

Meeting of the Cabinet – 10th February 2010

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

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

Purpose of Report

1. The purpose of this report is:
 - To set a rent increase for council homes.
 - To review rents for garages, garage plots and access agreements.
 - To set charges for sundry services.
 - To set the Housing Revenue Account (HRA) budget for 2010/11 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 from 2010/11 to 2014/15.
 - To review the medium-term financial strategy for the HRA and Public Sector Housing Capital.

Background

2. The HRA is a "ring-fenced" revenue account and deals with landlord functions associated with public sector housing¹. The costs of improvement and programmed maintenance of the Council's housing stock are treated as capital expenditure and are accounted for separately.

Rent increase

3. In December 2000 the Government issued a new *Guide to Social Rent Reforms*. This guidance set out a method of restructuring to remove unjustifiable differences between council rents and the rents of registered social landlords (*RSLs*) over a period of some years. Our last eight 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 renovation grants and general housing advice, and is included in another report on this agenda. The separation of expenditure and income between the HRA and the General Fund complies with government guidance.

- October 2002, average increase £1.65 (3.4%).
 - October 2003, average increase £1.58 (3.2%).
 - October 2004, average increase £2.00 (3.9%).
 - November 2005, average increase £2.11 (3.9%).
 - August 2006, average increase £2.71 (4.9%).
 - June 2007, average increase £2.91 (5.0%).
 - April 2008, average increase £3.34 (5.5%).
 - April 2009, original average increase £3.91 (6.1%) reduced to
 - April 2009, revised average increase £1.92 (3.0%)
4. The Government's late issue of the draft determination on 9 December means that the end of consultation on the draft determination was 25 January 2010. The final determination is expected in early to mid February, therefore these proposed budgets are based on the draft determination and are subject to potential change. To implement a legal rent increase on 5 April 2010, we must give tenants at least 28 days notice of their new rents. It is therefore proposed that Cabinet authorise the Cabinet Members for Housing and Finance, the Director of Adult, Community and Housing Services and the Interim Director of Finance to revise the rent increase if necessary and report back to Cabinet at the earliest opportunity.
5. Rent restructuring is supported by the Government's subsidy system which assumes that the additional income is available to pay into a national pool. It is proposed that the next increase be on 5 April 2010. Applying the Government's rent formula to the next increase would generate an average increase of 3.1%. However, rent increases are also restricted to a maximum increase based on inflation (at September 2009) plus £2 per week. As inflation was negative in September 2009, this limitation will result in an average increase of £1.31 (2.0%) with a maximum increase of £1.69. Housing subsidy is calculated on the basis of the Government's rent formula before the limitation of the increase, so that the Council will pay subsidy based on a 3.1% rent increase, but will only be able to implement a 2% actual rent increase. We will be able to claim the loss of income back in 2011-12 but will suffer a cashflow shortfall of around £0.450m in 2010-11. The range of actual proposed rent increases is as follows:

RANGE OF RENT INCREASES

Range of rent increase	Proportion of properties affected
£0.00 to £1.00	13.10%
£1.01 to £1.25	26.38%
£1.26 to £1.50	40.77%
£1.51 to £1.69	19.75%

6. A letter was sent to the Dudley Federation of Tenants' and Residents' Associations (DFTRA) on 22 January 2010 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.

7. In addition to the rents discussed above, we currently apply service charges in certain properties in respect of items such as furniture, overnight support or the use of a communal aerial. It is proposed that all of these charges be maintained at 2009-10 levels, given the level of inflation used to determine general rents.
8. 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 increases in future years to achieve a gradual return to cost recovery. It is now proposed that charges be increased by 2%, in line with the average rent increase, from a current average weekly charge of £8.89 to a new average weekly charge of £9.07.
9. The Council currently provides, within its general housing stock, a number of units of furnished accommodation for which a charge of £21.42 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 maintained at current (2009-10) levels, given the level of inflation used to determine general rents.
10. 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 maintained at £1.70 per token, given the level of inflation used to determine general rents.
11. It is proposed that pitch licences at Oak Lane be maintained at current levels, given the level of inflation used to determine general rents and given that the in-year rent decrease in 2009-10 was not applied to Oak Lane pitch-holders.
12. 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, given the level of inflation used to determine general rents, though there may be some variations from the flat fee approach.
13. The Council currently charges private residents who are in receipt of Telecare services £10 per month, and also charges Housing Association tenants varying amounts for this service. These charges have not been increased for a number of years. It is proposed to increase these charges by £1 per month from 1 April 2010. The additional income generated will be used to increase investment in and development of the service.

