Agenda Item No. 7

Cabinet – 12th February 2014

Joint Report of the Director of Adult, Community and Housing Services and the Treasurer

Deployment of resources: Housing Revenue Account and Public Sector Housing Capital

Purpose of Report

1. The purpose of this report is:

- To set a rent increase for council homes.
- To review rents for garages, garage plots and access agreements.
- To set charges for sundry services.
- To set the Housing Revenue Account (HRA) budget for 2014/15 in the light of the latest government announcements on housing finance and our latest spending and resource assumptions.
- To set a capital expenditure budget for the improvement and programmed maintenance of the Council's housing stock for 2014/15 to 2018/19.
- To approve the Medium Term Financial Strategy and 30 Year Business Plan for the HRA.

Background

2. The HRA is a "ring-fenced" revenue account and deals with landlord functions associated with public sector housing[1]. The costs of improvement and programmed maintenance of the Council's housing stock are treated as capital expenditure and are accounted for separately.

Rent increase

3. The self-financing system introduced in April 2012 for Housing assumed that rent increases would be in line with government guidance, including convergence with other registered social landlords' rents by 2015/16. However, there is no longer a requirement for us to follow this guidance, and therefore it is proposed that the next increase be on 7th April 2014 and be a flat-rate increase of 1.5%, equivalent to an average of £1.22 per week. We have considered this carefully in the light of future affordability and the continuing

[1] The Housing General Fund deals with private sector issues, such as general housing advice, and is included in another report on this agenda. The separation of expenditure and income between the HRA and the General Fund complies with government guidance.

financial viability of the HRA. The range of actual proposed rent increases is as follows:

RANGE OF RENT INCREASES

Range of weekly rent increase	Proportion of properties affected
£1.00 or less	8.56%
£1.01 to £1.25	45.95%
£1.26 to £1.50	43.83%
£1.51 to £2.17	1.66%

4. Officers met with the Board of the Dudley Federation of Tenants' and Residents' Associations (DFTRA) on 18 November 2013 to discuss proposals for the next rent increase. The Board accepted the basis for the 1.5% proposed increase, but emphasised the importance of directing rental income to maintaining and improving council properties.

5. In addition to the rents discussed above, we currently apply service charges in certain properties in respect of items such as furniture and overnight support. It is proposed that service charges for furniture be increased by 3.2% in line with inflation and that service charges for overnight support in certain sheltered schemes be maintained at their current levels as a review of the service is taking place in 2014/15.

6. We also apply service charges to 344 properties in sheltered housing schemes in respect of heating and lighting. These charges vary according to the scheme and the size of the properties and may be offset against the winter fuel payment received by tenants, plus any cold weather payments. Housing Benefit will also cover these charges where applicable. In previous years, inflationary increases in these charges has not kept pace with the level of increase in fuel prices, and Cabinet agreed in February 2009 to implement a 25% increase with further increases in future years to achieve a gradual return to cost recovery. Utility prices have, however, continued to rise at a faster rate than general inflation, and it is now proposed that charges be increased by 12% in 9 of the 11 schemes, from a current average weekly charge of £13.11 to a new average weekly charge of £14.43. At two schemes (The Gables and Netherton Lodge), actual charges are lower and therefore will not be increased for 2014/15. The overall average increase is 10%.

7. The Council currently provides, within its general housing stock, a number of units of furnished accommodation for which a charge of £24.26 per week is made. It also provides six units of accommodation for homeless people in Lye for which management charges and service charges are applied (a two-bedroom flat and five one-bedroom flats). There are three houses for which garden maintenance charges are made. It is proposed that all of these charges be increased by 3.2% in line with inflation.

8. The Council offers laundry tokens for sale for the use of tenants at five high rise blocks (two in Brierley Hill and three in Dudley). It is proposed that charges are increased from £2.10 to £2.20 per token.

9. It is proposed that pitch licences at Oak Lane be increased by 1.5%, in line with the increase proposed for general rents and that weekly charging for water also be increased by 1.5% to £6.25 per week.

10. The Council currently charges an administration fee of £2 per week to its leaseholders, to cover the costs of managing the properties. It is proposed that there is no increase in the overall level of the fee as this currently covers the cost of the service.

11. The Council currently charges private residents who are in receipt of Telecare services £13.00 per month, and also charges Housing Association tenants varying amounts for this service. It is proposed to maintain these charges at current levels from 1 April 2014. Income generated will be used to increase investment in and development of the service.

<u>Garage rents, garage plots and access agreements</u>

12. It was agreed by Cabinet in February 2008 that inflationary increases for garages, garages plots and access agreements be made every three years, with the next increase to take effect from 2014/15.

13. Annual rents for garage plots and access agreements were last increased from April 2011. It is therefore proposed to increase these rents with effect from 1st April 2014 by 11.8% to take into account inflation over the previous three years.

14. Garages have been categorised as Red, Amber or Green, based on their condition, with rent increases being considered every three years. This approach was agreed by Cabinet following consultation with Area Housing Panels. The last general inflationary increase of garage rents took place in April 2011. It is proposed that rents be increased from 7th April 2014 by 40p to 50p per week, depending on category and area, as shown in the table below.

	Red	Amber	Green
Current weekly rent	£2.27	£3.80 to £5.00 *	£3.80 to £5.25 *
Proposed weekly rent	£2.27	£4.20 to £5.00 *	£4.20 to £5.25 *
Increase	0	40p to 50p *	40p to 50p *
* depending on area			

15. It is proposed that, in view of the small weekly sums involved and the administrative cost of implementing rent increases, general inflationary increases for garages, garages plots and access agreements continue to be considered every three years, with the next increase due from April 2017.

