan is underpinned by the rents received from Council properties and the loss of rents as a result of regeneration works and right to buy sales would significantly reduce income for the Housing Service if these properties were not replaced. Similarly the impact for New Homes Bonus of overall reductions in property numbers needs to be taken into account.

21. Based on both the local need for affordable dwellings and the business need to maintain income for the Housing Service the Business Plan has set aside a budget of £8m between 2013/14 and 2018/19 for the development of new Council housing. The first phase of development will be to offset any dwellings lost through the regeneration of Red Hall with the development of new council housing on land currently owned by the Council in alternative locations across the borough.

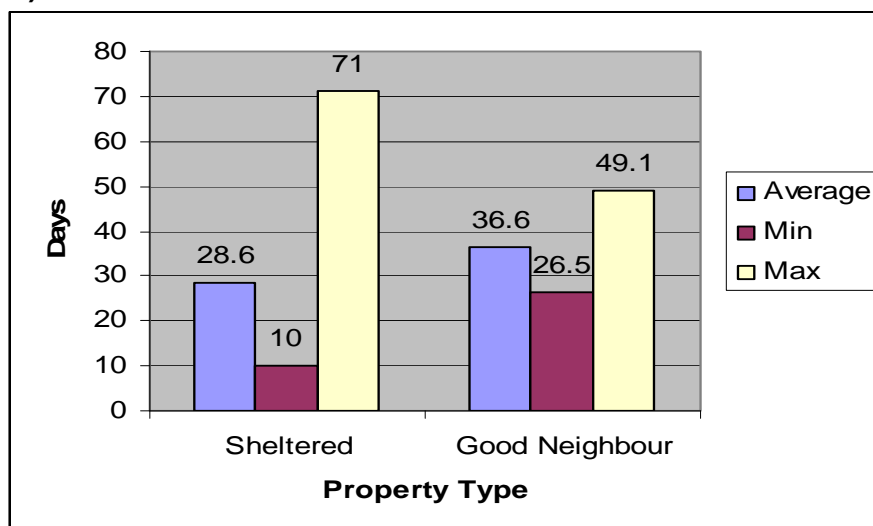
### **Investment Priority 3 – Change of Use for Existing Stock**

22. The Darlington Supported Housing Strategy 2012 noted that the Council and other providers have had difficulties in letting some specialist accommodation for older people. This, in part, was probably a consequence of the Council completing a

major modernisation programme on sheltered housing and for the first time in a number of years all Council schemes being available to let creating additional capacity for specialist housing. Since then evidence suggests that there is a small over supply of social rented accommodation for older people in some areas.

23. Demand varies across Darlington and this is illustrated in Graph 3 below. Based on 188 voids during the year for sheltered and Good Neighbour schemes the average voids times vary from 10 days to 71:

**Graph 3 – Void analysis for older persons accommodation (April to August 2013)**



24. There are various reasons for these differences but location and the amount of specialist accommodation on offer in a particular area are critical factors. Similarly as Table 2 shows, more people are opting to live independently in their existing homes rather than move into purpose built older persons provision but, as they become increasingly frailer with age, are moving into social housing which best meet their needs.

**Table 2 – Tenure for Darlington residents over 64 years of age (April 2013)**

	People aged 65-74	People aged 75-84	People aged 85 and over
Owned	77%	67%	59%
Rented from council	15%	21%	24%
Other social rented	4%	7%	9%
Private rented or living rent free	3%	5%	8%

Source: POPPI

25. Although there is a fall in demand, the evidence suggests that there is only a limited need for action. The Council has been taking action to improve demand through a number of initiatives including changes to allocations policies, changes to the Pets Policy to reduce restrictions and increased marketing. In addition, however we

need to reduce the level of supply and it is therefore proposed up to 50 properties are re-designated to another need between 2014 and 2016. These changes will mainly affect small clusters of properties and will be sensitive to the wider needs of the community.