Garage rents, garage plots and access agreements

14. It was agreed by Cabinet in February 2008 that inflationary increases for garages, garage plots and access agreements be made every three years, with the next increase to take effect from 2011/12. It is therefore proposed that these rents and charges remain at current levels for 2010/11.

Proposed HRA budget 2010/11

15. The proposed HRA budget for 2010/11 (together with a proposed revised budget for 2009/10) is attached as **Appendix 1**. This budget is based on recent trends and our latest assessment of government policy on housing finance.
16. The current budget for 2009/10 (approved by Cabinet in September 2009) shows a surplus on the HRA of £1.102m at 31st March 2010. The proposed revised budget for 2009/10 shows a surplus at the same date of £1.136m. The variance arises as the result of several factors:
- Increased rental income as fewer properties have been sold under Right to Buy;
 - Increased expenditure on revenue repairs and maintenance as more properties have remained within housing stock;
 - More interest paid and less interest earned on balances, as more capital expenditure has been funded from borrowing rather than capital receipts;
 - Additional revenue contribution to capital to fund electronic document management system for housing management, from revenue savings in year;
 - Reduced Negative Subsidy payments as a result of prior year adjustments and changes to interest rates.
17. The proposed HRA budget for 2010/11 takes account of the proposed average rent increase of £1.31 on the 5th April 2010 (paragraph 4).
18. The proposed HRA budget for 2010/11 includes a budget for housing management of £14.6m. This includes growth of £100k to undertake statutory fire risk assessment work in high rise flats required as a result of the Fire Reform Order and growth of £65k for one year only to implement improvements to the Telecare operation.
19. The proposed HRA budget for 2010/11 includes a budget for repairs and maintenance of £24.7m. This reflects:
- Maintaining the current responsive repairs service standard,;
 - Undertaking all required cyclical statutory responsibilities such as annual servicing of gas appliances, warden call equipment and alarms and periodic testing of water hygiene, lift servicing and inspections;

- Maintaining current levels of cyclical maintenance such as external painting of properties, communal decorations to high rise and sheltered accommodation;

Proposed public-sector housing capital budget 2009/10 to 2014/15

20. A proposed five-year public sector capital budget for 2010/11 to 2014/15 and revised budget for 2009/10 are attached as **Appendix 2**. Explanations of the budgets are attached as **Appendix 3**. It should be noted that the proposed capital budgets from 2011/12 onwards should be considered with caution at this stage as there is considerable uncertainty around future funding of the HRA after 2010/11. The Government has consulted on a review of the HRA subsidy system which may be effective from 2011/12 at the earliest, and until the outcomes of this review are clear any forecasts should be treated as provisional.
21. 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).
22. The proposed capital programme follows the principles approved in the current programme that reflect the priorities of the Council Plan and the views of Area Housing Panels. The programme addresses the following priorities:
 - Continuing the Decent Homes Delivery plan that informs the financial plan detailing how investment will be maintained in order to achieve the Government's Decent Homes target of making all homes decent by 2010/11;
 - Commencing a programme post 2010/11 that maintains investment in the Council's housing stock to ensure that homes are maintained in accordance with the principles of the Decent Homes Standard;
 - Improving energy efficiency, combating climate change and reducing fuel poverty;
 - Maintaining community safety, environmental and social programmes such as Adaptations for persons with disabilities at current levels;
 - Providing additional new housing for larger families and homes suitable for persons with special needs.
23. Whilst the detail of the proposed programme is included within **Appendix 3** notable projects over the five year period from 2010/11 to 2014/15 that aim to continue maintaining standards of decency are as follows:
 - Continue investment in Adaptations for persons with disabilities, with an additional one-off £900,000 added to the existing 2010/11 budget to provide an investment of almost £10m over the next five years, dealing with over 8,500 minor adaptations such as handrails and grab rails, and around 1,600 major adaptations such as level access showers and ramps;
 - Continue investment in central heating with over £8m funding around:

