Meeting of the Council – 23rd February, 2015

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

Report of the Cabinet

Purpose of Report

1. The purpose of this report is to consider the proposals of the Cabinet regarding:

- the Housing Revenue Account (HRA) budget for 2015/16 in the light of the latest government announcements on housing finance and our latest spending and resource assumptions.
- a revised HRA budget for 2014/15.
- a revised capital expenditure budget for the improvement and programmed maintenance of the Council's housing stock for 2015/16 to 2018/19 and set a new budget for 2019/20.
- a revised capital expenditure budget for the improvement and programmed maintenance of the Council's housing stock for 2014/15.
- 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. The costs of improvement and programmed maintenance of the Council's housing stock are treated as capital expenditure and are accounted for separately.

3. A report containing the information below was submitted to the meeting of the Cabinet held on 11th February, 2015. The decisions of the Cabinet, in relation to paragraphs 4 to 14 and paragraph 27 below, were made under delegated powers as indicated in those paragraphs. The remaining issues require determination by the Council.

Rent increase

4. The self-financing system introduced in April 2012 for Housing assumed that rent increases would be in line with government guidance at the time relating to social housing rents. The Cabinet resolved that the next rent year will start on 6th April, 2015 and that there will be no increase to current rent levels. The report to the Cabinet indicated that the proposal on this had been considered carefully in the light of future affordability, the continuing financial viability of the HRA and the impact on our tenants.

5. Officers met with the interim Housing Board on 26th November, 2014 and 15th January, 2015 and with the Board of the Dudley Federation of Tenants' and Residents' Associations (DFTRA) on 13th January, 2015 to discuss proposals for rent levels in 2015/16 and the priorities in the HRA budget, including the capital programme.

6. 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. The Cabinet resolved that service charges for furniture be increased by 1.2% 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 currently taking place.

7. 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. The Cabinet resolved that these charges be increased by 1.2% to reflect general inflation.

8. 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. The Cabinet resolved that all of these charges be increased by 1.2% in line with inflation.

9. 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). The Cabinet resolved that charges be increased from £2.20 to £2.30 per token.

10. The Cabinet resolved that pitch licences at Oak Lane be maintained at their current level, in line with general rents, and that weekly charging for water be increased by 1.2% to £6.32 per week.

11. The Council currently charges an administration fee of £2 per week to its leaseholders, to cover the costs of managing the properties. The Cabinet resolved to make no increase in the overall level of the fee as this currently covers the cost of the service.

12. The Cabinet resolved that the charge of £50 (plus VAT) per leasehold information pack, introduced from 1st January, 2015 to cover the costs of compiling information relating to the sale of council flats, be maintained at the current level.

13. The Council currently charges private residents who are in receipt of Telecare services (provision of an alarm service, and also stand alone equipment such as pill dispensing service and GPS tracking watches) £13.00 per month, and also charges Housing Association tenants varying amounts for this service. The Cabinet resolved to increase these charges by 1.2% to £13.10 per month from 1st April, 2015. Income generated will be used to increase investment in and development of the service.

Garage rents, garage plots and access agreements

14. It was agreed by the Cabinet in February 2008 that inflationary increases for garages, garage plots and access agreements be made every three years, with the next increase to take effect from 2017/18. The Cabinet therefore resolved that these rents and charges remain at current levels for 2015/16.

Proposed HRA budget 2015/16

15. The proposed HRA budget for 2015/16 (together with a proposed revised budget for 2014/15) 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.

16. The current budget for 2014/15 (approved by the Cabinet in October, 2014) shows a surplus on the HRA of £2.835m at 31st March, 2015. The proposed revised budget for 2014/15 shows a surplus at the same date of £0.074m. This variance reflects the redirection of additional savings on running costs and of general balances to support an increased Revenue Contribution to Capital Expenditure in 2014/15. This will support the capital programme and facilitate a planned acceleration of spending on major improvement works for existing stock. The balance of unapplied capital receipts will remain to support the planned new build programme and other major improvement works in future years. The revised budget also includes £0.170m in relation to transfers of land between the General Fund and the HRA, relating to Griffin Street, Holloway Hall Chambers and the former archives at Mount Pleasant (Roseville).

