

## **Meeting of the Council – 26<sup>th</sup> February, 2007**

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

#### **Report of the Cabinet**

#### **Purpose of Report**

1. To consider the proposals of the Cabinet:
  - To set the Housing Revenue Account (HRA) budget for 2007/8 in the light of the latest government determinations for housing finance and the latest spending and resource assumptions (taking account of the decisions made by the Cabinet under delegated powers).
  - To set a capital expenditure budget for the improvement and programmed maintenance of the Council's housing stock in 2007/8, 2008/9, 2009/10 and 2010/11.
  - To review the medium-term financial strategy for the HRA and Public Sector Housing Capital.

#### **Background**

2. The HRA is a "ring-fenced" revenue account and deals with landlord functions associated with public sector housing<sup>1</sup>. 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. In December 2000 the Government issued a new *Guide to Social Rent Reforms*. This guidance set out a method of restructuring to remove unjustifiable differences between Council rents and the rents of registered social landlords (RSLs) over a period of ten years. Our last five rent increases were calculated using the formula in the guidance and were as follows:

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<sup>1</sup> The Housing General Fund deals with private sector issues, such as renovation grants and general housing advice. The separation of expenditure and income between the HRA and the General Fund complies with government guidance.

- October 2002, average increase £1.65.
  - October 2003, average increase £1.58.
  - October 2004, average increase £2.00.
  - November 2005, average increase £2.11.
  - August 2006, average increase £2.71
4. Rent restructuring is supported by the Government's subsidy system which assumes that Councils apply the formula rent increase in April and that the additional income is available to pay into a national pool. Up until 2005, Dudley did not actually increase its rents until the Autumn. It followed that for the first part of every year, the value of rent increases was paid into the national pool without the cost being passed on to tenants. Moving rent increases into line with the Government's timetable increases the resources available to spend on services to tenants.
5. In March 2006, we held a joint meeting of the five Area Housing Panels to consult with members and tenants' representatives on a number of matters including options to change the date of the rent increase. The views of the panels are summarised in the following table:

#### **AREA HOUSING PANEL VIEWS MARCH 2006**

	<b>Recommended date of rent increase in 2006</b>	<b>Recommended date of rent increase in subsequent years</b>
Brierley Hill	August	April
Dudley	October	October
North Dudley	August	April
Halesowen and Stourbridge <sup>2</sup>	August	June

In June 2006, taking account of the views outlined above, the Cabinet agreed to a rent increase in August 2006. It is now proposed that the next increase be on 11th June 2007 and that all subsequent rent increases should be in April of each year.

6. Applying the Government's rent formula to the next increase generates an average increase of £2.91 (5%) with a maximum increase of £5.18. The range of increases is as follows:

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<sup>2</sup> Meeting as a combined panel.

## RANGE OF RENT INCREASES

Range of rent increase	Proportion of properties affected
£0.00 to £2.00	4.1%
£2.01 to £2.50	24.0%
£2.51 to £3.00	30.1%
£3.01 to £3.50	26.2%
£3.51 to £4.00	12.4%
£4.01 to £5.18	3.2%

7. A letter was sent to the Dudley Federation of Tenants and Residents Associations (DFTRA) on 22nd January, 2007 outlining the Government's guidance, the effects in terms of the next rent increase and the proposal to move the date of the increase to June and subsequently to April. The views of DFTRA were reported at the Cabinet meeting.
8. In addition to the rents discussed above, we currently apply service charges in certain properties in respect of heat, light and the use of a communal aerial. For a number of years, the income from these charges has been adequate to cover the actual cost of the services provided and no increases have been made. As a result of rises in energy costs, this is no longer the case. It is proposed that all of these charges be increased by 3.6% in line with the inflation factor used in determining general rents.
9. The Council currently provides, within its general housing stock, a number of units of furnished accommodation for which a charge of £18.91 per week is made. It provides six units of accommodation for homeless people in Lye for which rent, management charges and service charges are applied (a two-bedroom flat at £144.90 and five one-bedroom flats at £139.58). There is one house for which a garden maintenance charge of £15.41 per week is made. It is proposed that all of these charges be increased by 3.6% in line with the inflation factor used in determining general rents.
10. A decision was taken by decision sheet on 10<sup>th</sup> November, 2006 to reduce the charge for Homecall alarms provided to residents other than Council tenants. There were previously four different levels of charge (ranging from £13.00 to £20.95) depending on the level of service provided and whether the resident was or was not disabled. The distinction between a full service and a monitoring service has been removed and the charge has been reduced to £10.00 (exclusive of VAT for disabled residents) and £11.75 (inclusive of VAT for non-disabled residents). This is intended to encourage the take-up of telecare technology funded from Preventative Technology Grant.

