
HOUSING REVENUE ACCOUNT – MTFP 2015/16 TO 2019/20

**Responsible Cabinet Member - Councillor Veronica Copeland,
Adult Social Care and Housing Portfolio**

**Responsible Director - Paul Wildsmith,
Director of Neighbourhood Services and Resources**

SUMMARY REPORT

Purpose of the Report

1. To consider proposals for the revenue budget, rent levels and service charges for the Council's Housing Revenue Account (HRA) for the financial year 2015/16 in the context of the HRA Medium Term Financial Plan to 2019/20 and the 30 year Business Plan.

Summary

2. The key decision regarding the HRA is the balance between rent levels and investment in the housing stock. Changes to the HRA financial regime have increased flexibility in how finances can be managed generally although restrictions remain in place on borrowing. The report recommends the continuation of past practice to increase rents in line with the maximum allowed by government for the purpose of calculating housing benefit payments, this is to ensure sufficient funds for investment in the housing stock. There is no longer a requirement to do this however and members can chose a smaller rent increase with a corresponding reduction in capital investment. The proposed rent increase is an average 3.43% and 71% of tenants will have the increase covered by benefit payments.
3. The Business Plan for investment included in the report proposes the building of up to 90 new dwellings in addition to the 78 dwellings previously approved and in addition to ongoing improvements to existing stock.

Recommendation

4. It is recommended that the following be agreed for consultation:-
 - (a) An average weekly rent increase for 2015/16 of 3.43% be implemented giving an average rent of £72.94.
 - (b) Garage rents and service charges are increased as shown in Table 1.
 - (c) The budget at **Appendix 1** is approved.
 - (d) The Housing Business Plan **Appendix 2** is agreed.
 - (e) The results of consultation and the Equality Impact Assessment be reported to Cabinet on 17 February 2015 when Cabinet will propose a HRA budget to Council.

Reasons

5. The recommendations are supported
 - (a) To enable the Council to deliver an appropriate level of service to tenants to meet housing need and to support the economic growth of the Borough through housing development.
 - (b) To allow consultation and an Equality Impact Assessment to be undertaken.

Paul Wildsmith
Director of Neighbourhood Services and Resources

Background Papers

CLG Rent Restructuring Guidance

Pauline Mitchell: Ext 2505

S17 Crime and Disorder	The contents of this report have been considered in the context of the requirements placed on the Council by Section 17 of the Crime and Disorder Act 1998, namely, the duty on the Council to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area. It is not considered that the contents of this report have any such effect.
Health and Well Being	There are no issues relating to health and well-being which this report needs to address
Carbon Impact	There are no carbon impact implications in this report
Diversity	There are no diversity issues
Wards Affected	This will have an effect on the majority of the Wards in the Borough.
Groups Affected	All Council Tenants and Lifeline Service Users
Budget and Policy Framework	The issues contained within this report require Council approval and the report will be presented to Council on 26 February 2015.
Key Decision	This is a key decision because agreement to the recommendations will result in the Local Authority incurring expenditure which is significant. There will also be a significant effect on the communities living or working in an area comprising two or more wards within the area of the local authority.
Urgent Decision	This is not an urgent decision for Cabinet, as the approval of Council on 26 February 2015 will be required.
One Darlington: Perfectly Placed	The report has no particular implications for the Sustainable Community Strategy.
Efficiency	As the HRA is a ring fenced budget every effort is made to maximise income and identify savings in order to maintain a high quality service.

MAIN REPORT

Setting the MTFP from the HRA

6. Councils now have the flexibility to decide the balance between the levels of service provided to tenants and the levels of rent charged; however if the increase is higher than the maximum level determined by the DWP; it would not be eligible for Housing Benefit. In Darlington for 2015/16 the maximum average increase allowed will be 3.43%. The maximum increase is in line with prior year increases and this has enabled tenants to continue to receive a good level of service and provide funding for investment in existing and new properties. The MTFP as described in the following

sections assumes that the Council will continue to increase rent levels to the maximum level to ensure the standard of service offered remains high in the context of the HRA having relatively low rents and that 71% of tenants are in receipt of housing benefits which will cover the increased rents. There is however no requirement to increase rents although the investment identified in the 30 Year Business Plan would need to be reduced to reflect any loss in income.

7. Analysis of Expenditure within the HRA

(a) Management £5.577m

This includes all staffing costs associated with the provision of a housing management service, central support service and ground maintenance recharges and other associated support costs such as ICT and insurance. These costs have been benchmarked and show our 2015/16 cost of £576 per property compare very favourably with our Comparator Group average of £735 per property.