17. The proposed HRA budget for 2015/16 takes account of the proposed rent freeze on the 6th April, 2015 (paragraph 4).

18. The proposed HRA budget for 2015/16 includes a budget for housing management of £16.1m. This covers the day to day management of properties including income collection, tenancy enforcement, support for vulnerable tenants and lettings and void management.

19. The proposed HRA budget for 2015/16 includes a budget for repairs and maintenance of £25.4m. This reflects:
    - Undertaking responsive repairs and routine void works;
    - 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.

20. The proposed HRA budget for 2015/16 includes a budget for interest payments of £17.8m. This covers the payments that are due on the debt taken on as part of the self-financing settlement and additional borrowing under the Local Growth Fund.

<u>Public sector housing capital budget 2015/16 to 2019/20</u>

21. 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 proposed £211m public sector capital budget for 2015/16 to 2019/20 and a revised budget for 2014/15 are attached as **Appendix 2.** Explanations of the budgets are attached as **Appendix 3**.

22. The proposed £211m rolling five year capital investment programme 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 October 2014. The impact of a rent freeze for 2015/16 as outlined in paragraph 4 has been addressed predominantly through slowing down existing investment programmes, although 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 fuel poverty, energy efficiency and combating climate change;
    - Providing investment at affordable levels for communal facilities such as high rise lift replacement, community safety and environmental programmes, and social care programmes such as providing adaptations for persons with disabilities
    - Providing new social housing homes within the borough
    - Investing in empty homes to ensure that as many of the Council's homes as possible are available for occupation.

23. Whilst the detail of the proposed programmes is included within **Appendix 3,** notable stock investment over the five year period from 2015/16 to 2019/20 is as follows:

- Continued investment in Adaptations for persons with disabilities with £13.4m 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;
- £17.1m investment over 5 years improving the efficiency of central heating and providing more affordable heating in 4,675 homes, helping to reduce fuel poverty;
- £6.7m investment in electrical installations, including £2.9m on upgrading high rise lifts;
- £23.3m 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;
- £14.9m on replacement roofs;
- £4.7m on community improvements on estates;
- £11.2m over 5 years on 3,500 internal improvements such as plastering, replacement floors and kitchens and bathrooms;
- Undertaking £61.7m of improvements in empty properties to ensure that they can be re-let;
- £38.8m will continue to provide new council housing;
- £0.8m is also proposed to undertake necessary improvements over 3 years at the Leys Depot, Brierley Hill.

24. Approval is sought to continue discussions with government agencies such as the Homes and Communities Agency (HCA), Energy Service Providers and similar organisations and to bid for, enter into negotiations and / or seek tenders as appropriate to progress increasing resources to supplement the housing capital programme. This may be used, for example, to progress carbon saving and / or power generating schemes to improve fuel poverty across the borough. Resources may be sought under the Energy Company Obligations (ECO) or Renewable Heat Incentives (RHI) or any other energy based funding initiatives.

25. It is proposed that any additional resources obtained under paragraph 24 be added to the Capital Programme accordingly and the Strategic Director (Resources and Transformation) and the Strategic Director (Environment, Economy and Housing) be authorised to enter into any such grant or funding agreements that are necessary to deliver the schemes.

26. To ensure effective utilisation of all resources that become available, the Cabinet authorised the Strategic Director (Environment, Economy and Housing), in consultation with the Cabinet Member for Housing and Community Safety, 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, the Cabinet resolved to recommend the Council to confirm that all capital receipts

arising from the sale of HRA assets (other than those specifically committed to support private sector housing grants) continue to be used for the improvement of council homes.

27. To facilitate implementation of the programme, the Cabinet authorised the Strategic Director (Environment, Economy and Housing) to prepare specifications and undertake procurement in accordance with Standing Orders and Financial Regulations. The Cabinet also authorised the Strategic Director (Environment, Economy and Housing) to enter into and award contracts on their behalf.

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

28. With the abolition of the HRA Subsidy system and the introduction of self-financing for housing authorities from April 2012, 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.

29. 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

30. 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, 2016. 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, 2016 and therefore complies with the requirements of the Act.

