

**Meeting of the Cabinet – 11<sup>th</sup> February 2009**

**Joint Report of the Director of Adult, Community and Housing Services and the Director of Finance**

**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 the Housing Revenue Account (HRA) budget for 2009/10 in the light of the latest government determinations for 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 in 2009/10 to 2013/14.
  - 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 some years. Our last seven rent increases have been 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, 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.

- October 2002, average increase £1.65 (3.4%).
  - October 2003, average increase £1.58 (3.2%).
  - October 2004, average increase £2.00 (3.9%).
  - November 2005, average increase £2.11 (3.9%).
  - August 2006, average increase £2.71 (4.9%).
  - June 2007, average increase £2.91 (5.0%).
  - April 2008, average increase £3.34 (5.5%).
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. It is proposed that the next increase be on 6th April 2009. Applying the Government's rent formula to the next increase generates an average increase of £3.91 (6.1%) with a maximum increase of £6.71. The range of increases is as follows:

#### **RANGE OF RENT INCREASES**

<b>Range of rent increase</b>	<b>Proportion of properties affected</b>
£0.00 to £3.00	3.53%
£3.01 to £3.50	17.59%
£3.51 to £4.00	32.47 %
£4.01 to £5.00	45.10%
£5.01 to £6.71	1.31%

5. A letter was sent to the Dudley Federation of Tenants' and Residents' Associations (DFTRA) on 23 January 2009 outlining the Government's guidance and the effects in terms of the next rent increase. The views of DFTRA will be reported verbally at the Cabinet meeting.
6. In addition to the rents discussed above, we currently apply service charges in certain properties in respect of items such as furniture, overnight support or the use of a communal aerial. It is proposed that all of these charges be increased by 5% in line with the inflation factor used in determining general rents.
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. Over recent years, the price of electricity and gas has increased significantly and we have not increased charges sufficiently to recover this. It is proposed that service charges for heating and lighting are increased from a current average weekly charge of £7.11 to a new average weekly charge of £8.89, and that increases in future years achieve a gradual return to cost recovery. These charges 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.
8. The Council currently provides, within its general housing stock, a number of units of furnished accommodation for which a charge of £20.37 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 £157.22 and five one-bedroom flats at £151.69). There are three houses for which a garden maintenance charge of £16.58 per week is made. It is proposed that all of these charges be increased by 5% in line with the inflation factor used in determining general rents.

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). It is proposed that charges increase from £1.60 to £1.70 per token, to cover the increase particularly in electricity costs.
10. It is proposed that pitch licences at Oak Lane be increased by 6.1% from 6 April 2009 in line with the increase in average dwelling rents.

#### Garage rents, garage plots and access agreements

11. It was agreed by 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 2011/12. It is therefore proposed that these rents and charges remain at current levels for 2009/10.

#### Proposed HRA budget 2009/10

12. The proposed HRA budget for 2009/10 (together with a proposed revised budget for 2008/9) is attached as **Appendix 1**. This budget is based on recent trends and our latest assessment of government policy on housing finance.
13. The current budget for 2008/9 (approved by Cabinet in February 2008) shows a surplus on the HRA of £2.016m at 31<sup>st</sup> March 2009. The proposed revised budget for 2008/9 shows a surplus at the same date of £2.256m. The variance arises as the result of several factors:
  - Increased dwelling rent income as a result of lower house sales;
  - Increased responsive and cyclical repairs as a result of lower house sales and increased demand, mainly offset by the removal of the revenue contribution to capital expenditure;
  - Increased housing management costs arising from increases in gas and electricity prices, particularly in flats and sheltered housing schemes;
  - Allocation of earmarked reserves brought forward from 2007/8, mainly relating to housing management projects, for instance Choice Based Lettings implementation;
  - Increased interest payable as borrowing has increased to offset the reduction in capital receipts.
14. The proposed HRA budget for 2009/10 takes account of the proposed average rent increase of £3.91 on the 6<sup>th</sup> April 2009 (paragraph 4).

