

MEETING OF THE COUNCIL – 28TH FEBRUARY 2005

DEPLOYMENT OF RESOURCES: HOUSING REVENUE ACCOUNT AND PUBLIC-SECTOR HOUSING CAPITAL

REPORT OF THE CABINET

1.0 PURPOSE OF REPORT

- 1.1 To set the Housing Revenue Account (HRA) budget for 2005/2006 in the light of the latest government determinations for housing finance and our latest spending and resource assumptions.
- 1.2 To provide members with a three-year forecast of Housing Revenue Account and capital resources.
- 1.3 To set a capital expenditure budget for the improvement and programmed maintenance of the Council's housing stock in 2005/6, 2006/7 and 2007/8.

2.0 BACKGROUND

- 2.1 The HRA is a "ring-fenced" revenue account and deals with landlord functions associated with public sector housing¹. The costs of improvement and programmed maintenance of the Council's housing stock are treated as capital expenditure and are accounted for separately.
- 2.2 For clarity, the rest of this section is organised as follows:
 - 2.3 proposed HRA budget 2005/2006;
 - 2.4 three-year forecast of Housing Revenue Account and capital resources;
 - 2.5 proposed public-sector housing capital budget 2005/2008;
- 2.3 *Proposed HRA budget 2005/6*
 - 2.3.1 The proposed HRA budget for 2005/6 is attached as **Appendix 1**. This budget is based on recent trends and the latest assessment of government policy on housing finance. Two developments are particularly significant:
 - A favourable settlement in the HRA Subsidy Determination 2005/6 with an increase of 23.1% in the Management Allowance and 17.8% in the Maintenance Allowance. While HRA Subsidy continues to be negative, the amount payable by the Council to the Government has fallen from £11.7million in 2004/5 to £9million in 2005/6.
 - A slowdown in Right to Buy sales combined with an increase in sale values. This has a favourable effect on rent income projections while maintaining levels of usable capital receipts.

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

2.3.2 It is proposed that these additional resources be used to fund investment in reactive repairs and capital expenditure in order to improve turnaround times on repairs and help to meet the Government's Decent Homes Standard. The budget shows a reserve of £0.5million remaining as at 31st March 2006. It is proposed that this reserve be held for the time being pending the outcome of the Housing Stock Options Appraisal (due to be reported to Cabinet in March).

2.4 *Three-year forecast of Housing Revenue Account and capital resources*

2.4.1 A three-year forecast of the Housing Revenue Account and capital resources is attached as **Appendix 2**. This forecast is based on the housing stock being retained by the Council and is subject to the outcome of the Housing Stock Options Appraisal. The longer-term future for housing finance is being considered as part of the Options Appraisal.

2.4.2 In setting a budget for 2005/06 and making forecasts for subsequent years, Members need to consider the risks involved. **Appendix 3** outlines the assumptions that have been made in arriving at financial forecasts and considers the risks to those assumptions. These risks become more difficult to assess within the timescales of a medium term plan.

2.4.3 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 in more detail in **Appendix 4**. The Capital Programme being proposed includes in particular "prudential borrowing" to finance necessary investment in garages across the Borough at a cost of £1.272m. This borrowing will be repaid from the extra income generated by above-inflation garage rent increases agreed by the Executive in September 2004.

2.5 *Proposed public-sector housing capital budget 2005/2008*

2.5.1 A proposed three-year public sector capital budget for 2005/2008 and revised budget for 2004/5 are attached as **Appendix 5**. Explanations of the budgets are attached as **Appendix 6**.

2.5.2 Recent capital programmes have targeted investment into achieving Government targets to meet the Decent Homes Standard and energy efficiency measures aimed at meeting Government targets under the Home Energy Conservation Act (HECA).

2.5.3 Dudley is continuing to address the Decent Homes target and has reduced the number of non-decent homes from 9,881 in 2001, to 6,338 at March 31st 2004, the latter representing 26% of the housing stock. Dudley is also on programme to achieve its HECA targets.

