

Cabinet

14 December 2011



Housing Revenue Account Medium Term Financial Plan 2012/13 to 2016/17

Key Decision No Corp/R/11/1

Report of Corporate Management Team

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Development**

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Purpose of the Report

1. To update Cabinet on the Government's Self Financing proposals for the Housing Revenue Account (HRA) that will come into effect on 1 April 2012; consider the draft HRA Business Plan for the next 30 years and Medium Term Financial Plan (MTFP) for 2012/13 to 2016/17.

Background

2. The HRA pulls together the income and expenditure associated with maintenance of the Council's housing stock of just under 19,000 dwellings. The Council is the largest social landlord in County Durham owning around 40% of all social housing. Under the Government's new system of housing finance, 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.
3. This report provides an overview of the Self Financing debt determination issued by the Department of Communities and Local Government (DCLG) on 21 November 2011 and the transition that the Council is making towards a system of Self Financing from 1 April 2012.
4. The reform of council housing finance will be implemented in April 2012. Cabinet considered a detailed report on 27 October 2011 that summarised the system of self financing and the steps that the Council was making towards implementing the changes. In addition, a draft five year medium term financial plan was prepared based on indicative debt settlement figures published by the DCLG in February 2011 and estimates prepared by officers.

5. The draft Self Financing determination now provides a firm basis for the Council to plan its housing service without annual Government intervention. Up till now, meaningful HRA strategic financial planning has not been possible – but from April 2012 will be essential. The Localism Act, which has recently received royal assent, contains provisions that will bring in the new-self financing system and abolish the current annual housing revenue account system from April 2012.
6. Consultation on draft Self Financing debt determinations ends on 6 January 2012 and final determinations will be issued shortly after.
7. Cabinet should also note that as part of its preparations for the implementation of self financing, the Council has also completed the first phase of an appraisal of the options available for the future financing, ownership and management of its housing stock.
8. The options appraisal has enabled the Council to determine stock investment requirements; customer needs and aspirations for their homes and the services they receive; and the variety of ways the Council could manage and invest in its homes and neighbourhoods and repay its forecast self financing debt allocation, based on the initial anticipated debt settlement figures.
9. This report updates the financial projections set out in the “Stock Option Appraisal Update and Outcomes Report” also being considered by Cabinet on the 14 December 2011.

Self Financing Determination

Housing Valuation

10. The value of the Council’s housing business is arrived at by Government making assumptions about the income and costs of running the housing stock over 30 years. Where the value of the business is higher than the Council’s current debt, the Council will pay the difference to Government; but if it is less, Government will pay the difference to the Council.
11. The Government’s Self Financing determination of 21 November 2011 has allocated the Council a valuation of £242m – this is £26m higher than the amount previously published by DCLG, although the Council in its 27 October Cabinet report planned its initial HRA budget forecasts on the basis of an expected £240m settlement, which has proven to be a good estimate and very close to the actual position.
12. The valuation uses assumptions on rents, management and maintenance and major repairs as the key inputs. The allowances provided in the valuation have been compared with what the corresponding figures would have been in 2012/13 under the existing subsidy system.

Allowances	2012/13 Subsidy per Dwelling	Government's Self Financing Determination per Dwelling	Change per Dwelling	Percentage Change per Dwelling
	£	£	£	%
Management Allowance	520.91	525.22	4.31	0.1
Maintenance Allowance	1,040.36	1,046.67	6.31	0.1
Major Repairs Allowance	623.24	831.53	208.29	33.4%
Disabled Facilities	-	56.80	56.80	-
Total Allowances	2,184.51	2,460.20	275.71	12.62%

13. As can be seen, management and maintenance allowances are almost unchanged but there has been a significant uplift in the major repairs allowance. Taking all three factors into account, produces a combined uplift in allowances of 12.62% compared to the existing subsidy system, which benefits the Council's housing revenue account as more resources are available to invest in the repair and maintenance of council owned homes than would be available under the existing subsidy system.

Housing Rents

14. As members will be aware, housing rents / annual rent increases are effectively determined by national policy considerations and formula. The national social rent policy is that rents in the council housing sector should converge with those charged by housing associations by 2015/16, followed by rent rises at RPI + 0.5% per year after this, in line with housing associations. In valuing each local authority's housing business the Government has assumed adherence to this rent policy.
15. A rent increase of 6.1% for 2012/13 (before any rent restructuring adjustment which will increase it to 6.2%) has therefore been assumed in the self financing determination, which is reflected throughout the life of the 30 year period used in calculating Durham's debt settlement. This consists of a retail price index (RPI) increase of 5.6% plus 0.5%.
16. Members should note that through self financing, the Council is taking on debt that already has this rent increase included. In order to ensure that the Council is able to support the debt allocation a similar increase will be required to our housing rents in 2012/13 otherwise there will be significant adverse implications on our HRA Business Plan and our ability to make improvements to our homes. Based on applying the national policy, average rents will be £63.02 per week from 1 April 2012, an average increase of £3.69 (or 6.2%) when compared to the current average rent of £59.33 (this includes a 0.1% rent restructuring adjustment).
17. The overall increase in the debt settlement figures allocated to Councils as part of the introduction of self financing arrangements are as a result of the use of the higher inflation rate to inform calculations. This has meant that many authorities face higher settlement figures than originally expected. Consequently many Council landlords will be required to increase guideline rents in order to put into place a sustainable and affordable long term HRA Business Plan. This will come at a time when household budgets are already