15. The proposed HRA budget for 2009/10 includes a budget for housing management of £14.5m. In accordance with a Cabinet decision (September 2007) three local housing offices (Pensnett, Quarry Bank and Netherton) were closed in 2007/8 with the remaining offices (Wrens Nest and Shell Corner) closing in 2008/9. Savings made through the closures were intended for service improvements that, because of the timetabling, have had to be phased. Support for Dudley Federation of Tenants' and Residents' Association (DFTRA) and debt prevention work were immediate priorities as was a gardening pilot aimed at assisting the elderly and people with disabilities. It is intended to evaluate the gardening pilot at the end of the 2008/9 financial year. Savings from more recent closures will enable recruitment of two further Tenancy Sustainment Officers, which is essential to meet the agenda of supporting vulnerable people in their homes. Following an internal review, it is proposed that the management charge to leaseholders be increased by £2 per week to ensure full cost recovery, as the HRA is not permitted to cross-subsidise services to leaseholders. The revenue expenditure budget for the North Priory project has in 2007/8 and 2008/9 been included within housing management: as this phase of the project is virtually complete, these budgets will not recur, resulting in a reduction in the overall annual budget.
16. The proposed HRA budget for 2009/10 includes a budget for repairs and maintenance of £24.9m. This reflects:
- Maintaining the current responsive repairs service standard, taking into account additional works expected to be completed in 2008/9;
  - 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 current levels of cyclical maintenance such as external painting of properties, communal decorations to high rise and sheltered accommodation service standards by utilising savings derived from the external painting partnership to continue delivery of painting of external render in a programme expected to be delivered over a 5 year period;
  - Continuing the ongoing programme to install and maintain smoke alarms with over 87% of properties expected to have received at least one smoke alarm by April 2009;
  - Undertaking planned maintenance with specifications addressing improvements to energy efficiency and climate control, specifically targeting those homes with poor energy performance;
  - Achieving efficiency savings of £500k through more effective working practices and more efficient procurement.

#### Proposed public-sector housing capital budget 2009/10 to 2013/14

17. A proposed five-year public sector capital budget for 2009/10 to 2013/14 and revised budget for 2008/9 are attached as **Appendix 2**. Explanations of the budgets are attached as **Appendix 3**. It should be noted that the proposed capital budgets and resources from 2011/12 onwards should be

considered with caution at this stage as there is considerable uncertainty around future funding of the HRA after 2010/11. At present the Government is undertaking a review of the HRA subsidy system which will report in spring 2009 with likely implementation from 2011/12, and until the outcomes of this review are clear any forecasts of resources and expenditure should be treated as provisional.

18. 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).
19. The proposed capital programme follows the principles approved in the current programme that reflect the priorities of the Council Plan and the views of Area Housing Panels. The programme addresses the following priorities:
  - Providing a Decent Homes Delivery plan that informs the financial plan detailing how investment will be maintained in order to achieve the Government's Decent Homes target of making all homes decent by 2010/11;
  - Commencing a programme post 2010/11 that maintains investment in the Council's housing stock to ensure that homes are improved in accordance with the principles of the Decent Homes Standard;
  - Improving energy efficiency, combating climate change and reducing fuel poverty;
  - Maintaining community safety, environmental and social programmes such as Adaptations for persons with disabilities at current levels;
  - Providing a repair service that will not result in a future backlog of routine repairs developing.
20. Whilst the detail of the proposed programme is included within **Appendix 3** notable projects over the five year period from 2009/10 to 2013/14 are as follows:
  - Continued investment in central heating with over £11m funding around 700 new installations, 2,200 replacement boilers or system upgrades and replacement of 500 electric storage heating systems with new, modern efficient gas heating systems;
  - Continued investment in kitchen and bathroom replacements, with around 5,800 kitchens and 4,000 bathrooms being renewed in a £32m programme.
  - The budget for North Priory redevelopment has been realigned to reflect lower projected spend for security, disturbance allowances and professional fees, and the consequent budget reductions have been identified for demolition of the whole site in advance of redevelopment, in order to reduce significantly any potential risk of community safety issues arising from an estate of empty, derelict properties. Decision sheet DACHS/080/2009 sought approval to redirect existing resources accordingly and to include the demolition works, estimated at £850,000, in the capital programme. Revenue and capital expenditure will be borne by the HRA, until the capital receipt is achieved. Most

costs will have been incurred by the end of 2008/9, with demolition being completed in 2009/10.