2.5.4 The backlog of outstanding repairs remains a priority and is continuing to be addressed whilst also, as in 2004/5, considering other investment priorities. **Appendix 6** details the proposed 2005/2008 capital programme, which is based upon the following priorities:

- Maintaining a measurable timetable by which the current backlog of outstanding routine repairs is cleared;
- Providing a repairs service that will not result in a further backlog of routine repairs developing
- Maintaining investment to achieve the second Government Decent Homes target of making all homes decent by 2010;
- Improving energy efficiency and reducing fuel poverty;
- Maintaining Community Safety budgets at current levels;
- Maintaining other environmental and social programmes to reflect the priorities of the Council Plan and the views of Area Panels.

2.5.5 To ensure effective utilisation of all resources that become available, it is recommended that the Director of Housing, in consultation with the Cabinet Member for Housing, be authorised to manage the three-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.

2.5.6 To facilitate implementation of the programme, it is also recommended that the Director of Housing be authorised to prepare specifications, select tenderers from the standing list of tenders, invite tenders and accept the most advantageous tender. These actions will be carried out in accordance with Standing Orders and Financial Regulations and in consultation with the Cabinet Member for Housing. It is further recommended that the Director of Housing, in consultation with the Cabinet Member for Housing be authorised to accept tenders on behalf of the Cabinet.

2.6 On consideration of the above, the Cabinet, at its meeting held on 9th February 2005, resolved to recommend the proposals set out in Section 3 below to the Council.

3.0 PROPOSALS

3.1 That the Council:

3.1.1 approves the HRA budget for 2005/6 outlined in Appendix 1.

3.1.2 notes the forecast Housing Revenue Account and capital resources outlined in Appendix 2.

3.1.3 notes the risks to these forecasts outlined in Appendix 3.

3.1.4 notes the prudential indicators set out in Appendix 4.

3.1.5 approves the public-sector housing revised capital budget for 2004/5 and capital budget for 2005/8 attached as Appendix 5.

3.1.6 authorises the Director of Housing, in consultation with the Cabinet Member for Housing, to manage the capital programme as outlined in 2.5.5.

3.1.7 authorises the Director of Housing, in consultation with the Cabinet Member for Housing, to procure and enter into contracts for the delivery of the capital programme, as outlined in 2.5.6.

4.0 FINANCE

4.1 The financial implications of this report have been considered in section 2.

4.2 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 2006. 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 2006 and therefore complies with the requirements of the Act.

5.0 LAW

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

6.0 EQUAL OPPORTUNITIES

6.1 This report takes account of the Council's equal opportunities policies.

7.0 RECOMMENDATIONS

7.1 That the proposals in Section 3 above be recommended to the Council.

8.0 BACKGROUND PAPERS

8.1 Housing Revenue Account Subsidy Determination 2005/6
The Prudential Code for Capital Finance in Local Authorities (CIPFA)

.....
LEADER OF THE COUNCIL

Proposed HRA Budget 2005/6

	£m
<u>Income</u>	
Net rent income	-62.2
Supporting People Income	-1.8
Other income	-1.0
Total income	-65.0
<u>Expenditure</u>	
Management	12.8
Responsive and cyclical repairs	22.6
Negative Subsidy	9.0
Transfer to Major Repairs Reserve	13.6
Capital charge	24.9
Other expenditure	2.5
Total expenditure	85.4
Net cost of services	20.4
Adjusting transfer from Asset Management Revenue Account	-21.8
Interest on balances	-0.1
Net operating expenditure	-1.5
Revenue contribution to capital expenditure	1.4
Total surplus for the year	-0.1
Surplus brought forward	-0.4
Surplus carried forward	-0.5