Law

31. 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

32. 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

33. It is recommended that the Council:

a) approve the revised HRA budget for 2014/15 and the HRA budget for 2015/16 outlined in Appendix 1;

b) approve the public sector housing revised capital budget for 2014/15 and the capital budget for 2015/16 to 2019/20 attached as Appendix 2;

c) authorise the Strategic Director (Environment, Economy and Housing) and the Strategic Director (Resources and Transformation) to bid for and enter into funding arrangements for additional resources to supplement investment in the public sector housing stock as outlined in paragraphs 24 and 25 and approve that expenditure funded from such resources be added to the Capital Programme;

d) authorise the Strategic Director (Environment, Economy and Housing), in consultation with the Cabinet Member for Housing and Community Safety, to manage and allocate resources to the capital programme as outlined in paragraph 26;

e) confirm that all capital receipts arising from the sale of HRA assets (other than those specifically committed to support private sector housing) continue to be used for the improvement of council homes (paragraph 26);

f) endorse the HRA medium term financial strategy and thirty year business plan attached as Appendix 4.

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Leader of the Council

Appendix 1

Proposed HRA Budget

	2014/15 current budget Oct 2014 £000	2014/15 proposed revised budget £000	2015/16 proposed original budget £000
Income			
Dwelling rents	-89,892	-89,946	-89,281
Non-dwelling rents	-728	-728	-733
Charges for services and facilities	-245	-244	-244
Contributions towards expenditure	-225	-250	-300
Interest on balances	-20	-14	-1
Total income	**-91,110**	**-91,182**	**-90,559**
Expenditure			
Responsive and cyclical repairs	25,173	25,173	25,371
Management	15,278	14,933	16,128
Transfer to Major Repairs Reserve	22,176	22,176	22,457
Acquisition / Disposal of Land / Properties	0	170	0
Interest payable	17,760	17,760	17,764
Revenue contribution to capital expenditure	11,812	14,830	7,150
Discretionary Housing Payments	375	375	375
Other expenditure	1,314	1,304	1,248
Total expenditure	**93,888**	**96,721**	**90,493**
Surplus/deficit for the year	**2,778**	**5,539**	**-66**
Surplus brought forward	**-5,613**	**-5,613**	**-74**
Surplus carried forward	**-2,835**	**-74**	**-140**

Appendix 2

Proposed capital programme 2014/15 to 2019/20

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Adaptations	2,713	2,739	2,617	2,666	2,676	2,684
Central heating	4,031	4,093	3,205	3,264	3,277	3,286
Community Improvements	275	577	481	490	492	2,629
Electrical Installations	1,648	1,539	1,143	1,164	1,497	1,336
External Improvement Programme	8,758	9,321	6,890	7,626	7,660	6,805
Insulation	3,935	577	353	359	360	526
Minor Works	3,720	3,875	3,646	4,809	3,164	2,892
Internal Improvement Programme	3,429	2,414	2,170	2,211	2,220	2,191
New Council Housing	1,818	8,028	16,566	4,570	5,462	4,163
Tenants Association	66	62	62	64	64	65
Accommodation and Property	0	107	214	490	0	0
Void Property Improvements	12,891	13,482	11,863	12,065	12,124	12,159
Efficiency Saving	0	-375	-405	-405	-405	-405
Grand Total	**43,284**	**46,439**	**48,805**	**39,373**	**38,591**	**38,331**

Resources

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Borrowing	0	1,500	4,700	0	0	0
Major repairs reserve	22,319	22,457	22,744	23,029	23,475	23,804
Revenue contribution to capital	15,080	7,150	9,700	10,505	10,870	11,201
Usable capital receipts	4,869	15,162	12,170	6,361	4,781	3,872
Less usable capital receipts transferred to support private sector housing capital	-484	-496	-509	-522	-535	-546
Other (grants)	1,500	666	0	0	0	0
Grand Total	**43,284**	**46,439**	**48,805**	**39,373**	**38,591**	**38,331**

Appendix 3

Detail of the proposed provisional five year housing capital programme 2015/16 to 2019/20

Adaptations

At current levels of referrals the budget would maintain existing waiting times and would provide around 400 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.

£13.4m over 5 years

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 homes is as affordable as possible for tenants.

Around 4,300 homes over the 5 years will have a replacement boiler or system upgrade. An estimated 3,800 of these will be addressed in a programme that will replace older, more inefficient boilers and also install additional radiators to partially heated homes and the budget will also deal with an estimated 700 gas boilers and systems that cannot be repaired when they break down.