- 500 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];
 - 650 replacement central heating boilers or system upgrades;
 - replacement of around 650 electric storage heating with new, modern efficient gas heating systems; and
 - 1,500 replacement gas fires that cannot be serviced or repaired.
 - Maintain investment in kitchen and bathroom replacements, with around 5,000 kitchens and 3,500 bathrooms being renewed in a five year £33m programme.
 - Commence a programme of new build council housing under the National Affordable Housing Programme 2008-11, constructing 81 new build homes on 5 sites incorporating 31 homes suitable for persons with special needs, as well as converting the former Holly Hall housing estate office and Woodside library into eight apartments for rent with the adjacent DUE garage area being utilised for car parking. It is proposed to seek approval from Cabinet for appropriate land appropriations to be undertaken by the Director of Corporate Resources to allow the conversion of existing buildings to homes within the HRA. The overall programme will deliver:
 - 24 two bedroom homes;
 - 16 large three bedroom homes;
 - 10 four bedroom homes;
 - 24 two bedroom apartments suitable for persons with special needs, with each 2 storey block of 6 apartments served by a lift and a dedicated carer unit;
 - 7 two bedroom bungalows suitable for persons with special needs.
 - 7 one bedroom apartments and 1 two bed apartment
24. All but one of the sites proposed for new build are former garage sites or other vacant land. Blackthorn Road, Brierley Hill, however, has 10 properties with major structural issues. 6 of these properties are void, but 4 are occupied by tenants who will require rehousing as a result of the new build programme and it is proposed to seek authorisation for the Director of Adult, Community and Housing Services to serve demolition notices on the secure tenants at Blackthorn Road, to pay home loss payments and disturbance allowances to these tenants, and to give clearance priority to these tenants for rehousing.
25. It is also proposed to seek approval from Cabinet to submit bids for additional resources to enter into partnerships with appropriate bodies to deliver additional resources for energy efficiency and climate change initiatives. Examples would include the Government's CERT programme [Carbon Emission Reduction Target] where we are currently in partnership with E-On who are providing match funding for a variety of energy efficient, carbon reduction programmes contributing towards fuel switching (electric night storage heating replacement), and CESP funding [Community Energy

Saving Programme] which is a funding programme placing an obligation on energy suppliers and electricity generators to meet a CO2 reduction target by providing 'whole house' energy efficiency measures to domestic homes in areas with high levels of low incomes. Successful bids and resultant schemes would be delivered as part of our central heating programme. It is proposed that any additional resources obtained be added to the Capital Programme accordingly.

26. To ensure effective utilisation of all resources that become available, Cabinet is requested to authorise the Director of Adult, Community and Housing Services, in consultation with the Cabinet Member for Housing, to manage the five year programme so as to use all the resources that become available and commit expenditure to that amount and to report progress and actions to the Cabinet. In doing this, Cabinet is requested to confirm that all capital receipts arising from the sale of HRA assets (other than those specifically committed to support private sector housing) should continue to be used for the improvement of council homes.
27. To facilitate implementation of the programme, the Cabinet is requested to authorise the Director of Adult, Community and Housing Services to prepare specifications, select tenderers, invite tenders and accept the most economically advantageous tender. These actions will be carried out in accordance with Standing Orders and Financial Regulations. Cabinet is also asked to agree that the Director of Adult, Community and Housing Services be authorised to accept tenders on their behalf.