Forecast Housing Revenue Account 2005-2008

	2005/6 £m	2006/7 £m	2007/8 £m
Income			
Net rent income	-63.2	-64.2	-65.3
Supporting People Income	-1.8	-1.8	-1.8
Other income	-1.0	-1.1	-1.1
Total income	-66.0	-67.1	-68.2
Expenditure			
Management	12.8	13.2	13.7
Responsive and cyclical repairs	22.6	21.3	18.9
Negative Subsidy	9.3	10.4	11.8
Transfer to Major Repairs Reserve	13.6	13.6	13.7
Capital charge	24.9	24.4	23.8
Other expenditure	2.5	2.6	2.6
Total expenditure	85.7	85.5	84.5
Net cost of services	19.7	18.4	16.3
Adjusting transfer from Asset Management Revenue Account	-21.8	-21.0	-20.3
Interest on balances	-0.2	-0.1	-0.1
Net operating expenditure	-2.3	-2.7	-4.1
Revenue contribution to capital expenditure	1.4	2.3	4.0
Total surplus for the year	-0.9	-0.4	-0.1
Surplus brought forward	-0.4	-1.3	-1.7
Surplus carried forward	-1.3	-1.7	-1.8

Forecast capital resources 2005-8

	2005/6 £m	2006/7 £m	2007/8 £m
Major Repairs Allowance	13.6	13.6	13.7
Borrowing	3.2	2.4	2.4
Revenue contribution to capital	1.4	2.3	4.0
Usable capital receipts	6.2	6.2	6.2
Less usable capital receipts transferred to support private sector renovation grants and disabled facilities grants	-1.2	-2.6	-1.6
Total	23.2	21.9	24.7

Risk analysis

This report presents a three-year forecast of revenue and capital resources. This forecast has been based on recent financial trends and our current assessment of the Government's housing finance policy but, like any forecast, must be regarded with some caution. The following table outlines some of the key risks to the forecast and their potential impact.

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: <ul style="list-style-type: none"> • HRA Subsidy calculations • Rent formulas under government guidance Increased inflation would therefore have a relatively neutral effect.
Management and Maintenance allowances lower than forecast	Management and Maintenance Allowances for 2005/6 have already been fixed. The Management Allowance is to increase by 23.1% and the Maintenance Allowance is to increase by 17.8% as a result of favourable changes to the Government's formula. We have assumed increases 2% higher than general inflation in later years. If increases were only at the rate of general inflation (the lowest level permitted by the Government's transition mechanism) income up to 31 st March 2008 would be reduced by almost £2million.
Income levels not achieved	We have assumed rent loss on empty properties at 2% of total rent available. For each 1% increase in this rent loss, the cost would be around £0.6million per annum.
Reduction in property values in the borough	A 10% reduction in property values in would reduce the value of usable capital receipts and would reduce available resources by around £0.7million per year.
Unforeseen costs or costs greater than estimated	Any unbudgeted costs would have to be met from economies or reductions in planned spending in the year in which they arise or from any balances available in that year.

Longer-term financial forecasts and their associated risks will be considered as part of the Housing Stock Options Appraisal to be reported to the Cabinet in March.

Prudential indicators in respect of HRA capital expenditure

	Actual 2003/4	Latest budget 2004/5	Forecast 2005/6	Forecast 2006/7	Forecast 2007/8
Ratio of financing costs to net revenue stream: HRA	4.7%	4.2%	4.4%	4.6%	4.6%
Estimated incremental impact of capital investment decisions on HRA rents	N/a	Zero	Zero	Zero	Zero
Capital expenditure: HRA	£25.4m	£24.1m	£23.2m	£21.9m	£24.7m
Capital Financing Requirement: HRA	£42.0m	£45.2m	£48.4m	£50.9m	£53.3m

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 indicator falls in 2004/5 as a result of a change in HRA accounting rules in that the HRA is no longer required to make provision for the repayment of housing debt. The indicator is then expected to rise gradually as rent income falls in real terms and borrowing (with consequent financing costs) increases.

