

Cabinet

12 February 2014

Housing Revenue Account Medium Term Financial Plan 2014/15 to 2016/17 and 2014/15 Budget



Key Decision No. CORP/R/13/02

Report of Corporate Management Team

Don McLure, Corporate Director Resources

**Ian Thompson, Corporate Director Regeneration and Economic
Development**

Councillor Alan Napier, Cabinet Portfolio Holder for Finance

Councillor Eddie Tomlinson, Portfolio Holder for Housing

Purpose of the Report

1. To seek approval of the Council's Housing Revenue Account (HRA) Medium Term Financial Plan (MTFP) for 2014/15 to 2016/17 and the 2014/15 budget.

Executive Summary

2. The HRA provides the income and expenditure associated with the management and maintenance of the Council's housing stock of 18,500 dwellings. The Council is required to set an annual HRA budget and set the level of tenants' rents and other charges.
3. The Council is the largest social landlord in County Durham owning around 40% of all social housing. Under the Government's housing finance system that was established from April 2012, the Council is required to plan over the longer term and develop a 30 year HRA Business Plan to manage and maintain its housing assets. The proposed HRA budget for 2014/15, and a three-year MTFP are considered in this report.
4. The headline implications for 2014/15 are summarised below:
 - Dwelling rents for 2014/15 to increase in accordance with Government guidelines which results in an overall average increase of 4.62%;
 - Average rent per week to increase from £65.67 per week to £68.70 per week – an increase of £3.03 per week on average (on a 52 week basis);
 - Increases in garage rents to be linked to September 2013 RPI of 3.2% and the proposed charges per week for 2014/15 (on a 52 week basis) are

£8.52 (for private tenants where we need to charge VAT) and £7.10 (for council tenants who are exempt from VAT);

- A substantial capital investment programme of £50m in 2014/15.

Background

5. The HRA is a 'ring fenced' landlord account through which the Council manages and maintains 18,500 social housing dwellings. The main features of the HRA are:
 - it is primarily a landlord account, recording expenditure and income arising from the provision of housing accommodation by local housing authorities;
 - the main items of income are from tenants in the form of rents from Council dwellings, garage rents, shop rentals and where applicable service charges;
 - the main items of expenditure included in the account are management and maintenance costs, loan charges and depreciation costs.
6. The HRA contributes significantly to the aims and objectives of the Housing Strategy for Durham reflecting the '*Altogether Better Durham*' Vision of the Sustainable Community Strategy 2010-30 which the Council published in April 2010 and will be refreshed in April 2013.
7. The Council's Housing Strategy '*Building Altogether Better Lives*' was agreed by the County Council in November 2010 and is designed to meet the challenging housing, economic, social and environmental needs of our communities. The three objectives of the Strategy – *Altogether Better Housing Markets*, *Altogether Better Housing Standards* and *Altogether Better at Housing People* - are used to frame the Council's Self Financing Business Plan.
8. The ensuing paragraphs provide details of the latest projections of the HRA and include:
 - a 3 Year Housing Revenue Account (HRA) MTFP;
 - Capital Programme;
 - 2014/15 Detailed HRA Budget;
 - Treasury Management Position on loans and investments;
 - HRA Reserves.

Large Scale Voluntary Transfer Stock Option

9. Cabinet at its meeting on 12 December 2012 considered a detailed report on the outcome of the housing stock option appraisal project, which included a review of the options for the future ownership, financing and management of the council's housing stock. Extensive consultation and partnership working with all key stakeholder groups during the option appraisal process had identified that the preferred option is a transfer of the housing stock out of the Council and into to a new registered social housing provider with a group

structure based on the council's existing housing management organisational boundaries.