### Garage rents

11. Following consultation with the Area Housing Panels and subsequent decisions by the Cabinet, garage rents vary from area to area within the Borough. These differing levels of rent have been used to sustain differing levels of investment in the repair and improvement of garages.

Following further consultation, the North Dudley and Brierley Hill Area Housing Panels recommended the approval of the following decisions in respect of garages in their areas:

- Brierley Hill. A number of sites (as defined in a report to the Brierley Hill Area Housing Panel 25<sup>th</sup> January 2006) should be re-designated. Rents on all Green<sup>3</sup> and Amber sites should be increased to £4.50 per week. The additional rental income should be used to finance £160,000 of additional prudential borrowing for investment in garage sites in the area.
- North Dudley. A number of sites (as defined in reports to the North Dudley Area Housing Panel on 27<sup>th</sup> July, 2006 and 12<sup>th</sup> December, 2006) should be re-designated. Rents on Green sites should be increased to £5.25 per week and rents on Amber sites should be increased to £5.00 per week. The additional rental income should be used to finance £292,000 of additional prudential borrowing for investment in garage sites in the area.

It is proposed that the rent increases recommended by these two area housing panels be implemented on 25<sup>th</sup> June, 2007.

12. The last general increase of garage rents (i.e. for all areas) was approved by the Executive in September, 2004 and implemented in November, 2004. At that time it was proposed that subsequent general inflationary increases would be made every three years. It is now proposed that the next general increase, which would ordinarily be due in November, 2007, be postponed until April, 2008 in line with proposals for rent increases on dwellings.

#### Proposed HRA budget 2007/8

13. The proposed HRA budget for 2007/8 (together with a proposed revised budget for 2006/7) is attached as **Appendix 1**. This budget is based on recent trends and our latest assessment of Government policy on housing finance.

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<sup>3</sup> In 2004, the Area Housing Panels designated garage sites as Green, Amber or Red, according to their state of repair and levels of anti-social behaviour.

14. The current budget for 2006/7 (approved by Cabinet in June, 2006) shows a surplus on the HRA of £4.7m at 31<sup>st</sup> March, 2007. The proposed revised budget for 2006/7 shows a surplus at the same date of £5.3m. The main revisions are summarised as follows:

	£m
Increased rental income, largely due to improved performance in letting properties	0.2
Introduction of the Rental Constraint Allowance – an adjustment to HRA Subsidy designed to compensate councils for income lost through implementation of Government rent guidance. <sup>4</sup>	0.3
Increased interest earned on HRA balances	0.1
<b>Total increase in the HRA surplus as at 31<sup>st</sup> March, 2007</b>	<b>0.6</b>