being squeezed. Representations will be made to the Housing Minister as part of the Government's consultation on self financing arrangements, to raise concerns about the affect of an increase in the debt settlement figure and associated rent increases on tenants, particularly working tenants, on low incomes. Around 70% of our tenants are currently receiving support for paying their rent through Housing Benefit. A promotional campaign will be undertaken to ensure that those entitled to receiving support with their rent are claiming it, particularly those who might be just below the threshold at present.

18. Average local authority rents in the north east are £59.38 per week compared to £72.21 nationally. The rents in Durham are amongst the lowest nationally; however the Government expects convergence with the housing association sector by 2015/16, which is still £6.40 higher on average than rents in local authorities in the north east. Appendix 2 provides comparative rent levels in both sectors.

Limit on Housing Debt

19. Even though the main thrust of the HRA reforms is based upon greater local freedom and flexibility in decision making – this does not extend to freedom of borrowing. The Council will be limited to how much it can borrow for housing purposes and this 'cap' is based on the self financing debt settlement uplifted for Homes and Communities Agency (HCA) approved New Build Scheme expenditure incurred by the Council which is £5m.
20. This means that the Council will be restricted to a debt 'cap' of £247m throughout the life of its 30 year HRA Business Plan which equates to the Government's valuation of the Council's stock of £242m plus the £5m for approved new build. The £247m debt cap will be referred to as Durham County Council's 'Council Housing Borrowing Limit'.

Borrowing Implications

21. The Council's housing debt as assumed by the Government is £187m which is £55m lower than the self financing housing valuation of £242m. Therefore the Council must pay £55m to DCLG to buy itself out of the subsidy system and retain all of its local rental income in future.
22. It is likely that the Council will use prudential borrowing through the Public Works Loan Board (PWLB) to fund the £55m payment as this source of funding is available at temporarily reduced rates for self financing purposes which will be up to 1% below normal PWLB published rates. The estimated interest cost of borrowing £55m based on current PWLB rates with the discount applied is £1.8m annually, assuming an interest rate of 3.32% on a 30 year maturity loan. Actual borrowing will be undertaken on 28 March 2011 and interest rates could fluctuate over the next few months.

Revisiting the Debt Settlement

23. The Localism Act provides for further settlement payments between local authorities and Government under certain circumstances. It limits such payments to cases where there has been a change in one of the factors taken into account in calculating the previous payment (i.e. expenditure, income and debt).
24. In exercising the power in this clause, the Government would have to issue a further determination and consult on it. Government only intend to use this power if a change is made which would have a substantial, material impact on the value of the landlord's business.

HRA Business Plan

25. A key feature of the system of self financing is the ability to strategically plan financially over the longer term. The Council can now shape its housing business in line with local service and investment priorities. This is demonstrated by the preparation of a 30 year HRA Business Plan.
26. The Council is already well prepared for this as an indicative business plan was initially developed as part of the stock options appraisal process during the course of the last year. We are now in a position to develop firm budget plans in light of updates on our original assumptions on rents, management, maintenance and repairs expenditure that were used initially for the stock options appraisal process.

Capital Investment Need

27. Expenditure needs to form a central part of the HRA Business Plan and expenditure forecasts have been derived from stock condition survey information that identified investment needs over a 30 year period based on the Industry Standard for Social Housing. The survey work indicates a total investment of some £800M over a 30 year period excluding revenue repair works and inflation.
28. Focusing on the medium term horizon and the next five years in particular, the investment requirement based on the Industry Standard for Social Housing amounts to £217m, broken down by area as follows.

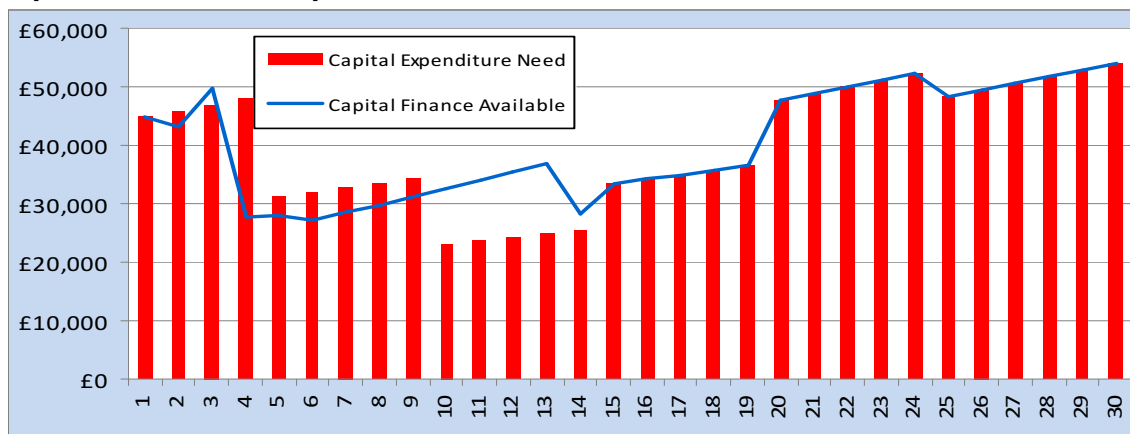
Area	Year 1 2012/13	Year 2 2013/14	Year 3 2014/15	Year 4 2015/16	Year 5 2016/17	Total
Durham City	8,787	8,993	9,197	9,405	12,577	48,959
Easington	30,436	31,112	31,844	32,592	10,497	136,481
Wear Valley	5,631	5,745	5,885	6,027	8,176	31,464
Total Investment Need	44,854	45,850	46,926	48,024	31,250	216,904