21. It is also proposed to seek to enter into partnership with appropriate bodies to deliver additional resources funding energy efficiency and climate change initiatives. Examples would include the Government's CERT (Carbon Emission Reduction Target) programme and it is proposed that any additional resources obtained be added to the Capital Programme accordingly.
22. 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) should continue to be used for the improvement of council homes.
23. To facilitate implementation of the programme, the Cabinet is requested to authorise the Director of Adult, Community and Housing Services to prepare specifications, select tenderers, invite tenders and accept the most economically advantageous tender. These actions will be carried out 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 accept tenders on their behalf.

#### Medium Term Financial Strategy for Landlord Housing

24. 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, the slowdown of Right to Buy sales and the stagnation of the property market. These are set out in our medium-term financial strategy attached as **Appendix 4**.
25. 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.
26. However, in view of current uncertainty around the outcome of the review of HRA subsidy that is being undertaken by Government, it is proposed that present forecasts beyond 2010/11 be considered with caution and that a

further report be presented to Cabinet later in 2009 outlining the outcome of the HRA subsidy review and the impact on future years' budgets.

### **Finance**

27. 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 2009. 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 2009 and therefore complies with the requirements of the Act.

### **Law**

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

### **Equality Impact**

29. 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**

30. It is recommended that Cabinet:
- approve a rent increase for HRA dwellings on 6<sup>th</sup> April 2009 with an average increase of £3.91 (6.1%) and a maximum increase of £6.71 in line with government rent guidance;
  - approve an increase of 5% in other charges as outlined in paragraphs 6 and 8;
  - approve an increase in heating and lighting charges for sheltered housing from an average weekly charge of £7.11 to an average weekly charge of £8.89, with increases in future years to achieve recovery of our costs (paragraph 7);
  - approve the increase from £1.60 to £1.70 for laundry tokens (paragraph 9);
  - approve an increase in pitch licences at Oak Lane of 6.1% in line with the average increase in dwelling rents as outlined in paragraph 10;
  - approve the maintenance of garage rents at current levels and the dates proposed for future increases (paragraph 11);
  - approve the maintenance of garage plot rent and access agreements at current levels, and the dates of future increases (paragraph 11);
  - approve the revised HRA budget for 2008/9 and the HRA budget for 2009/10 outlined in Appendix 1;
  - approve an increase in management charges to leaseholders of £2 per week in order to ensure full recovery of these costs, as outlined in paragraph 15;

- recommend that Council approve the public sector housing revised capital budget for 2008/9 and capital budget for 2009/10 to 2013/14 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 22;
- 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 22);
- 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 23;
- approve the medium-term financial strategy set out in Appendix 4 and review this later in 2009 as outlined in paragraph 26.



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**List of Background Papers:**

Housing Revenue Account Subsidy Determination 2009/10



## Appendix 1

### Proposed HRA Budget

	2008/9 original budget Feb 2008 £m	2008/09 proposed revised budget £m	2009/10 proposed original budget £m
<u>Income</u>			
Dwelling rents	-72,372	-72,957	-76,827
Non-dwelling rents	-633	-639	-654
Charges for services and facilities	-134	-140	-147
Contributions towards expenditure	-1,131	-1,213	-1,227
Interest on balances	-212	-184	-27
<b>Total income</b>	<b>-74,482</b>	<b>-75,133</b>	<b>-78,882</b>
<u>Expenditure</u>			
Responsive and cyclical repairs	24,753	26,276	24,918
Management	15,224	15,699	14,535
Negative Subsidy	16,998	17,123	19,931
Transfer to Major Repairs Reserve	14,108	14,108	14,090
Interest payable	4,014	4,253	4,863
Revenue contribution to capital expenditure	783	0	379
Other expenditure	1,861	1,855	1,528
<b>Total expenditure</b>	<b>77,741</b>	<b>79,314</b>	<b>80,244</b>
<b>Surplus/deficit for the year</b>	<b>3,259</b>	<b>4,181</b>	<b>1,362</b>
<b>Surplus brought forward</b>	<b>-5,275</b>	<b>-6,437</b>	<b>-2,256</b>
<b>Surplus carried forward</b>	<b>-2,016</b>	<b>-2,256</b>	<b>-894</b>