Medium Term Financial Strategy for Landlord Housing

28. As part of the Housing Stock Options Appraisal (approved by Council in April 2005) we prepared a financial forecast up to 2010. It was based on financial trends and government policy (including rent restructuring) and showed that, on the basis of delivering a minimum programme of repairs and improvements, it would be possible to deliver the Decent Homes Standard by 2010. We have reviewed our forecasts in the light of changes to rent restructuring, HRA Subsidy, the slowdown of Right to Buy sales and the stagnation of the property market. These are set out in our medium-term financial strategy attached as **Appendix 4**.
29. Our forecast suggests that resources will be adequate to deliver the Decent Homes Standard by the end of 2010. It is proposed that we continue to review our forecasts from time to time and consult as appropriate, through the Area Housing Panels, on measures that can be taken to enhance the financial strength of the housing service.
30. However, there is currently considerable uncertainty around HRA funding after 2010/11. The Government announced in 2008 a fundamental review of the HRA subsidy system. In August 2009 a consultation paper was issued outlining the Government's proposals for future HRA funding, and this was reported to Cabinet in September 2009. However, the consultation paper dealt only in general principles, and it was impossible to evaluate the

financial impact of the proposed reforms on any individual housing authority. We await the next phase of the process, when the Government has undertaken to consider the responses to consultation and to provide to all housing authorities an indication of the individual financial impact of the proposals. This data is expected in February 2010. It is therefore proposed that present forecasts beyond 2010/11 be considered with caution and that a further report be presented to Cabinet outlining the outcome of the HRA subsidy review and the impact on future years' budgets, when this information is available.

Finance

31. 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 2011. 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 2011 and therefore complies with the requirements of the Act.

Law

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

Equality Impact

33. This is primarily a financial report concerned with forecasting of income and application of resources. Some areas of proposed expenditure (e.g. capital expenditure on adaptations) are intended to promote independence and improve quality of life for disadvantaged groups.

Recommendations

34. It is recommended that Cabinet:
 - a) approve a rent increase for HRA dwellings on 5th April 2010 with an average increase of £1.31 (2.0%) and a maximum increase of £1.69 in line with government rent guidance;
 - b) authorise the Cabinet Members for Housing and Finance, the Director of Adult, Community and Housing Services and the Interim Director of Finance to revise the rent increase if necessary and report back to Cabinet at the earliest opportunity (paragraph 4);
 - c) approve maintaining other charges at current levels as outlined in paragraphs 7 and 9;
 - d) approve an increase of 2% in heating and lighting charges for sheltered housing from an average weekly charge of £8.89 to an average weekly charge of £9.07 (paragraph 8);
 - e) approve maintaining the current charge of £1.70 for laundry tokens (paragraph 10);

- f) approve maintaining the current charge for pitch licences at Oak Lane as outlined in paragraph 11;
- g) approve maintaining the leaseholders administration fee at current levels as outlined in paragraph 12;
- h) approve an increase of £1 per month for private Telecare clients as outlined in paragraph 13;
- i) approve the maintenance of garage rents at current levels and the dates proposed for future increases (paragraph 14);
- j) approve the maintenance of garage plot rent and access agreements at current levels, and the dates proposed for future increases (paragraph 14);
- k) approve the revised HRA budget for 2009/10 and the HRA budget for 2010/11 outlined in Appendix 1;
- l) recommend that Council approve the public sector housing revised capital budget for 2009/10 and capital budget for 2010/11 to 2014/15 attached as Appendix 2;
- m) authorise the Director of Corporate Resources to undertake such appropriations as may be necessary to allow the site of the former Holly Hall estate office, Woodside Library and DUE garages to be converted to apartments under the control of the Housing Revenue Account [HRA] (paragraph 23)
- n) authorise the Director of Adult, Community and Housing Services to serve demolition notices on the secure tenants at the Blackthorn Road new build site (paragraph 24);
- o) authorise the Director of Adult, Community and Housing Services to pay home loss payments and disturbance allowances to the secure tenants at the Blackthorn Road new build site (paragraph 24);
- p) authorise the Director of Adult, Community and Housing Services to give the secure tenants at Blackthorn Road clearance priority for rehousing (paragraph 24);
- q) recommend that Council authorise the Director of Adult, Community and Housing Services to bid for and enter into funding arrangements for additional resources to supplement investment in the public sector housing stock as outlined in paragraph 25
- r) 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 26;
- s) 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 26);
- t) 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 27;

- u) approve the medium-term financial strategy set out in Appendix 4 with the caveat that current forecasts after 2010/11 be treated with caution owing to the present uncertainty around the future of HRA funding and that a further report be presented to Cabinet outlining the outcome of the HRA subsidy review and the impact on future years' budgets, when this information is available.