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

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.

Appendix 5

Proposed capital programme 2005-2008

	04/05 £'000	05/06 £'000	06/07 £'000	07/08 £'000
Adaptations	1,131	1,167	969	960
Central heating	3,799	2,248	3,027	5,293
Community Safety	560	2,276	598	593
Electrical Installations	1,117	859	2,704	3,143
External Envelope Schemes	599	12	1,278	1,716
External Wall Insulation - Brierley Hill	883	440	0	0
Insulation	221	69	48	30
Minor Works	666	996	570	921
Modernity and Decent Homes	386	2,308	3,552	5,677
Non Traditional Construction	815	33	679	0
Programmed Repairs	8,600	11,773	5,146	6,293
Retention and Overprogramming	-426	-2,962	0	0
Tenants Association	59	74	71	61
Void Property Improvements	3,617	3,584	3,286	0
Window Replacement	1,189	189	0	0
Housing for 21st Century	669	125	0	0
Improvements to Stores Facility	263	34	0	0
Grand Total	24,148	23,225	21,928	24,687

CAPITAL PROGRAMME 2005-2008**Adaptations**

The budget funds two types of Borough wide installations. The budget has been maintained at the increased levels set for the previous 2004/2007 programme but also further increased in 2005/6 to deal with an increase in referrals from Social Services. A proportion of the budget, around £50,000 per annum, is targeted towards an estimated 400 minor works per year, such as lever taps, grab rails and additional electrical sockets. The remainder of the budget is for larger adaptations which, following assessment from Occupational Therapists range from floor level showers and external ramps to property extensions and will typically deal with around 150 referrals per year.

Total budget £3,096,000 over three years.

Central Heating

All remaining tenants in non-centrally heated homes were canvassed for central heating during 2004. The three-year programme allows for approximately 1,900 new central heating systems to be installed which deals with all positive replies. A limited part of the budget will be set aside for medical referrals and for central heating installations to void properties where previous tenants refused the works. This leaves approximately 1,300 homes that have refused heating to have it installed in future years upon change of tenancy. The budget also finances the replacement of around 2500 existing boilers or gas appliances that are beyond economic repair and would cause a home to become non-decent if not renewed.

Total budget £10,568,000 over three years.

The approximate number of dwellings that will benefit from central heating over the three years (1,900), allowing for area variances due to the uncertainty of prior refusals is as follows:

Brierley Hill	425 dwellings
Dudley	625 dwellings
Halesowen	200 dwellings
North Dudley	350 dwellings
Stourbridge	300 dwellings

Community Safety

This budget is maintained at current levels and continues the work commenced in previous years dealing with local community issues such as fencing and improving property security.

The works are determined in consultation with the Area Panels and target issues to reduce void levels and provide a safer community.

The budget also includes an amount in 2005/6 to improve garage sites across the borough.

Total budget £3,467,000 over three years.

Electrical Installations

Following on from the previous approved programmes this budget addresses different areas of work, dealing with rewiring to communal areas and targeting investment in the planned replacement of existing inefficient door entry systems, worn out warden call systems at sheltered accommodation and continues the upgrading of communal TV aerials in preparation for Government's predicted switching off of analogue transmission in 2010.

2005/2006 will commence communal wiring at Firmstone Courts, Stourbridge.

Year 2 (2006/7) will commence rewiring of domestic dwellings to ensure that they meet the requirements of the Decent Homes Standard and over two years around 1,500 homes are envisaged to be rewired.

Provision is made within Year 3 (2007/8) to deal with any potential remedial repairs to lifts in flatted developments.

Total budget £6,706,000 over three years

External Envelope Schemes

A programme for the planned maintenance repairs and improvements to the external fabric of dwellings (predominantly roofing type works) is planned to commence in Year 2 (2006/7). This is intended to be the start of a longer-term programme to address the Decent Homes standard and the budget should deal with around 700 issues of non-decency.