10. A further report to Cabinet on 30 October 2013 provided an update on progress with the stock transfer proposal including developments on Government policy on stock transfer and the provision of funding for housing revenue account debt write off. Also included in the report were the benefits and the financial implications on the General Fund should stock transfer be successful. An application was submitted to the Homes and Communities Agency (HCA) on 29 November 2013 and the Council is awaiting the outcome of the decision by Government which is expected by March 2014.
11. Throughout the appraisal process, the Council has also worked with key stakeholder groups to identify an alternative option for the housing stock, should the transfer proposal be rejected by the Government, or by council house tenants through a ballot process. Stakeholders have selected the establishment of a single ALMO as the alternative option with area based arrangements to allow housing services to continue to operate as a business at arms length from the authority, achieve further efficiency savings through reductions in overheads and the joining up of services, and simplify housing management arrangements.
12. The HRA MTFP contained in this report is based on a stock retention scenario.

Three Year HRA MTFP (2014/15 to 2016/17)

13. The following broad assumptions have been used in the HRA MTFP. Appendix 2 provides more details on the assumptions used:
 - Rent increases to follow national rent policy, with increases linked to the retail price index (RPI) as at September 2013 (3.2%) plus 0.5% and rent convergence by 2015/16;
 - Opening Debt of £239m;
 - Interest rate on debt assumed as 5.25%;
 - Inflationary increase of 2.5% year on year for Housing Management expenditure and 3.5% year on year for Repairs expenditure;
 - Void property levels at 2% on average which is an increase of 0.5% in the current HRA MTFP and reflects increasing void rates across the housing stock ;
 - Assumed bad debts provision for non payment of rent at 1.5% of gross rent due to the unknown and potential impact of Government Welfare Reforms;
 - A further £0.5m saving (2015/16) in management costs based on retention of housing stock under a single ALMO model should the large scale voluntary transfer (LSVT) not proceed;
 - Known adjustments to stock such as planned demolitions, new build properties and estimates of annual right to buy sales of 100 properties per year;

- Minimum level of HRA reserves of £7m.
14. Building in the above assumptions the HRA MTFP shows:
- A balanced revenue budget over the full HRA MTFP period;
 - Housing debt of £245m at the end of HRA MTFP period;
 - HRA reserves being maintained at least £7m;
 - A balanced Capital programme over the HRA MTFP period.
15. Appendix 3 provides forecasts for the three year Medium Term Financial Plan period 2014/15 to 2016/17 which have been taken directly from the 30 year HRA Business Plan. During this period, a rental stream of some £202m will be available to the Council to meet its management, repairs, investment and debt costs.

Capital Programme

16. The HRA Capital Programme contributes significantly to the Housing Strategy Objective of '*Altogether Better Housing Standards*' by improving the condition of the housing stock and providing better homes with modern facilities which are warmer and more energy efficient.
17. The condition of the Council's housing stock is maintained through its annual repairs and maintenance budget and improved and refurbished through its capital programme. The size of the capital programme depends on the balance between the need of the Council to improve its stock and the availability of funds to finance the improvements.
18. Stock investment requirements form a central part of the HRA capital spending requirement and these have been derived from information from a stock condition survey finalised in 2012 to identify the spending needs of the housing stock over a 30 year period.
19. The key focus for the Council is the medium term horizon and the next three years. The Council's projections show a balanced revenue budget with revenue support to the capital programme of £77m (comprising of major repairs reserve and revenue contributions). After taking into account other sources of funding, the total estimated resources are £107m as shown in the following table:

Investment Resources available to support the Capital Programme

Investment Resources	Year 1 2014/15 £'000	Year 2 2015/16 £'000	Year 3 2016/17 £'000	Total £'000
Major Repairs Reserve	7,872	8,029	8,188	24,089
Revenue Contribution	16,717	17,638	18,186	52,541
Capital Receipts	1,547	1,542	1,541	4,630
Backlog Funding Grant	19,286	0	0	19,286
Borrowing	4,578	1,791	85	6,454
Total Resources available	50,000	29,000	28,000	107,000
Current HRA Programme (a)	50,489	27,395	28,492	106,376

(a) The current programme for 2014/15 includes re-profiling of schemes of £0.489m from 2013/14. Due to savings being experienced in the current programme it is anticipated that this re-profiling can be accommodated within the core £50m programme in 2014/15 and is therefore not required. Furthermore over the two financial years 2015/16 and 2016/17, additional resources of £1.113m are available to support the programme and therefore the budget can be increased to £29m in 2015/16 and £28m in 2016/17.

