

**CABINET
7 JANUARY 2020**

HOUSING REVENUE ACCOUNT – MTFP 2020/21 TO 2023/24

**Responsible Cabinet Member - Councillor Lorraine Tostevin,
Health and Housing Portfolio**

**Responsible Director – Ian Williams
Director of Economic Growth and Neighbourhood Services**

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 2020/21 in the context of the HRA Medium Term Financial Plan to 2023/24 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 first time since 2016/17 Local Authorities have once again been given the discretion to inflate rents by CPI plus 1%, which means an average £2.02 increase in weekly rents. Having had four years of compulsory reductions of rent minus 1% for four consecutive years it is recommended that we increase all rents to the maximum allowed. Similarly, it is recommended that where appropriate service charges also have an inflationary increase. However, members may opt for continued rent reductions or a rent increase of a lesser amount than CPI plus 1% if they wish. Clearly the less income we receive the less we are able to invest in the management and maintenance of our tenant's homes and the number of new properties we are able to provide would also be reduced. It is worth noting that 68% of tenants will have their rent and most service charges covered by benefit payments. Our rent and service charges also tend to be much lower than other Social Landlords operating in Darlington due to historical differences in government guidance on what Housing Associations and Local Authorities could charge.
3. As Central Government has now lifted the borrowing cap on the HRA we are using this additional capacity to invest in building much needed new homes. In 2020/21 we can borrow an extra £9m to fund our housing capital programme. This can be supplemented with Homes England grant and we plan to build 100 affordable homes per annum over the next 10 years. We also have over 50% of households with one or more person with a disability and we are therefore committed to providing good quality homes with generous space standards and lifetime homes principles to support people to live independently and have a good quality of life. All properties are designed to meet a good standard of thermal efficiency. Over 220 households have already benefitted from our current new build programme which has taken place at various locations around the town and demand continues to be

exceptionally high.

Recommendations

4. It is proposed that the following recommendations are agreed for wider consultation:-
 - (a) An average weekly rent increase of 2.7% for 2020/21 be implemented giving an average social rent of £71.30 and affordable rent of £82.55
 - (b) Garage rents and service charges are increased as shown in Table 3.
 - (c) The budget at **Appendix 1** is approved.
 - (d) The Housing Business Plan **Appendix 2** is agreed.
 - (e) That the Director of Economic Growth and Neighbourhood Services be given delegated powers to proceed with new build schemes for affordable rent using the funding as identified at paragraph 16.
 - (f) That the Director of Economic Growth and Neighbourhood Services be given delegated powers to acquire dwellings in the private sector as opportunities arise, particularly as part of regeneration initiatives as discussed at paragraph 17 of this report.

Reason

5. 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.

Ian Williams
Director of Economic Growth and Neighbourhood Services

Background Papers
MHCLG Rent Guidance

Pauline Mitchell: Ext 5831

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	By ensuring our housing stock is in good condition we are making a positive contribution to the Health and well- being of our Council tenants
Carbon Impact	There are a range of energy efficiency measures included in the business plan which will have a positive carbon impact
Diversity	There are no diversity issues
Wards Affected	This will have an effect on all Wards in the Borough with Council Housing.
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 2019.
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 February 2019 will be required.
One Darlington: Perfectly Placed	Improving the existing housing stock and external environment, as well as, the new build programme will all contribute towards the sustainability agenda.
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.
Impact on Looked After Children and Care Leavers	No impact

MAIN REPORT

Setting the MTFP for 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 provided they are no higher than the maximum level determined by the DWP. This is known as the limit rent. In Darlington for 2020/21 the maximum average increase allowed will be 2.7%. This is particularly welcome as for a four-year period from 2016/17 all social and affordable rents had to be reduced by 1% per annum which significantly impacted on our overall business plan. It is recommended therefore that we increase all rents to the maximum allowed. Similarly, it is recommended that where appropriate service charges also have an inflationary increase. However, members may opt for continued rent reductions or a rent increase of a lesser amount than the government guidance of CPI plus 1% if they wish. Clearly the less income we receive the less we are able to invest in the management and maintenance of our tenant's homes and the number of new properties we are able to provide would also be reduced. It is worth noting that 68% of tenants will have their rent and most service charges covered by benefit payments. Our rent and service charges also tend to be much lower than other Social Landlords operating in Darlington due to historical differences in government guidance on what Housing Associations and Local Authorities could charge.
7. As Central Government has now lifted the borrowing cap on the HRA we are using this additional capacity to invest in building much needed new homes. In 2020/21 we can borrow an extra £9m to fund our housing capital programme. This can be supplemented with Homes England grant and we plan to build 100 affordable homes per annum over the next 10 years. This can be supplemented with Homes England grant to provide more than 1000 much needed new Council homes at affordable rents over the next 10 years. Around 220 households have already benefitted from our current new build programme which has taken place across the Borough with sites at Branksome, Red Hall, Skerne Park, Lingfield and Lascelles Park. Overall demand has been exceptionally high.
8. **Analysis of Expenditure within the HRA**
 - (a) **Management £2.804m**

This includes all staffing costs associated with the provision of a housing management service, central support service and other associated support costs such as ICT and insurance.
 - (b) **Service Charges and other contributions to expenditure £3.010m**

This covers services charges to tenants such as grounds maintenance and Lifeline Services charges to a range of clients. All service charges are fully recoverable. It also includes recharges that will be recovered through additional income including court costs.