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Linda Sanders
Director of Adult, Community
and Housing Services

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Bill Baker
Interim Director of Finance

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

List of Background Papers:

Housing Revenue Account Subsidy Draft Determination 2010/11

Appendix 1

Proposed HRA Budget

	2009/10 current budget Sept 2009 £000	2009/10 proposed revised budget £000	2010/11 proposed original budget £000
<u>Income</u>			
Dwelling rents	-74,570	-74,709	-76,025
Non-dwelling rents	-654	-662	-666
Charges for services and facilities	-147	-158	-158
Contributions towards expenditure	-1,172	-1,150	-1,224
Interest on balances	-47	-27	-6
Total income	-76,590	-76,706	-78,079
<u>Expenditure</u>			
Responsive and cyclical repairs	25,338	25,438	24,685
Management	15,851	15,730	14,588
Negative Subsidy	8,928	8,694	27,546
Transfer to Major Repairs Reserve	22,890	22,890	5,474
Interest payable	4,638	4,845	5,509
Revenue contribution to capital expenditure	379	500	0
Other expenditure	1,528	1,539	1,321
Total expenditure	79,552	79,636	79,123
Surplus/deficit for the year	2,962	2,930	1,044
Surplus brought forward	-4,064	-4,066	-1,136
Surplus carried forward	-1,102	-1,136	-92

Appendix 2

Proposed capital programme 2009/10 to 2014/15

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Adaptations	2,911	2,633	1,737	1,796	1,870	1,935
Central heating	1,664	1,599	1,668	1,572	1,619	1,659
Community Safety and Environmental Improvements	514	590	645	662	687	711
Electrical Installations	3,818	3,767	1,261	1,511	1,565	1,610
Electronic Data Management	121	0	0	0	0	0
External Improvement Programme	7,745	6,695	6,880	6,825	6,433	6,350
Insulation	94	98	96	96	97	101
Minor Works	2,468	4,179	2,029	1,797	1,871	1,936
Modernity and Decent Homes	9,607	6,133	6,942	6,630	6,888	7,125
New Council Housing	0	1,326	10,028	824	0	0
North Priory	760	0	0	0	0	0
Retention and Overprogramming	8	0	0	0	0	0
Tenants Association	56	140	86	88	92	95
Void Property Improvements (Decency)	4,155	2,909	2,304	3,117	2,424	2,218
Grand Total	33,921	30,069	33,676	24,918	23,546	23,740

The proposed capital programme above represents a continuation of the existing programme to maintain current standards and improvements up to and following the achievement of the Decent Homes standard. It should be noted that continuation of the programme is dependent on the outcome of the HRA Subsidy Review and as such should at this stage be considered provisional.

Appendix 3

Detail of the proposed five year housing capital programme 2010/11 to 2014/15

Adaptations

The programme continues to deliver improvements and adaptations to the Council owned homes of persons with disabilities, following referral from occupational therapists. This budgetary provision includes an additional £900,000 one off investment in 2010/11 and will deal with around 400 larger adaptations (level access showers, ramps and a limited numbers of conversions) in 2010/11 and around 300 per annum for the following four years. In addition the budget will provide for around 1,700 minor adaptations per annum for grab rails, handrails and the like.

The budget for adaptations to void properties is maintained at around £100,000 per annum and will also assist in reducing waiting times and make best use of adapting suitable available properties.