Total budget £3,006,000 over three years.

External Wall Insulation – Brierley Hill

This Year 1 (2005/6) budget is a financial provision for the external wall insulation contracts already completed to the Hawbush estate, Brierley Hill. The future programme of external wall insulation will be considered again pending the outcome of the Options Appraisal.

Total budget £440,000

Insulation

Following receipt of match funding for insulation works this programme has now offered the installation of cavity wall insulation to all tenants whose homes can benefit from cavity wall insulation. The nominal programme from 2005/2006 onwards will now deal with dwellings where previous tenants have refused the insulation and it is expected that over the three years the cavity wall insulation programme will be complete. The budget also provides for additional draught stripping and increased levels of loft insulation to allow void properties to be insulated to meet the Decent Homes Standard.

Total budget £147,000 over three years

Minor Works

This budget is used to deal with urgent repairs and health and safety issues that arise throughout the year. Works already identified include dealing with outstanding high cost structural and subsidence works. The budget also finances a new lift at Nene Close and makes financial provision to deal with minor improvements to sheltered accommodation following a survey of communal facilities planned for completion during 2005.

Total budget £2,487,000 over three years.

Modernity and Decent Homes

The programme of modernisations to pre-war estates has now been completed and this budget is proposed to continue addressing the conversion of Duplex properties for Years 1 and 2. The Duplex homes are primarily located within Stourbridge and Brierley Hill and the budget is expected to deal with the conversion of 18 pairs of one-bedroom flats into 18 three-bedroom homes over the two years. The works also incorporate conversions to Lifetime Homes standard where appropriate, including alterations for people with disabilities.

2005/6 also commences a programme of kitchen and bathroom improvements where the homes are currently non-decent, dealing with approximately 2000 non-decent homes

Total budget £11,537,000 over three years.

Non Traditional Construction

This programme allows for the structural repair and external cladding/insulation of non-traditional properties.

Budgetary provision has been made in 2006/7 for a potential second phase of structural repairs and refurbishment to the Unity Houses in Orchard Street, which may be required following the outcome of the current period of structural monitoring. Budgetary provision is also made for the completed schemes at Russells Hall, the Orlit properties in Sedgley and the Unity Houses in Orchard Street Brierley Hill.

Total Budget £712,000 over two years.

Programmed Repairs

This budget provides for the efficient delivery of programmes of grouped repairs to continue work commenced in 2004/5. This planned approach to programmed repairs is envisaged to deal with the current repair back-log by March 31st 2006. The 2006/7 and 2007/8 budgets are reduced to a level that is anticipated will deal with future programmed repairs within agreed response times.

Total budget £23,212,000 over three years

Retention and Overprogramming

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

Tenants Association

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

Total budget £206,000 over three years.

Void Property Improvements

This budget is used to fund works of a capital nature arising from carrying out works to void properties to ensure that they are internally in a reasonable state of repair and have modern facilities (kitchens and bathrooms) in accordance with the Decent Homes Standard. The budget is reduced in Year 2 (2006/7). It is envisaged that in Year 3 (2007/8) the combination of historic improvements carried out to empty homes and the introduction of targeted decent homes programmes will remove the need for this budget.

Total budget £6,870,000 over three years.

Window Replacement

This budget completes existing planned window replacement contracts in Year, 1 with all known metal and timber windows now being replaced. Future replacement windows will be on an isolated basis identified through the routine repair process and funded from Programmed Repairs.

Total budget £189,000 in 2005/6.

Housing for 21st Century

This budget is a residual budget remaining from 2004/5 to complete existing schemes still in progress to modernise the front line service delivery at local and area offices.

Total budget £125,000 in 2005/6

Improvements to Stores Facilities

This budget is a residual budget remaining from 2004/5 to complete existing schemes still in progress to modernise the management of material stores and depot accommodation.

Total budget £34,000 in 2005/6