## Appendix 2

### Proposed capital programme 2008/9 to 2013/14

	2008/9 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
Adaptations	2,445	2,910	1,816	1,875	1,928	1,980
Central heating	1,984	2,201	2,461	2,096	2,139	2,180
Community Safety and Environmental Improvements	693	616	614	649	668	685
Electrical Installations	3,974	3,914	3,616	1,610	1,636	1,546
External Improvement Programme	6,224	7,213	7,660	5,774	5,938	6,096
Insulation	71	82	83	85	85	85
Minor Works	2,310	2,150	2,449	2,457	2,063	2,117
Modernity and Decent Homes	5,145	8,034	6,670	5,752	5,916	6,073
North Priory	810	850	0	0	0	0
Retention and Overprogramming	60	0	0	0	0	0
Tenants Association	92	115	81	86	88	91
Void Property Improvements (Decency)	3,609	2,551	2,560	2,705	2,782	2,856
Works to Stores Facility	0	328	34	33	0	0
<b>Grand Total</b>	<b>27,417</b>	<b>30,964</b>	<b>28,044</b>	<b>23,122</b>	<b>23,243</b>	<b>23,709</b>

### Resources

	2008/9 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000
Borrowing	10,712	16,116	13,698	8,447	0	7,728
Major repairs allowance	14,108	14,090	14,346	14,658	14,980	15,306
Revenue contribution to capital	0	379	0	0	0	0
Usable capital receipts	1,757	1,572	1,572	1,816	10,782	1,366
Less usable capital receipts transferred to support private sector housing capital	-870	-393	-1,572	-1,799	-1,844	-1,366
Major Repairs Reserve b/f	0	0	0	0	-675	675
Other	1,710	-800	0	0	0	0
<b>Grand Total</b>	<b>27,417</b>	<b>30,964</b>	<b>28,044</b>	<b>23,122</b>	<b>23,243</b>	<b>23,709</b>

## **Appendix 3**

### **Detail of the proposed five year housing capital programme 2009/10 to 2013/14**

#### **Adaptations**

The programme continues to deliver improvements and adaptations to the Council owned homes of persons with disabilities, following referral from occupational therapists. This budgetary provision will deal with around 500 larger adaptations (level access showers, ramps and a limited number of conversions) in 2009/10 and around 300 per annum for the following four years. In addition the budget will provide for around 1,700 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 : £10.5m over 5 years

#### **Central Heating**

The programme delivers new central heating to unheated Council owned homes, and replacement systems that are beyond economic repair. There are currently some 1,200 unheated homes in the Borough, for all of which the tenants have been offered central heating on more than one occasion. Budgetary provision has been made to provide heating for all tenants in unheated homes who wish to receive heating, and installing heating in all unheated properties when they become empty, an estimated 700 homes in total. It is estimated that around 500 homes will remain unheated at the end of the five year programme, all where tenants have refused heating.

Around 2,200 homes will have a replacement boiler or system upgrade to deal with those gas boilers and systems that fail the decent homes standard. These will be replaced with modern energy efficient boilers to ensure heating is made as affordable as possible for tenants.

Also addressing climate change/energy efficiency and environmental issues, in excess of the Decent Homes Standard, over the five years the electric night storage heating replacement programme will continue replacing electric night storage heating with efficient gas heating. Around 500 homes where the impact upon energy efficiency and climate change will be greatest will benefit from the programme over the next five years.

Total Budget : £11.1m over 5 years

## **Community Safety & Environmental Improvements Programme**

This programme continues the work commenced in previous years dealing with local community issues and environmental schemes with improvements and refurbishment of Housing (HRA) assets e.g. improving property security, providing external lights, fencing, defensible space areas and landscaping works such as resurfacing paths, footpaths and roads. The works are determined in consultation with the Area Panels and target issues aimed at reducing void levels and provide safer, sustainable communities in line with Government Sustainable Communities objectives. Budgets are maintained at current levels which based on previous years are expected to fund around 120 local projects each year.

