
HOUSING REVENUE ACCOUNT – MTFP 2016/17 TO 2020/21

**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 2016/17 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 and service charge levels and investment in the housing stock. For the next four years, commencing in 2016/17 the Government are introducing a compulsory 1% reduction in Social and Affordable rents through the Welfare Reform and Work Bill 2015. There is no discretion in making this change and all Council tenants will therefore have an average 77p reduction in weekly rent (Average Rent 2015/16 £72.94 – Average Rent 2016/17 £72.17). Some alternative options for generating additional income to partially compensate for the significant loss in rental income have therefore been included in this report. It is worth noting that 70% of tenants will have any increases covered by benefit payments. An Equality Impact Assessment has been undertaken to enable Members to understand the full impact of the proposed rent and service charges and this is attached at **Appendix 5**. The proposals included in this report have been considered and supported by the Customer Panel and Housing Executive.

Recommendations

3. It is proposed that the following are recommended by Council:-
 - (a) The Equalities Impact Assessment at Appendix 5 is given full consideration before making any decisions.
 - (b) An average weekly rent reduction of 1% for 2016/17 be implemented giving an average rent of £72.17.

- (c) Convert all social rents to affordable rents as properties become available to let where this would result in an increase in the overall charge.
- (d) Garage rents and service charges are increased as shown in Table 3, including an administration fee of 10% where applicable.
- (e) Implement the standard charge from April 2016 for properties previously excluded from pavement crossing and hard-standing charges.
- (f) The budget at **Appendix 1** is approved.
- (g) The Housing Business Plan **Appendix 2** is agreed.

Reasons

4. 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 the results of consultation to be considered before final decisions are made.

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 in February 2016.
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	The HRA and MTFP require approval by Full Council
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 for the HRA

5. Councils no longer have the previous levels of flexibility to decide the balance between the levels of service provided to tenants and the levels of rent charged. For a four year period commencing in 2016/17 all social and affordable rents must be reduced by 1%. The MTFP as described in the following sections reflects this requirement whilst striving to ensure the standard of service offered remains high. This will be a challenge in the context of the HRA already having relatively low rents and service charges. The investment identified in the 30 Year Business Plan has been reduced to reflect any loss in income but this could be increased if options identified in the report for potential additional income generation are supported..

6. Analysis of Expenditure within the HRA

(a) Management £5.685m

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 2014/15 (latest available CIPFA stats) cost of £544 per property compare very favourably with our Comparator Group average of £1,018 per property.

(b) Maintenance - Revenue Repairs - £3.827m

This covers the on-going general repairs to the Councils 5,271 properties at a rate of approximately £727 per property per year (2014/15 latest available CIPFA stats). 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 £1,097 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.

(e) **Revenue Contributions to Capital Programme - £14.611m**

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 options of applying to CLG to increase our borrowing capacity. 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.

7. Members will appreciate that expenditure items (a) to (d) are relatively fixed and the main variable is the type and location of capital investment. The proposed Business Plan is discussed in the following section and this explains where future capital investment is planned.

Housing Business Plan

8. 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.
9. 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.

New Build

10. The Strategic Housing Market Assessment completed for Darlington in 2015 identified that there is a need for 160 affordable dwellings for rent 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.
11. 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.

12. 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 which when combined with £3.2m in successful grant applications to the Homes and Communities Agency (HCA) Affordable Housing Programme 2015/18 gives a total budget of £23.3m for the development of new council homes for affordable rent.
13. The £23.3m will deliver 60 two and three bedroom houses and 106 two bedroom flats across seven sites. The property mix and completion date for each site is outlined below:
 - (a) Deepdale Way, Red Hall – 8 two bedroomed flats, completed in October 2015.
 - (b) Badminton Close, Red Hall – 12 two bedroomed flats, due for completion in January 2016.
 - (c) Fenby Avenue, Lascelles Park – 12 two bedroomed flats and 10 two bedroomed houses, due for completion in August 2016.
 - (d) Hammond Drive, Skerne Park – 24 two bedroomed flats, due for completion in November 2016.
 - (e) Anfield and Aintree Court, Red Hall – 8 two bedroomed flats and 12 three bedroomed houses, due for completion in December 2016.
 - (f) Sherbourne Close, Branksome – 12 two bedroomed flats and 6 three bedroomed houses, due for completion in January 2017.
 - (g) Allington Way, Lingfield – 30 two bedroomed flats and 32 two and three bedroomed houses, due for completion in October 2017.
14. The HCA required all properties to be completed by March 2018 and are closely monitoring our progress to ensure we deliver to the timescales submitted in our bid for funding.