- (c) **Maintenance - Revenue Repairs - £4.075m**
This covers the on-going general repairs to the Council's 5,293 properties at a rate of approximately £606 per property per year. This level represents an average spend and reflects the overall good condition of the stock due to sustained capital investment. The continued investment in a good repairs service is essential to maintaining our stock at a good level for current and future tenants.
- (d) **Capital Financing Costs - £3.211m**
This is the cost of paying for borrowing undertaken to fund capital expenditure.
- (e) **Bad Debts Provision - £0.350m**
This is a provision to cover rents that are deemed unrecoverable.
- (f) **Revenue Contributions to Capital Programme - £14.273m**
This represents the amount by which the HRA is able to fund major capital works. In addition to this the Council continues to be successful in bidding for grant funding from Homes England towards the building of new houses.

Borrowing

- 9. The HRA borrowing cap has now been abolished. We are now able to prudentially borrow and have included additional borrowing of £9m in 2020/21 to build new affordable houses.
- 10. 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

- 11. All Housing Capital schemes are funded fully from the Housing Revenue Account. This includes the proposal to spend £17.989m on new build activity or the acquisition of private properties if appropriate. The other priorities identified through the Housing Business Plan to be funded from the estimated capital resources for 2020/21 include:-
 - (a) Adaptations and lifts – £0.150m budget is to deliver adaptations within the Council's housing stock to enable tenants with a disability to remain in their own home and live independently across the Borough and to complete any major works to passenger lifts within sheltered and extra care schemes.
 - (b) Heating Replacement - £1.335m to fund new energy efficient condensing boilers and central heating upgrades. This work will predominantly be completed in the Haughton and Bank Top areas. There will also be some miscellaneous properties which will be included in the programme and we will be running a "just in time" programme of replacement for those boilers that fail before their due replacement date within the financial year.
 - (c) Structural Repairs - £0.500m has been set aside to address any structural issues that may be identified within the year, including brickwork repointing alongside the roofing programme.

- (d) Lifeline Services - £0.050m is set aside to continue to provide upgrades to Lifeline equipment.
 - (e) Repairs before Painting - £0.100m will be invested in joinery repair works in anticipation of the cyclical external painting programme. This will cover around 1200 properties at various locations.
 - (f) Roofing – £0.500m for the replacement of roofs, fascia's, soffits and rainwater goods together with the top-up of loft insulation where appropriate. The programme will primarily be in the Haughton area.
 - (g) Garages - £0.050m will be invested in improvements to the Council's garage blocks which will predominantly be in the Lascelles Park area.
 - (h) External Works - £0.300m will be used to provide new rear dividing fences and new footpaths to Council properties in various locations based on condition.
 - (i) Smoke Detectors - £0.025m is required to replace existing hard-wired smoke and heat detectors where systems are now 10 years old and reaching the end of their recommended lifespan.
 - (j) Pavement Crossings - £0.032m has been identified to fund pavement crossings and hard-standings across the Borough.
 - (k) Replacement Door Programme - £0.350m will be used to replace external doors with energy efficient composite doors in the Lascelles Park area.
 - (l) Window Replacement - £0.500m has been identified to replace windows across the Borough with double glazed UPVC. These areas will be determined based on those in the poorest condition, but we will be working predominantly in the Haughton and Springfield areas.
 - (m) Internal planned maintenance – £1.595m for the replacement of kitchens and bathrooms, rewiring of electrical systems and heating system upgrades where required. This work will predominantly be completed in the Lascelles Park area. There will also be some miscellaneous properties which will be included in the programme.
 - (n) Communal Works - £0.100m is required to replace communal doors in the North Road area.
 - (o) New Build/Property acquisitions - £17.989m will be spent predominantly on the new build programme.
12. The purpose of the Housing Business Plan 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 are 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.
13. 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

14. 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 and housing associations provide relatively low numbers of affordable housing units on average.
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 previous regeneration works and ongoing 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. Now that the HRA borrowing cap has been abolished we are able to prudentially borrow an additional £9m in the current year to build new affordable houses. This is in addition to £9m available from revenue contributions to capital giving us a total of £18m available for the development of new Council homes for rent or other property acquisitions. We have also assumed that we will be successful in grant applications to the Homes England's Affordable Housing Programme. It is difficult to predict grant funding levels as funding is now available on the basis of a rolling programme, but we have received up to 40% of the overall costs for recent schemes. A number of new build sites have been identified and are currently being worked up in more detail to enable planning permission to be sought. Meanwhile delegated powers are being requested for the Director of Economic Growth and Neighbourhood Services to enable new build schemes to be progressed in a timely manner subject to planning permission. **Appendix 3** shows we are anticipating spending around £81m on new build in total going forward and with projected Homes England grant of £27m.
17. There may also be a strategic need in the future to acquire a small number of properties in the private sector to either address a specific housing need or as part of the regeneration of an area of older housing. Included in the Council's refreshed Corporate Plan there is a commitment to addressing poor quality private housing and bringing empty homes back into use. This will include buying up empty properties where appropriate. Delegated powers are therefore being requested for the Director of Economic Growth and Neighbourhood Services to purchase private sector properties where appropriate.