(b) Maintenance - Revenue Repairs - £3.792m

This covers the on-going general repairs to the Councils 5,284 properties at a rate of approximately £715 per property per year (2015/16). This level represents an average spend and reflects the overall good condition of the stock due to sustained capital investment. Benchmarks indicate we provide good value for money when compared to the overall average of £826 per property. The continued investment in a good repairs service is essential to maintaining our stock at a good level for current and future tenants.

(c) Capital Financing Costs

This is the cost of paying for previous borrowing undertaken to fund capital expenditure.

(d) Bad Debts Provision

A provision to cover rents that are deemed unrecoverable.

8. Revenue Contributions to Capital Programme - £12.966m

The Council cannot borrow to finance major refurbishments due to the current restriction on HRA borrowing, although we have successfully bid for some grant funding from the Homes and Communities Agency (HCA) for the building of new houses during 2015/18. Grant is preferable to the other option of applying to CLG to increase our borrowing capacity, particularly as it is unlikely we could meet all of the criteria. Most capital expenditure needs to be funded from revenue. The budget acknowledges this and allows for revenue contributions each year. In addition over recent years contributions have been set aside to fund significant investment such as Red Hall Estate regeneration and new house building.

9. When considering rent levels Members will appreciate that expenditure items (a) to (d) are relatively fixed and the main variable is the level of funding available for capital investment. The proposed Business Plan is discussed in the following section and this explains where future capital investment is planned.

Housing Business Plan

10. The purpose of the Housing Business Plan 2015 is to ensure that the Housing Service has a financial plan which is sustainable and focuses investment towards strategic priorities. During the development of the Business Plan it has become clear that there were a number of strategic investment priorities that are particularly pressing and have significant financial implications for both the Housing Revenue Account and the Council's General Fund.
11. The following proposals will outline these strategic priorities, the resources available to deliver on these priorities (subject to final decisions on rent levels) and how resources will be aligned against the priorities.

Regeneration of Red Hall

12. The regeneration of the Red Hall estate has become an increasingly strategic issue for the Council and local area as it is situated in close proximity to three major development opportunities at 'Lingfield Point', the 'Eastern Urban Fringe' and a 4.3 hectare greenfield site, in Council ownership at North Red Hall, known previously as Red Hall stables. The regeneration of Red Hall will support the wider master plan for the area and potentially increase the capital receipt the Council will receive for future land sales within the area.
13. A programme of regeneration works was approved by Cabinet in September 2014 at a cost of £5.551m. These investments are identified as phase one of the wider master planning work at Red Hall which is likely to take place over a much longer period. They include:
 - (a) Planned demolition of 56 properties and preparation of land for a green space play area and land for redevelopment.
 - (b) Reconfiguration of remaining properties on Aintree and Anfield Court
 - (c) Provision of external wall insulation to 239 properties including 13 owner occupied properties within the Courts
 - (d) Provision of double glazing and new doors to 384 Council properties
 - (e) Improved street lighting and traffic flow within each of the Courts
 - (f) Electric to gas heating replacements to properties at Ascot View
 - (g) Fencing and footpath improvements where appropriate to all council properties

New Build

14. 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 also taking into consideration the Council's recent and planned regeneration work, which will result in the loss of over 200 Council homes, there is a clear need for the Council to build new affordable housing.

15. 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.
16. The implementation of the Government's Self-Financing Initiative introduced from April 2012 enabled the creation of an Investment Fund which has been prioritised on the regeneration of Red Hall and a New Build programme. A total of £19.5m is available for the development of new Council housing, of which £10.8m is remaining for up to an additional 90 new homes in addition to the 78 new homes already in the pipeline.
17. Feasibility is underway to develop a number of proposals with a view to submitting a bid for grant funding from the Homes and Communities Agency (HCA).
18. The property mix for each of these sites is yet to be finalised but will focus on smaller units of accommodation to reflect current demand and support existing tenants needing to downsize as a result of the Welfare Reforms. Members will be fully consulted on the proposed schemes in their wards and play a key role in future resident engagement.