Total Budget : £3.2m over 5 years

### **Electrical Installations**

The budget will continue to address electrical works to around 10,000 homes up to 2010/11 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 1,000 homes, but the majority of homes, including empty properties, will only require partial electrical upgrade works.

After 2010/11 a reduced programme will continue to deal with rewiring and upgrading electrical installations in properties that do not currently fail the decent homes standard, but which will require upgrade to maintain decency standards.

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

- Continue with the programme of the replacement of warden call systems at sheltered accommodation with modern equipment compatible with new Telecare technology including the replacement of the Jontek system used by Homecall and the wardens to provide the essential Homecall service for vulnerable residents of the community and an equipment purchase programme commencing 2011/12 ;
- Complete the 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 : £12.3m over 5 years

## **External Improvement Programme**

The programme addresses Decent Homes investment and necessary planned maintenance to the external façade of Council owned homes. Around 300 homes require some form of re-roofing works to ensure that the Government's Decent Homes Standard can be met by 2010/11. 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 15 year planned programme to replace flat roof coverings on flatted developments with modern energy efficient materials

Around 190,000 homes have now been painted externally, including 500 rendered properties. Whilst external painting is revenue funded over the five year programme this budget will undertake around £5m per annum of planned pre-paint improvement works associated with external painting, dealing with fascias, soffits and replacing external doors and windows where they fail the Decent Homes Standard or pose a health and safety danger.

Total Budget : £32.7m over 5 years

## **Insulation**

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 2009 onwards will deal with any dwellings where previous tenants have refused the insulation and over the five years the cavity wall insulation programme will be complete.

The budget also provides for approved resources to supplement any further available match funding for additional measures of draught stripping, increased levels of loft insulation and other targeted carbon emission and energy efficiency programmes 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 : £420,000 over 5 years

## **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, subsidence and demolition etc works and works that are required as a result of fire risk assessment surveys to flatted developments.

These surveys are required as a result of the Fire Reform Order, and whilst some of the identified risks will be eliminated through operational changes it is envisaged that an element of building improvements will be required.

Total Budget : £11.2m over 5 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, also undertaking associated improvement works such as replastering.

Over the next two years the programme replaces around 2,800 kitchens and 1,750 bathrooms where they currently fail decency standards.

2011/12 continues with the programme replacing around 1,750 kitchens or bathrooms each year for the remainder of the five year programme.

Total Budget : £32.4m over 5 years

### **North Priory**

This budget finances demolition of the 272 properties on the North Priory estate ahead of the land sale to the Council's preferred developer. The demolition is cost neutral in that all costs will be recouped from the sale of the site to the developer partnership.

Total Budget : £850,000

### **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 : £461,000 over 5 years

### **Void Property Improvements**

This budget is used to fund improvement works to high cost 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. The budget is expected to deal with around 100 properties each year.

Total Budget : £13.5m over 5 years

## **Works to Stores Facilities**

This budget provides for roofing improvements necessary at depot locations and £100,000 over three years to fund materials to continue the structured apprentice training scheme. This structured training programme allows Building Services' apprentices to undertake depot improvements and building works that they would not usually be required to undertake in their day to day works improving Council housing throughout the Borough.

Total Budget : £395,000

## **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. The MTFS(LH) covers three years (2008/9 to 2010/11). This is considered appropriate in the light of the Government's target to deliver the Decent Homes Standard by 2010 and its review of the HRA Subsidy system that is currently being undertaken and which may lead to significant changes in the funding regime from 2011/12.

#### **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 (Feb 2008) 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 2009/10 and the MTFSLH**

8. At the same time as preparing the proposed budget for 2009/10, 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>2</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

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<sup>2</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.

way these repairs have been delivered and also in the way that capital works are delivered have 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. In 2007/8 an efficiency gain of £1.9m was achieved from improved ways of working in the delivery of an efficient repairs service and a further £1.2m efficiency gain was achieved as a result of partnership working with external contractors and improved procurement techniques. Further planned service delivery enhancements are expected to deliver savings over the next three years estimated at £3m from more efficient working arrangements within Building Services and a further £3m from more efficient procurement.

