Agenda Item No. 6

**Meeting of the Cabinet – 8th February 2012**

**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 2012/13 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 2012/13 to 2016/17.
- To note the impact of the new self-financing system of HRA funding, and 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. Our last ten years' 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%)

4. In previous years rent restructuring has been supported by the Government's subsidy system which assumes that the additional income from rent increases is available to pay into a national pool. The new system for HRA self-financing (outlined later in this report) similarly assumes rent increases in line with government guidance. It is proposed that the next increase be on 2nd April 2012. Applying the Government's rent formula to the next increase would generate an average increase of 7.7%, equivalent to £5.54 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** |
|---|---|
| £4.50 or less | 8.53% |
| £4.51 to £5.00 | 19.32% |
| £5.01 to £5.50 | 20.09% |
| £5.51 to £6.00 | 22.77% |
| £6.01 to £6.50 | 18.43% |
| £6.51 or more | 10.86% |

5. A letter was sent to the Dudley Federation of Tenants' and Residents' Associations (DFTRA) on 17 January 2012 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 and overnight support. It is proposed that all of these charges be increased by 5.6% 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 £9.78 to a new average weekly charge of £10.76.

8. The Council currently provides, within its general housing stock, a number of units of furnished accommodation for which a charge of £22.40 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 5.6% 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 £1.90 to £2.00 per token.

10. It is proposed that pitch licences at Oak Lane be increased by 7.7%, in line with the increase in dwelling rents and that weekly charging for water be maintained at a rate of £6 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 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 2012. 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 2012/13.

Proposed HRA budget 2012/13

14. The proposed HRA budget for 2012/13 (together with a proposed revised budget for 2011/12) is attached as **Appendix 1**. This budget is based on recent trends and our latest assessment of government policy on housing finance. It should be noted that 2012/13 is the first year in which the new HRA self-financing system will operate.

The report on the HRA and Public Sector Housing Capital to Cabinet in February 2011 noted that 2011/12 was likely to be the last year in which the current HRA subsidy system operates. The Government's reforms of HRA funding are set out in the Localism Act and include the abolition of the current system and its replacement with a self-financing model under which housing authorities will retain all rental income in return for taking on a share of national housing debt.

Previous reports to Cabinet have noted progress towards implementation of the self-financing system since the initial consultation paper on the proposals was issued in July 2009. In November 2011 the Government issued a draft determination including updated individual financial models for each local housing authority. The final determination is still awaited at the time of completing this report. Should the final determination result in a significant change to the Council's financial model, a revised HRA budget will be brought to Cabinet later in the year.

The key elements of the proposed new self-financing system are:

- Abolition of the HRA Subsidy system – whereas Dudley currently makes negative subsidy payments into a national pool (around £22m in 2011/12) we would in future be able to retain all rental income.
- In return we would take on a one-off allocation of housing debt based on an affordability calculation. This would be around £338m under the current proposals. At this level, and at current interest rates, the interest payments would be more than offset by the removal of negative subsidy payments, allowing greater investment in management, maintenance and major repairs than would be possible if the current system were to continue.
- 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 2011/12 (approved by Cabinet in June 2011) shows a surplus on the HRA of £0.575m at 31st March 2012. The proposed revised budget for 2011/12 shows a surplus at the same date of £1.796m. Variances arise mainly from

- Reduced rental income owing to higher than anticipated right to buy sales and voids;
- Increased demand for repairs and maintenance;
- Savings in housing management owing to vacant posts and efficiencies;
- Reduced interest rates leading to higher negative subsidy payment and lower interest payable;
- Revised accounting treatment of the Housing Repairs Account in line with new guidance, affecting the balance brought forward and repairs and maintenance costs in the year;

- Deferral of £1.8m revenue contribution to capital costs relating to Orchard Street new build, where the majority of the works will now take place in 2012/13.

16. The proposed HRA budget for 2012/13 takes account of the proposed average rent increase of £5.54 on the 2nd April 2012 (paragraph 4).