15. The proposed HRA for 2007/8 takes account of the proposed average rent increase of £2.91 on the 11<sup>th</sup> June, 2007 (paragraphs 5 and 6).
16. The proposed HRA for 2007/8 includes a budget for housing management of £14m. This allows for growth to fund work under the Government's Respect Agenda, ongoing costs of Choice Based Lettings, debt prevention work in partnership with the Citizens Advice Bureau (CAB), increased capacity for tenancy sustainment work and additional support to the Dudley Federation of Tenants and Residents Associations (DFTRA). This growth will need to be funded from efficiency gains in subsequent years. It also allows for costs relating to the management of the North Priory Regeneration – these costs are to be recouped from the sale of the site to a developer partnership.
17. The proposed HRA for 2007/8 includes a budget for repairs and maintenance of £20.3m. This reflects:
- the cost of maintaining responsive repairs at their current levels to ensure that current service standards can be met;
  - undertaking all required cyclical statutory responsibilities such as servicing of gas appliances, water hygiene testing, warden call equipment and alarms, and lift servicing;
  - maintaining current levels of cyclical maintenance such as external painting of properties, communal decorations to high rise and sheltered accommodation;
  - Continuing the ongoing programme to install and maintain smoke alarms;
  - Undertaking planned maintenance with specifications addressing improvements to energy efficiency and climate control, specifically targeting those homes with poor energy performance.

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<sup>4</sup> These new rules were intended for publication in January but were delayed until July and were not available when the current budget was set by Cabinet in June.

18. The budget shows a reserve of £5.5m remaining as at 31<sup>st</sup> March, 2008. This reserve is required to support expenditure to deliver the Decent Homes Standard in later years.

Proposed public-sector housing capital budget 2007/8 to 2010/11

19. A proposed four-year public sector capital budget for 2007/8 to 2010/11 and revised budget for 2006/7 are attached as **Appendix 2**. Explanations of the budgets are attached as **Appendix 3**.
20. Recent capital programmes have targeted investment into achieving Government targets to meet the Decent Homes Standard and energy efficiency measures aimed at meeting Government targets under the Home Energy Conservation Act (HECA).
21. Dudley is continuing to address the Decent Homes target and has reduced the number of non-decent homes from 9,881 in 2001, to 5,883 at 31<sup>st</sup> March, 2006, the latter representing 26% of the housing stock at the start of the 2006/7 monitoring year. Best Value Performance Indicator BVPI 184b measures the percentage change in non-decency throughout the financial year, and Dudley is currently on target to achieve a 12% reduction in non-decency throughout 2006/7 in accordance with the Decent Homes Delivery Plan. Dudley is also on programme to achieve its HECA targets.
22. The proposed capital programme is based on the following priorities:
- Providing a repairs service that will not result in a future backlog of routine repairs developing;
  - Providing a Decent Homes Delivery plan to outline the financial plan detailing how investment will be maintained to achieve the Government's Decent Homes target of making all homes decent by 2010;
  - Improving energy efficiency, combating climate change and reducing fuel poverty;
  - Maintaining waiting times for adaptations for persons with disabilities;
  - Maintaining Community Safety budgets at current levels;
  - Maintaining other environmental and social programmes to reflect the priorities of the Council Plan and the views of Area Housing Panels.
23. 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 four-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 Council is requested to confirm that all capital receipts arising from the sale of HRA assets (other than those specifically committed in Appendix 2 to support private sector housing) should be used for the improvement of Council homes.
24. To facilitate implementation of the programme, the Council is requested to authorise the Director of Adult, Community and Housing Services to prepare

specifications, select tenderers, invite tenders from the standing list of tenders, invite tenders and accept the most advantageous (best value) tender. These actions will be carried out in accordance with Standing Orders and Financial Regulations. The Council is also asked to agree that the Director of Adult, Community and Housing Services be authorised to accept tenders on their behalf.