Proposed HRA budget 2014/15

16. The proposed HRA budget for 2014/15 (together with a proposed revised budget for 2013/14) is attached as **Appendix 1**. This budget is based on recent trends and our latest assessment of government policy on housing finance.

The key elements of the self-financing system that now operates in relation to local authority housing are:

- Abolition of the HRA Subsidy system and retention of all rental income.
- A one-off allocation of housing debt based on an affordability calculation.
- A cap on new borrowing above a set maximum level.
- Transfer of investment, borrowing and inflation risks to housing authorities.
- Continued compliance with central government rent policy.

17. The current budget for 2013/14 (approved by Cabinet in June 2013) shows a surplus on the HRA of £0.888m at 31st March 2014. The proposed revised budget for 2013/14 shows a surplus at the same date of £3.839m. Variances arise mainly from

- Reduced rental income owing to higher than anticipated right to buy sales and voids;
- The full additional bad debt provision set aside for 2013/14 to deal with the impact of welfare reform has not been required, owing to delays in the Government's programme, in particular the slower roll-out of Universal Credit;
- Savings in housing management owing to vacant posts and underspends on running costs;
- Reserves set aside but not yet required - for example for welfare reform owing to delays in the Government's programme;
- Additional income earned from aerials on high rise flats.

Savings will be rolled forward into 2014/15 to invest further in maintaining and managing the housing stock. Reserves will be required in 2014/15 and subsequent years.

18. The proposed HRA budget for 2014/15 takes account of the proposed average rent increase of £1.22 on the 7th April 2014 (paragraph 3).

19. The proposed HRA budget for 2014/15 includes a budget for housing management of £18.0m. This covers the day to day management of properties including income collection, tenancy enforcement, support for vulnerable tenants and lettings and void management. A number of reserves identified in the previous financial year will be carried forward into 2014/15, for example, those relating to the Government's welfare reform programme.

20. The proposed HRA budget for 2014/15 includes a budget for repairs and maintenance of £24.1m. This reflects:

- Maintaining the current responsive repairs service standard;

- Undertaking all required cyclical statutory responsibilities such as annual servicing of gas appliances, warden call equipment and alarms and periodic testing of water hygiene, lift servicing and inspections.
- Maintaining the current level of cyclical maintenance such as painting of communal areas.

21. The proposed HRA budget for 2014/15 includes a budget for interest payments of £18.0m. This covers the payments that are due on the debt taken on as part of the self-financing settlement. It is not currently planned to increase borrowing, as debt is at the maximum allowable under the HRA debt cap.

Public sector housing capital budget 2014/15 to 2018/19

22. We must have a long-term rolling programme of investment to maintain the condition of council owned homes, to improve living standards and provide affordable homes for residents.. A stock validation survey undertaken during 2013 will inform the development of a long-term investment plan. A proposed £206m public sector capital budget for 2014/15 to 2018/19 and a revised budget for 2013/14 are attached as **Appendix 2.** Explanations of the budgets are attached as **Appendix 3**.

23. The proposed £206m rolling five year capital investment programme is a £38m increase in investment over current approved plans. This investment follows the general principles approved in the current programme and reflects the priorities of the Council Plan and the views of members and residents who participated in the Take Control and Get Involved Conference in September 2012. Investment continues to target the following priorities:
    - Continuing investment to keep homes in good order by addressing investment in key building components such as roofs, electrics, kitchens and bathrooms;
    - Improving energy efficiency to contribute towards reducing fuel poverty for residents using the capital programme to match-fund potential external resources such as Energy Company Obligations (ECO) which also address carbon saving climate change initiatives;
    - Investing in empty homes to ensure that as many of the Council's homes as possible are available for occupation;
    - Providing new social housing homes within the borough;
    - Providing investment at affordable levels for communal facilities such as high rise lift replacement, community safety and environmental programmes;
    - Maintaining investment in social care programmes such as providing Adaptations for persons with disabilities.

24. Whilst the detail of the proposed programmes is included within **Appendix 3,** notable projects over the five year period from 2014/15 to 2018/19 are as follows:

    - Continued investment in Adaptations for persons with disabilities with £14m over the next five years maintaining waiting times at current levels and providing over 2,000 major adaptations (level access showers, stairlifts, vertical lifts and ramps) and around 6,500 minor adaptations such as handrails and grab rails;

- £21.4m investment over 5 years (£11m more than previously planned) improving the efficiency of central heating and providing more affordable heating in 5,500 homes, helping to reduce fuel poverty.
- £8.7m investment in electrical installations, including over £6m on replacing lifts, communal lighting to high rise accommodation and providing upgraded door entry systems to flatted developments. Investment is also maintained for upgrading electrics and rewiring homes;
- £32m over 5 years replacing windows and external doors with modern, energy efficient units, with all homes being fully double glazed by the end of the 5 year programme;
- £15.7m on replacement roofs;
- £4.9m on community safety and environmental improvements to estates;
- A £14.6m programme will deliver around 5,000 internal improvements such as kitchens and bathrooms over 5 years;
- Undertaking £58.7m of improvements in empty properties to ensure that they can be re-let;
- £13.4m will provide over 100 new council homes, £6m more than currently approved. Two schemes for 17 homes (14 for persons with learning disabilities) are already being progressed at the Walk, Sedgley and Norfolk Rd, Wollaston, and feasibility studies are under way for a number of other potential sites. £758,000 is also proposed to undertake necessary roof and structural improvements over 3 years at the Leys depot, Brierley Hill.
- A review is currently being undertaken of the borough's sheltered accommodation and whilst individual scheme proposals are yet to be developed, a financial provision of £1.1m is proposed over the next 2 years to start to address the outcomes from the review.