17. The proposed HRA budget for 2012/13 includes a budget for housing management of £14.7m. This covers the day to day management of properties including income collection, tenancy enforcement, support for vulnerable tenants and lettings and void management.

18. The proposed HRA budget for 2012/13 includes a budget for repairs and maintenance of £24m. 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 2012/13 includes a budget for interest payments of £20.9m. This is significantly greater than the equivalent in previous years as the Council will have to take on around £338m of additional housing debt on 28th March 2012 as part of the self-financing settlement. While this is a very significant sum, the net effect of taking on new debt and ceasing to pay negative subsidy is, as noted previously, favourable to the HRA.

20. In previous years and in the current year, the allocation of debt financing costs between the HRA and the General Fund has been by means of a statutory calculation. For 2012/13 onwards, the Council will need to determine the method of allocation of these costs as part of its Treasury Management Strategy (to be considered by Audit Committee on 9th February and approved by Full Council on 27th February). This method of allocation will be set in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). It will seek to allocate the costs of existing debt equitably between the HRA and the General Fund while ensuring that rates of interest achieved on the new housing debt are reflected in the HRA.

21. The requirement for new housing debt comes at a time of unprecedented uncertainty in the financial markets not least due to events in the Eurozone. The proposed HRA budget for 2012/13 has therefore been calculated on a very prudent basis allowing for an average interest rate payable on all the Council's HRA debt (including existing debt) of 4.5%. It is possible that, when the borrowing transactions are undertaken with the Public Works Loans Board (PWLB), a lower interest rate may be achieved. If this is the case, a revised HRA budget will be brought to Cabinet later in the year.

22. The Government has recently consulted (from 22 December 2011 to 2 February 2012) on ***Reinvigorating the Right to Buy and one for one replacement***. The key proposals are to increase the cap on maximum Right to Buy discount from (in the West Midlands) £26,000 to £50,000 and to use the additional capital receipts from increased house sales to build more social rented homes. If the proposals within this consultation document are introduced as planned from April 2012, they will replace the current system of capital receipt pooling for Right to Buy properties. The proposed budget assumes a number of house sales consistent with the self-financing settlement and current assumptions based on the present maximum discount. Should the proposals on Right to Buy be introduced and result in increased sales, this will be taken into account in the revised HRA budget that will be brought to Cabinet later in the year.

Public sector housing capital budget 2012/13 to 2016/17

23. A proposed public sector capital budget for 2012/13 to 2016/17 and a revised budget for 2011/12 are attached as **Appendix 2.** Explanations of the budgets are attached as **Appendix 3**.

24. 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, targeting investment into achieving Government targets for the Decent Homes Standard and 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;
- Improving energy efficiency, combating climate change and reducing fuel poverty;
- Investing in empty homes to ensure that as many of the Council's homes as possible are available for occupation;
- Maintaining investment, at affordable levels, in community safety, environmental and social programmes such as Adaptations for persons with disabilities.

25. Whilst the detail of the proposed programmes is included within **Appendix 3,** notable projects over the five year period from 2012/13 to 2016/17 are as follows:

- Continued investment in Adaptations for persons with disabilities, with an investment of over £13m over the next five years. This will maintain waiting times for major adaptations at current levels and deal with over 6,000 minor adaptations such as handrails and grab rails, and around 2,375 major adaptations such as level access showers, stairlifts, vertical lifts and ramps.
- Investment in central heating efficient heating systems that help improve fuel poverty, with over £8m funding around:
    - 750 electric storage heating systems being replaced with new, modern efficient gas heating systems;

    - 600 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);
    - 800 replacement central heating boilers or system upgrades.
- Replacing over £4m of windows each year with modern, energy efficient double glazed units, £7.5m more than the current five year programme;
- Replacing around 3,500 kitchens or  bathrooms in a £12m programme of internal improvements, an addition of £5m more than the current budget;
- Undertaking over £55m of improvements in empty properties to ensure that they can be re-let, an increase of £9m over the five years. This will begin to address the current investment need of over £4m required to improve over 100 homes that are currently empty and awaiting significant investment.
- Complete the programme of new build council housing, with completion of the final scheme at Orchard St, Brierley Hill.