26. Changes in government funding together with changes to the way support, health and care are being delivered have created a need to find new housing options for supporting people within the community. The re-designation of some specialist accommodation creates the opportunity to address some of these needs. Work will take place with Adult Social Care Commissioners and other stakeholders to develop proposals based on identified needs. There may be a need for some capital expenditure to support the re-designation but this will depend on the type of property involved and the needs of the client group. At this stage therefore detailed costs can not be identified but the Community Capital Grant managed by Adult Social Care to support independent living is one potential source of funding.

#### **Investment Priority 4 – Current Stock**

27. In 2008 Savills were commissioned to undertake a Public Sector Stock Condition Survey. Savills concluded that our housing stock had been 'well maintained on a day to day basis and is in very good condition when compared to local authority housing stock of a similar size and nature' (p2 SCS 2008). This conclusion was supported by the thirty year forecast with total expenditure to maintain the stock and related assets at the lower end of the expected benchmark totals.
28. These findings reflect that the stock has been subject to significant investment over the last 10 years (2003-2013) with a structured programme for both ongoing capital improvements and maintenance resulting in:
  - (a) All stock meeting the Decent Homes Standard by 2006.
  - (b) A proactive approach to capital improvement work ensuring all stock is maintained to a standard above the Decent Homes Standard, locally known as the Darlington Standard.
  - (c) An average SAP rating of 69 across the Council housing stock indicating an above average level of thermal comfort. This can be largely attributed to a central heating programme which has installed over 2,500 A rated combi-boilers and a planned maintenance programme which ensures all properties suitable benefit from cavity wall insulation and 300mm of loft insulation.
  - (d) £98m, or £9.8m per year, being spent on capital improvements including the regeneration of Cockerton and Parkside and the rebuilding or remodelling of all sheltered and extra care schemes.
29. The Business Plan's 30 year capital investment budget is currently £229m which ensures all works identified within the stock condition survey can be completed alongside additional works to maintain properties to the Darlington Standard and complete regeneration works where appropriate. Table 3 below outlines the profile of this spend over the 30 year period.



**Table 3 – Thirty Year Investment Forecast**

	Years 1 to 10 (£000)	Years 11-20 (£000)	Years 21 - 30 (£000)	Total Spend (£000)
Adaptations	3,650	3,800	3,800	11,250
Communal Works	500	500	500	1,500
Decoration following IPM	352	482	459	1,293
External works (footpaths, fencing, etc)	5,000	5,000	5,000	15,000
Garage Improvements	750	750	750	2,250
Heating Replacements	11,336	11,089	10,568	32,992
Internal Planned Maintenance	21,809	20,791	19,814	62,415
Repairs before painting	1,000	1,000	1,000	3,000
Roof work	4,080	4,000	4,000	12,080
Structural Repairs	1,280	1,200	1,200	3,680
Warden Link & Sheltered Housing	800	800	800	2,400
Walls/Canopies	1,795	3,590	3,590	8,975
Lifts	207	230	230	667
Energy Efficiency	5,972	6,100	6,300	18,372
Professional Fees	2,500	2,500	2,500	7,500
Smoke / Fire Alarms	500	500	500	1,500
Door entry	300	300	300	900
Investment Fund (new build, regeneration, refurbish)	15,000	13,000	15,000	43,000
<b>Total expenditure</b>	<b>76,831</b>	<b>75,632</b>	<b>76,311</b>	<b>228,774</b>

30. The five year housing capital investment budget (see Table 4 below) is primarily guided by works required to maintain properties to the Darlington Standard and the investment priorities outlined within the Business Plan. Tenant priorities have also been critical in forming the investment plans. In October and November 2013 surveys were sent out to 5,500 tenants to identify their investment priorities. The clear priorities for investment from the responses were:

- (a) Heating Systems
- (b) Double Glazing
- (c) Front and Back External Doors
- (d) Roofing and Guttering
- (e) Fencing

31. The tenants' priorities closely reflected the asset management data and so each priority is addressed within both the Five Year Investment Plan and 30 Year Business Plan.