Total budget: £10m over 5 years

Central Heating

The programme delivers new central heating to unheated Council owned homes, and replacement systems that are beyond economic repair. There are currently some 1,000 unheated homes in the Borough, for all of which the tenants have been offered central heating on more than one occasion. Budgetary provision has been made to provide heating for all tenants in unheated homes who wish to receive heating, and installing heating in all unheated properties when they become empty, an estimated 500 homes in total. It is estimated that around 700 homes will remain unheated at the end of the five year programme, all where tenants have refused heating.

Around 650 homes will have a replacement boiler or system upgrade to deal with those gas boilers and systems that fail the decent homes standard. These will be replaced with modern energy efficient boilers to ensure heating is made as affordable as possible for tenants.

Also addressing climate change/energy efficiency and environmental issues, in excess of the Decent Homes Standard, over the five years the electric night storage heating replacement programme will continue replacing electric night storage heating with efficient gas heating. Around 650 homes where the impact upon energy efficiency and climate change will be greatest will benefit from the programme over the next five years.

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

Total Budget: £8.1m over 5 years

Community Safety & Environmental Improvements Programme

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

Total Budget: £3.3m over 5 years

Electrical Installations

The budget will continue to address electrical works to around 10,000 homes up to 2010/11 where the current electrical installation does not meet the Decent Homes Standard. The budget will deal with full rewires where required, estimated to be around 1,000 homes, but the majority of homes, including empty properties, will only require partial electrical upgrade works.

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

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

- To provide for warden call equipment purchase compatible with new Telecare technology to allow wardens to provide the essential Homecall service for vulnerable residents of the community;
- To complete the upgrading of communal TV aerials with digital aerials in preparation for Government's predicted switching off of analogue transmission in 2011;
- Provision is also made to deal with any potential remedial repairs to lifts in flatted developments.

Total Budget : £9.7m over 5 years

External Improvement Programme

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

The budget will undertake over £20m over 5 years replacing windows and external doors where they fail the Decent Homes Standard or pose a health and safety danger, with around £500,000 each year spent on planned pre-paint improvement works associated with external painting, dealing with fascias, soffits.

Around 300 homes require some form of re-roofing works to ensure that the Government's Decent Homes Standard can be met by 2010/11. This 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 continue work on a planned programme to replace flat roof coverings on flatted developments with modern energy efficient materials

Total Budget : £33.2m over 5 years

Insulation

Following receipt of match funding for insulation works this programme has now offered the installation of cavity wall insulation to all tenants whose homes can benefit from cavity wall insulation.

The nominal programme from 2010 onwards will deal with any dwellings where previous tenants have refused the insulation and over the five years the cavity wall insulation programme will be complete.

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

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

Total Budget : £0.5m over 5 years

Minor Works

This budget is used to deal with urgent repairs and health and safety issues that arise throughout the year. Works already identified include dealing with high cost structural, subsidence and demolition etc works and works that are required as a result of fire risk assessment surveys to flatted developments. These surveys are required as a result of the Fire Reform Order, and whilst

some of the identified risks will be eliminated through operational changes it is envisaged that an element of building improvements will be required.

Total Budget : £11.8m over 5 years

Modernity and Decent Homes

The programme of modernisations to pre-war estates has now been completed and this budget is proposed to continue the programme of kitchen and bathroom improvements where the homes are currently non-decent, also undertaking associated improvement works such as replastering.

Over the next five years the programme replaces around 5,000 kitchens and 3,500 bathrooms.

Total Budget : £33.7m over 5 years

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 5 years

Void Property Improvements

This budget is used to fund improvement works to high cost empty properties where the work is of a capital nature to ensure that they are re-let in a reasonable state of repair and have modern facilities for kitchens and bathrooms in accordance with the Decent Homes Standard.