29. The Cabinet report of the 27 October 2011 referred to a need for the Council to work with its housing management organisations to undertake more detailed analysis of the findings of the stock condition survey and to develop a comprehensive Asset Management Strategy and Investment Plan to focus and prioritise investment.

Revenue

30. The following broad assumptions have been used in the 30 Year HRA Business Plan. Appendix 3 provides more details on the assumptions used in the HRA Business Plan:
- Rent increases following national rent policy with retail price index (RPI) plus 0.5% and rent convergence by 2015/16;
 - Debt settlement of £242m which requires an estimated payment to DCLG of £55m;
 - Interest rate on debt assumed as 5.25% initially then 6% for years 6 to 30;
 - Inflationary increase of 2.5% year on year for expenditure;
 - Voids levels at 1.5%;
 - Bad Debts at 1.5% of gross rent which is treble the current rate for years 1 to 4 due to the potential impact of Government Welfare Reforms and then 1% thereafter;
 - Efficiency savings of £3m by year 2, of which £1.5m have already been confirmed;
 - Known adjustments to stock such as planned demolitions, new build properties and estimates of right to buy sales;
 - Minimum level of HRA reserves of £7m.
31. The outputs of the modelling process over the full 30 year period are shown in Appendix 4 which shows the revenue account projected over the next 30 years. In summary, the results show:
- A balanced revenue budget over the full 30 year period;
 - Housing debt substantially paid off by year 30 with £9m outstanding;
 - HRA reserves being maintained at the minimum level;
 - Capital shortfalls in the first 9 years of the Plan.
32. The headline outputs over the full 30 year period can be represented graphically as follows:

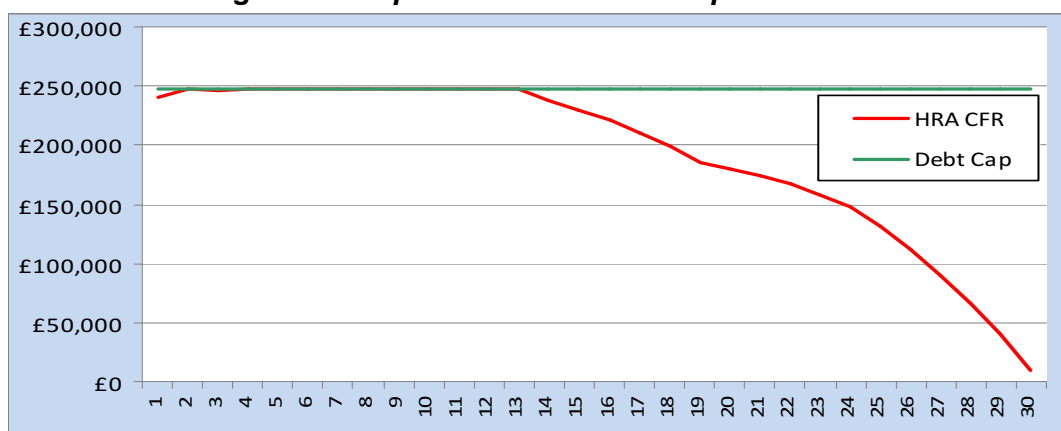
Expenditure need compared with resources available



Figures are £'000.

Years

Profile of Housing Debt compared with the Debt Cap



Figures are £'000.