Housing for Vulnerable People

18. 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. Works range from the provision of lever taps and grab rails to semi-permanent ramps, stair lifts, hoists and ground floor extensions.

19. The HRA 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. These high levels of need have therefore been taken into account in developing our new build housing programme. The properties provided as part of our ongoing new build programme have been built in accordance with Lifetime Homes standards. Inexpensive features include flush door entrances at front and rear for wheelchair access, and raised sockets, as well as, low level window sills and openings. Increased space standards allow for hallways wide enough for 360° wheelchair turning circles, wider doors, and ground floor toilets. Occupational Therapists and Housing Officers also work closely with individuals to meet their particular needs where appropriate, providing bespoke lowered kitchens, specific bathing requirements etc. before they move in wherever possible.
20. This approach has significantly reduced the demands on the adaptations budget. However, going forward we will need to balance the additional costs of providing properties to this standard with anticipated future increased Building Regulation requirements in response to the Climate Change agenda.

Existing Stock Investment and Responsive Repairs

21. In accordance with good practice, the housing stock is surveyed by an independent specialist organisation every five years and detailed analysis of the data takes place to help inform our priorities. Overall our properties have been assessed as being in good condition, reflecting our 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 over 70 across the Council housing stock indicating an above average level of thermal comfort. This can be largely attributed to a central heating programme providing A-rated combi-boilers and a planned maintenance programme which ensures all properties suitable benefit from cavity wall insulation and 300mm of loft insulation. A significant number of properties with previously poor SAP ratings have also been targeted in recent years for a more comprehensive package of energy efficiency measures including double glazed UPVC windows, composite doors and in some cases external cladding.
22. The Business Plan identifies a capital works budget of around £110m over the next five years and £255m budget for capital works over the next 30 years, including the New Build Programme. 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.
23. The Business Plan anticipates responsive repairs will remain at historical levels and so allocates a budget of £28m for responsive and cyclical repairs within the five-year investment plan and £186m within the 30-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. As set out in paragraph 6 of this report Councils now have the flexibility to decide the balance between the levels of rent charged, provided they are no higher than the maximum level determined by the DWP. Examples of weekly rent increases based on an increase of CPI plus 1% are provided at **Appendix 4**.
25. As part of the Affordable Housing Programme 2015/18 the Council was given approval to convert social housing rents to affordable rents as properties became available to let and this was approved by Council in February 2016. We have continued with our new build programme and assumed this arrangement could continue. However we have now been advised by Homes England that the rules have changed and conversions are only now possible where specialist accommodation is being provided. Retrospective approval is not possible. Officers are currently working closely with Homes England to determine which future new build schemes may qualify as specialist housing. Meanwhile we have ceased converting properties on re-let. We have identified around 400 tenancies which are affected where we will need to refund the additional rent we have incorrectly charged and this equates to £125K.

Garage Rents and Service Charges

26. The budget at Appendix 1 includes the financial effect of the proposed increases. The proposed service charges shown below at Table 3 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 no increase is needed to maintain current levels of service.
27. Any additional costs will be covered by Housing Benefit or Universal Credit for the 68% of tenants who are eligible. The HRA funds a Money Advice Service and Income Management Team to address the financial challenges facing a number of Council tenants and referrals are also made to CAB for independent financial advice as well as to food banks and furniture recycling schemes. Those tenants, particularly first- time tenants who require more sustained intensive support will be referred to the Housing Plus Team.

Table 3: Garage Rents and Service Charges

Description	Current Weekly Charge (19/20)	Proposed Weekly Charge (20/21)
	£	£
Garage Rents	7.88	8.01
Building Cleaning – Flats	1.82	1.85
Building Cleaning – Sheltered Schemes	3.70	3.81
Building Cleaning – Extra Care	11.78	12.02
Grounds Maintenance – General Housing	1.74	1.76
Grounds Maintenance – Blocks of Flats	1.74	1.76
Heating – Comprehensive schemes	11.46	11.46
Heating – Blocks of flats	1.48	1.50
Administration – Leaseholders	1.71	1.74
Furnishings and Fittings – Comprehensive Schemes	1.98	2.01
Furnishings and Fittings – Good Neighbour Schemes	0.89	0.92
Lifeline Response	5.52	5.78
Lifeline – Sheltered and Extra Care Housing	17.77	17.92
Pavement Crossings and Hard standings	4.25	4.32
Mid-day Meal – Extra Care (Residents only)	34.21	34.21
Mid-day Meal – Extra Care (Non-Residents only)	41.11	41.11
Guest Rooms in Sheltered Schemes	84.17	85.60
Door Entry Systems	0.68	0.72
TV Aerials	0.19	0.19
Housing Plus Service	18.43	19.01

Consultation

28. 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 and focus groups. The specific proposals have not yet been considered by the Customer Panel.

Financial Implications

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

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