Housing for Vulnerable People

19. A strategic review of Homelessness Services has recently taken place resulting in significant budget savings and a retendering exercise has successfully delivered the range of services and accommodation required. Cabinet agreed in October 2014 to revise the Local Lettings Policy which enabled a range of properties previously reserved for older people to be made available to younger people over 18 years of age and this will help address the needs of Care Leavers. The review of housing related support for specific Adult Social Care client groups is still ongoing but at this stage the need for new build accommodation has not been identified.
20. Each year Housing Services complete a range of minor and major adaptations to individual Council properties where a need has been identified by an Occupational Therapist. In 2013/14 over 258 properties received adaptations works through this route and works ranged from the provision of lever taps and grab rails to semi-permanent ramps, stair lifts and ground floor extensions. The adaptations budget is fundamental in supporting households to remain in independent living and preventing a premature movement into a more supported form of accommodation. Adaptations play a key role in reducing demands on Adult Social Care budgets and to reflect this, the Business Plan is committed to investing £300k per year on adaptations.

Existing Stock Investment and Responsive Repairs

21. The housing stock has been assessed as being in good condition with significant annual investment as part of 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.
22. The Business Plan identifies a capital works budget of £55m over the next five years and £289m budget for capital works over the next 30 years. This budget will ensure 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.
23. The Council's housing stock is well maintained as a result of a structured capital investment programme. This has resulted in the 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.
24. A wide range of actions within the Business Plan are anticipated to reduce the level of expenditure on responsive repairs. These include:
- (a) The Energy Efficiency programme is providing new composite doors which do not fluctuate in shape following changes in temperature or heavy rainfall and will reduce responsive repair requests.
 - (b) Roofing and Energy Efficiency budget will replace items that require painting on a cyclical basis, for example, cast iron and lead gutters and downpipes or timber doors with PVC equivalents that do not require regular painting.
 - (c) The externalisation of Stores including the use by operatives of Procurement Cards is continuing to deliver efficiencies, saving operative time and increasing the number of repairs completed at first visit.
25. The Business Plan anticipates responsive repairs will remain at historical levels and so allocates a budget of £19.9m for responsive and cyclical repairs within the five year investment plan and £118.7m within the 30 year investment plan.

Energy Efficiency

26. The Standard Assessment Procedure (SAP) is an industry standard used to evaluate the energy efficiency of a property. While the average SAP rating of the Council's housing stock is 69, is in line with the national average, some housing stock have poor levels of thermal comfort.
27. The five year investment plan directs £7.174m towards investment in A rated combination boilers and £51.193m over 30 Year Business Plan period. A further £3.53m has been allocated to Energy Efficiency measures within the five year investment plan for the replacement of PVCu windows and the installation of composite doors to properties identified as the hardest to treat in relation to other basic retro fit measures. The 30 Year Business Plan allocates £30.8m of investment in Energy Efficiency measures.
28. To supplement the investment identified within the Business Plan, Housing Services are currently working with Warm Up North and other funding providers to leverage additional grant funding to complete a wider range of energy efficiency improvements. Potential projects include:
 - (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 to 239 properties and double glazing and composite doors to 384 Wimpey No Fines and System Built properties with an average SAP rating of 54.
29. Attached at **Appendix 2** is the 30 Year Investment Plan and at **Appendix 3** the detailed 5 Year investment plan.
30. Members will appreciate that the Investment Plan is underpinned by annual rent rises at the maximum levels which are estimated to be the Consumer Price Index (CPI) plus 1%.

Rent Level Options

31. The main objective of the Government's policy on rent restructuring is that rents should be fair and affordable for tenants in the social rented sector. The policy sets out a common basis on which all rents in the social sector should be set. This means that the rent for a house or flat (known as the formula rent) is linked to its capital value, size, location, condition and local earnings so that tenants can make a proper choice between how much they pay and the size and quality of the property they live in.
32. From 2015/16 there is no longer a requirement to continue with rent restructuring and Members can opt for the level of rent increases to be lower with a consequential reduction in funding available for capital investment. However if full implementation does not take place there will be inequality within the system with some tenants paying a lower comparative rent than others therefore this report recommends full implementation. For 2015/16 the average amount actual rents are below formula rents is £0.89 with the average formula rent being £72.97 and the average actual rent

being £72.08. (Rents can increase above that amount but would not qualify for Housing Benefit so would be unaffordable for the majority of our tenants). The rent loss due to a stoppage of rent convergence would be approximately £245K per annum if fully implemented in 2015/16 or £237K if we continue to phase in rent convergence and apply a limit of CPI + 1% + £2 increase per property. By continuing with the phasing we will protect properties, particular larger family homes and those in rural locations, from having significant increases in one year. Without this a small number of properties will have increases totalling £2-4 per week and in one instance the increase would total £6.10, despite generating only £8K additional income in 2015/16. Whilst it is fair and equitable for rents to be charged on a common basis it is considered reasonable to continue to phase in the remaining increases over time in line with previous practice.