Years

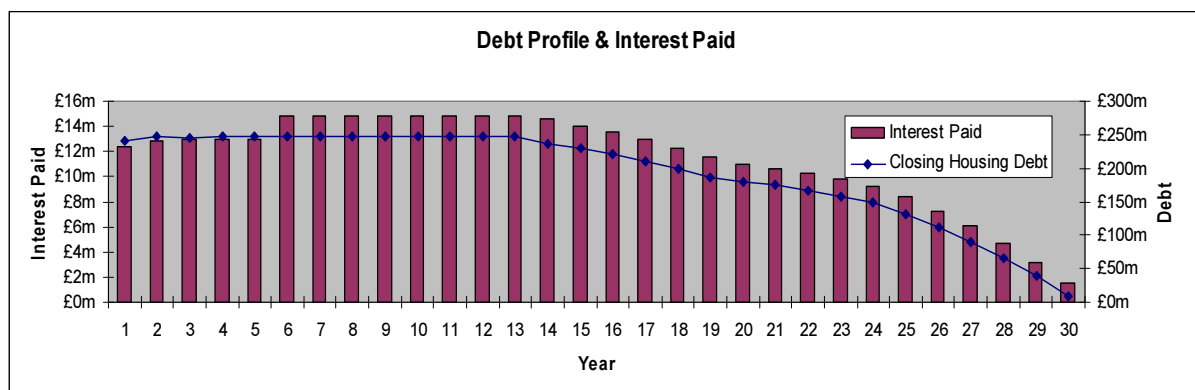
33. The key focus for the Council is the medium term horizon and the next five years in particular, as it continues to explore options for the future of its housing stock. Appendix 5 provides forecasts for the five year Medium Term Financial Plan period 2012/13 to 2016/17 which have been taken directly from the 30 year Business Plan. During this period, a rental stream of some £330m will be available to the Council to meet its management, repairs, investment and debt costs.
34. Over the next five years, projections show a balanced revenue budget with revenue support to the capital programme of £120m (comprising of major repairs and revenue contributions). After taking into account other sources of funding, the total estimated resources are £193m as shown in the table below.

Investment Resources	Year 1 2012/13 £'000	Year 2 2013/14 £'000	Year 3 2014/15 £'000	Year 4 2015/16 £'000	Year 5 2016/17 £'000	Total £'000
Major Repairs Reserve	17,158	17,538	17,932	18,345	18,767	89,740
Revenue Contribution	2,922	5,934	5,142	7,690	8,700	30,388
Capital Receipts	525	404	414	424	435	2,202
Backlog Funding Grant	13,000	12,000	26,286	0	0	51,286
Borrowing	11,249	7,195	0	1,268	0	19,712
Total Resources	44,854	43,071	49,774	27,727	27,902	193,328
Investment Need	44,854	45,850	46,926	48,024	31,250	216,904
Shortfall / (surplus)	-	2,779	(2,848)	20,297	3,348	23,576

35. There is a shortfall of up to £24m over the five year period (and £30m over 10 years). It should also be noted that Decent Homes Backlog Funding Grant has not yet been confirmed for years 2 and 3 of the HRA Business Plan although it has been assumed in the above figures. If backlog funding is not granted in 2013/14 and 2014/15 there is a shortfall of £62m in the first five years.
36. The capital shortfall underlines the importance of a long term asset management strategy and investment plan to guide investment and establish a comparable investment standard across the Council's three housing management areas. This piece of work has already begun as part of the option appraisal process and the results will be brought to a future meeting of Cabinet for consideration.
37. A range of improvements to homes including kitchens, bathrooms and heating facilities will be possible although not all the improvements required will be delivered due to shortfalls in funding. A separate report on the Stock Options Appraisal Process is also being considered by Cabinet on 14 December 2011 which examines options for addressing the funding gap in our HRA Business Plan in line with tenant aspirations.

HRA Borrowing and Debt

38. The Council will in future be responsible for servicing and managing its own debt from the rental income it is now able to retain locally. The cost of servicing interest on this debt was previously borne by Central Government. Based on the assumptions used in this report the profile of our Council Housing Borrowing Requirement over the next 30 years is as follows:



39. The modelling shows that our housing debt allocation can be substantially repaid by year 30 (2041/42). Debt payments are around £15m per year at their peak and repayments of housing debt commence from year 14 of the HRA Business Plan.

Risk Management

40. With the freedoms and flexibilities offered under the new housing finance system come responsibilities which include: developing a long term asset management strategy; identifying long term investment needs; and determining short, medium, and long term funding solutions. A number of risks

will also transfer from central to local government. These risks need to be considered when evaluating impacts on our HRA Business Plan. Some of these risks include:

- Interest rates – interest rate increases
- Inflation – energy, repairs, management, investment
- Income recovery – impact on benefit changes
- Voids – lost income, cost of void management
- Stock changes – reductions through right to buy, retention of only 25%
- Debt – amount of debt allocated, cap on debt, profile and repayment

41. These risks will now need to be actively managed by the Council and should form a key feature of deliberations when agreeing and finalising the HRA Business Plan. The Council will need to consider its exposure to risks and what actions it can take to control or mitigate any adverse impacts on its financial plans.
42. A sensitivity analysis (stress testing factor in the table below) has been undertaken on the HRA Business Plan to examine the impact that small changes in key factors can have on the affordability of the self financing HRA business plan. The impact of changes in void levels, interest rates, right to buy sales and bad debts on the HRA Business Plan at years 5 and 10 are shown in the following table:

Stress Testing Factor	Year Debt Repaid (or amount outstanding at year 30 if not repaid)	5 years £'000 Resources	10 years £'000 Resources
Base Position	£9m	193,328	342,551
a) Voids at 1.75%	£26m	-849	-1,799
b) Voids at 2.00%	£41m	-1,697	-3,598
c) Bad Debts at 1.5% yrs 5 to 30	£36m	-350	-2,251
d) Bad Debts at 2% all years	£68m	-2,047	-5,849
e) Level of Right to Buys doubled (72 per year)	£79m	-1,192	-451
f) Level of Right to Buys trebled (108 per year)	£149m	-2,384	-903
g) Level of Right to Buys at 250 per year	£247m	-7,006	-2,700
h) 1% reduction in interest rate (yrs 6 to 30)	Year 28	-	12,376
i) 0.5% increase in interest rate (yrs 6 to 30)	£69m	-	-6,187
j) Additional £1m efficiency saving	Year 28	3,288	9,235
k) Additional £1.5m efficiency saving	Year 27	4,932	13,853

43. The table shows that relatively small increases and reductions in key factors can have significant impact on the affordability of the self financing HRA Business Plan. However, it is important that these changes are not considered in isolation from the impact they may have on the ability of the Council to provide high quality homes, neighbourhoods and housing services to its customers. Changes in efficiency savings in particular should be considered alongside a careful examination of their achievability, sustainability and ultimately what they mean for the provision of housing services and improvements to homes.

44. The changes the Council may need to make to its assumptions, services and investment plans to ensure the affordability of a short, medium and long term self financing HRA business plan will be examined as part of the next phase in the option appraisal process. The outcomes of this work will be submitted to a future Cabinet meeting for consideration.
45. Quite clearly there are a significant number of risks being transferred to the Council and the 'stress testing' analysis undertaken has revealed that small changes in assumptions can have significant impacts on the HRA Business Plan. It is therefore important that the Council maintain a prudent level of reserves and a minimum of £7m in HRA balances has been assumed throughout the HRA Business Plan. Furthermore, resources will also be needed to accommodate potential costs of implementing the outcome of the stock options appraisal process and therefore balances should not be reduced below this level.

Conclusion

46. The HRA reforms are to be welcomed as they provide the Council access to rental income that is generated by the existing housing stock. The draft Government determinations are broadly in line with the forecasts considered by Cabinet in October. The Council will in future directly benefit from all efforts to control costs and generate efficiencies, and will have the freedom to determine where surplus investment capacity is most sensibly directed. However, centrally imposed borrowing caps may limit the ability to maximise the leverage from those assets.
47. The HRA Business Plan should be regarded as a dynamic, working document. Consequently, it is essential that it is reviewed and updated on a regular basis. A key feature of the planning process will relate to how the Council chooses to allocate resources – for every new £ of rent raised from tenants, from April 2012 there will be a realistic choice (with tenants) as to how and where this gets spent on local services, maintenance or other investment.

Recommendations

48. It is recommended that Cabinet: -
 - Note the implications of the Council's HRA Self Financing Determination set out in this report and the debt allocation of £242m;
 - Note the cap on borrowing of £247m which will apply throughout the life of the Council's 30 year HRA Business Plan;
 - Note the HRA self financing debt settlement payment to DCLG of £55m which will be financed by borrowing to be undertaken on 28 March 2012;
 - Note the proposed rent increase for 2012/13 of 6.2% comprising 5.6% inflation plus 0.5% plus a rent restructuring adjustment of 0.1%;
 - Note the updated five-year HRA Medium Term Financial Plan as set out at Appendix 5 to be agreed by Council in February 2012;

- Note the need to develop a five year capital investment plan to be approved by Cabinet in line with an asset management plan to be agreed by Council during 2012/13.

Background Papers:

Report to Cabinet: Response to Government Proposals for Dismantling the HRA, 29 June 2010

Implementing Self Financing for Council Housing issued by DCLG on 1 February 2011

Self financing: Planning the transition issued by DCLG on 28 July 2011

Report to Cabinet: HRA Self Financing and Medium Term Financial Plan, 27 October 2011

Self financing determination, DCLG 21 November 2011

Contact: Azhar Rafiq

Tel: 0191 383 4028

Appendix 1: Implications

Finance – The financial implications have been identified throughout the report. The report sets out the latest position on the HRA for 2012/13 and beyond.

Staffing – There is 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 business plan. The council needs to ensure it is adequately prepared for the introduction of self financing from April 2012. A number of risks previously borne by central government will transfer to the Council in future, such as changes in interest rates, and strategies and plans are being prepared to account for this transfer

Equality and Diversity / Public Sector Equality Duty – There are no direct implications from the information contained within this Cabinet report.

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 – Significant external consultation was held during 2010 in the development of the Council's Housing Strategy for Durham. 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. Significant consultation has been held with a range of partners including tenants as part of the stock options process. Housing rents / annual rent increases are effectively determined by national policy considerations and national formula.

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 the 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 that the provisions contained in the Localism Act relating to self financing are implemented from April 2012.