**Table 4 – Five Year Investment Plan**

<b>Business Plan – Draft 5 Year Investment Plan</b>					
	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
	£000's	£000's	£000's	£000's	£000's
<b><u>Scheme / Project</u></b>					
Adaptations	330	330	330	380	380
Heating replacement programme	1,035	1,051	1,170	1,174	1,168
Structural works	120	140	140	140	140
Lifeline Services	80	80	80	80	80
Repairs before painting	100	100	100	100	100
Roofing	400	420	420	420	420
Garages	75	75	75	75	75
External Works (footpaths, fencing, etc.)	500	500	500	500	500
Smoke detection	50	50	50	50	50
Pavement Crossing	25	25	25	25	25
Energy efficiency	572	600	600	600	600
Door entry	30	30	30	30	30
IPM works	2,210	2,220	2,230	2,202	2,189
Communal Works	50	50	50	50	50
Lifts		23	23	23	23
Red Hall Regeneration	1,000	1,000	1,000		
New build	2,000	3,000	1,000	1,000	1,000
Fees	250	250	250	250	250
<b>Total spend</b>	<b>8,827</b>	<b>9,944</b>	<b>8,073</b>	<b>7,099</b>	<b>7,080</b>
<b><u>Resourced by:</u></b>					
Capital Receipts	184	192	194	196	198
RCCO	5,643	5,752	5,879	5,903	5,882
Investment Fund	3,000	4,000	2,000	1,000	1,000
<b>Total resources</b>	<b>8,827</b>	<b>9,944</b>	<b>8,073</b>	<b>7,099</b>	<b>7,080</b>
Balance remaining on Investment fund	5,200	3,700	3,700	4,600	5,400
HRA Working balance	4,000	4,000	4,000	4,000	4,000

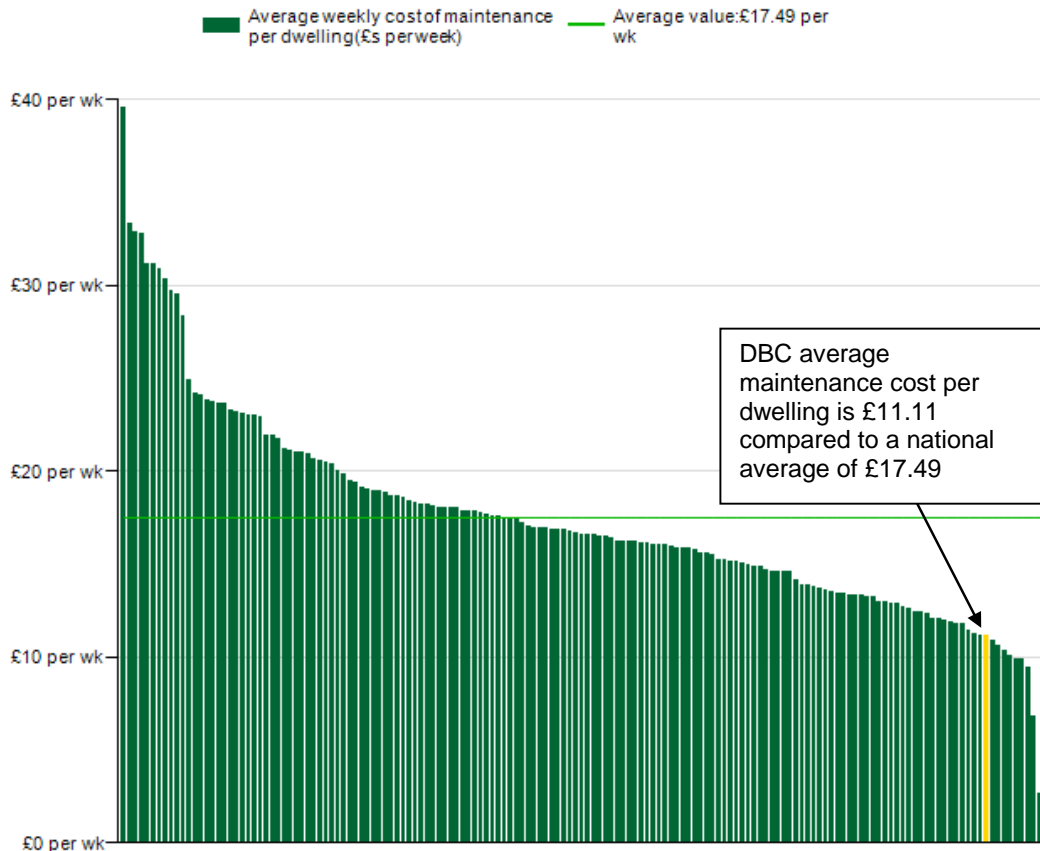
32. It should be noted that in addition to the annual £2m heating replacement programme, annual £440k double glazing programme and one-off spend of £572k in 2014/15 on double glazed windows and doors the Housing Service are working closely with Warm Up North and other funding providers to bring in additional investment in energy efficiency measures to Council properties. Further detail of energy efficiency work being completed to the Council stock is outlined in