### Medium Term Financial Strategy for Landlord Housing

25. As part of the Housing Stock Options Appraisal (approved by Council in April, 2005) we prepared a financial forecast up to 2010. It was based on financial trends and Government policy (including rent restructuring) and showed that, on the basis of delivering a minimum programme of repairs and improvements, it would be possible to deliver the Decent Homes Standard by 2010. We have reviewed our forecasts in the light of changes to rent restructuring, HRA Subsidy and the slowdown of Right to Buy sales. These are set out in our medium-term financial strategy attached as **Appendix 4**.
26. Our forecast suggests that resources will be adequate to deliver the Decent Homes Standard by 2010. It is proposed that we continue to review our forecasts from time to time and consult as appropriate, through the Area Housing Panels, on measures that can be taken to enhance the financial strength of the housing service.
27. On consideration of the information in this report the Cabinet agreed to:-
  - approve a rent increase for HRA dwellings on 11<sup>th</sup> June, 2007 with an average increase of £2.91 and a maximum increase of £5.18 in line with Government rent guidance;
  - approve an increase of 3.6% in other charges as outlined in paragraphs 8 and 9;
  - note the amendments to Homecall charges for residents other than Council tenants outlined in paragraph 10.
  - approve the proposed garage rent increases and dates of future increases set out in paragraphs 11 and 12.

The Council is requested to consider the recommendations of the Cabinet referred to in paragraph 31 below.

### Finance

28. 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, 2007. 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, 2007 and therefore complies with the requirements of the Act.

## **Law**

29. HRA finances are governed by Section 74-88 in Part IV of the Local Government and Housing Act 1989.

## **Equality Impact**

30. This is primarily 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 disadvantaged groups.

## **Recommendations**

31. That the Council:-
- approve the revised HRA budget for 2006/7 and HRA budget for 2007/8 outlined in Appendix 1 (which takes account of the decisions of the Cabinet as set out in paragraph 27);
  - approve the public-sector housing revised capital budget for 2006/7 and capital budget for 2007/8 to 2010/11 attached as Appendix 2;
  - 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 23;
  - 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 24.
  - approve the medium-term financial strategy set out in Appendix 4 to the report.

*David Caunt*

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**Leader of the Council**



## Appendix 1

### Proposed HRA Budget

	<b>2006/7 £m</b>	<b>2007/8 £m</b>
<u>Income</u>		
Dwelling rents	-66.085	-69.302
Non-dwelling rents	-0.645	-0.705
Charges for services and facilities	-0.136	-0.136
Contributions towards expenditure	-1.547	-1.123
Interest on balances	-0.749	-0.505
<b>Total income</b>	<b>-69.163</b>	<b>-71.771</b>
<u>Expenditure</u>		
Management	13.990	13.982
Responsive and cyclical repairs	22.076	20.316
Negative Subsidy	11.610	13.820
Transfer to Major Repairs Reserve	13.526	13.732
Interest payable	3.371	3.706
Revenue contribution to capital expenditure	3.308	4.165
Other expenditure	1.919	1.874
<b>Total expenditure</b>	<b>69.800</b>	<b>71.595</b>
<b>Surplus/deficit for the year</b>	<b>0.637</b>	<b>-0.175</b>
<b>Surplus brought forward</b>	<b>-5.938</b>	<b>-5.301</b>
<b>Surplus carried forward</b>	<b>-5.301</b>	<b>-5.476</b>

## Appendix 2

### Proposed capital programme 2006/7 to 2010/11

	06/07 £'000	07/08 £'000	08/09 £'000	09/10 £'000	10/11 £'000
Adaptations	1,954	2,143	2,109	1,860	1,881
Central heating	3,712	3,664	3,744	3,833	3,907
Community Safety	1,524	2,179	559	569	577
Electrical Installations	1,229	4,350	3,316	2,952	3,012
Energy Efficiency	195	155	141	145	148
External Envelope Schemes	4,867	4,669	4,310	4,372	4,415
External Wall Insulation - Brierley Hill	143	297			
Minor Works	2,667	2,426	1,817	1,861	1,899
Modernity and Decent Homes	3,564	5,860	5,994	6,150	6,283
Non Traditional Construction	27		543		
North Priory		2,767			
Programmed Works	1,500	28			
Retention and Overprogramming	24	-3,700			
Tenants Association	69	97	79	80	81
Void Property Improvements (Decency)	2,322	2,295	1,630	1,638	1,639
Window Replacement	10				
Housing for 21st Century	11				
Improvements to Stores Facility	266	75			
Planned Efficiency Saving	-900	-900	-900	-900	-900
<b>Grand Total</b>	<b>23,184</b>	<b>26,405</b>	<b>23,342</b>	<b>22,560</b>	<b>22,942</b>