25. Approval is sought to continue discussions with Energy Service Providers and similar organisations and to bid for, enter into negotiations and / or seek tenders as appropriate to progress carbon saving and / or power generating schemes to improve fuel poverty across the borough. Resources will be sought under the Energy Company Obligations (ECO) flowing from the Energy Act 2011, which takes over from existing energy service provider obligations under CERT (Carbon Emission Reduction Target) and CESP (Community Energy Saving Programme). ECO is intended to continue to provide funding for energy saving measures where households most need additional support, particularly in deprived areas, but also in hard to treat (or insulate) houses such as solid wall properties across the borough. A £4m scheme incorporating £3.2m of insulation and energy related measures is already planned supported by around £1.5m of ECO funding providing external wall insulation to almost 400 homes across the borough.

26. It is proposed that any additional resources obtained under paragraph 25 be added to the Capital Programme accordingly and the Directors of Corporate Resources and Adult Community and Housing Services be approved to enter into any such grant or funding agreements necessary to deliver the schemes.

27. To ensure effective utilisation of all resources that become available, Cabinet is requested to authorise the Director of Adult, Community and Housing Services, in consultation with the Cabinet Member for Housing, to manage the five year programme so as to use all the resources that become available and commit expenditure to that amount and to report progress and actions to the Cabinet. In doing this, Cabinet is requested to confirm that all capital receipts arising from the sale of HRA assets (other than those specifically committed to support private sector housing grants) should continue to be used for the improvement of council homes.

28. To facilitate implementation of the programme, the Cabinet is requested to authorise the Director of Adult, Community and Housing Services to prepare specifications and undertake procurement in accordance with Standing Orders and Financial Regulations. Cabinet is also asked to agree that the Director of Adult, Community and Housing Services be authorised to enter into and award contracts on their behalf.

Medium Term Financial Strategy / Thirty Year Business Plan for Landlord Housing

29. With the abolition of the HRA Subsidy system and the introduction of self-financing for housing authorities, the Council now has an increased level of autonomy and flexibility regarding housing finance. The HRA budget is no longer dependent on annual Government settlements, although the rent increase will still be determined annually. It is therefore possible to set indicative budgets for a longer period and to develop a longer-term financial and business strategy.

30. Although the HRA enjoys some increased flexibility, the HRA ring-fence remains in force, and the Council is also expected to have regard to the Government's national rent policy. Under the self-financing settlement, Dudley has taken on a significant increase in housing debt, which must be serviced. The medium term financial strategy and thirty-year business plan is provided at Appendix 4, which sets out the context of the HRA for the next five years and summarises the overarching financial strategy and risks that will apply to the HRA over the longer term.

Finance

31. Section 76 of the Local Government and Housing Act 1989 places a duty on the Council to ensure that no action will be taken to cause a deficit to arise on the HRA at 31st March 2015. There is also a duty placed on the Council to review the financial prospects of the HRA from time to time. Reviews carried out can confirm that the HRA will be in surplus at the 31st March 2015 and therefore complies with the requirements of the Act.

Law

32. HRA finances are governed by Section 74-78B and 85-88 in Part IV of the Local Government and Housing Act 1989. Sections 167-175 in Part VII of the Localism Act 2011 abolish the HRA Subsidy system (Sections 79-84 in Part IV of the Local Government and Housing Act 1989) and introduce self-financing.

Equality Impact

33. Section 149 of the Equalities Act 2010 requires public authorities, including the Council, to

- eliminate unlawful discrimination, harassment and victimisation and other conduct that is prohibited by the Act.
- advance equality of opportunity between people who share a characteristic and those who don't.
- foster good relations between people who share a characteristic and those who don't.

The Duty covers the following protected characteristics: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

This is a financial report concerned with forecasting of income and application of resources. Some areas of proposed expenditure (e.g. capital expenditure on adaptations) are intended to promote independence and improve quality of life for protected groups.

Recommendations

34. It is recommended that Cabinet:

a) approve a rent increase for HRA dwellings on 7th April 2014 with an average increase of £1.22 (1.5%) and a maximum increase of £2.17 (paragraph 3);
b) approve an increase of 3.2% in service charges (paragraph 5 and 7);
c) approve an increase of 12% in heating and lighting charges for sheltered housing from an average weekly charge of £13.11 to an average weekly charge of £14.43 other than at The Gables and Netherton Lodge where charges will remain at their current rates (paragraph 6);
d) approve an increase from £2.10 to £2.20 for laundry tokens (paragraph 8);
e) approve the increase of 1.5% to the current charge for pitch licences at Oak Lane as outlined in paragraph 9
f) approve an increase of 1.5% in water charges at Oak Lane to £6.25 per week (paragraph 9);

g) approve maintaining the leaseholders' administration fee at current levels as outlined in paragraph 10;
h) approve maintaining charges for private Telecare clients at current levels as outlined in paragraph 11;
i) approve an increase of 11.8% for garage plot rent and access agreements, and the dates proposed for future increases (paragraphs 13 and 15);
j) approve an increase in garage rents as detailed in paragraph 14 and the dates proposed for future increases (paragraph 15);
k) recommend that Council approve the revised HRA budget for 2013/14 and the HRA budget for 2014/15 outlined in Appendix 1;
l) recommend that Council approve the public sector housing revised capital budget for 2013/14 and the capital budget for 2014/15 to 2018/19 attached as Appendix 2;
m) recommend that Council authorise the Director of Adult, Community and Housing Services and the Director of Corporate Resources to bid for and enter into funding arrangements for additional resources to supplement investment in the public sector housing stock as outlined in paragraphs 25 and 26;
n) recommend that Council authorise the Director of Adult, Community and Housing Services, in consultation with the Cabinet Member for Housing, to manage and allocate resources to the capital programme as outlined in paragraph 27;
o) recommend that Council confirm that all capital receipts arising from the sale of HRA assets (other than those specifically committed to support private sector housing) should continue to be used for the improvement of council homes (paragraph 27);
p) authorise the Director of Adult, Community and Housing Services to procure and enter into contracts for the delivery of the capital programme, as outlined in paragraph 28;
q) receive the HRA medium term financial strategy and thirty year business plan attached as Appendix 4.

