Dudley
Metropolitan Borough Council

Agenda Item No. 6

Meeting of the Cabinet – 12th February 2013

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

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

Purpose of Report

1. The purpose of this report is:

- To set a rent increase for council homes.
- To review rents for garages, garage plots and access agreements.
- To set charges for sundry services.
- To set the Housing Revenue Account (HRA) budget for 2013/14 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 for 2013/14 to 2017/18.
- To approve the Medium Term Financial Strategy for the HRA.

Background

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

Rent increase

3. In December 2000 the Government issued a new *Guide to Social Rent Reforms.* This guidance set out a method of restructuring to remove differences between council rents and the rents of registered social landlords *(RSLs)* over a period of some years. This is known as *convergence*, and the current target is for council rents to achieve this by 2015/16. Previous rent increases have been calculated using the formula in the guidance and were as follows:

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

- 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%).
- April 2009, original average increase £3.91 (6.1%) reduced to
- April 2009, revised average increase £1.92 (3.0%)
- April 2010, average increase £1.31 (2.0%)
- April 2011, average increase £4.52 (6.7%)
- April 2012, average increase £5.54 (7.7%)

4. The self-financing system introduced in April 2012 for Housing assumes that rent increases will be in line with government guidance, including convergence with other registered social landlords' rents by 2015/16. It is proposed that the next increase be on 1st April 2013. Applying the Government's rent formula to the next increase would generate an average increase of 4.6%, equivalent to £3.59 per week. The range of actual proposed rent increases is as follows:

RANGE OF RENT INCREASES

Range of weekly rent increase	Proportion of properties affected
£2.50 or less	2.32%
£2.51 to £3.00	19.35%
£3.01 to £3.50	24.86%
£3.51 to £4.00	29.45%
£4.01 to £4.50	16.71%
£4.51 or more	7.31%

5. Officers met with the Board of the Dudley Federation of Tenants' and Residents' Associations (DFTRA) on 8 January 2013 outlining the Government's guidance and the effects in terms of the next rent increase. The Board regretted the need for a rent increase but agreed the 4.6% proposed increase in order to maintain services. A formal response has been received, and this will be reported verbally at the meeting.

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. It is proposed that all of these charges be increased by 2.6% 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 and may be offset against the winter fuel payment received by tenants, plus any cold weather payments. Housing Benefit will also cover these charges where applicable. In previous

years, inflationary increases in these charges had not kept pace with the level of increase in fuel prices, and Cabinet agreed in February 2009 to implement a 25% increase with further increases in future years to achieve a gradual return to cost recovery. It is now proposed that charges be increased by 10%, from a current average weekly charge of £11.92 to a new average weekly charge of £13.11. At one scheme (The Gables), discussions with the utility provider have resulted in lower charges, so it is proposed that the charges for this scheme be held at 2012/13 rates.

8. The Council currently provides, within its general housing stock, a number of units of furnished accommodation for which a charge of £23.65 per week is made. It also provides six units of accommodation for homeless people in Lye for which management charges and service charges are applied (a two-bedroom flat and five one-bedroom flats). There are three houses for which garden maintenance charges are made. It is proposed that all of these charges be increased by 2.6% 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 are increased from £2.00 to £2.10 per token.

10. It is proposed that pitch licences at Oak Lane be increased by 2.6%, in line with the inflation factor used in determining general rents and that weekly charging for water also be increased by 2.6% to £6.16 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. It is proposed that there is no increase in the overall level of the fee as this currently covers the cost of the service.

12. The Council currently charges private residents who are in receipt of Telecare services £12.50 per month, and also charges Housing Association tenants varying amounts for this service. It is proposed to increase these charges by £0.50 per month from 1 April 2013. The additional income generated will be used to increase investment in and development of the service.

Garage rents, garage plots and access agreements

13. It was agreed by Cabinet in February 2008 that inflationary increases for garages, garages plots and access agreements be made every three years, with the next increase to take effect from 2014/15. It is therefore proposed that these rents and charges remain at current levels for 2013/14.

Proposed HRA budget 2013/14

14. The proposed HRA budget for 2013/14 (together with a proposed revised budget for 2012/13) 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.