Appendix 2: Comparative Rent Levels

	Local Authority (1)	Registered Social Landlord (2)
	<u>£ per week</u> 2011-12	<u>£ per week</u> 2011-12
<i>By Region:</i>		
North East	59.38	65.78
North West	62.63	68.65
Yorkshire and the Humber	60.55	66.20
East Midlands	62.94	72.08
West Midlands	67.49	72.47
East	75.41	81.87
London	89.33	97.46
South East	78.52	89.94
South West	67.06	76.04
England	72.21	78.28
 <i>North East Analysis:</i>		
Darlington	59.61	67.75
Hartlepool	LSVT	68.21
Middlesbrough	LSVT	69.84
Redcar and Cleveland	LSVT	69.08
Stockton on Tees	LSVT	67.02
Durham	59.33	61.57
Northumberland	55.65	63.14
Gateshead	62.36	64.81
Newcastle	58.26	65.05
North Tyneside	60.49	67.80
South Tyneside	58.51	65.70
Sunderland	LSVT	65.89
North East	59.76	65.78

(1) Source: DCLG Housing Subsidy Claim Form – update 30.11.11

(2) Source: Regulatory and Statistical Return – latest update November 2011

Appendix 3: 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>2011-12</td> <td>18,647</td> <td>-27</td> <td>-42</td> <td></td> <td>17</td> <td>18,595</td> <td>18,621</td> </tr> <tr> <td>2012-13</td> <td>18,595</td> <td>-48</td> <td>-12</td> <td>1</td> <td>50</td> <td>18,586</td> <td>18,591</td> </tr> <tr> <td>2013-14</td> <td>18,586</td> <td>-36</td> <td>-20</td> <td></td> <td></td> <td>18,530</td> <td>18,558</td> </tr> <tr> <td>2014-15</td> <td>18,530</td> <td>-36</td> <td></td> <td></td> <td></td> <td>18,494</td> <td>18,512</td> </tr> <tr> <td>2015-16</td> <td>18,494</td> <td>-36</td> <td></td> <td></td> <td></td> <td>18,458</td> <td>18,476</td> </tr> <tr> <td>2016-17</td> <td>18,458</td> <td>-36</td> <td></td> <td></td> <td></td> <td>18,422</td> <td>18,440</td> </tr> </tbody> </table> Right to Buy sales of 36 have been assumed each year throughout life of the business plan (yrs 6 to 30). 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>2011-12</td> <td>6,025</td> <td>8,399</td> <td>4,223</td> <td>18,647</td> </tr> <tr> <td>2012-13</td> <td>5,997</td> <td>8,380</td> <td>4,218</td> <td>18,595</td> </tr> <tr> <td>2013-14</td> <td>5,976</td> <td>8,346</td> <td>4,264</td> <td>18,586</td> </tr> <tr> <td>2014-15</td> <td>5,960</td> <td>8,330</td> <td>4,240</td> <td>18,530</td> </tr> <tr> <td>2015-16</td> <td>5,944</td> <td>8,314</td> <td>4,236</td> <td>18,494</td> </tr> <tr> <td>2016-17</td> <td>5,928</td> <td>8,298</td> <td>4,232</td> <td>18,458</td> </tr> </tbody> </table> 	Year	Opening Stock	RTB	Demolitions	Other	New Build	Closing Stock	Average Stock	2011-12	18,647	-27	-42		17	18,595	18,621	2012-13	18,595	-48	-12	1	50	18,586	18,591	2013-14	18,586	-36	-20			18,530	18,558	2014-15	18,530	-36				18,494	18,512	2015-16	18,494	-36				18,458	18,476	2016-17	18,458	-36				18,422	18,440	Year	Durham City	Easington	Wear Valley	Total	2011-12	6,025	8,399	4,223	18,647	2012-13	5,997	8,380	4,218	18,595	2013-14	5,976	8,346	4,264	18,586	2014-15	5,960	8,330	4,240	18,530	2015-16	5,944	8,314	4,236	18,494	2016-17	5,928	8,298	4,232	18,458
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2013-14	5,976	8,346	4,264	18,586																																																																																								
2014-15	5,960	8,330	4,240	18,530																																																																																								
2015-16	5,944	8,314	4,236	18,494																																																																																								
2016-17	5,928	8,298	4,232	18,458																																																																																								
Rent Increases	<ul style="list-style-type: none"> Rent increases assumed as follows: <ul style="list-style-type: none"> 2012-13: 5.6% inflation + 0.5% - increase of 6.1% + rent restructuring 2013-14 to 2015-16: 2.5% inflation + 0.5% - increase of 3.0% + rent restructuring 2016-17onwards: 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 1.5% and calculated as a percentage of gross rental income. 																																																																																											
Other Income - Garage Income	<ul style="list-style-type: none"> The County Council inherited a range of different garage charges across the three former districts and a harmonisation policy has been proposed which involves converging rents towards Dale and Valley levels over three years and also ensuring that VAT is charged to private tenants in the Easington area. Increases in garage rents have been directly linked to the increase in dwelling rents. 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>2011 -12</td> <td>880</td> <td>458</td> <td>1,585</td> </tr> <tr> <td>2012 -13</td> <td>880</td> <td>419</td> <td>1,577</td> </tr> <tr> <td>2013 -14</td> <td>836</td> <td>398</td> <td>1,498</td> </tr> <tr> <td>2014 -15</td> <td>794</td> <td>378</td> <td>1,423</td> </tr> <tr> <td>2015 -16</td> <td>754</td> <td>359</td> <td>1,352</td> </tr> <tr> <td>2016 -17</td> <td>717</td> <td>341</td> <td>1,284</td> </tr> </tbody> </table> 	Estimated occupied no. of garages	Durham City	Wear Valley	Easington	2011 -12	880	458	1,585	2012 -13	880	419	1,577	2013 -14	836	398	1,498	2014 -15	794	378	1,423	2015 -16	754	359	1,352	2016 -17	717	341	1,284																																																															
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Other Income - Shops	<ul style="list-style-type: none"> There are a small number of shops accounted for in the HRA generating rental income which has been maintained at the base budget position of £96,000. 																																																																																											