…………………………………………..

Andrea Pope-Smith
Director of Adult, Community and Housing Services

…………………………………………..

Iain Newman
Treasurer

Contact Officer: Catherine Ludwig
Telephone: 01384 815075
Email: catherine.ludwig@dudley.gov.uk

Appendix 1

Proposed HRA Budget

	2013/14 current budget June 2013 £000	2013/14 proposed revised budget £000	2014/15 proposed original budget £000
Income			
Dwelling rents	-88,573	-89,296	-88,948
Non-dwelling rents	-696	-688	-738
Charges for services and facilities	-204	-243	-243
Contributions towards expenditure	-734	-1,071	-100
Interest on balances	-23	-33	-11
Total income	**-90,230**	**-91,331**	**-90,040**
Expenditure			
Responsive and cyclical repairs	24,491	23,661	24,073
Management	16,924	14,974	17,978
Negative Subsidy	0	0	0
Transfer to Major Repairs Reserve	21,812	21,893	22,279
Purchase of Properties	0	1,045	0
Interest payable	18,471	18,354	17,998
Revenue contribution to capital expenditure	13,960	13,960	9,712
Other expenditure	1,419	1,340	1,316
Total expenditure	**97,077**	**95,227**	**93,356**
Surplus/deficit for the year	**6,847**	**3,896**	**3,316**
Surplus brought forward	**-7,735**	**-7,735**	**-3,839**
Surplus carried forward	**-888**	**-3,839**	**-523**

Appendix 2

Proposed capital programme 2013/14 to 2018/19

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Adaptations	2,712	2,706	2,754	2,794	2,825	2,887
Central heating	3,124	4,049	4,745	4,133	4,179	4,272
Community Safety and Environmental Improvements	281	343	580	1,131	1,144	1,702
Electrical Installations	1,610	1,659	1,688	1,713	1,732	1,898
External Improvement Programme	8,989	9,241	9,405	9,543	9,648	9,864
Insulation	391	4,350	631	640	362	370
Minor Works	4,031	3,519	2,677	2,716	2,746	2,807
Internal Improvement Programme	3,472	2,407	2,992	3,036	3,069	3,138
New Council Housing	270	2,013	2,766	3,533	5,048	0
Tenants Association	61	81	82	84	85	86
Accommodation and Property	125	324	217	217	0	0
Sheltered Accommodation	0	270	814	0	0	0
Void Property Improvements	13,687	12,133	11,804	11,433	11,559	11,812
Grand Total	**38,753**	**43,095**	**41,155**	**40,973**	**42,397**	**38,836**

Resources

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Borrowing	0	0	0	0	0	0
Major repairs reserve	22,198	22,279	22,558	22,847	23,139	23,428
Revenue contribution to capital	13,960	9,712	10,893	11,797	12,914	9,353
Usable capital receipts	2,890	10,088	8,200	6,838	6,866	6,590
Less usable capital receipts transferred to support private sector housing capital	-472	-484	-496	-509	-522	-535
Other	177	1,500	0	0	0	0
Grand Total	**38,753**	**43,095**	**41,155**	**40,973**	**42,397**	**38,836**

Appendix 3

Detail of the proposed provisional five year housing capital programme 2014/15 to 2018/19

Adaptations

The programme continues to deliver improvements and adaptations to the Council owned homes of persons with disabilities, following referral from occupational therapists.

At current levels of referrals the budget would maintain existing waiting times and would provide around 425 larger adaptations (level access showers, stair lifts, vertical lifts ramps and a limited numbers of extensions and conversions) in each year. In addition the budget will provide for around 1,300 minor adaptations per annum for grab rails, handrails and the like.

The budget for adaptations to void properties is maintained at around £100,000 per annum and will also assist in reducing waiting times and make best use of adapting suitable available properties.

Total budget: £14m over the 5 years 2014/15 to 2018/19

Central Heating

Improving energy efficiency and reducing fuel poverty is a major priority for the Council, with the added benefit of also reducing carbon emissions and addressing climate change. The Central Heating programme delivers new and improved central heating systems to Council owned homes, providing modern efficient heating to unheated homes and replacing inefficient and costly systems to ensure heating is made as affordable as possible for tenants.

Budgetary provision has been made to provide heating for all tenants in unheated homes who wish to receive heating, and for installing heating in all unheated properties when they become empty. There are around 500 unheated homes in the borough despite encouraging residents in unheated homes to have central heating installed, and it is estimated that, due to continued tenant refusal, around 125 homes will remain unheated at the end of the five year programme.