paragraph 38.

## Investment Priority 5 – Repairs and Maintenance

33. As outlined in paragraphs 30 and 31 the Council's housing stock is well maintained as a result of a structured capital investment programme. This has resulted in our Housing Service being identified by the Audit Commission as a high performing authority with one of the lowest average maintenance cost per dwelling of all stock retained authorities in England as outlined by Graph 4 below.

**Graph 4 - Audit Commission Value for Money tables (2010/11)**



34. The Business Plan anticipates responsive repairs will remain at historical levels and so allocates a budget of £20m for responsive and cyclical repairs within the five year investment plan and £116m within the 30 year investment plan.

35. A range of efficiencies are currently being introduced to the responsive repairs service including the procurement of a new stores service for the provision of materials, a review of the job costing process and investment to further the asset management data held by the Housing Service.

## Energy Efficiency

36. As outlined in table 4 the five year investment plan directs £12.5m towards investment in A rated combination boilers and double glazing within the housing stock. While the average SAP rating of 69 is in line with the national average there are a limited number of estates with a poor level of thermal comfort. To supplement the investment identified within the Business Plan Housing Services are currently working with Warm Up North and other funding providers to attract additional funds to complete the following work:
- (a) Provision of external cladding, double glazing and composite doors to 39 System Built properties with an average SAP rating of 64
  - (b) Provision of external cladding, double glazing and composite doors to 398 Wimpey No Fines and System Built properties with an average SAP rating of 54

## **Consultation**

37. As outlined in paragraph 32 the Housing Service sent a survey to 5,500 tenants seeking their investment priorities. The responses to this survey has shaped elements of the 5 year investment plan, particularly budgets which are currently allocated to the provision of double glazing and composite doors.
38. Both the Housing Repairs Task and Finish Group which comprises of a dedicated group of tenants and the Tenants Board have shaped the investment plans and are being actively consulted as part of the formation of the new Business Plan.

## **Risk Management**

39. The success of the Business Plan is dependent upon an accurate prediction of the income generated by the Housing Service over the 30 year investment period. Income is primarily generated through rents received and so successfully anticipating the level of Right to Buys, rent arrears and bad debt is critical to the delivery of the plan.
40. The Housing Service participates in a North East Benchmarking Group which has identified us as a high performing authority with bad debt levels and void loss levels of no more than 1% of all debt in each of the last five years. However proposals contained within the Welfare Reform Bill could reduce income to some households and may increase levels of bad debt and the number of voids per year.
41. In response to the risk posed by the Welfare Reform Bill the Housing Service has taken steps to maintain low levels of bad debt and void loss. For example, Housing Officers have proactively engaged with 500 households who are under occupying Council properties and are providing on-going support for these households to move into more appropriate and affordable accommodation.
42. In light of the Welfare Reform Bill and the actions taken by the Housing Service to mitigate the impact of the Bill, a number of conservative assumptions on factors affecting levels of future income have been made. These assumptions are outlined in Table 1 of this report.