Item	Assumptions
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 £1.5m are also outstanding and these have been built in to the plan although the allocation of this amount across the various providers has not been determined. <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. ● Some additional costs will be incurred for void properties that are earmarked for demolition and provision of £100,000 and £50,000 has been made in years 1 and 2 of the MTFP.
Bad Debts	<ul style="list-style-type: none"> ● The base budget assumed 0.43% of rental income. For the MTFP a more prudent assumption is proposed with a trebling of the current provision to 1.5% of gross rental income for years 1 to 4 and then 1% thereafter. This is to reflect 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.
Interest Paid	<ul style="list-style-type: none"> ● A starting debt of £229m has been assumed based on a settlement payment to DCLG of £55m, plus estimated closing debt of £174m for 2011/12. For the first 5 years an interest rate of 5.25% has been used, thereafter a rate of 6% for years 6-30.
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 £247m.
Interest Received	<ul style="list-style-type: none"> ● Represents interest earned on all HRA balances and accounts.
Depreciation	<ul style="list-style-type: none"> ● For the purposes of the MTFP, the self financing Major Repairs Allowance has been used in line with guidelines from DCLG that allow this treatment for the first 5 years.
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 £370 per dwelling.

Appendix 4: Durham County Council 30 Year HRA Business Plan

	Year	Rents (after Voids)	Other Income	Total Income	Management Expenditure	Bad Debts	Repairs	Total Revenue Expenditure	Interest Paid	Debt Mgt	Interest Received	Depreciation	Net Operating Income	Borrowing	RCCO	Annual Cashflow	Opening HRA Balance	Closing HRA Balance
1	2012.13	60,116	995	61,111	-15,919	-915	-11,869	-28,703	-12,321	-186	114	-17,158	2,857	-	-2,922	-65	7,688	7,623
2	2013.14	62,321	1,072	63,393	-14,575	-949	-12,166	-27,690	-12,805	-198	145	-17,538	5,307	-	-5,934	-627	7,623	6,996
3	2014.15	64,637	1,060	65,697	-14,939	-984	-12,470	-28,393	-12,961	-165	173	-17,932	6,419	-1,268	-5,142	9	6,996	7,005
4	2015.16	67,025	1,047	68,072	-15,312	-1,021	-12,782	-29,115	-12,961	-170	207	-18,345	7,688	-	-7,690	-2	7,005	7,003
5	2016.17	68,910	1,026	69,936	-15,696	-700	-13,101	-29,497	-12,994	-185	207	-18,767	8,700	-	-8,700	0	7,003	7,003
6	2017.18	70,838	1,052	71,890	-16,088	-719	-13,429	-30,236	-14,851	-198	207	-20,822	5,990	-	-5,990	0	7,003	7,003
7	2018.19	72,820	1,078	73,898	-16,490	-739	-13,765	-30,994	-14,851	-203	207	-21,301	6,756	-	-6,756	0	7,003	7,003
8	2019.20	74,857	1,105	75,962	-16,903	-760	-14,109	-31,772	-14,851	-208	207	-21,791	7,547	-	-7,547	0	7,003	7,003
9	2020.21	76,950	1,133	78,083	-17,326	-781	-14,462	-32,569	-14,851	-213	207	-22,292	8,365	-	-8,365	0	7,003	7,003
10	2021.22	79,102	1,161	80,263	-17,759	-803	-14,823	-33,385	-14,851	-219	207	-22,804	9,211	-	-9,211	0	7,003	7,003
11	2022.23	81,314	1,190	82,504	-18,202	-826	-15,194	-34,222	-14,851	-224	207	-23,328	10,086	-	-10,086	0	7,003	7,003
12	2023.24	83,587	1,220	84,807	-18,657	-849	-15,574	-35,080	-14,851	-230	207	-23,864	10,989	-	-10,989	0	7,003	7,003
13	2024.25	85,924	1,250	87,174	-19,124	-872	-15,963	-35,959	-14,851	-235	207	-24,412	11,924	-	-11,924	0	7,003	7,003
14	2025.26	88,325	1,282	89,607	-19,602	-897	-16,362	-36,861	-14,542	-241	207	-24,973	13,197	-10,284	-2,904	9	7,003	7,012
15	2026.27	90,793	1,314	92,107	-20,092	-922	-16,771	-37,785	-14,011	-247	207	-25,547	14,724	-7,429	-7,299	-4	7,012	7,008
16	2027.28	93,330	1,346	94,676	-20,594	-948	-17,190	-38,732	-13,524	-231	207	-26,133	16,263	-8,782	-7,479	2	7,008	7,010
17	2028.29	95,937	1,380	97,317	-21,109	-974	-17,620	-39,703	-12,953	-216	207	-26,733	17,919	-10,253	-7,665	1	7,010	7,011
18	2029.30	98,617	1,415	100,032	-21,637	-1,001	-18,061	-40,699	-12,290	-202	207	-27,347	19,701	-11,846	-7,854	1	7,011	7,012
19	2030.31	101,371	1,450	102,821	-22,178	-1,029	-18,512	-41,719	-11,528	-189	207	-27,974	21,618	-13,568	-8,049	1	7,012	7,013
20	2031.32	104,202	1,486	105,688	-22,732	-1,058	-18,975	-42,765	-10,971	-177	207	-28,616	23,366	-4,987	-18,387	-8	7,013	7,005
21	2032.33	107,111	1,523	108,634	-23,300	-1,087	-19,449	-43,836	-10,639	-171	207	-29,272	24,923	-6,102	-18,820	1	7,005	7,006
22	2033.34	110,101	1,561	111,662	-23,883	-1,118	-19,935	-44,936	-10,236	-165	207	-29,944	26,588	-7,325	-19,263	0	7,006	7,006
23	2034.35	113,174	1,600	114,774	-24,480	-1,149	-20,434	-46,063	-9,756	-159	207	-30,630	28,373	-8,656	-19,716	1	7,006	7,007
24	2035.36	116,332	1,640	117,972	-25,091	-1,181	-20,945	-47,217	-9,194	-153	207	-31,332	30,283	-10,102	-20,180	1	7,007	7,008
25	2036.37	119,578	1,682	121,260	-25,719	-1,214	-21,468	-48,041	8,380	-148	207	-32,051	32,487	-17,028	-15,453	6	7,008	7,014
26	2037.38	122,914	1,724	124,638	-26,362	-1,248	-22,005	-49,615	-7,293	-115	207	-32,785	35,037	-19,209	-15,826	2	7,014	7,016
27	2038.39	126,343	1,767	128,110	-27,021	-1,283	-22,555	-50,859	-6,070	-89	207	-33,536	37,763	-21,552	-16,209	2	7,016	7,018
28	2039.40	129,866	1,811	131,677	-27,697	-1,318	-23,119	-52,134	-4,701	-69	207	-34,305	40,675	-24,073	-16,600	2	7,018	7,020
29	2040.41	133,488	1,856	135,344	-28,389	-1,355	-23,697	-53,441	-3,175	-53	207	-35,090	43,792	-26,787	-17,001	4	7,020	7,024
30	2041.40	137,210	1,902	139,112	-29,098	-1,393	-24,289	-54,780	-1,480	-41	208	-35,894	47,125	-29,708	-17,412	5	7,024	7,029