15. The current budget for 2012/13 (approved by Cabinet in June 2012) shows a surplus on the HRA of £0.714m at 31st March 2013. The proposed revised budget for 2012/13 shows a surplus at the same date of £2.032m. Variances arise mainly from
    - Reduced rental income owing to higher than anticipated right to buy sales and voids;
    - Savings in housing management owing to vacant posts and efficiencies;
    - Variations to the balance of revenue responsive repair work and capital expenditure;
    - Efficiency savings around responsive repair and maintenance work.

    These savings will be rolled forward into 2013/14 to invest further in maintaining the housing stock.

16. The proposed HRA budget for 2013/14 takes account of the proposed average rent increase of £3.59 on the 1st April 2013 (paragraph 4).

17. The proposed HRA budget for 2013/14 includes a budget for housing management of £15.3m. This covers the day to day management of properties including income collection, tenancy enforcement, support for vulnerable tenants and lettings and void management. Additional resources have been identified to establish an Anti-Social Behaviour Team, which will co-ordinate responses to complaints of anti-social behaviour across the borough and will also develop preventive strategies.

18. The proposed HRA budget for 2013/14 includes a budget for repairs and maintenance of £24.2m. This reflects:
    - Maintaining the current responsive repairs service standard;
    - Maintaining the current level of cyclical maintenance such as painting of communal areas;
    - 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.

19. The proposed HRA budget for 2013/14 includes a budget for interest payments of £18.5m. This covers the payments that are due on the debt

taken on as part of the self-financing settlement. It is not currently planned to increase borrowing, as debt is at the maximum allowable under the HRA debt cap.

Public sector housing capital budget 2013/14 to 2017/18

20. A proposed public sector capital budget for 2013/14 to 2017/18 and a revised budget for 2012/13 are attached as **Appendix 2.** Explanations of the budgets are attached as **Appendix 3**.

21. The proposed capital programme follows the principles approved in the current programme and reflects the priorities of the Council Plan and the views of Area Housing Panels and the tenants who participated in the Take Control and Get Involved Conference in September 2012. Investment continues to target keeping homes in good order by maintaining Government targets for the Decent Homes Standard and addressing energy efficiency measures under the Energy Act 2011. The backlog of decency was delivered by December 2010 and the programme now addresses the following priorities:
    - Continuing the investment to target maintaining decent homes;
    - Investing in empty homes to ensure that as many of the Council's homes as possible are available for occupation;
    - Improving energy efficiency to combat climate change and reduce fuel poverty, using the capital programme to match-fund potential external resources such as Energy Company Obligations (ECO);
    - Maintaining investment, at affordable levels, in community safety, environmental and social programmes such as Adaptations for persons with disabilities;
    - Providing new social housing homes within the borough.

22. Whilst the detail of the proposed programmes is included within **Appendix 3,** notable projects over the five year period from 2013/14 to 2017/18 are as follows:
    - Continued investment in Adaptations for persons with disabilities, with an investment of almost £14m over the next five years. This will maintain waiting times for major adaptations at current levels and deal with around 2,000 major adaptations such as level access showers, stairlifts, vertical lifts and ramps, as well as providing over 4,750 minor adaptations such as handrails and grab rails;
    - Investment in efficient central heating systems that help improve fuel poverty, with around £3m more than previously planned for investment in replacing electric night storage heating. In total £10m over 5 years will deliver :
        - 1,600 electric storage heating systems being replaced with new, modern, efficient gas heating systems;

    - 350 new heating installations in unheated properties (sufficient to install heating to every unheated home where tenants want central heating provided, and to every unheated home that becomes empty to provide heating before being re-let);
    - 750 replacement central heating boilers or system upgrades.
- Replacing over £4m of windows each year with modern, energy efficient double glazed units with all homes being fully double glazed by the end of the 5 year programme ;
- A £17m programme will deliver around 1,000 internal improvements each year, with an additional £5m of investment above previous plans addressing kitchens, bathrooms, plastering and replacement floors;
- Undertaking over £50m of improvements in empty properties to ensure that they can be re-let;
- A bid has been made to the Homes and Communities Agency for grant towards providing 14 new homes for people with learning disabilities, and if successful the first two years of the new build programme will deliver this £2.1m scheme which also includes 3 two bedroom general needs houses. If the bid is unsuccessful the resources will be re-allocated to other new build schemes. £1m per year from 2015/16 is also allocated to deliver around 30 more new homes over the remaining 3 years of the programme.