### Resources:

	06/07 £'000	07/08 £'000	08/09 £'000	09/10 £'000	10/11 £'000
Borrowing	5,069	5,644	5,195	5,176	5,221
Major repairs allowance	13,157	14,021	12,495	14,803	15,082
Revenue contribution to capital	3,308	4,165	0	0	78
Usable capital receipts	3,836	4,204	7,321	4,294	4,315
Less usable capital receipts transferred to support private sector housing capital	-2,289	-1,629	-1,670	-1,712	-1,755
Other	103				
<b>Grand Total</b>	<b>23,184</b>	<b>26,405</b>	<b>23,342</b>	<b>22,560</b>	<b>22,942</b>

## **Appendix 3**

### **Detail of the four year housing capital programme 2007/8 to 2010/11**

#### **Adaptations**

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

Over the past twelve months waiting lists for referrals from occupational therapy have been significantly reduced from eighteen months to less than six months. This has resulted in the need for a one off budget increase of £500,000 over two years to deal with the increased back-log of referrals for adaptation works from occupational therapists. The volume of referrals is expected to continue to increase and a further budget increase of £800,000 for each of the next four years will maintain waiting lists at current levels over that period. This budgetary provision will deal with around 1,200 larger adaptations (level access showers, ramps and a limited numbers of conversions) as well as around 6,000 minor referrals for such 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 : £8m over 4 years

#### **Central Heating**

The programme delivers new central heating to unheated Council owned homes, and replacement systems that are beyond economic repair.

The budget deals with Decent Homes requirements for providing an efficient method of heating homes and will ensure that all of the 1,500 unheated homes in the Borough (where the tenant wishes to have heating installed) will benefit from a modern, efficient heating system by the end of 2010.

The remaining unheated homes that will benefit are:

Brierley Hill	260
Dudley	500
Halesowen	180
North Dudley	330
Stourbridge	230

The budget will also replace up to 5,700 gas boilers that fail the decent homes standard with modern energy efficient boilers that ensure heating is made as affordable as possible for tenants.

Whilst also considering energy efficiency and environmental issues, in excess of the Decent Homes Standard, £1.5m over the four years will be spent replacing electric night storage heating with efficient gas heating to some 500 homes where the impact upon energy efficiency and climate change will be greatest.

Total Budget : £15.1m over four years

### **Community Safety**

This programme continues the work commenced in previous years dealing with local community issues such as improving property security. The works are determined in consultation with the Area Panels and target issues aimed at reducing void levels and provide a safer community in line with Government Sustainable Communities objectives. Budgets are maintained at current levels.

The budget also incorporates new and previously approved programmes of garage site improvement works as well as street lighting improvements across the borough on Housing Revenue Account (HRA) land. This is the reason for the significantly larger budget in 2007/8.

Total Budget : £3.9m over four years

### **Electrical Installations**

The budget will address electrical works to around 15,000 homes where the current electrical installation does not meet the Decent Homes Standard. The budget will deal with full rewires where required, estimated to be around 2,200 homes, but the majority of homes will only require partial electrical upgrade works.

Rewiring of communal electrics will also be undertaken where required eg Firmstone Court.

The remainder of the programme budget also targets investment in the planned replacement of specialist electrical systems that are beyond economic repair, specifically the completion of previously approved schemes for:

- Replacement of 4,500 warden call systems at sheltered accommodation with modern equipment compatible with new Telecare technology;
- Replacement of existing inefficient door entry systems; and
- Upgrading of communal TV aerials with digital aerials in preparation for Government's predicted switching off of analogue transmission in 2010/11.

Provision is also made to deal with any potential remedial repairs to lifts in flatted developments.