20. It should be noted that Decent Homes Backlog Funding Grant of £19.286m has been confirmed for 2014/15 and is reflected in the resources available to finance the programme.
21. The Council and its partners have been developing an asset management plan and investment strategy to focus and prioritise our use of limited resources taking into account sustainability issues, ensuring comparable investment standards, and targeting investment standards on assets returning the best value for investment.
22. A detailed two year capital programme covering the three geographical areas was approved as part of the 2013/14 budget setting process and a target of £50m was set for 2014/15. It is proposed to maintain a programme of £50m which is a significant level of investment in our housing stock.
23. The Chancellor's Autumn Statement published on 5 December 2013 included proposals to extend the Housing Revenue Account borrowing cap by £300m. The funding would be to support new housing and placed under the strategic influence of local enterprise partnerships. Councils will have to bid competitively for a share of the £300m and the Treasury has indicated it also wants successful bidders to sell off vacant high value housing stock. This is a relatively minor adjustment to HRA borrowing limits and local authorities have been arguing for the borrowing cap to be scrapped altogether.
24. The Autumn Statement also contained proposals to promote the Right to Buy Scheme and the Government has stated that it will be introducing Right to Buy Agents to help buyers complete their home purchase, and provide £100 million to establish a fund to increase Right to Buy sales, by improving applicants' access to mortgage finance. This could result in an increase in right to buy sales and the impact on the Business Plan will therefore be closely monitored.

2014/15 Detailed HRA Budget

25. The following paragraphs provide more details on the 2014/15 budget which is shown in Appendix 4. Assumptions used are shown in Appendix 2 and the significant items of expenditure and income are as follows:

- Dwelling Rent Income
- Other Rental Income
- Housing Management Costs
- Interest Payments
- Depreciation

HRA Income

Dwelling Rent Income

26. The main source of income for the HRA is rental income from dwellings paid to the Council by tenants. Local authority rents are determined by a formula set by Government based on capital values and regional earnings. The Government's strategic aim is for similar properties in the same area to have similar rent charges no matter if they are owned by different social landlords. The aim is to deliver fairer rents and greater transparency and choice for tenants. This policy is generally known as 'rent convergence'.

27. Each year, Government sets a guideline increase or decrease for each authority based on the Retail Price Index (RPI) in the previous September and the extent to which rents need to move to meet convergence targets in the social housing sector. The Government's self-financing determination assumes that local authorities follow this guideline. Where they do not, authorities are required to meet any funding gap without further government support. Where rents need to increase to hit targets, authorities must limit their weekly increases to RPI + 0.5% + £2 to minimise the impact on tenants. The baseline increase before rent restructuring equates to 3.7% and consists of the RPI as at September 2013 of 3.2% and a real increase of 0.5%.

28. Applying the Government's guidelines results in an overall average increase of 4.62% for Durham which yields an average rent of £68.70 per week in 2014/15 (based on 52 weeks). The following table shows the impact on the average rent levels across the three management areas:

Average Rents (based on 52 weeks)

	Durham City		Easington		Wear Valley		Total	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
	£	£	£	£	£	£	£	£
Average Rent	68.03	71.25	63.56	66.44	66.51	69.57	65.67	68.70
Maximum Rent	97.84	103.07	81.35	84.43	91.18	94.56	97.84	103.07
Minimum Rent	48.63	51.54	49.54	51.52	28.75	30.51	28.75	30.51

Average Changes in Rent 2013-14 and 2014-15

	Durham City		Easington		Wear Valley		Total	
	%	£	%	£	%	£	%	£
Average Increase	4.73	3.22	4.53	2.88	4.61	3.07	4.62	3.03

29. Recent policy statements from the Government indicate that 2014/15 will be the last year of rent convergence, which is a year earlier than previously planned. In future, this means there will be no rent convergence factor (of up to +£2) and rents will simply be uplifted by CPI + 1%.
30. Around 70% (approximately 13,000) of Council House tenants are in receipt of housing benefit which helps meet the cost of their rental payments due to the Council.