23. Approval is sought to continue discussions with Energy Service Providers and similar organisations and to bid for, enter into negotiations and / or seek tenders as appropriate to progress carbon saving and / or power generating schemes to improve fuel poverty across the borough. Resources will be sought under the Energy Company Obligations (ECO) flowing from the Energy Act 2011, which takes over from existing energy service provider obligations under CERT (Carbon Emission Reduction Target) and CESP (Community Energy Saving Programme). Dudley has used both programmes to successfully secure additional resources in recent years to improve homes, but the funding has now expired. ECO is intended to continue to provide funding for energy saving measures where households most need additional support, particularly in deprived areas, but also in hard to treat (or insulate) houses such as solid wall properties across the borough

24. It is proposed that any additional resources obtained under paragraph 23 be added to the Capital Programme accordingly and the Directors of Corporate Resources and Adult Community and Housing Services be approved to enter into any such grant or funding agreements necessary to deliver the schemes.

25. To ensure effective utilisation of all resources that become available, Cabinet is requested to authorise the Director of Adult, Community and

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

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

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

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

28. Although the HRA enjoys some increased flexibility, the HRA ring-fence remains in force, and the Council is also expected to continue to follow 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 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.

29. The introduction of self-financing for the HRA clearly has implications beyond the medium-term financial strategy. A thirty-year business plan is being developed to address the requirements of the housing service under the themes of finance, governance and asset management.

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 2014. 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 2014 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 Cabinet:

a) approve a rent increase for HRA dwellings on 1st April 2013 with an average increase of £3.59 (4.6%) and a maximum increase of £5.85 in line with government rent guidance (paragraph 4);
b) approve an increase of 2.6% in service charges (paragraph 6 and 8);
c) approve an increase of 10% in heating and lighting charges for sheltered housing from an average weekly charge of £11.92 to an average weekly charge of £13.11 other than at The Gables where charges will remain at their current rates (paragraph 7);
d) approve an increase from £2.00 to £2.10 for laundry tokens (paragraph 9);
e) approve the increase of 2.6% to the current charge for pitch licences at Oak Lane as outlined in paragraph 10;

f) approve an increase of 2.6% in water charges at Oak Lane to £6.16 per week (paragraph 10);

g) approve maintaining the leaseholders’ administration fee at current levels as outlined in paragraph 11;

h) approve an increase of £0.50 per month for private Telecare clients as outlined in paragraph 12;

i) approve the maintenance of garage rents at current levels and the dates proposed for future increases (paragraph 13);

j) approve the maintenance of garage plot rent and access agreements at current levels, and the dates proposed for future increases (paragraph 13);

k) approve the revised HRA budget for 2012/13 and the HRA budget for 2013/14 outlined in Appendix 1;

l) recommend that Council approve the public sector housing revised capital budget for 2012/13 and the capital budget for 2013/14 to 2017/18 attached as Appendix 2;

m) recommend that Council authorise the Director of Adult, Community and Housing Services and the Director of Corporate Resources to bid for and enter into funding arrangements for additional resources to supplement investment in the public sector housing stock as outlined in paragraphs 23 and 24;

n) 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 25;

o) 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 25);

p) authorise the Director of Adult, Community and Housing Services to procure and enter into contracts for the delivery of the capital programme, as outlined in paragraph 26;

q) receive the HRA medium term financial strategy attached as Appendix 4.

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Appendix 1

Proposed HRA Budget

	2012/13 current budget June 2012 £000	**2012/13 proposed revised budget £000**	**2013/14 proposed original budget £000**
Income			
Dwelling rents	-87,350	-86,785	-88,893
Non-dwelling rents	-691	-696	-696
Charges for services and facilities	-199	-214	-204
Contributions towards expenditure	-1,038	-1,034	-1,013
Interest on balances	-5	-20	-7
Total income	**-89,283**	**-88,749**	**-90,813**
Expenditure			
Responsive and cyclical repairs	25,803	23,407	24,238
Management	15,643	15,093	15,295
Negative Subsidy	0	4	0
Transfer to Major Repairs Reserve	21,487	21,487	21,425
Interest payable	18,427	18,426	18,499
Revenue contribution to capital expenditure	11,847	12,887	11,210
Other expenditure	968	1,019	1,419
Total expenditure	**94,175**	**92,323**	**92,086**
Surplus/deficit for the year	**4,892**	**3,574**	**1,273**
Surplus brought forward	**-5,606**	**-5,606**	**-2,032**
Surplus carried forward	**-714**	**-2,032**	**-759**