Total Budget : £13.6m over four years

## **Energy Efficiency**

Following receipt of match funding for insulation works this programme has now offered the installation of cavity wall insulation to all tenants whose homes can benefit from cavity wall insulation. The nominal programme from 2007 onwards will deal with any dwellings where previous tenants have refused the insulation and over the four years the cavity wall insulation programme will be complete.

The budget also provides for additional draught stripping, increased levels of loft insulation and other targeted energy efficiency measures to:

- Allow properties to be insulated to meet the Decent Homes Standard
- Improve the SAP (Standard Assessment Procedure) rating of the housing stock (which measures how energy efficient the housing stock is);
- Contribute towards addressing climate change by reducing carbon emissions.

Total Budget : £589,000 over four years

## **External Envelope Schemes**

The programme addresses Decent Homes investment and necessary planned maintenance to the external façade of Council owned homes.

Around 800 homes require some form of re-roofing works to ensure that the Government's Decent Homes Standard can be met by 2010/11. This works is either replacement of roof coverings such as tiles or slates and/or replacement and/or upgrade of the structural timbers as necessary.

Following on from the external painting programme, the programme also replaces external doors and windows where they fail the Decent Homes Standard or pose a significant danger to health and safety and cannot be repaired and re-painted.

An additional £1m over the four years is also proposed specifically to deal with replacing around 3,000 windows with modern, secure double glazing that will significantly improve the energy efficiency performance of homes where their SAP rating (the rating used to measure a home's energy performance) is particularly low.

The budget will also commence a 15 year planned programme to replace flat roof coverings on flatted developments with modern energy efficient materials

Total Budget : £17.8m over four years

## **External Wall Insulation – Brierley Hill**

This budget makes financial provision for final payments on completed schemes.

Total Budget : £297,000

## **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 high cost structural and subsidence works.

The budget also makes financial provision to deal with minor improvements and access arrangements (appropriate to the Disability Discrimination Act) for sheltered accommodation following a survey of communal facilities undertaken during 2005 as well as works to the Disabled Living Centre.

The Improvement Works to the Disabled Living Centre will facilitate providing a much larger centre at Jack Newell Court. This will enable an improved variety of equipment to be available for assessment, as well as an opportunity to increase the number of assessments carried out each week.

Total Budget : £8m over four years

## **Modernity and Decent Homes**

The programme of modernisations to pre-war estates has now been completed and this budget is proposed to continue the programme of kitchen and bathroom improvements where the homes are currently non-decent.

Over four years the programme addresses replacement of over 5,000 kitchens or bathrooms that fail the Decent homes standard and improves a further 1,000 kitchens or bathrooms to prevent them from becoming non-decent.

Total Budget : £24.3m over four years

## **Non Traditional Construction**

This programme allows for the structural repair and external cladding/insulation of non-traditional properties. Budgetary provision has been made for a potential second phase of structural repairs and refurbishment to the Unity Houses in Orchard Street, which may be required following the outcome of a period of structural monitoring. In the event that a refurbishment scheme is not feasible, the budget would deal with any subsequent demolition and/or disposal of properties subject to further approval from Cabinet.

Total Budget : £543,000

## **North Priory**

This budget is for the purchase of former Right to Buy properties in connection with the North Priory Regeneration, including Compulsory Purchase where necessary. These costs are to be recouped from the sale of the site to a developer partnership.

Total Budget : £2.8m

## **Programmed Works**

This budget makes financial provision for final payments on completed schemes.

Total Budget : £28,000

## **Retention and Overprogramming**

This budget provides for costs that are committed for completed programmes which are required to be met in following years and facilitates the management of a rolling three-year programme.

## **Tenants Association**

The budget is allocated in each of the three years to schemes identified by Tenants and Residents Associations, and prioritised by the Dudley Federation of Tenants and Residents Association.

Total Budget : £336,000 over four years

## **Void Property Improvements**

This budget is used to fund works of a capital nature arising from carrying out works to properties when they become empty 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.