26. 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 around the Government's Energy Act and Green Deal. Examples include:
    - 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) both which expire at the end of 2012. ECO is intended  to provide funding for energy saving measures where households most need additional support, particularly vulnerable people on low incomes and in hard to treat houses;
    - Schemes that can be still be delivered under the remaining CERT and CESP programmes;
    - FIT [Feed In Tariffs] and RHI [Renewable Heat Incentives] which may include renewable technologies such as photovoltaic [PV] panels on roofs, air source heat pumps and other electric and heat generating technology.

27. It is proposed that any additional resources obtained under paragraph 26 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.

28. 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.

29. 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

30. With the abolition of the HRA Subsidy system and the introduction of self-financing for housing authorities, 2012/13 is the first year in which the Council will have an increased level of autonomy and flexibility regarding housing finance. The HRA budget will no longer be dependent on annual Government settlements, but it will be possible to set indicative budgets for a longer period and to develop a longer-term financial and business strategy.

31. Although the HRA will enjoy 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. A new 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.

32. 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**

33. 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 2013. 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 2013 and therefore complies with the requirements of the Act.

**Law**

34. 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

35. The Equalities Act 2010 created a new public sector equality duty, which came into force from 5 April 2011. This consists of a general equality duty, which applies to the Council and specific duties, which have not yet been published.

The general equality duty has three objectives, 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 new Equality 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

36. It is recommended that Cabinet:

a) approve a rent increase for HRA dwellings on 2nd April 2012 with an average increase of £5.54 (7.7%) and a maximum increase of £8.03 in line with government rent guidance (paragraph 4);
b) approve an increase of 5.6% 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 £9.78 to an average weekly charge of £10.76 (paragraph 7);
d) approve an increase from £1.90 to £2.00 for laundry tokens (paragraph 9);
e) approve the increase of 7.7% to the current charge for pitch licences at Oak Lane as outlined in paragraph 10
f) approve the maintenance of water charges at Oak Lane at the current rate of £6 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 2011/12 and the HRA budget for 2012/13 outlined in Appendix 1;
l) recommend that Council approve the public sector housing revised capital budget for 2011/12 and the capital budget for 2012/13 to 2016/17 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 26 and 27;
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 28;
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 28);
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 29;
q) receive the new HRA medium term financial strategy attached as Appendix 4.

…………………………………………….

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

…………………………………………….

**Iain Newman**
**Treasurer**

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

**List of Background Papers:**

Housing Revenue Account Subsidy Draft Determination 2012/13
Reinvigorating the Right to Buy and one for one replacement – consultation December 2011

**Appendix 1**

**Proposed HRA Budget**

| | **2011/12 current budget June 2011 £000** | **2011/12 proposed revised budget £000** | **2012/13 proposed original budget £000** |
|---|---:|---:|---:|
| Income | | | |
| Dwelling rents | -81,104 | -80,653 | -87,350 |
| Non-dwelling rents | -720 | -691 | -691 |
| Charges for services and facilities | -173 | -188 | -199 |
| Contributions towards expenditure | -1,052 | -1,159 | -1,130 |
| Interest on balances | -5 | -8 | -5 |
| **Total income** | **-83,054** | **-82,699** | **-89,375** |
| | | | |
| Expenditure | | | |
| Responsive and cyclical repairs | 22,389 | 23,497 | 24,050 |
| Management | 14,954 | 14,554 | 14,717 |
| Negative Subsidy | 22,330 | 22,549 | 0 |
| Transfer to Major Repairs Reserve | 14,525 | 14,525 | 21,487 |
| Interest payable | 6,890 | 6,659 | 20,905 |
| Revenue contribution to capital expenditure | 2,829 | 1,029 | 8,720 |
| Other expenditure | 1,053 | 1,035 | 968 |
| **Total expenditure** | **84,970** | **83,848** | **90,847** |
| | | | |
| **Surplus/deficit for the year** | **1,916** | **1,149** | **1,472** |
| | | | |
| **Surplus brought forward** | **-2,491** | **-2,945** | **-1,796** |
| **Surplus carried forward** | **-575** | **-1,796** | **-324** |