Appendix 2

Proposed capital programme 2012/13 to 2017/18

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Adaptations	2,547	2,722	2,693	2,725	2,752	2,780
Central heating	2,245	2,457	1,868	1,890	1,909	1,928
Community Safety and Environmental Improvements	178	661	281	284	287	290
Electrical Installations	1,589	1,476	1,290	907	917	926
External Improvement Programme	7,097	8,409	7,134	7,473	7,550	7,628
Insulation	25	164	164	170	172	174
Minor Works	3,735	4,297	4,135	3,785	3,825	3,865
Internal Improvement Programme	2,170	3,813	2,818	3,408	3,443	3,478
New Council Housing	2,118	1,201	1,677	1,141	1,152	1,164
Tenants Association	77	126	81	82	83	84
Office Accommodation	250	0	0	0	0	0
Void Property Improvements (	13,486	11,488	9,488	9,605	9,705	9,808
Grand Total	**35,517**	**36,814**	**31,629**	**31,470**	**31,795**	**32,125**

Resources

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Borrowing	0	0	0	0	0	0
Major repairs allowance	21,487	21,425	21,461	21,400	21,338	21,277
Revenue contribution to capital	12,887	11,210	8,962	8,822	9,328	9,673
Usable capital receipts	1,602	4,651	1,543	1,598	1,438	1,497
Less usable capital receipts transferred to support private sector housing capital	-666	-472	-337	-350	-309	-322
Other	207	0	0	0	0	0
Grand Total	**35,517**	**36,814**	**31,629**	**31,470**	**31,795**	**32,125**

Appendix 3

Detail of the proposed provisional five year housing capital programme 2013/14 to 2017/18

Adaptations

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

At current levels of referrals the budget would maintain existing waiting times and would provide around 400 larger adaptations (level access showers, stair lifts, vertical lifts ramps and a limited numbers of conversions) in each year. In addition the budget will provide for around 900 to1,000 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: £13.7m over the 5 years 2013/14 to 2017/18

Central Heating

Improving energy efficiency and reducing fuel poverty is a major priority for the Council, with the added benefit of also 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

There are currently around 600 unheated homes in the Borough, all of which where 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 for installing heating in all unheated properties when they become empty; an estimated 350 homes in total. It is estimated that around 250 homes will remain unheated at the end of the five year programme.

The electric night storage heating replacement programme will continue replacing electric night storage heating with modern, efficient gas heating. Over the five years Council resources will replace around 1,600 storage heating systems where homes already have a gas supply. An additional £1m is allocated for 2012/14, and an additional £500,000 each year thereafter, resulting in around 850 more homes benefiting than previous plans provide for.

Around 750 homes will have a replacement boiler or system upgrade to deal with those gas boilers and systems that cannot be repaired when they break down. These will be replaced with modern energy efficient boilers to ensure heating is made as affordable as possible for tenants.

Total budget: £10m over the 5 years 2013/14 to 2017/18

Community Safety & Environmental Improvements Programme

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

The programme will complete schemes already approved to address fire safety issues in flatted developments and dealing with works arising from the Fire Risk Assessments that are being undertaken. From 2013/14 budgets will address local community and environment projects prioritised by Area Panels.

Total budget: £1.8m over the 5 years 2013/14 to 2017/18

Electrical Installations

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

The programme of periodic electrical inspections will continue with subsequent electrical works being undertaken to ensure that electrical installations do not fail the Decent Homes Standard. A budget of around £400,000 per year will deal with full rewires where required but the majority of homes, including empty properties, will only require partial electrical upgrade works.

The programme will also complete the rewiring of communal areas at Tenbury, Malvern and Worcester Houses.

Provision is also made to continue the programme of remedial repairs, upgrades and improvements to lifts in high rise flatted developments with over £1m of expenditure over the 5 years.

The remainder of the programme budget also targets investment in the planned replacement of specialist electrical systems that are beyond economic repair. Limited budgetary provision is made

- To deal with any potential required replacement door entry and high rise fire alarm systems.
- To ensure warden call equipment purchased remains compatible with new Telecare technology to allow wardens to provide the essential Homecall service for vulnerable residents of the community;

Total budget: £5.5m over the 5 years 2013/14 to 2017/18

External Improvement Programme

The programme continues to address Decent Homes' investment and deals with necessary planned maintenance to the external façade of Council owned homes, predominantly replacement windows and re-roofing.