Total Budget : £7.2m over four years

## **Improvements to Stores Facilities**

This budget is a residual budget remaining from 2006/7 to complete existing schemes to modernise the management of material stores and depot accommodation and meet health and safety requirements.

Total Budget : £75,000 over three years

## **Planned Efficiency Saving**

Building Services Construction have set a target for £2m efficiency savings to be delivered each year on average between 2006/7 and 2010/11 (£10m in total) as a result of improved and innovative working practices. This is envisaged to be achievable as a direct result of the benefits of 'partnering' working on Egan compliant contracts and innovative use of ICT. £900,000 per annum is the targeted efficiency saving attributable to the capital programme with a consequential £1.1m allocation within the revenue funded Housing Repairs accounts which delivers responsive repairs and planned cyclical maintenance.



## **Appendix 4**

### **Medium Term Financial Strategy for Landlord Housing (MTFS(LH))**

#### **Purpose**

1. The Medium Term Financial Strategy for Landlord Housing (MTFS(LH)) sets 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. Unlike the overall MTFS, the MTFS(LH) covers five years. This is considered appropriate in the light of the Government's target to deliver the Decent Homes Standard by 2010.

#### **Background**

4. The financial strategy for landlord housing, focussing on the period up to 2010, was determined through the Housing Stock Options Appraisal. This was a year-long consultation process involving:
  - Area Housing Panels of members and tenants;
  - the Dudley Federation of Tenants and Residents Associations (DFTRA);
  - individual tenants and residents associations;
  - tenants and leaseholders more widely (through a range of communication channels culminating in a survey of opinion);
  - "hard to reach" groups;
  - a project board including representatives of the above and of other council directorates;
  - the Select Committee for the Environment;
  - the Cabinet;
  - Full Council.
5. This culminated in a decision by the Council in April 2005. The key elements of the 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.
6. 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. The Housing Stock Options Appraisal was signed off by the Government Office West Midlands on this basis.
  7. The strategy has subsequently been reviewed on a number of occasions. The last review (June 2006) indicated that, having taken action to address changes to government housing finance policy, the Council was on track to deliver the Decent Homes Standard by 2010.

### **The proposed budget 2007/8 and the MTFs(LH)**

8. At the same time as preparing the proposed budget for 2007/8, we have considered the implications of financial trends and government policy for our medium term financial forecast. Our forecast suggests that resources will be adequate to deliver the Decent Homes Standard by 2010.
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 delivery 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;
  - service charges<sup>5</sup>.
10. Whilst the volume of responsive repairs has increased since the back-log of routine repairs was eliminated over the past few years, efficiencies in the way these repairs have been delivered has resulted in significant cost savings. These savings have significantly contributed towards achieving the Council's efficiency savings required as a result of 'The Gershon Report' within the Council's Annual Efficiency Statement. It is currently envisaged that there will be an efficiency saving of around £2m in 2006/7 arising from improved ways of working in the delivery of an efficient repairs service. Much of this saving is attributable to improved use of ICT to schedule works more effectively, although efficiencies have also arisen as a result of

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<sup>5</sup> 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.

partnership working with external contractors. Further planned ICT service delivery enhancements are expected to deliver similar savings over the next four years. Full details of the proposed investment programmes are outlined later in this report, but in summary, together with additional resources flowing from the timing of the revised rent increases, the planned efficiency savings of £10m over 5 years will result in the housing investment being able to consider delivering:

- The increased demand for responsive repairs and a void standard consistent with modern tenant aspirations and service standards to ensure the low turnaround times are maintained;
- An 11% budget increase of £200,000 to provide an improved grounds maintenance programme for HRA managed land within and around housing estates and flatted developments;
- A further £3.7m investment in adaptations for persons with disabilities;
- £1.5m to replace inefficient electric night storage heaters with a gas fired central heating system;
- £1m for replacement windows to improve thermal comfort (and security) in those homes where the energy efficiency (SAP) rating is particularly poor.