The electric night storage heating replacement programme will continue replacing electric night storage heating with modern, efficient gas heating. Over the next two years Council resources will replace around 600 storage heating systems where homes already have a gas supply. Around 4,000 homes over the 5 years will also have a replacement boiler or system upgrade in a programme that will address the older more inefficient boilers and also install additional radiators to partially heated homes as part of this boiler and heating system upgrade programme. It will also deal with an estimated 600 gas boilers and systems that cannot be repaired when they break down.
Total budget: £21.4m over the 5 years 2014/15 to 2018/19

Community Safety & Environmental Improvements Programme

This programme continues the work commenced in previous years dealing with local environmental schemes and community safety schemes for improvements and refurbishment of Housing (HRA) assets.

The programme will continue to address local community and environment projects with around £250,000 investment each year. Provision is also made to address improvements to communal entrances in flatted developments following major improvements such as lift and communal lighting works. A further provision of £2m is made from 2016/17 to start to address wider estate based improvements.

Total budget: £4.9m over the 5 years 2014/15 to 2018/19

Electrical Installations

The budget will continue to address electrical works in domestic dwellings and communal areas.

The programme of periodic electrical inspections will continue with necessary electrical works being undertaken to ensure that electrical installations do not fail the Decent Homes Standard. A budget of around £250,000 per year is considered sufficient and is proposed to address necessary electrical works, although the majority of homes, including empty properties, will only require partial electrical rewires and upgrades.

The programme will also continue the rewiring of communal areas in high rise flats and emergency wiring in low rise flats (over 3 storey), with £2m investment over the five years.

Provision is also made to continue the programme of major upgrades and improvements to lifts in high rise flatted developments with over £3.5m of expenditure over the 5 years.

£1m budgetary provision is made over 5 years for a programme of door entry replacement and improvements in low rise flats

The remainder of the programme budget also targets investment in the planned replacement of specialist electrical systems that are beyond economic repair such as necessary improvements to fire alarm systems, lightning conductors; and ensuring warden call equipment purchased remains compatible with new Telecare technology to allow the provision of the essential Homecall service for vulnerable residents of the community.

Total budget: £8.7m over the 5 years 2014/15 to 2018/19

External Improvement Programme

The programme continues to address necessary improvements and planned maintenance to the external façade of Council owned homes, predominantly replacement windows and re-roofing.

Over the five years the budget will fund a £26.5m programme replacing an estimated 13,000 windows each year with modern double glazed windows, and £5.5m replacing external doors that are in significant need of replacement.

Over £3m each year is proposed to be invested in re-roofing homes to ensure that they remain sound and watertight. This work is either replacement of roof coverings such as tiles or slates and/or replacement and/or upgrade of the structural timbers as necessary. The budget will also continue work on a planned programme to replace flat roof coverings on flatted developments with modern energy efficient materials. The budget will also be used for planned improvement works associated with roofing such as fascias and soffits.

Total budget: £47.7m over the 5 years 2014/15 to 2018/19

Insulation & Energy Efficiency

The programme provides resources for measures of draught stripping, increased levels of loft insulation and other targeted carbon emission and energy efficiency programmes. Works will improve the SAP (Standard Assessment Procedure) rating of the housing stock (which measures how energy efficient the housing stock is) and improve fuel poverty by reducing energy bills.

This programme will be used where possible to match fund any Energy Service Providers' funding obligations received by Dudley under ECO (Energy Company Obligations). This delivers carbon saving schemes such as external wall insulation similar to the Community Energy Savings Programme (CESP) schemes already delivered. The match funding contribution is likely to deal with associated enabling and ancillary works not funded by energy companies such as canopies, gates and fencing where and if required.

A £4m scheme will commence in 2014, delivering external wall insulation and double glazing to up to 400 homes, with significant funding estimated at around £1.7m provided under ECO.

Over £1.5m has also been made to address external re-rendering with insulated materials from 2015/16 onwards.

Total budget: £6.4m over the 5 years 2013/14 to 2017/18 plus any additional energy related resources received from Energy Service Providers.

Internal Improvement Programme

This programme is proposed to continue internal improvements such as kitchen and bathroom replacements and plastering and replacement floors. The five year programme will mainly target maintaining the decent homes standard in kitchens and bathrooms and will therefore prioritise those properties where the kitchen and bathrooms fall into non-decency due to their age and where they are also in poor condition. Each year around 1,000 internal improvements will be carried out.

Total budget: £14.6m over the 5 years 2014/15 to 2018/19

Minor Works

This budget is used to deal with urgent repairs and health and safety issues that arise throughout the year.

Works already identified include dealing with:

- Repairs to common areas such as paving and paths;
- Dwelling related structural, subsidence and demolition works;
- Works that are required as a result of high rise structural inspections and periodic surveys to flatted developments (structural repairs, balconies);
- Works arising from Fire Risk Assessments to flatted developments;
- Refuse chute replacement to flatted developments.

Total budget: £14.5m over the 5 years 2014/15 to 2018/19

New Council Housing

£13.4m is proposed to deliver over 100 new council homes over the 4 year period to 2017/18.

Two schemes for 17 homes (14 for persons with learning disabilities) are already being progressed at the Walk, Sedgley and Norfolk Rd, Wollaston, part funded by a successful bid made to the Homes and Communities Agency (HCA)

Feasibility studies are under way for a number of other potential sites.

Total budget: £13.4m over 4 years 2014/15 to 2017/18

Tenants' Association

The budget is allocated in each of the five years to schemes identified by Tenants' and Residents' Associations, and prioritised by the Dudley Federation of Tenants' and Residents' Associations. Budgets are maintained at current levels which based on previous years is expected to fund around 40 projects each year.

Total budget: £418,000 over the 5 years 2014/15 to 2018/19

Void Property Improvements

This budget is used to fund improvement works to empty properties where the work is of a capital nature to ensure that they are re-let in a reasonable state of repair and have modern facilities for kitchens and bathrooms in accordance with the Decent Homes Standard.