Housing for Vulnerable People

15. 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 2014/15 over 282 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, hoists and ground floor extensions. The spend profile of the adaptations budget has changed in recent years with an increasing number of major projects being commissioned including:
 - (a) the installation of through floor lifts
 - (b) completion of major structural alterations to provide wheelchair friendly accommodation

- (c) the construction of extensions providing ground floor bathing and bedrooms
16. The increasing number of larger project funded through the adaptations budget reflects the fundamental role adaptations play in supporting households to continue to live independently, reduce the need for expensive care packages and prevent a premature move into a more supported form of accommodation. Due to the key role adaptations play in reducing demands on Adult Social Care budgets the Business Plan is committed to investing £300k per year on adaptations.

Existing Stock Investment and Responsive Repairs

17. The housing stock has been assessed as being in good condition with significant annual investment as part of a structured programme for both on-going 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 2,700 A-rated combi-boilers and a planned maintenance programme which ensures all properties suitable benefit from cavity wall insulation and 300mm of loft insulation.
18. The Business Plan identifies a capital works budget of £52m over the next five years and £254m budget for capital works over the next 30 years. There has been a reduction of £34m over the 30 year plan due to the impact of the 1% rent reduction imposed by Government in June 2015. The impact of these changes is outlined in more detail in paragraphs 23-29 of this report. 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.
19. 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.
20. The Business Plan anticipates responsive repairs will remain at historical levels and so allocates a budget of £20.3m for responsive and cyclical repairs within the five year investment plan and £123m within the 30 year investment plan.

Energy Efficiency

21. 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.

22. The five year investment plan directs £8m towards investment in A rated combination boilers and £51.98m over 30 Year Business Plan period. A further £4.48m 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 £30.48m of investment in Energy Efficiency measures.
23. Attached at Appendix 2 is the 30 Year Investment Plan and at **Appendix 3** the detailed 5 Year investment plan.

Rent Level Options

24. 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.
25. On 8 July 2015 the new government's first budget introduced a requirement for all social landlords to reduce their rents by 1% every year for the next four years (2016/17 – 2019/20) rather than increasing them by CPI + 1% as previously indicated. The reduction is described by Government as social landlords' contribution to reducing the Housing Benefit Bill. The impact on the Council's HRA is that by year 4 we will be losing rental income of approximately £2.5m every year. Example rents for 2016/17 based on this new information are attached at **Appendix 4**.
26. However, in common with other housing providers affected by the requirement to reduce rents by 1%, consideration is being given to options for limiting the impact of significant losses in rental income. In particular social landlords are considering increasing the number of properties at affordable rent levels. We already charge affordable rents on all our new build properties as this is a requirement for grant funding from the Homes and Communities Agency (HCA). However, we can also convert existing properties, currently charged a social rent to affordable rents as they become available to let. An Affordable Rent is defined as 80% of a Market Rent and includes all service charges. Generally Housing Association rents are significantly higher than Council rents so many Darlington households currently living in social housing are already accustomed to paying higher rents. Table 1 provides some comparative data but it is important to note that there are also some significant variations in market rents across Darlington and it is estimated that around 13% of our housing stock would not benefit from conversion to affordable rents as the rents would be lower than the social rent. As can be seen from Table 1 these are typically one bedroomed flats, particularly those with a range of service charges.

Table 1: Rent Comparisons

Property Type	Average Council Social Rent £	Average Estimated Affordable Rents £	Average HA Rents £
1 Bedroom Flat	68.69	68.40	82.92
2 Bedroom Flat	78.79	79.08	88.16
1 Bedroom bungalow	74.91	91.41	93.10
2 Bedroom House	76.37	82.18	88.85
3 Bedroom House	84.22	92.65	94.10
4 bedroom House	89.37	103.76	109.36
Sheltered/Extra Care			
One Bedroom Flat	90.89	110.07	111.35
Two Bedroom Flat	100.96	109.71	111.35

27. Whilst it is difficult to estimate the increased levels of income from converting social rents to affordable rents on letting, Table 2 gives an indication of potential income based on past numbers of re-lets, excluding properties where affordable rents would not apply. This shows for example, an average rent increase per property of £7.62 per week may generate annual increased income of around £500k by Year 4, rising to over £1m by Year 11. The HRA budget statement at appendix 1 excludes potential additional income from affordable rents at this stage due to the uncertainty about the amount that will be raised. The HRA will be amended next year in light of experience.