### **Risks to the financial forecast**

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

<b>Risk</b>	<b>Impact</b>
Inflation higher than forecast	While increased inflation has an impact on costs, in the case of the HRA, it also affects resources, through: <ul style="list-style-type: none"> <li>• HRA Subsidy calculations</li> <li>• Rent formulas under government guidance</li> </ul> <i>Increased inflation would therefore have a relatively neutral effect.</i>
Management and Maintenance allowances lower than forecast	Management and Maintenance Allowances for 2007/8 have already been fixed. We have assumed increases 1.5% higher than general inflation in later years. The figure of 1.5% is based on our assessment of government policy as outlined in the informal commentary to the HRA Subsidy Determination 2007/8. A 0.1% reduction in this figure would worsen the position by £0.1m up to 2010/11.

Income levels not achieved	We have been very successful over the years in controlling rent loss on empty properties. We have allowed in our forecasts for a rent loss of 1.8% of total rent available. If losses were to rise above this level the cost for each 1% increase would be around £0.7m per annum.
Reduction in property values in the borough	A 10% reduction in property values would reduce the value of usable capital receipts and would reduce available resources by around £0.3m per year.
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. Preliminary calculations indicate that any costs to the HRA arising from Single Status could be met within proposed budgets. We anticipate that any back-pay 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:

	<b>Actual 2005/6</b>	<b>Latest budget 2006/7</b>	<b>Forecast 2007/8</b>	<b>Forecast 2008/9</b>	<b>Forecast 2009/10</b>
Ratio of financing costs to net revenue stream: HRA	4.0%	3.8%	4.2%	4.4%	4.6%
Estimated incremental impact of capital investment decisions on HRA rents	Nil	Nil	Nil	Nil	Nil
Capital expenditure: HRA	£23.6m	£23.2m	£26.4m	£23.3m	£22.6m
Capital Financing Requirement: HRA	£48.4m	£53.5m	£59.1m	£64.3m	£69.5m

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 estimated incremental impact of capital investment decisions on HRA rents is shown as zero. This is based on the fact that rents are determined by government rent restructuring guidance and assumes that the Council will continue, as in the last two years, to comply with this guidance. Borrowing forecasts have been set at levels which will not necessitate a rent increase above guidelines.
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.

### **Partnerships**

16. Housing Services is continuing to deliver on its partnership working and currently has a number of such arrangements:
  - 'npower' and Scottish Power currently provide resources to supplement energy efficiency works being undertaken;
  - The West Midlands Fire Service provide free 10 year lithium battery smoke alarms in a partnership to ensure that all Council owned homes benefit from smoke and fire protection, and the WMFS also provide a free Home Fire Risk Assessment for tenants who want one. To date approximately 4,000 tenants have benefited, and the programme for all Council owned homes will be completed by 2010.
17. Housing also has 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 the two partnerships outlined below have delivered improved services at a measurably lower cost and have allowed valuable and limited resources to be re-invested in the housing stock.
  - Servicing, maintenance and repairs to gas appliances, together with provision of replacement boilers and new heating systems; and
  - External painting, internal decorations to dwellings and to common areas of flatted developments.
18. Further partnerships and collaborative working arrangements are planned for 2007/8. These will be full Egan compliant partnering arrangements as well as collaborative contracts that utilise contractor expertise to supplement in-house resources and contribute towards Council objectives such as improved turn-around times for empty properties and providing training for staff, operatives and local people. Proposed arrangements are for:
  - Electrical rewires;

- Internal improvements for the Decent Homes Standard and to void properties;
- Roofing Works;
- Replacement warden call equipment compatible with modern Telecare technology, combining the expertise for designing sophisticated systems with the ongoing servicing, maintenance and repairs.

Procurement consortia will also be used where appropriate, forming partnerships with established bodies to deliver procurement efficiencies. This is planned for such services such as void management (cleaning and security).