Other Rental Income

31. The HRA includes responsibility for managing and maintaining around 2,700 garages which generate income to the account. For 2014/15 it is proposed that increases in garage rents are linked to the RPI as at September 2013 of 3.2%. Private tenants are required to pay VAT on garage rents, whilst Council tenants are excluded from the VAT charge. The proposed weekly charges for 2014/15 (based on 52 weeks) are £7.10 (for council tenants who are exempt from VAT) and £8.52 (for private tenants where we need to charge VAT).
32. Also included in the HRA are certain commercial properties such as shops. Rents from such properties are subject to periodic rent reviews and those properties that are subject for a rent review in 2014/15 will be considered in light of prevailing market rates. The total budgeted income for 2014/15 is £121,000.
33. In addition to their rent, tenants may also be required to pay service charges. Service charges usually relate to additional services provided to specific tenants. Different tenants may receive different types of service reflecting their housing circumstances. Local authorities have discretion to decide what services to charge for separately, and what services should be included within the rent.
34. It is recommended that changes to existing service charges proposed by the three service providers be approved subject to the agreement of the Head of Economic Development and Housing in consultation with Cabinet Portfolio Holder for Housing and the Head of Finance as provided for under delegated powers in the Council's constitution.

HRA Expenditure

Housing Management Costs

35. The housing stock is managed by three separate housing providers. Two Arms Length Management Companies (Dale and Valley Homes and East Durham Homes) manage the stock in the Wear Valley and Easington areas. These companies are wholly owned by the Council. An in-house provider, Durham City Homes, manages the stock in the Durham City area.

36. Housing Management costs can broadly be broken down into 3 distinct areas:
- Repairs and Maintenance: relates to the day to day repairs and maintenance of the housing stock including responsive and void repairs;
 - Supervision and Management (General): costs of policy and management, tenancy administration, rent collection and accounting;
 - Supervision and Management (Special): running costs of services that benefit specific groups of tenants including communal heating, lighting, lifts, caretaking, cleaning and ground maintenance.
37. The Council as Landlord will make continuing efforts to ensure service standards are consistent across the three geographical areas whilst also aspiring to be a low cost, high performing function. Under a stock retention scenario based on a single ALMO model, a £500k saving requirement has been built into the HRA Business Plan, reflecting efficiencies from combining three separate housing providers into a single organisation, releasing additional investment for the capital programme.
38. The implications for management fees in 2014/15 for our three housing management providers, allowing for an inflation increase of 2% are as follows:

	<u>2013/14</u>	<u>2014/15</u>	<u>Cost per Unit</u>
Durham City Homes	£7,133,000	£7,276,000	£1,225
Dale and Valley Homes	£5,406,000	£5,514,000	£1,297
East Durham Homes	£11,063,000	£11,285,000	£1,360

39. The Council will closely monitor the financial position of the three providers during the course of 2014/15 as this could be the final year of operation under the existing housing management arrangements. The 2014/15 delivery plans and budgets of the housing providers will be agreed by the Council including use of all reserves held. In the event of a stock transfer in 2015, all reserves will revert to the Council at the point of transfer.

Interest Payments

40. This reflects the cost of borrowing to support the Housing Capital Programme. In 2014/15 starting debt has been estimated as £239m plus further net borrowing of £4m during the year taking the estimated closing debt at 31 March 2015 to £243m. The interest payments of £13m reflect an overall average rate of interest of 5.25%.

Depreciation

41. Depreciation costs effectively represent resources available to support the capital programme to maintain our housing asset.

Treasury Management

42. The Council is responsible for servicing and managing its own HRA debt from the rental income it is now able to retain locally.
43. When implementing self financing for the HRA in 2012/13, Council Officers applied CIPFA guidance to splitting debt between the General Fund (GF) and HRA using the 'two pool' approach which ensures that HRA debt is managed as a separate loan portfolio, although all debt whether HRA or GF still remains the debt of the authority. The following table shows the maturity profile of the existing HRA loan portfolio as at 31 March 2014.