## Appendix 2

## Proposed capital programme 2011/12 to 2016/17

| | 2011/12 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2014/15 £'000 | 2015/16 £'000 | 2016/17 £'000 |
|---|---|---|---|---|---|---|
| Adaptations | 2,761 | 2,567 | 2,618 | 2,662 | 2,740 | 2,839 |
| Central heating | 2,253 | 1,496 | 1,526 | 1,552 | 1,597 | 1,656 |
| Community Safety and Environmental Improvements | 331 | 474 | 283 | 288 | 296 | 307 |
| Electrical Installations | 1,536 | 1,352 | 1,374 | 1,059 | 1,090 | 1,130 |
| External Improvement Programme | 7,882 | 6,170 | 7,570 | 7,749 | 7,096 | 7,198 |
| Insulation | 109 | 158 | 161 | 164 | 168 | 175 |
| Minor Works | 4,276 | 3,828 | 3,776 | 3,840 | 3,953 | 4,016 |
| Modernity and Decent Homes | 2,251 | 2,323 | 2,325 | 2,364 | 2,433 | 2,505 |
| New Council Housing | 9,464 | 2,444 | 245 | 218 | 0 | 0 |
| Tenants Association | 73 | 83 | 85 | 87 | 89 | 92 |
| Brierley Hill Library Housing Office | 78 | 0 | 0 | 0 | 0 | 0 |
| Void Property Improvements (Decency) | 9,114 | 11,311 | 10,699 | 10,880 | 11,202 | 11,319 |
| **Grand Total** | **40,128** | **32,206** | **30,662** | **30,863** | **30,664** | **31,237** |

## Resources

| | 2011/12 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2014/15 £'000 | 2015/16 £'000 | 2016/17 £'000 |
|---|---|---|---|---|---|---|
| Borrowing | 22,259 | 0 | 0 | 0 | 0 | 0 |
| Major repairs allowance | 14,525 | 21,488 | 21,424 | 21,386 | 21,338 | 21,285 |
| Revenue contribution to capital | 1,029 | 8,720 | 8,020 | 7,884 | 7,690 | 9,060 |
| Usable capital receipts | 1,559 | 2,664 | 1,624 | 2,124 | 2,182 | 1,189 |
| Less usable capital receipts transferred to support private sector housing capital | -1,083 | -666 | -406 | -531 | -546 | -297 |
| Other | 1,839 | 0 | 0 | 0 | 0 | 0 |
| **Grand Total** | **40,128** | **32,206** | **30,662** | **30,863** | **30,664** | **31,237** |

**Appendix 3**

**Detail of the proposed provisional five year housing capital programme 2012/13 to 2016/17**

## 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 475 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 1,250 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: £13.4m over the 5 years 2012/13 to 2016/17

## Central Heating

The programme delivers new central heating to unheated Council owned homes, and replacement systems that are beyond economic repair. There are currently around 750 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 installing heating in all unheated properties when they become empty, an estimated 600 homes in total. It is estimated that around 150 homes will remain unheated at the end of the five year programme.

Around 800 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 or where funding is required to top up match funding for boilers replaced under Government 'Green Deal' initiatives such Community Energy Savings Programme [CESP], Carbon Emission Reduction Target [CERT] or other such energy related funding initiative. These will be replaced with modern energy efficient boilers to ensure heating is made as affordable as possible for tenants.

Addressing climate change, improving energy efficiency and fuel poverty is also a priority. 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 modern, efficient gas heating. Over the five years Council resources will replace around 750 storage heating systems where homes already have a gas supply.

Additional boilers and storage heating systems may be replaced should the Council continue to benefit from funding received from Energy Service Providers through 'Green Deal' type initiatives flowing from the Energy Act 2011 and other such energy company obligations. It is proposed to seek funding from them to contribute towards more energy efficient carbon, reducing measures that benefit residents and address fuel poverty. Programmes will continue where possible with such schemes or their successor programmes such as the Energy Company Obligations [ECO] where Energy Companies will contribute towards funding energy and carbon saving measures such as replacement of storage heating and replacement of poor inefficient boilers.