Table 2: Projected income (includes 1% rent reduction 2017-2020)

	Year 1	Year 2	Year 3	Year 4	Year 11
Property numbers for additional rent calculation	278	715	1,025	1,314	2,856
Average increase in rent (social to affordable)	£7.62	£7.62	£7.62	£7.62	£7.62
Additional Rental Income In Year	£109,957	£281,295	£401,229	£511,685	£1,122,631

28. Existing tenants will not be affected unless they choose to move and the additional costs will be covered by Housing Benefits for the 71% of tenants who are eligible. In addition to CAB 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 Housing Plus Team.

Garage Rents and Service Charges

29. 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.
30. Legislation allows reasonable administration costs to be recovered through the service charges. Previously we have only recovered administration costs on a few service charges (e.g. Furnished Tenancies, Heating, Meals, etc), but if 10% administration is added to other service charges, over £175k in additional costs could be recovered. Details are shown at Table 3.

Table 3: Garage Rents and Service Charges

Description	Current Weekly Charge (15/16)	Proposed Weekly Charge (No Admin Fee) (16/17)	Proposed Weekly Charge (with 10% Admin Fee) (16/17)
	£	£	£
Garage Rents	6.73	6.72	7.39
Building Cleaning – Flats	1.59	1.60	1.76
Building Cleaning – Sheltered Schemes	3.21	3.27	3.60
Building Cleaning – Extra Care	10.09	10.29	11.32
Grounds Maintenance – General Housing	1.49	1.52	1.67
Grounds Maintenance – Blocks of Flats	1.49	1.52	1.67
Heating – Comprehensive schemes	11.46	11.46	n/a
Heating - Blocks of flats	1.22	1.28	n/a
Administration – Leaseholders	82.35	84.00	n/a
Furnishings and Fittings – Comprehensive Schemes	1.68	1.68	1.85
Furnishings and Fittings – Good Neighbour Schemes	0.76	0.76	0.84
Lifeline Response	5.22	5.24	n/a
Lifeline - Sheltered and Extra Care Housing	15.00	15.27	16.80
Pavement Crossings and Hard standings	3.60	3.60	3.96
Mid-day Meal – Extra Care (Residents only)	32.27	32.27	n/a
Mid-day Meal – Extra Care (Non-Residents only)	38.78	38.78	n/a
Furnished Tenancies - 1 bed flat	28.51	28.51	n/a
Furnished Tenancies - 2 bed flat	29.65	29.65	n/a
Furnished Tenancies - 2 Bed House	45.97	45.97	n/a
Furnished Tenancies - 3 Bed House	48.10	48.10	n/a
Furnished Tenancies - White Goods	6.10	6.10	n/a
Guest Rooms in Sheltered Schemes	78.40	79.80	n/a
Door Entry Systems	0.59	0.59	0.65
TV Aerials	0.17	0.17	0.19
Housing Plus Service	17.36	17.71	n/a

Consultation

31. The Annual Review of the HRA Business Plan is developed in consultation with Council tenants through their Customer Panel and associated sub-groups supplemented with surveys, focus groups, bespoke meetings and marketing tools such as mystery shopping. The proposals have been considered by the Customer Panel and Housing Executive and they supported the proposed changes.

Financial Implications

32. 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.
33. The level of revenue balances projected in this report represent an adequate level given the level of risk.

Equality Impact Assessment

34. An Equality Impact Assessment has been undertaken to enable Members to understand the full impact of the recommendations included in this report. The EIA is attached in full at **Appendix 5**. This identified that the proposals had no specific impacts in terms of sex, sexual orientation, gender reassignment, religion or belief, race, marriage or civil partnership, pregnancy or maternity. However a small number of the 518 tenants of working age affected by the Bedroom Tax who have a disability could be affected. This is where they are deemed to have one or more spare bedrooms and are therefore at risk of losing some of their Housing Benefit.
35. As a result of the rent decrease most tenancies will see a rent reduction. The exceptions are tenants of sheltered housing schemes who will see a 2-3% increase overall due to increased service charges. For some such groups as older people and disabled people, the increase in energy efficiency work, together with the continuing aids and adaptations programme will have a positive impact. The increase in housing supply will also have specific positive impacts for older and disabled people because of the specialist design of some properties.
36. A targeted survey was carried out in December 2015 of tenants who have “protected characteristics” and who will have to meet the increase from their own income. The results are included in Appendix 5. 200 tenancies were included in the survey and there was a 25% response. Despite those included in the survey being the worst affected almost half (48%) said it would have no impact on them financially. 35% said they would have to reduce spending to cover the increase while 17% said they would experience some degree of financial difficulty.