Loan Portfolio and Maturity Profile of Debt

PWLB Loans £m	Existing Loan Portfolio			Maturity Profile				
	Opening Balance 31/3/2013	Repayments	Closing Balance 31/3/2014*	Within 1 year 31/3/2015	2 Years 31/3/2016	3 to 5 Years 31/3/2019	6 to 10 Years 31/3/2024	10 Years +
Annuity	3.790	(0.973)	2.817	0.757	0.221	0.241	0.413	1.186
Maturity	228.381	(2.000)	226.381	16.703	0	18.052	29.301	162.325
Total	232.171	(2.973)	229.198	17.460	0.221	18.293	29.714	163.511

* excludes new borrowing in 2013/14

44. Before March 2014 there will be a borrowing need to replace the £2.97m of loans maturing during this year but also an additional £6.4m will be required to finance the current year (2013/14) capital programme – leaving a projected revised year end balance of £239m.
45. The Government is applying a debt cap to the Council for the HRA which has been set at £246m. The following table identifies the movements in the Housing Borrowing Requirement for next year and shows that borrowing levels will be contained within the Government's debt cap.

Movements in Housing Borrowing Requirement	£'000
Estimated Closing HRA CFR 31/3/14	238,584
Net Borrowing to be undertaken in 2014/15	4,578
Estimated Closing HRA CFR 31/3/15	243,162
Housing Debt Cap	245,747

HRA Reserves

46. HRA reserves are forecast to reach around £7m by 31st March 2014 equivalent to approximately £379 per dwelling. Interest is receivable on HRA cash balances and £105,000 has been assumed for 2014/15.
47. The significant changes arising from the reform of Council housing finance including the transfer of some risks to the Council (such as interest payments on debt and fluctuations in interest rates) mean that an adequate level of reserves needs to be maintained. At this point in time, it is therefore prudent to ensure balances are maintained at broadly the same level to ensure the Council's financial position is not adversely affected.

Recommendations and Reasons

48. It is recommended that Cabinet agrees to seek Full Council approval: -
- For the three year HRA Medium Term Financial Plan for 2014/15 – 2016/17 (Appendix 3);
 - To set dwelling rents for 2014/15 in accordance with Government guidelines which result in an overall average increase of 4.62%;
 - To increase garage rents in line with RPI as at September 2013 of 3.2%;
 - That approval of service charges proposed by the three service providers be delegated to the Head of Economic Development and Housing in consultation with Cabinet Portfolio Holder for Housing and the Head of Finance;
 - A HRA capital programme of £50m in 2014/15, £29m in 2015/16 and £28m in 2016/17;
 - To authorise the Corporate Director - Resources to make appropriate arrangements on borrowing to finance the capital programme;
 - To agree ALMO/INMO management fee levels as follows;
 - Durham City Homes £7,276,000
 - Dale and Valley Homes £5,514,000
 - East Durham Homes £11,285,000

Contact: Azhar Rafiq - Finance Manager Tel: 03000 263 480
John Hughes - Principal Accountant Tel: 03000 263 486

Appendix 1: Implications

Finance – The financial implications have been identified throughout the report. The report sets out the HRA MTFP developed in line with robust estimates of expenditure needs and resource availability. Firm budgets have been developed over the MTFP with rent levels and management fee levels for providers being agreed for 2014/15.

Staffing – There are no direct implications on staffing from the information contained within this Cabinet Report.

Risk – where possible prudent and conservative estimates have been used when preparing the HRA MTFP. A number of risks previously borne by the Government have transferred to the Council, such as changes in interest rates, stock numbers, debt and inflation. Appropriate plans and strategies have been developed to accommodate this transfer of risk.

Equality and Diversity / Public Sector Equality Duty – The EIA records that tenants affected by rent increases will include people from across the protected characteristics but financial concerns or hardship may be more likely in relation to gender, age and disability. Mitigations: the increase is within Government guidelines and around 70% of tenants receive housing benefit, and access to discretionary housing payments.

Accommodation – There are no direct implications from the information contained within this Cabinet report.

Crime and Disorder – There are no direct implications from the information contained within this Cabinet report.