The electric night storage heating replacement programme for houses that already have a gas supply will be completed by the end of 2014/15, but there will be around 178 homes left that have refused gas heating and over 400 houses that do not have a gas supply. One-off storage heating systems that require replacement, or previous refusals, will be replaced with a modern gas system where possible.

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. Despite encouraging residents in unheated homes to have central heating installed, there are expected to be around 450 unheated homes in the borough at the end of March 2015 and it is estimated that due to continued tenant refusal around 75 homes will remain unheated at the end of the five year programme.

£17.1m over 5 years

Community Improvements

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 safety and environmental projects with around £400,000 investment each year prioritised in consultation with the Housing Board.

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 in 2019/20 to address wider estate based improvements.

£4.7m over 5 years

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. Around £1.2m 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 with a £1.2m programme rewiring of communal areas in high and low rise flats and emergency wiring in low rise flats (over 3 stories).

Provision is also made to continue the programme of major upgrades and improvements to lifts in high rise flatted developments at Chapel St, with £2.9m of expenditure over the 5 years.

Over £1.4m budgetary provision is made over 5 years to continue a programme of door entry replacement and improvements in low rise flats, and upgrades to warden call equipment to allow the provision of the essential Homecall service for vulnerable residents of the community.

£6.7m over 5 years

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 £22m programme replacing an estimated 10,000 windows each year with modern double glazed windows, and £1.3m replacing external doors that are in significant need of replacement.

Over 5 years £15m 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.

£38.3m over 5 years

Insulation and Energy Efficiency

The programme predominantly 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.

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

This programme will be supplemented by any Government agency or Energy Service Providers' funding that can be secured by Dudley under ECO (Energy Company Obligations) or other such 'green deal' opportunities.

Total budget: £2.2m over the 5 years 2015/16 to 2019/20, plus any additional energy related resources received.

Internal Improvements

This programme is proposed to continue to address necessary internal improvements to homes, prioritising those properties where the kitchen and bathrooms fall into non-decency due to their age and where they are also in poor condition. Necessary re-plastering and replacement floors will also be undertaken. Each year around 700 internal improvements will be carried out.

£11.2m over 5 years

Minor Works

This budget is used to deal with structural and urgent repairs, and health and safety issues that arise throughout the year. Works already identified include dealing with:

- Works arising from Fire Risk Assessments to flatted developments, with a programme commencing of upgrading fire doors to low rise flats;
- 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);
- Refuse chute replacement to flatted developments.
- Improvements to sheltered accommodation

£18.4m over 5 years

New Build

October 29th Cabinet approved £40.6m expenditure on a number of new build schemes and the capital programme remains unchanged. Schemes already commenced and on site include:
- Norfolk Rd, Wollaston and The Walk, Sedgley (14 apartments suitable for persons with livening disabilities and 3 two bedroom houses) ,
- The conversion of the former Wrens Nest Estate Office into 2 1 bedroom apartments
- The conversion of Holloway Chambers, Dudley into 2 1 bedroom town centre apartments.

Planning permission has been applied for the conversion of Arcal Lodge Sedgley into 8 bungalows and 6 apartments, and for the conversion of the former archives at Roseville into 15 two storey houses / apartments and a new build 3 bedroom detached house, with works due to commence in 2015.

Feasibility and design work is ongoing for other projects, notably:
- the former Guest Hospital, Dudley
- Middlepark Road, Russells Hall;
- a number of smaller housing infill and garage sites across the borough including the redevelopment of 14 to 24 Beech Road, Kingswinford

£38.8m over 5 years, based on estimated capital receipts

Tenant and Residents' Association

The budget is allocated in each of the five years to community improvement schemes identified by Tenants' and Residents' Associations, and prioritised in consultation with the Dudley Federation of Tenants' and Residents' Associations. Budgets are expected to fund around 40 projects each year.

£0.3m over 5 years

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.

£61.7m over 5 years

Accommodation and Property

A provision of £810,000 over 3 years is proposed to undertake necessary roof and structural improvements at the Leys Depot, Brierley Hill. Whilst the extent and nature of the works is yet to be fully ascertained, most expenditure is planned in 2017/18.

£0.8m provision over 3 years

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.

The proposed budget 2015/16 and the MTFS(LH)

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 ongoing to develop a 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. .

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[1].