Total Budget : £13m over 5 years

New Council Housing

Under the National Affordable Housing Programme 2008-11, Councils are now permitted to build new council owned homes. Dudley MBC has successfully bid and been awarded Social Housing Grant from the Homes and Communities Agency that has contributed towards the build cost of 81 new build homes. Together with proposals to convert the former Holly Hall housing office and Woodside library into homes, the proposed developments are:

- Blackthorn Road, Brierley Hill – 21 new homes
- Norwood Road, Brierley Hill – 22 new homes
- Wood Road, Upper Gornal – 19 new homes
- Woodland Avenue, Quarry Bank – 13 new homes
- Tenacre Lane, Sedgley - 6 new homes

- Holly Hall housing office and Woodside Library – 8 new homes

The overall project will result in:

- 24 two bedroom homes;
- 16 large three bedroom homes;
- 10 four bedroom homes;
- 24 two bedroom apartments suitable for persons with special needs, with each 2 storey block of 6 apartments served by a lift and a dedicated carer unit;
- 7 two bedroom bungalows suitable for persons with special needs.
- 8 one and two bedroom apartments.

Proposed works to convert the former Holly Hall housing office and adjacent Woodside Library into eight apartments will be undertaken outside of the National Affordable Housing Programme utilising the Council's own resources through prudential borrowing, with works being undertaken over a two to three year period. As a priority the first year will deal with ensuring that the building is wind and weather proof, concentrating on the external façade, with interior alterations carried out later, in a phased approach by a mixture of the internal workforce [notably apprentices who will be able to gain invaluable building experience not possible on the general housing stock] and specialist subcontractors.

Works will commence on the new build project during 2010/11, with all homes that are supported by Social Housing Grant being completed by March 2012.

Total Budget : £12.2m over 3 years

Appendix 4

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

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. The current MTFS(LH), approved in February 2009, covers only two years (2009/10 to 2010/11). This was considered appropriate in the light of the Government's target to deliver the Decent Homes Standard by 2010 and its review of the HRA Subsidy system. In view of the ongoing uncertainty around future HRA funding, forecasts and spending plans beyond 2010/11 should be treated with a large degree of caution. We expect a Government announcement in February 2010 and will report back to Cabinet in due course.

Background

4. The financial strategy for landlord housing, focussing on the period up to 2010/11, 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 the financial strategy were:
 - delivery of the Government's Decent Homes Standard by 2010 and maintenance of that standard in later years;
 - support to the aims of the Council Plan - promoting strong, caring communities through the provision of decent housing in a safe and clean environment;
 - identifying ongoing savings and efficiency gains, through the use of partnerships where appropriate;
 - the prudent management of reserves and other balances;
 - compliance with government policy on rent restructuring;
 - honouring the outcome of the Housing Stock Options Appraisal and the view of the majority of tenants and other stakeholders that the housing stock should remain under direct council control.

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. The Housing Stock Options Appraisal was signed off by the Government Office West Midlands on this basis.
6. The strategy has subsequently been reviewed on a number of occasions. The last review (Feb 2009) indicated that, having taken action to address changes to government housing finance policy, the Council was on track to deliver the Decent Homes Standard by 2010.

The proposed budget 2010/11 and the MTFs(LH)

7. Our forecast suggests that resources will be adequate to deliver the Decent Homes Standard by the end of 2010.
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 delivery of the Decent Homes Standard, it is proposed that we continue when necessary to give consideration to the following:
 - ongoing review of spending and resource forecasts;
 - further efficiency and other savings, including those achievable from use of partnerships;
 - service charges².
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. These savings have significantly contributed towards achieving the Council's efficiency savings required to meet National Performance Indicator (NPI) 178. In 2008/9 an efficiency gain of £1m was achieved from improved ways of working in the delivery of an efficient repairs service and a further £1.4m efficiency gain was achieved as a result of partnership working with external contractors and improved procurement techniques. Further planned service delivery enhancements are expected to deliver savings over the next two years estimated at £2.2m from more efficient working arrangements within Building Services and a further £2m from more efficient procurement.
10. A proposed five-year capital programme has been developed as a continuation of the existing programme to maintain current standards and

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.

improvements up to and following the achievement of the Decent Homes standard. It should be noted that continuation of the programme is dependent on the outcome of the HRA Subsidy Review and as such it should at this stage be considered provisional.