Human Rights - There are no human rights implications from the information contained within this Cabinet report.

Consultation – The Council's three housing management providers have robust consultation arrangements with our tenants and the spending plans reflect the outcome of feedback from tenants and customers. Housing rents and annual rent increases are effectively determined by national policy considerations.

Procurement – Wherever possible Procurement savings are reflected in savings plans.

Disability Issues – No direct implications arising from the information contained in this Cabinet report.

Legal Implications – Under the provisions of the Local Government and Housing Act that Council is required to prepare a budget that will ensure that the HRA is not in deficit. The Local Government Act 2003 requires the Chief Financial Officer to report on the robustness of the estimates and the level of reserves. There are legal constraints relating to what can and cannot be contained in the HRA. The Council must ensure the provisions contained in the Localism Act for self financing are implemented.

Appendix 2: HRA Business Plan Assumptions

Item	Assumptions																																																				
Stock Numbers	<ul style="list-style-type: none"> For rent purposes, the following overall stock numbers have been assumed over the MTFP period: <table border="1"> <thead> <tr> <th>Year</th> <th>Opening Stock</th> <th>RTB</th> <th>Demolitions</th> <th>Other</th> <th>New Build</th> <th>Closing Stock</th> <th>Average Stock</th> </tr> </thead> <tbody> <tr> <td>2014-15</td> <td>18,490</td> <td>-100</td> <td>-</td> <td>-</td> <td>-</td> <td>18,390</td> <td>18,440</td> </tr> <tr> <td>2015-16</td> <td>18,390</td> <td>-100</td> <td>-</td> <td>-</td> <td>-</td> <td>18,290</td> <td>18,340</td> </tr> <tr> <td>2016-17</td> <td>18,290</td> <td>-100</td> <td>-</td> <td>-</td> <td>-</td> <td>18,190</td> <td>18,240</td> </tr> </tbody> </table> Right to Buy sales of 100 units for years 1 to 3. The previous business plan assumed sales of 44 units per year. The breakdown of the opening stock for rent purposes over the 3 management areas is as follows: <table border="1"> <thead> <tr> <th>Year</th> <th>Durham City</th> <th>Easington</th> <th>Wear Valley</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>2014-15</td> <td>5,941</td> <td>8,298</td> <td>4,251</td> <td>18,490</td> </tr> <tr> <td>2015-16</td> <td>5,891</td> <td>8,260</td> <td>4,239</td> <td>18,390</td> </tr> <tr> <td>2016-17</td> <td>5,841</td> <td>8,222</td> <td>4,227</td> <td>18,290</td> </tr> </tbody> </table> 	Year	Opening Stock	RTB	Demolitions	Other	New Build	Closing Stock	Average Stock	2014-15	18,490	-100	-	-	-	18,390	18,440	2015-16	18,390	-100	-	-	-	18,290	18,340	2016-17	18,290	-100	-	-	-	18,190	18,240	Year	Durham City	Easington	Wear Valley	Total	2014-15	5,941	8,298	4,251	18,490	2015-16	5,891	8,260	4,239	18,390	2016-17	5,841	8,222	4,227	18,290
Year	Opening Stock	RTB	Demolitions	Other	New Build	Closing Stock	Average Stock																																														
2014-15	18,490	-100	-	-	-	18,390	18,440																																														
2015-16	18,390	-100	-	-	-	18,290	18,340																																														
2016-17	18,290	-100	-	-	-	18,190	18,240																																														
Year	Durham City	Easington	Wear Valley	Total																																																	
2014-15	5,941	8,298	4,251	18,490																																																	
2015-16	5,891	8,260	4,239	18,390																																																	
2016-17	5,841	8,222	4,227	18,290																																																	
Rent Increases	<ul style="list-style-type: none"> Rent increases assumed as follows: <ul style="list-style-type: none"> 2014-15: 3.2% inflation + 0.5% - increase of 3.7% + rent restructuring 2015-16: 2.5% inflation + 0.5% - increase of 3.0% 2016-17: 2.5% inflation +0.5% - increase of 3.0% 																																																				
Voids	<ul style="list-style-type: none"> Assumptions on voids across the three geographical areas have been assumed at an average of 2% and calculated as a percentage of gross rental income. 																																																				
Other Income - Garage Income	<ul style="list-style-type: none"> Increases in garage rents have been directly linked to the September 2013 RPI of 3.2%. The following number of garage units have been assumed to derive garage income over the MTFP period. There is a 5% year on year reduction in the number of occupied garages. <table border="1"> <thead> <tr> <th>Estimated occupied no. of garages</th> <th>Durham City</th> <th>Wear Valley</th> <th>Easington</th> </tr> </thead> <tbody> <tr> <td>2014 -15</td> <td>700</td> <td>422</td> <td>1,325</td> </tr> <tr> <td>2015 -16</td> <td>665</td> <td>401</td> <td>1,259</td> </tr> <tr> <td>2016 -17</td> <td>632</td> <td>381</td> <td>1,196</td> </tr> </tbody> </table> 	Estimated occupied no. of garages	Durham City	Wear Valley	Easington	2014 -15	700	422	1,325	2015 -16	665	401	1,259	2016 -17	632	381	1,196																																				
Estimated occupied no. of garages	Durham City	Wear Valley	Easington																																																		
2014 -15	700	422	1,325																																																		
2015 -16	665	401	1,259																																																		
2016 -17	632	381	1,196																																																		
Other Income - Shops	<ul style="list-style-type: none"> There are a small number of shops and other premises accounted for in the HRA generating rental income which has been estimated at £121,000 in year 1. 																																																				
Housing Management	<ul style="list-style-type: none"> Housing Management costs can broadly be broken down into 2 distinct areas: <ul style="list-style-type: none"> Management (General): costs of policy and management, tenancy administration, rent collection and accounting. Management (Special): running costs of services that benefit specific groups of tenants including communal heating, lighting, lifts, caretaking, cleaning and ground maintenance. The stock is managed by 3 providers – 2 ALMOs (Dale and Valley Homes and East Durham Homes) and 1 in house (Durham City Homes) which reflects the position inherited from the former district authorities. Inflationary increases in costs have been assumed in the model although savings will be required to deal with the shortfall in resources in the first five years of the MTFP. Efficiency savings of £0.5m have been built in to the plan in 2015/16, based on the retention of 																																																				