Around 1,500 homes will also have a modern gas fire where the existing fire cannot be repaired or maintained.

Total budget: £7.8m over the 5 years 2012/13 to 2016/17

**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 budget in 2012/13 will be utilised to complete schemes already approved and will then address fire safety issues in flatted developments, dealing with works arising from the Fire Risk Assessments that are being undertaken. Future years budgets will continue to address local community and environment projects.

Total budget: £1.6m over the 5 years 2012/13 to 2016/17

**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 £500,000 per year will deal with full rewires where required but the majority of homes, including empty properties, will only require partial electrical upgrade works.

A two year programme will also commence in 2012/13 to undertake the rewiring of communal areas at Tenbury, Malvern and Worcester Houses.

Provision is also made to commence a programme of remedial repairs, upgrades and improvements to lifts in high rise flatted developments.

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: £6m over the 5 years 2012/13 to 2016/17

**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, with around £23m over the five year programme. This is around £1.5m per year more than the previous 5 year programme and will contribute towards improving the energy efficiency of homes. It will also start to address a current investment need of around £2m for windows with a waiting time from inspection to providing a replacement window currently around 2 years.

Around £500,000 per annum will be invested in re-roofing homes in 2012/13 to ensure that they remain sound and watertight to the Government's Decent Homes Standard, with future investment increased to around £1m per year thereafter to deal with an increase in investment need for re-roofing of older properties. This works is either replacement of roof coverings such as tiles or slates and/or replacement and/or upgrade of the structural timbers as necessary. The budget will also continues work on a planned programme to replace flat roof coverings on flatted developments with modern energy efficient materials. Around £750,000 each year will be spent on planned improvement works associated with roofing such as fascias and soffits

The budget also completes current approved Community Energy Savings Programme [CESP] and solar PV schemes.

As with the central heating budget this programme will be used where possible to match fund any Energy Service Providers' funding obligations eg, as part of Green Deal energy and carbon saving schemes such as external wall insulation, and will also deal with associated ancillary works not funded by energy companies (eg canopies, gates and fencing).

Total budget: £35.8m over the 5 years 2012/13 to 2016/17 plus any additional resources received from Energy Service Providers or generated through 'Green Deal'.

## Insulation

Following receipt of match funding for insulation works through Energy Company funding such as Carbon Emission Reduction Target [CERT] or CESP, this programme has now offered the installation of cavity wall insulation to all tenants whose homes can benefit from cavity wall insulation.

The budget 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: £0.8m over the 5 years 2012/13 to 2016/17 plus any additional energy related resources received from Energy Service Providers or generated through 'Green Deal'.

## 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 around £1.7m each year.

Total budget: £19.4m over the 5 years 2012/13 to 2016/17

## Modernity and Decent Homes

This budget is proposed to continue the programme of kitchen, bathroom and internal improvements to target maintaining the Decent Homes Standard with over £12m of improvements over 5 years.

This is around £1m more each year than the previous 5 year programme and will continue to deal with the current arising investment need of around £2m, with waiting times from inspection to commencement currently around 2 years.

2012/13 will complete around 700 kitchens or bathrooms with around £2m investment each replacing around 3,500 kitchens or bathroom in total over the five years. The five year programme will predominantly 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, largely due to age, where they are also in poor condition.

Total budget: £12m over the 5 years 2012/13 to 2016/17

**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: £0.4m over the 5 years 2012/13 to 2016/17

**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.

Around £10m each year will fund necessary improvements to homes when they become empty, dealing with asbestos, rewiring, kitchens, bathrooms, plastering and major re-plumbing.

Currently there are over 100 exceptionally high cost voids that could not be funded from previous budgets, at an estimated cost of over £4m (significantly above the investment need for typical empty homes). An increase of £2.2m above the current year budget will start to provide for investment to bring some of these properties back into circulation and the 5 year budget has been increased by £9m more than initially planned in the previous programme.