The programme will fund over £4m each year replacing windows and external doors that are in significant need of replacement and pose a health and safety danger. This will continue to address a current investment need of around £2m for windows.

Over £2m each year is proposed to be invested in re-roofing homes to ensure that they remain sound and watertight to the Government's Decent Homes Standard. 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.

As with the central heating budget this programme will be used where possible to match fund any Energy Service Providers' funding obligations received by Dudley under ECO (Energy Company Obligations) which flow from the Government's Energy Act flagship; the Green Deal. This delivers carbon saving schemes such as external wall insulation similar to the Community Energy Savings Programme (CESP) schemes already delivered. ECO is made up of three parts aimed at helping people in certain circumstances to save energy and money. The two areas where the Council's stock can benefit are:

- **Carbon Savings Communities Obligation (CSCO)** - CSCO replaces CESP and is restricted to eligible postcodes in areas of high deprivation. Measures will include solid wall, cavity wall and loft insulation.

- **Carbon Emissions Reduction Obligation (CERO) -** This focuses on properties that are typically harder to heat and is not restricted to deprived areas. These properties must have solid wall or hard to treat cavity insulation installed under CERO, with other improvements such as loft insulation upgrade then available if required.

The match funding contribution is likely to deal with associated enabling and ancillary works not funded by energy companies such as canopies, gates and fencing where and if required. £500,000 provision has been made for this.

Total budget: £38.2m over the 5 years 2013/14 to 2017/18 plus any additional resources received from Energy Service Providers.

Insulation

The programme provides 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:

- Improve fuel poverty by reducing energy bills by allowing properties to be insulated to meet the Decent Homes Standard, including offering cavity wall insulation where previous tenants have refused insulation.
- Improve the SAP (Standard Assessment Procedure) rating of the housing stock (which measures how energy efficient the housing stock is) and contributing towards reducing carbon emissions.

Total budget: £0.8m over the 5 years 2013/14 to 2017/18 plus any additional energy related resources received from Energy Service Providers

Internal Improvement Programme

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

The programme is around £5m more each year than the previous 5 year programme and will continue to deal with the current investment need of around £2m.

Each year around 1,000 internal improvements will be carried out.

Total budget: £17m over the 5 years 2013/14 to 2017/18

Minor Works

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

Current arising investment need is estimated at over £1m for health and safety issues, communal paved areas, paths and un-adopted roads and other environmental type works.

Works already identified include dealing with high cost structural, subsidence and demolition etc works and works that are required as a result of high rise structural inspections and periodic surveys to flatted developments.

The budget also funds larger repair improvements costing over £1,000 each, to the value of over £1.7m each year.

Total budget: £19.9m over the 5 years 2013/14 to 2017/18

Tenants' Association

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

Total budget: £0.5m over the 5 years 2013/14 to 2017/18

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.

£50m over 5 years will fund necessary improvements to homes when they become empty, dealing with asbestos, rewiring, kitchens, bathrooms, plastering and major re-plumbing.

Total budget: £50m over the 5 years 2013/14 to 2017/18

New Council Housing

A bid has been made to the Homes and Communities Agency (HCA) for grant towards providing 14 new homes for people with learning disabilities, and if successful the first two years of the new build programme will deliver this £2.1m scheme which also includes 3 two bedroom houses. The bids are for schemes utilising existing HRA land, as former DLO depots at:

- The Walk Sedgley – 6 apartments for people with learning disabilities and 3 two bedroom houses
- Norfolk Road, Wollaston – 8 apartments for people with learning disabilities

If the HCA bid is unsuccessful the resources required to match fund the HCA bid will be re-allocated to other new build schemes.

A further £1m per year is allocated from 2015/16 onwards to deliver around 30 more new homes over the remaining 3 years of the programme.

Total budget: £6.3m

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. The Housing Stock Options Appraisal was signed off by the Government Office West Midlands on this basis.

6. A new financial strategy for landlord housing is currently being developed to take 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 will be the subject of a consultation process that will include 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;
   - comply with government policy on rent restructuring.