Item	Assumptions
	<p>the housing stock under a single ALMO.</p> <p><i>Rent Rates Taxes and Other Charges</i></p> <ul style="list-style-type: none"> This includes all items that are liable in respect of HRA property. It includes council tax on empty properties, lease rental on properties, rates and water charges payable on non-dwellings.
Bad Debts	<ul style="list-style-type: none"> For the MTFP a prudent assumption is proposed of 1.5% of gross rental income for years 1 to 2 and then 1% thereafter. This is to reflect the potential impact of the Government's Welfare Reforms on rent income collecting.
Repairs	<ul style="list-style-type: none"> Relates to the day to day repairs and maintenance of the housing stock including responsive and void repairs. The management fees for the 3 providers contain provision for these costs with inflationary uplift of 3.5% year on year.
Interest Paid	<ul style="list-style-type: none"> A starting debt of £239m has been assumed. For the 3 years of the MTFP an interest rate of 5.25% has been used.
Debt Management	<ul style="list-style-type: none"> This is to reflect the treasury management cost of dealing with the substantial loan portfolio of up to £246m.
Interest Received	<ul style="list-style-type: none"> Represents interest earned on all HRA balances and accounts.
Borrowing	<ul style="list-style-type: none"> This reflects repayments of borrowing where surplus resources become available in any year.
RCCO	<ul style="list-style-type: none"> Revenue Resources remaining after meeting all management costs and interest payments are available to contribute towards the capital programme (revenue contributions to capital).
Balances	<ul style="list-style-type: none"> A minimum reserve balance of £7m has been used equating to around £379 per dwelling.