Some of these properties have structural problems and significant investment need and have been identified as suitable for disposal. In such circumstances any capital receipts obtained will be ploughed back to deal with stock improvements

Total budget: £55.4m over the 5 years 2012/13 to 2016/17

**New Council Housing**

The programme will complete the current approved new housing schemes, which all self-fund over a 30 year period.

Works on the Homes and Communities Agency (HCA) schemes are all on programme to complete to target and the final Dudley funded scheme at Orchard St commenced on site late 2011, with completion planned for the end of 2012.

Total budget: £2.9m

**Revenue [Responsive Repairs, Voids and Cyclical Maintenance]**
Revenue budgets to fund ongoing responsive repairs, statutory servicing and testing (eg gas appliance, lifts), cyclical maintenance [such as communal painting] and the routine element of voids [statutory testing, cleaning, minor repairs etc] are set at £24m for 2012/13, which will maintain current service standards for responsive works.

**Appendix 4**

## Medium Term Financial Strategy for Landlord Housing (MTFS(LH)) and Thirty Year Business Planning Stragey 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 likely to include:

   - 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.

**The proposed budget 2012/13 and the MTFS(LH)**

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

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 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.<br><br>If cost inflation is lower than general inflation as used to determine the rent increase, this will have a positive budgetary impact.<br><br>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<br>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.<br>The cost for each 1% void loss would be around £1m per annum.<br>We have seen over the last year in 2011-12 an increase in void properties owing mainly to greater tenant mobility. Investment in void property works has been prioritised in the proposed five-year capital programme.<br><br>Rent loss from non-payment of arrears<br>As part of the Government's proposed welfare |

[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.

| | |
|---|---|
| | reforms, it is proposed that many tenants will from 2013-14 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. |
| Interest rates higher than forecast | Our debt on housing properties will be around £465m following the introduction of self-financing. Hence, interest rate risk is much more significant than it was under the subsidy system.<br><br>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 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.<br>A reduction of 100 house sales in a year will lead to a loss of usable capital receipts of £1.8m.<br>This would be partially offset by additional rental income of around £300k, but management and maintenance demands will continue. |
| Reinvigoration of Right to Buy | The Government has issued proposals that would increase the cap on Right to Buy (RTB) discount from £26,000 to £50,000 per property. This may result in increased sales. New regulations would replace the current capital receipts pooling arrangements and may restrict our flexibility on how we may use any additional receipts. |
| 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 2015-16. 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. |
| Unforeseen costs or costs greater than estimated | Any unbudgeted costs would have to be met from economies or reductions in planned spending in the year in which they arise or from any balances available in that year. Preliminary calculations indicate that any costs to the HRA arising from Single Status could be met within proposed budgets. We anticipate that any back-pay costs would be capitalised through a government dispensation. |

**Prudential indicators**

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

| | **Latest budget 2011/12** | **Forecast 2012/13** | **Forecast 2013/14** | **Forecast 2014/15** |
|---|---|---|---|---|
| Ratio of financing costs to net revenue stream: HRA | 8.0% | 21.4% | 20.7% | 19.8% |
| Estimated incremental impact of capital investment decisions on HRA weekly rents | £0. 56 | N/A | N/A | N/A |
| Capital expenditure: HRA | £378.2m * | £32.2m | £30.7m | £30.9m |
| Capital Financing Requirement: HRA | £467.1m | £467.1m | £467.1m | £467.1m |

** includes £338.1m payment to DCLG in respect of the HRA self-financing settlement.*

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. The increase from 2012/13 onwards reflects the extra debt taken on as part of HRA self-financing, and does not indicate that this level of debt is unaffordable.

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, taking into account the borrowing cap that will

apply under self-financing .There are currently no proposals to undertake new borrowing as this would not be 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.

**<u>Partnerships</u>**

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

- West Midlands Fire Service provides 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.

- Partnership with E-On to increase resources under the Government's Carbon Emission Reduction Target (CERT) funding and further funding will be explored through energy providers to work in partnership to deliver the CESP [Community Energy Savings Programme] and ECO (Energy Company Obligations) which will replace CESP from autumn 2012 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.