Appendix 5: Five Year HRA Medium Term Financial Plan

Year £'000	2012.13 Year 1	2013.14 Year 2	2014.15 Year 3	2015.16 Year 4	2016.17 Year 5	Total 5 years
INCOME:						
Rental Income	61,031	63,270	65,621	68,046	69,959	327,927
Void Losses	-915	-949	-984	-1,021	-1,049	-4,918
Service Charges	0	0	0	0	0	0
Non-Dwelling Income Grants & Other Income	995	1,072	1,060	1,047	1,026	5,200
Total Income	61,111	63,393	65,697	68,072	69,936	328,209
EXPENDITURE:						
General Management	-13,777	-12,447	-12,758	-13,077	-13,404	-65,463
Special Management	-555	-553	-566	-580	-595	-2,849
Other Management	-1,587	-1,575	-1,615	-1,655	-1,697	-8,129
Rent Rebates	0	0	0	0	0	0
Bad Debt Provision	-915	-949	-984	-1,021	-700	-4,569
Responsive & Cyclical Repairs	-11,869	-12,166	-12,470	-12,782	-13,101	-62,388
Total Revenue Expenditure	-28,703	-27,690	-28,393	-29,115	-29,497	-143,398
Interest Paid	-12,321	-12,805	-12,961	-12,961	-12,994	-64,042
Debt Management	-186	-198	-165	-170	-185	-904
Interest Received	114	145	173	207	207	846
Depreciation	-17,158	-17,538	-17,932	-18,345	-18,767	-89,740
Net Operating Income	2,857	5,307	6,419	7,688	8,700	30,971
APPROPRIATIONS:						
Borrowing Repayment	0	0	-1,268	0	0	-1,268
Revenue Contribution to Capital	-2,922	-5,934	-5,142	-7,690	-8,700	-30,388
Total Appropriations	-2,922	-5,934	-6,410	-7,690	-8,700	-31,656
ANNUAL CASHFLOW	-65	-627	9	-2	0	-685
Opening Balance	7,688	7,623	6,996	7,005	7,003	n/a
Closing Balance	7,623	6,996	7,005	7,003	7,003	n/a