Appendix 3: Three Year HRA Medium Term Financial Plan

2013/14 Memo Budget Information	Year £'000	2014/15 Year 1	2015/16 Year 2	2016/17 Year 3	Total All 3 Years
	INCOME:				
64,602	Rental Income	65,876	67,479	69,124	202,479
-969	Void Losses	-1,318	-1,350	-1,382	-4,050
1,075	Non-Dwelling Income	1,024	1,004	985	3,013
64,708	Total Income	65,582	67,133	68,727	201,442
	EXPENDITURE:				
-12,718	General Management	-12,294	-12,104	-12,420	-36,818
-497	Special Management	-494	-508	-520	-1,522
-1,797	Other Management	-1,897	-1,944	-1,994	-5,835
-969	Bad Debt Provision	-988	-1,012	-1,037	-3,037
-12,123	Responsive & Cyclical Repairs	-12,623	-13,065	-13,522	-39,210
-28,104	Total Revenue Expenditure	-28,296	-28,633	-29,493	-86,422
-12,447	Interest Paid	-12,646	-12,813	-12,862	-38,321
-194	Debt Management	-156	-161	-176	-493
104	Interest Received	105	140	178	423
-16,306	Depreciation	-7,872	-8,028	-8,188	-24,088
7,761	Net Operating Income	16,717	17,638	18,186	52,541
	APPROPRIATIONS:				
0	Borrowing Repayment	0	0	0	
-7,761	Revenue Contribution to Capital	-16,717	-17,638	-18,186	-52,541
-7,761	Total Appropriations	-16,737	-17,638	-18,186	-52,541
0	ANNUAL CASHFLOW	0	0	0	0
7000	Opening Balance	7,000	7,000	7,000	n/a
7,000	Closing Balance	7,000	7,000	7,000	n/a

Appendix 4: HRA 2014/15 – Analysis of Budget by Area

	Easington 2014/15	Wear Valley 2014/15	Durham City 2014/15	General 2014/15	Total 2014/15
	£000	£000	£000	£000	£000
Income					
Dwelling Rents					
- Gross Rents	(28,603)	(15,357)	(21,916)	0	(65,876)
- Voids	572	307	439	0	1,318
	(28,031)	(15,050)	(21,477)	0	(64,558)
Non Dwelling Rents					
- Garages [net of voids]	(489)	(156)	(258)	0	(903)
- Shops/Other	(92)	(11)	(18)	0	(121)
Charges for Services & Facilities - Repairs & Maintenance			(20)	0	(20)
Charges for Services & Facilities - S & M - General	0	0	(334)	0	(334)
Charges for Services & Facilities - S & M - Special	0		(20)	0	(20)
Total Income	(28,612)	(15,217)	(22,127)	0	(65,956)
Expenditure					
ALMO Management Fee (1)	11,285	5,514	0	0	16,799
Repairs & Maintenance	15	0	4,446	0	4,461
Supervision & Management - General	0	0	2,806	1,224	4,030
Supervision & Management - Special	64	33	398	0	495
Rents, Rates, Taxes & Other Charges	0	0	0	410	410
Depreciation & Impairment of Fixed Assets	0	0	0	7,872	7,872
Debt Management Costs	0	0	0	175	175
Bad Debt Provision and Debts Written Off	429	230	329	0	988
Total Expenditure	11,793	5,777	7,979	9,681	35,230
Net cost of HRA services per I&E Account	(16,819)	(9,440)	(14,148)	9,681	(30,726)
Share of Corporate & Democratic Core	0	0	0	1,085	1,085
Share of Other Costs not allocated to services	239	52	111	0	402
Net cost of HRA Services	(16,580)	(9,388)	(14,037)	10,766	(29,239)
Interest Payable & Similar Charges	0	0	0	12,646	12,646
Premium/Discounts	0	0	0	(19)	(19)
Direct Revenue Financing	0	0	0	16,717	16,717
Interest & Investment Income	0	0	0	(105)	(105)
[Surplus] / Deficit for the year on HRA services	(16,580)	(9,388)	(14,037)	40,005	0
HRA Reserves	0	0	0	7,000	7,000

(1) The management fee covers repairs and maintenance and supervision and management expenditure.