33. Example rents for 2015/16 are attached at **Appendix 4**. It should also be noted that the latest benchmarking information for 2012/13 shows Darlington as the twelfth lowest rent out of 166 local authorities with a housing stock. Typically the highest rents are in London Boroughs with Wansworth charging the most at an average of £120.85 and more locally North Tyneside was averaging at £65.98 and York averaging at £72.07. Rent convergence will have maintained these rent differentials up to the present time.
34. The additional costs will be covered by Housing Benefits for the 71% of tenants who are eligible. In addition to CAB and the Credit Union now being easily accessible in the Customer Service Centre, the HRA funds a Money Advice Service and Income Management Team to address the financial challenges facing a number of Council tenants and this service is designed to target those most at risk and to work with them to find achievable solutions. Community based facilities called Healthy Hubs have been established across the borough to provide easy access to food banks, the Credit Union, as well as housing and debt advice Those tenants, particularly first time tenants who require more sustained intensive support will be referred to the recently established Housing Plus Team.
35. Since the introduction of the Bedroom Tax, there has also been an emphasis on encouraging people to downsize or, where appropriate, apply for discretionary housing payments. This has resulted in some significant improvements in rent arrears performance, despite the challenges faced by the Welfare Reforms and the economic climate. The rent arrears at the end of September 2014 were £464,377 which represents a reduction from the previous year of £50,000 and 600 less arrears cases. The arrears as a percentage of the debit is 1.86 per cent, the lowest figure in some years and in the top quartile of best performing housing organisations.

Garage Rents and Service Charges

36. The budget at Appendix 1 includes the financial effect of the proposed increases. The proposed service charges provide for achieving full recovery of costs from those tenants who directly benefit from the services provided. In most instances this means a small inflationary increase is necessary but in some instances such as furnished tenancy charges and scheme heating costs no increase is needed to maintain current levels of service. Details are shown at Table 1.

Table 1: Garage Rents and Service Charges

Description	Current Weekly Charge (14/15)	Proposed Weekly Charge (15/16)
	£	£
Garage Rents	6.65	6.73
Building Cleaning – Flats	1.57	1.59
Building Cleaning – Sheltered Schemes	3.15	3.21
Building Cleaning – Extra Care	9.89	10.09
Grounds Maintenance – General Housing	1.46	1.49
Grounds Maintenance – Blocks of Flats	1.46	1.49
Heating – Comprehensive schemes	11.46	11.46
Heating - Blocks of flats	1.16	1.22
Administration – Leaseholders	80.74	82.35
Furnishings and Fittings – Comprehensive Schemes	1.66	1.68
Furnishings and Fittings – Good Neighbour Schemes	0.75	0.76
Lifeline Response	5.21	5.22
Lifeline - Sheltered and Extra Care Housing	14.98	15.00
Pavement Crossings and Hard standings	3.56	3.60
Mid-day Meal – Extra Care (Residents only)	31.64	32.27
Mid-day Meal – Extra Care (Non-Residents only)	37.97	38.78
Furnished Tenancies - 1 bed flat	28.51	28.51
Furnished Tenancies - 2 bed flat	29.65	29.65
Furnished Tenancies - 2 Bed House	45.97	45.97
Furnished Tenancies - 3 Bed House	48.10	48.10
Furnished Tenancies - White Goods	6.10	6.10
Guest Rooms in Sheltered Schemes	77.00	78.40
Door Entry Systems	0.58	0.59
TV Aerials	0.16	0.17
Housing Plus Service	17.02	17.36

37. Room hire in sheltered housing and extra care schemes is currently available for hire free of charge for activities available to residents. For private usage various charges have been introduced through time which reflect the benefits to the wider community in being able to access below market rate facilities. A diverse range of organisations use the facilities and it is recommended that these charges are now standardised starting with £7.50 per hour and £6 per hour thereafter.

Consultation

38. The Annual Review of the HRA Business Plan is developed in consultation with Council tenants through the Tenants Board and associated sub-groups supplemented with surveys, focus groups, bespoke meetings and marketing tools such as mystery shopping.

39. This report will be considered by the Tenant's Board in December 2014 and their views will be presented at the Cabinet meeting in February 2015.

Financial Implications

40. The estimates included in this report represent a fair view of ongoing plans and commitments although Members will appreciate some budget are subject to volatility and will continue to be monitored closely.

41. The level of revenue balances projected in this report represent an adequate level given the level of risk

Equality Impact Assessment

42. An Equality Impact Assessment will be conducted before the report to Cabinet in February to enable Members to understand the full impact of the recommended draft MTFP included in this report.