£58.7m over 5 years will fund necessary improvements to homes when they become empty, dealing with asbestos, rewiring, kitchens, bathrooms, plastering and major re-plumbing.

Total budget: £58.7m over the 5 years 2014/15 to 2018/19

Accommodation and Property

£758,000 is proposed to undertake necessary roof and structural improvements over 3 years at the Leys depot, Brierley Hill.

Total budget: £758,000 over the 3 years 2014/15 to 2016/17

Sheltered Accommodation

A review is currently being undertaken of the borough's 11 sheltered accommodation schemes and whilst individual scheme proposals are yet to be developed a provision of around £1.1m is proposed over the next 2 years to start to address the outcomes from the review.

Total budget: £1.1m over the 2 years 2014/15 to 2015/16

Appendix 4

Medium Term Financial Strategy for Landlord Housing (MTFS(LH)) and Thirty Year Business Planning Strategy for Landlord Housing

Purpose

1. The Medium Term Financial Strategy for Landlord Housing (MTFS(LH)) has set out how the Council plans to balance spending pressures and available resources over the medium term, taking into account risks and uncertainties. It relates specifically to the Housing Revenue Account (HRA) and the capital programme for improvement of the Council's own housing stock.

2. The MTFS(LH) should be read in conjunction with the Council's overall Medium Term Financial Strategy (MTFS). The underlying principles set out in the overall document apply equally to the MTFS(LH).

3. In the context of the introduction of Self-Financing for public sector housing, the abolition of the HRA subsidy system, the increased autonomy and flexibility that housing authorities will have to manage their stock and, in Dudley's case, the increased debt taken on, a Thirty Year Business Plan is being developed. This will take into account issues including investment need, treasury management strategy, financial projections and tenants' engagement.

Background

4. The previous financial strategy for landlord housing focussed on the period up to 2010/11 and was determined through the Housing Stock Options Appraisal. This was a year-long consultation process involving a range of stakeholders and culminated in a decision by the Council in April 2005. The key elements of this financial strategy were:

   - delivery of the Government's Decent Homes Standard by 2010 and maintenance of that standard in later years;
   - support to the aims of the Council Plan - promoting strong, caring communities through the provision of decent housing in a safe and clean environment;
   - identifying ongoing savings and efficiency gains, through the use of partnerships where appropriate;
   - the prudent management of reserves and other balances;
   - compliance with government policy on rent restructuring;
   - honouring the outcome of the Housing Stock Options Appraisal and the view of the majority of tenants and other stakeholders that the housing stock should remain under direct council control.

5. This strategy showed that, on the basis of financial trends and government policy known at the time, it would be possible to deliver the Decent Homes Standard and other priorities for council housing by 2010, and this was achieved on time.

6. The new financial strategy for landlord housing takes into account the delivery of the Decent Homes Standard and the new opportunities and challenges arising from the introduction of the self-financing system. This is the subject of an ongoing consultation process that includes tenants and residents. The key elements of this new financial strategy, which will cover a rolling five year period, are:

- maintain the Decent Homes Standard;
- Improve the energy efficiency of the housing stock and address fuel poverty;
- invest in housing stock and minimise the number of void properties;
- review the suitability of the housing stock and explore the feasibility of new build to increase stock and / or replace properties that are in poor condition or that do not meet modern requirements;
- support the aims of the Council Plan - promoting strong, caring communities through the provision of decent housing in a safe and clean environment;
- identify ongoing savings and efficiency gains, through the use of partnerships where appropriate;
- continue to undertake prudent management of reserves and other balances;
- have regard to government rent policy for social housing.

<u>The proposed budget 2014/15 and the MTFS(LH)</u>

7. The Decent Homes Standard was delivered by the end of 2010. Resources remain to be required to maintain this standard, and deal with properties where the age of the fittings mean that a replacement is required, and non-decent properties as they become void. The rolling five-year capital programme includes resources to maintain the Decent Homes Standard.

8. A new stock condition survey was commissioned and undertaken during late 2013 to validate and support existing stock investment information. The detailed output of this is being evaluated, but has initially identified a five year investment need to 2018/19 of circa £200m and a 30 year capital investment of circa £750m. In addition there is an estimated demand for around £600m over 30 years required to address ongoing responsive repairs, statutory servicing (e.g. gas appliances) and cyclical maintenance. Further work is planned to be undertaken to develop more detailed 5 and 30 year financial plans that will also consider the financial implications and need delivering other wider housing issues in addition to basic stock ‘bricks and mortar‘ investment such as new build housing, conversions, adapting properties for vulnerable persons and persons with disabilities and estate based improvements to ensure sustainable communities are maintained together with other contingent major repairs. This is planned to be undertaken during 2014/15.

9. This forecast has been based on recent financial trends and our current assessment of the Government’s housing finance policy and, like any forecast, should be regarded with caution (risks to the forecast are considered later). In view of our commitment to stock retention and maintenance of the Decent

Homes Standard, it is proposed that we continue when necessary to give consideration to the following:

- ongoing review of spending and resource forecasts;
- further efficiency and other savings, including those achievable from use of partnerships;
- addition to and replacement of the housing stock via new build programmes;
- the level of housing debt;
- service charges[2].

10. The volume of responsive repairs has generally decreased since the back-log of routine repairs was eliminated over the past few years. The increase in capital investment over the last few years together with efficiencies in the way repairs and capital works are delivered have resulted in significant cost savings.

11. A proposed rolling five-year capital programme has been developed as a continuation of the existing programme to maintain current standards and improvements following the achievement of the Decent Homes standard.