### **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 2009/10 have already been fixed. We have assumed increases of 2.75% in later years. <i>A 0.1% reduction in this figure would worsen the position by £0.1m up to 2010/11.</i>
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. <i>If losses were to rise above this level the cost for each 1% increase would be around £0.7m per annum.</i>
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.
Reduction in council house and land sales	We have seen as a result of the "credit crunch" and the general economic situation a marked decrease in the number of council house sales and also a diminution in the value received for sale of housing land. We have currently assumed that present numbers and levels of sales do not

	<p>increase for the next few years.</p> <p>A reduction of 100 house sales in a year will lead to a loss of capital receipts of £1.8m.</p> <p>This would be partially offset by additional rental income of around £300k, but management and maintenance demands will continue.</p>
Timing and amount of capital receipt	<p>We are expecting a substantial capital receipt for the sale of the North Priory estate to our developer partners. This has been built into our forecasts. Any significant reduction in amount will reduce available resources. A delay in receiving the funds will adversely affect cashflow and if the receipt is delayed there will be a significant adverse effect on the year-end balance on the HRA.</p> <p>We expected that this receipt would be available in 2008/09 but owing to the economic situation, we have experienced both a delay and a likely reduction in the amount that will be received. We have revised our estimates to take this into account, and have increased borrowing in order to support the capital programme, but clearly we have incurred additional ongoing costs of borrowing as a result and continue to build a capital receipt for the site into our estimates, albeit in a later year (2012/13)</p>
Unforeseen costs or costs greater than estimated	<p>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.</p>
Housing subsidy review	<p>The Government is currently undertaking a review of the HRA subsidy system which is considering</p> <ul style="list-style-type: none"> <li>• Allowing authorities to buy themselves out of the subsidy system</li> <li>• Dismantling the subsidy system altogether</li> <li>• Reforming the subsidy system less radically</li> <li>• Ringfencing of HRA</li> <li>• Expectations post-Decency.</li> </ul> <p>The review is expected to report in spring 2009 and any changes would be implemented from 2011/12. There is thus a good deal of uncertainty around financial forecasts after 2010/11.</p>

## **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 2007/8</b>	<b>Latest budget 2008/9</b>	<b>Forecast 2009/10</b>	<b>Forecast 2010/11</b>	<b>Forecast 2011/12</b>
Ratio of financing costs to net revenue stream: HRA	4.5%	5.1%	6.1%	6.6%	6.9%
Estimated incremental impact of capital investment decisions on HRA weekly rents			£0.32	£0.87	£1.31
Capital expenditure: HRA	£28.2m	£27.4m	£31.0m	£28.0m	£23.1m
Capital Financing Requirement: HRA	£62.0m	£72.8m	£88.9m	£102.6m	£111.0m

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. The estimated incremental impact of capital investment decisions on HRA rents is shown above. However, rents are determined by government rent restructuring guidance and it is assumed that the Council will continue, as in previous years, to comply with this guidance. Borrowing forecasts have been set at levels which will not necessitate a rent increase above guidelines. Therefore, the effective impact of increased borrowing is to require other expenditure to be constrained, rather than to directly increase rents.
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. For example, 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. It is expected that the programme for all Council owned homes will be completed by 2010.
17. A Partnership with E-On has also been agreed to increase resources under the Government's Carbon Emission Reduction Target (CERT) funding.
18. 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 three partnerships outlined below are delivering 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;
  - Electrical rewires and upgrades to electrical installations; and
  - External painting, internal decorations to dwellings and to common areas of flatted developments

The replacement of warden call equipment with equipment compatible with modern Telecare technology is being delivered by one contractor in a collaborative contract combining the expertise for designing sophisticated systems with the ongoing servicing, maintenance and repairs. Further collaborative working arrangements 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. Arrangements are for:

- Internal improvements for the Decent Homes Standard and to void properties;
  - Roofing Works;
  - Adaptations works for persons with disabilities.
19. Procurement consortia will also be used where appropriate, forming partnerships with established bodies to deliver procurement efficiencies.