10. The volume of responsive repairs has generally decreased since the back-log of routine repairs was eliminated in recent 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 continue the new council house programme, with £40.6m identified up to 2019/20 from estimated Right to Buy One for One replacement capital receipts, Local Growth Fund approved borrowing and HRA resources. Right to Buy expenditure targets forecast £3.3m expenditure by March 2016, a further £7.4m by March 2017 and £5.4m by March 2018. Resources have been allocated to future years assuming that government rules will continue as they are currently. Local Growth Fund schemes are to be committed to new housing by March 2017.

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.

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[1] 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	-461,182	-506,049	-558,719	-616,871	-681,075	-751,962
Other	-6,508	-7,011	-7,741	-8,546	-9,436	-10,418
Total Income	-467,690	-513,060	-566,460	-625,417	-690,511	-762,380
Expenditure						
Management and maintenance (net of retained surpluses)	213,945	233,290	257,325	284,267	313,835	346,610
Depreciation and transfer to Major Repairs Reserve	115,487	126,317	139,464	153,980	170,006	187,700
Revenue Contributions to Capital / Debt Repayment	48,576	61,400	76,300	93,800	113,300	134,700
Interest Payments	89,682	92,052	93,370	93,370	93,370	93,370
Total Expenditure	467,690	513,060	566,459	625,417	690,511	762,380
Balance	0	0	0	0	0	0

Risks to the financial forecast

14. 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 in future 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 2,600 tenants of working age in receipt of benefits have already been affected by benefit restrictions from April 2013 as they were deemed to be under-occupying their property. We estimate that around £1.8m rent, which was previously paid directly via Benefits, is now being collected from tenants as a result of the new underoccupancy rules. We have seen an increase in arrears during 2013/14 and 2014/15. 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, very few of whom currently have housing needs, having been transferred to the new system. Dudley is in the first tranche of the next roll-out of Universal Credit to new, single claimants nationally, starting in March 2015. This will include claimants with housing needs, but as yet will not include any existing claimants, couples or families. It is therefore expected that numbers will be fairly low at least for the first few months. At the moment the timescale for transfer of more claimants 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	The national formula setting / advising the maximum rent increase for social landlords is now September CPI plus 1%. "Convergence" has also ended from 2014/15 i.e. one year early, and more flexibility is available for social landlords around charging market rents for more affluent tenants. 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 proposed rent freeze both on the 2015/16 and on future years' budgets and are confident that this is 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.

	Recent government guidance on the changes to social rent policy makes 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 £464m 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 £77,000 per property, and in future years this will continue to increase by inflation annually. The maximum discount for houses has also been 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. We are starting to see from the autumn of 2014 a slowing down of Right to Buy completions, which may be connected to the more stringent rules that mortgage lenders are applying. As yet, it is to early to tell whether this will continue. 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. The current arrangements apply up to and including 2016/17.There is a risk to future new build investment should funding arrangements change to our disadvantage from 2017/18.
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. We have been successful in our bid under the Local Growth Fund to increase our borrowing cap

	by £1.5m in 2015/16 and a further £4.7m in 2016/17, which will contribute to our new build programme. However, this has set us another challenging target for new build and, like the Right to Buy replacement target, also requires a contribution from other HRA resources.
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

15. 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 2014/15	**Forecast 2015/16**	**Forecast 2016/17**	**Forecast 2017/18**
Ratio of financing costs to net revenue stream: HRA	43.8%	44.4%	44.2%	43.9%
Estimated incremental impact of capital investment decisions on HRA weekly rents	N/A	N/A	N/A	N/A
Capital expenditure: HRA	£43.3m	£46.4m	£48.8m	£39.4m
Capital Financing Requirement: HRA	£464.1m	£465.6m	£470.3m	£470.3m

16. 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.

17. The forecast debt charges resulting from anticipated borrowing are fully reflected in the Housing Revenue Account budget at Appendix 1 of the report.

18. 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 £464.1m. Additional borrowing under the Local Growth Fund is available in 2015/6 and 2016/17 and this will increase the HRA CFR limit. The debt charges resulting from this new borrowing will be funded by the rental stream from the additional homes provided.

Partnerships

19. 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 (e.g. gas servicing, maintenance and repairs).
- A strategic partner is also planned to assist in the delivery of new build homes and procurement work has commenced.

20. Procurement consortia (e.g. the LHC Framework) and other partnership arrangements will also continue to be used where appropriate, forming partnerships with established bodies to deliver procurement efficiencies.