12. Resources have been identified to start a new build programme, with £13.4m identified up to 2017/18 which is the point at which the Council is required to have delivered Right to Buy replacement at current government requirements. This is currently forecast to be £3.3m expenditure by March 2016 and a further £5m by March 2017. If government rules continue as they are currently (which it is likely that they will for this year at least) then assuming similar levels of sales the Council would need a further £5m of new build by end March 2018.

13. The table below summarises the 30 year financial business plan (based on the PriceWaterhouse Coopers self-financing 30 year model and detailed in the HRA Estimates 2014-15 detailed 30 year financial plan). This is updated annually and will take into account changes in policy. It reflects our current approach of stock retention, maintenance of the Decent Homes Standard, investment in the maintenance and improvement of our stock, and regard to national rent policy.

[2] Government subsidy calculations assume charges over and above the rent for special services to flats and for supported housing – the HRA is financially disadvantaged as a result of not applying these charges.

	Years 1-5	Years 6-10	Years 11-15	Years 16-20	Years 21-25	Years 26-30
	£m	£m	£m	£m	£m	£m
Income						
Dwelling rents	-461,132	-512,517	-579,865	-656,065	-742,277	-839,818
Other	-6,439	-5,874	-6,298	-6,766	-7,283	-7,854
Total Income	-467,571	-518,390	-586,163	-662,831	-749,560	-847,672
Expenditure						
Management and maintenance (net of retained surpluses	204,198	231,067	256,336	282,484	311,454	343,081
Depreciation and transfer to Major Repairs Reserve	112,715	121,920	134,610	148,620	164,089	181,167
Revenue Contributions to Capital / Debt Repayment	60,321	75,452	105,266	141,774	184,065	233,472
Interest Payments	90,336	89,952	89,952	89,952	89,952	89,952
Total Expenditure	467,571	518,391	586,163	662,830	749,559	847,672
Balance	0	0	0	0	0	0

<u>Risks to the financial forecast</u>

11. The main risks to the financial forecast are considered below:

Risk	Impact
Inflation higher than forecast	While increased inflation has an impact on costs, in the case of the HRA, it also affects resources, through the rent increase applied. If cost inflation is lower than general inflation as used to determine the rent increase, this will have a positive budgetary impact. However, if cost inflation is higher than general inflation as used to determine the rent increase, this will have a negative budgetary impact.
Income levels not achieved	<u>Rent loss from void properties</u> We have seen over recent years an increase in void properties owing mainly to greater tenant mobility and this has resulted in an increased rent loss of up to 3% of total rent available, although this is now starting to reduce as the impact of recent investment in void property works is beginning to have an effect. We are however seeing an increase in the number of hard-to-let properties, for instance two-

	bedroom high rise flats and some three-bedroom houses. We have allowed in our forecasts for a rent loss of 2.7% of total rent available. The cost for each 1% void loss is around £1m per annum. . <u>Rent loss from non-payment of arrears</u> As part of the Government's proposed welfare reforms, it is proposed that many tenants will from 2013-14 onwards start to receive Universal Credit direct and will therefore be responsible for paying their own rent. Currently, tenants in receipt of benefit have their rent paid as a transfer from Benefits. This is likely to lead to an increase in arrears and potentially in bad debts. Around 2,700 tenants of working age in receipt of benefits were also affected by benefit restrictions from April 2013 as they were deemed to be under-occupying their property. We estimate that around £2m rent, which was previously paid directly via Benefits, will now be collectable from tenants as a result of the new underoccupancy rules. We have seen an increase in arrears during 2013/14, and are currently projecting that arrears for current tenants will be in the region of £1.7m, compared to £1.2m in the previous year. The impact of Universal Credit on rent collection rates is difficult to assess at this stage, but initial estimates from the pilot projects suggest that the collection rate may fall from the current 98% to 80% - 90%. The management cost of collecting rents is also expected to rise as more payments are made direct by tenants rather than via transfer from the Benefits system. There have been a number of delays to the Universal Credit programme, with only a small number of claimants, none of whom currently

	have housing needs, having been transferred to the new system. At the moment the timescales for transfer of more claimants, including those with housing needs, remains uncertain, as does the government’s approach to the ICT systems that will be adopted when Universal Credit is rolled out more widely than the current pilot schemes.
Change in rent policy	In previous years, we have followed the national rent formula, which allows for a rent increase of September RPI plus 0.5%, plus a further increase to achieve “convergence” i.e. bringing council house rents in line with other social landlord rents. A rent increase of less than the national formula – as we are proposing for this year - means that our annual resources for management, maintenance, interest payments and improvement / new build works will be lower than originally forecast. We have carefully considered the impact of the lower rent increase both on the 2014/15 and on future years’ budgets and are confident that this s affordable in the context of our longer term financial planning. This will also benefit our tenants, particularly those who are working and not eligible for full housing benefit. The government has also recently consulted on proposed changes to the national formula, involving a maximum increase of September CPI plus 1%, the ending of “convergence” from 2014/15 i.e. one year early, and more flexibility for social landlords around charging market rents for more affluent tenants. It is expected that the move from RPI plus 0.5% to CPI plus 1% will be broadly neutral. The ending of “convergence” early would have resulted in a loss of around £1m in rental income in 2015/16. However, the decision to increase rents in 2014/15 by only 1.5% effectively supersedes this, and as noted above we have carefully considered the longer-term affordability of our proposed rent increase.