<u>The proposed budget 2013/14 and the MTFS(LH)</u>

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

8. This forecast has been based on recent financial trends and our current assessment of the Government's housing finance policy and, like any forecast, should be regarded with caution (risks to the forecast are considered later). In view of our commitment to stock retention and maintenance of the Decent Homes Standard, it is proposed that we continue when necessary to give consideration to the following:

   - ongoing review of spending and resource forecasts;
   - further efficiency and other savings, including those achievable from use of partnerships;

- addition to and replacement of the housing stock via new build programmes;
- the level of housing debt;
- service charges[2].

9. 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 and also in the way that capital works are delivered have resulted in significant cost savings.

10. 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.

Risks to the financial forecast

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

Risk	Impact
Inflation higher than forecast	While increased inflation has an impact on costs, in the case of the HRA, it also affects resources, through the rent formula under government guidance. 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	Rent loss from void properties We have been very successful over the years in controlling rent loss on empty properties. We have previously allowed in our forecasts for a rent loss of 1.8% of total rent available. 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 2.5% of total rent available. Investment in void property works has been prioritised in the proposed five-year capital programme.

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

	The cost for each 1% void loss is around £1m per annum. . <u>Rent loss from non-payment of arrears</u> As part of the Government's proposed welfare reforms, it is proposed that many tenants will from 2013-14 onwards start to receive Universal Credit direct and will therefore be responsible for paying their own rent. Currently, tenants in receipt of benefit have their rent paid as a transfer from Benefits. This is likely to lead to an increase in arrears and potentially in bad debts. Around 4,000 tenants of working age in receipt of benefits may also be affected by benefit restrictions from April 2013 as they are deemed to be under-occupying their property. We estimate that around £2.7m rent, which was previously paid directly via Benefits, will now be collectable from tenants as a result of the new underoccupancy rules. 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%.
Interest rates higher than forecast	Our debt on housing properties is around £465m 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	A 10% reduction in property values would reduce the value of usable capital receipts and would reduce available resources by around £90k 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 (however, see Reinvigoration of Right to Buy, below) 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 increase for the next few years. A reduction of 100 house sales in a year will lead to a loss of usable capital receipts of £1.8m. This would be partially offset by additional rental income of around £400k, but management and maintenance demands will continue.
Reinvigoration of Right to Buy	The Government has increased the cap on Right to Buy (RTB) discount from £26,000 to £75,000 per property. This may result in increased sales. 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.
Timing and amount of capital receipt	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 over the period 2009-10 to 2013-14. Any significant reduction in amount will reduce available resources. Any 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. A specific risk applies in relation to £700k of this anticipated receipt 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.
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.

<u>Prudential indicators</u>

12. The Local Government Act 2003 introduced a system of "prudential borrowing" which allows councils to set their own borrowing limits subject to

criteria of prudence and affordability. These criteria are set out in more detail in the CIPFA Prudential Code which specifically requires us to set a number of prudential indicators. The full range of prudential indicators are to be set as part of another report on this agenda. Those indicators that relate to HRA capital expenditure are set out below:

	Latest budget 2012/13	**Forecast 2013/14**	**Forecast 2014/15**	**Forecast 2015/16**
Ratio of financing costs to net revenue stream: HRA	20.8%	20.4%	19.2%	18.3%
Estimated incremental impact of capital investment decisions on HRA weekly rents	N/A	N/A	N/A	N/A
Capital expenditure: HRA	35.5	36.8	31.6	31.5
Capital Financing Requirement: HRA	£467.1m	£467.1m	£467.1m	£467.1m

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

14. The forecast debt charges resulting from anticipated borrowing are fully reflected in the Housing Revenue Account budget at Appendix 1 of the report. There are currently no proposals to undertake new borrowing as this is not possible within the limits imposed on the HRA CFR as part of self-financing. However, rents continue to be determined by government rent restructuring guidance and it is assumed that the Council will continue, as in previous years, to comply with this guidance.

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

Partnerships

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

- Funding partnerships with energy service providers to increase resources under the Government's CESP [Community Energy Savings Programme] and ECO (Energy Company Obligations) - which will replace 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, three partnerships (gas servicing, maintenance and repair; electrical rewires and upgrades; external painting) are delivering improved services at a measurably lower cost and have allowed valuable and limited resources to be re-invested in the housing stock.

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