	Recent government guidance on the proposed changes to social rent policy make it clear that while housing associations are expected to comply with the policy, housing authorities are expected to have regard to it.
Interest rates higher than forecast	Our debt on housing properties is around £467m following the introduction of self-financing. Hence, interest rate risk is much more significant than it was under the subsidy system. Risk will be mitigated by borrowing at fixed rates and spreading repayment dates to minimise refinancing risk.
Reduction in property values in the borough	Any reduction in property values will reduce the value of usable capital receipts.
Reduction in land sales and capital receipts	We have seen as a result of the general economic situation a diminution in the value received for sale of housing land. We also expect that with a new council house building programme we are likely to be disposing of fewer housing sites. A specific risk applies in relation to £700k of the anticipated receipt for North Priory which is payable as Kickstart grant by the Homes and Communities Agency (HCA) to our developer partners on the successful completion of Phase 1 of the project. This will then be passed on to the Council. We are actively monitoring our developer partners’ progress in claiming this grant.
Reinvigoration of Right to Buy	The Government has increased the cap on Right to Buy (RTB) discount from £26,000 to £75,000 per property, and in future years this will increase by inflation annually. The maximum discount for houses will also be increased during 2014/15 from 60% to 70%. The changes have already resulted in increased sales during the last quarter of 2012/13 and in 2013/14. However, because the value of the maximum discount has increased and there has been a reduction in the average value of the properties sold, increased sales will not necessarily result in a proportionally greater value of capital receipt income.

	New regulations have replaced the capital receipts pooling arrangements and require councils to build replacement homes for all extra homes sold under Right to Buy. 2014/15 is the last year of the current arrangements, under which councils are required to contribute a share of Right to Buy capital receipts to the Treasury. As yet, we have had no guidance on proposed arrangements from 2015/16 onwards. There is a risk to future new build investment, should funding arrangements change to our disadvantage.
Suitability of stock	Some of our stock is old and nor particularly suited to modern styles of living. In addition, changes to the benefit system mean that some of our properties are less attractive than they were previously (e.g. two-bed high rise flats or three-bed maisonettes). We are already experiencing difficulty in letting such properties, which will lead to a loss in rental income and also potentially an increase in security costs and an increase in anti-social behaviour.
Availability of borrowing	The HRA is currently at the government's borrowing cap, so all capital expenditure on housing stock must be funded from annual revenue (mainly dwelling rent income) or capital receipts from house or land sales. Our strategy is to invest our annual rental income into maintaining and improving our stock, and building new homes as resources permit. In the short to medium term we are not planning to repay any debt, as our priority is improving and extending our stock. However, this restricts the size of any redevelopment / new build scheme as we are not able under current rules to borrow on the strength of future rental income. The government has announced that it will allow housing authorities to exceed their borrowing cap in order to undertake new housing developments. At this stage, we are awaiting detailed guidance before making any decisions on whether or not to pursue this option. Additional borrowing is likely to be agreed following a bidding process, working with Local Enterprise Partnerships, and the total increase in borrowing is likely to be around

	£300m.
Unforeseen costs or costs greater than estimated	Any unbudgeted costs would have to be met from economies or reductions in planned spending in the year in which they arise or from any balances available in that year. Calculations indicate that any costs to the HRA arising from Single Status can be met within proposed budgets. We anticipate that any Equal Pay settlement costs would be capitalised through a government dispensation.

Prudential indicators

12. The Local Government Act 2003 introduced a system of "prudential borrowing" which allows councils to set their own borrowing limits subject to criteria of prudence and affordability. These criteria are set out in more detail in the CIPFA Prudential Code which specifically requires us to set a number of prudential indicators. The full range of prudential indicators are to be set as part of another report on this agenda. Those indicators that relate to HRA capital expenditure are set out below:

	Latest budget 2013/14	**Forecast 2014/15**	**Forecast 2015/16**	**Forecast 2016/17**
Ratio of financing costs to net revenue stream: HRA	20.1%	20.0%	19.3%	18.8%
Estimated incremental impact of capital investment decisions on HRA weekly rents	N/A	N/A	N/A	N/A
Capital expenditure: HRA	£38.8m	£43.1m	£41.2m	£41.0m
Capital Financing Requirement: HRA	£467.1m	£467.1m	£467.1m	£467.1m

13. The ratio of financing costs to net revenue stream shows the costs of servicing housing debt as a percentage of total HRA income. This is a measure of the affordability of debt.

14. The forecast debt charges resulting from anticipated borrowing are fully reflected in the Housing Revenue Account budget at Appendix 1 of the report. There are currently no proposals to undertake new borrowing as this is not possible within the limits imposed on the HRA CFR as part of self-financing.

15. The HRA Capital Financing Requirement is a measure of the share of the Council's overall portfolio of debt and investments that results from public sector housing capital expenditure. The limit on the HRA CFR imposed on implementation of self-financing is £467.1m.

Partnerships

16. Housing Services is continuing to deliver on its partnership working and currently has a number of such arrangements, for example:

- Funding partnerships with energy service providers to increase resources under the Government's ECO (Energy Company Obligations) - which replaced CESP from spring 2013 - to deliver energy efficient whole house measures to combat climate change and CO2 emissions in Council Homes.
- Strategic partnerships that are being delivered in accordance with the principles of Sir John Egan's report 'Rethinking Construction'. Through innovative payment mechanisms, incentivising good performance and modern methods of collaborative working, partnerships are delivering improved services at a measurably lower cost and have allowed valuable and limited resources to be re-invested in the housing stock (eg gas servicing, maintenance and repairs).
- A strategic partner is also planned to assist in the delivery of new build homes .

17. Procurement consortia and other partnership arrangements will also continue to be used where appropriate, forming partnerships with established bodies to deliver procurement efficiencies.