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: <ul style="list-style-type: none"> • HRA Subsidy calculations • Rent formulas under government guidance <i>Increased inflation would therefore have a relatively neutral effect. It is not clear how inflation will impact following a review of HRA Subsidy.</i>
Management and Maintenance allowances lower than forecast	Management and Maintenance Allowances for 2010/11 have already been fixed. <i>It is not clear how allowances will feature following a review of HRA Subsidy.</i>
Income levels not achieved	We have been very successful over the years in controlling rent loss on empty properties. We have allowed in our forecasts for a rent loss of 1.8% of total rent available. <i>If losses were to rise above this level the cost for each 1% increase would be around £0.7m per annum.</i>
Reduction in property values in the borough	A 10% reduction in property values would reduce the value of usable capital receipts and would reduce available resources by around £60k 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. A reduction of 100 house sales in a year will lead to a loss of capital receipts of £1.8m. This would be partially offset by additional rental income of around £300k, but management and maintenance demands will continue.
Timing and amount of	We are expecting a substantial capital receipt for

capital receipt	<p>the sale of the North Priory estate to our developer partners. This has been built into our forecasts. Any significant reduction in amount will reduce available resources. A delay in receiving the funds will adversely affect cashflow and if the receipt is delayed there will be a significant adverse effect on the year-end balance on the HRA.</p> <p>We originally expected that this receipt would be available in 2008/09 but owing to the economic situation, we have experienced both a delay and a likely reduction in the amount that will be received. We have revised our estimates to take this into account, and have increased borrowing in order to support the capital programme, but clearly we have incurred additional ongoing costs of borrowing as a result and continue to build a capital receipt for the site into our estimates, albeit in later years (2010/11 to 2015/16) in line with the latest expected timescales for completion of the scheme.</p>
Unforeseen costs or costs greater than estimated	<p>Any unbudgeted costs would have to be met from economies or reductions in planned spending in the year in which they arise or from any balances available in that year. Preliminary calculations indicate that any costs to the HRA arising from Single Status could be met within proposed budgets. We anticipate that any back-pay costs would be capitalised through a government dispensation.</p>
Housing subsidy review	<p>The Government is currently undertaking a review of the HRA subsidy system which is proposing to dismantle the subsidy system altogether. The review initially reported in summer 2009 but this report dealt only in generalities and it was impossible to assess the financial impact on any individual housing authority. We await a detailed set of proposals which we expect to include individual financial data and which will allow us to assess the impact of the reform. Changes may be implemented from 2011/12 or later years. There is thus a good deal of uncertainty around financial forecasts after 2010/11.</p>

Prudential indicators

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

	Latest budget 2009/10	Forecast 2010/11	Forecast 2011/12	Forecast 2012/13
Ratio of financing costs to net revenue stream: HRA	6.2%	7.2%	7.9%	8.2%
Estimated incremental impact of capital investment decisions on HRA weekly rents	£0.00	£0.13	£0.44	£0.84
Capital expenditure: HRA	£33.9m	£30.1m	£33.7m	£24.9m
Capital Financing Requirement: HRA	£83.0m	£102.1m	£118.3m	£127.4m

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 rising trend in this ratio reflects uncertainties around future funding following a review of HRA Subsidy. If these uncertainties are not satisfactorily addressed by that review, it will be necessary to revisit spending and/or income forecasts and plans.
14. The forecast debt charges resulting from anticipated borrowing are fully reflected in the Housing Revenue Account budget at Appendix 1 of the report. The estimated incremental impact of capital investment decisions on HRA rents is shown above. However, rents are determined by government rent restructuring guidance and it is assumed that the Council will continue, as in previous years, to comply with this guidance. Again, this indicator reflects uncertainties around the review of HRA Subsidy.
15. The HRA Capital Financing Requirement is a measure of the share of the Council’s overall portfolio of debt and investments that results from public sector housing capital expenditure.

Partnerships

16. Housing Services is continuing to deliver on its partnership working and currently has a number of such arrangements. For example, the West Midlands Fire Service provide free 10 year lithium battery smoke alarms in a

partnership to ensure that all Council owned homes benefit from smoke and fire protection, and the WMFS also provide a free Home Fire Risk Assessment for tenants who want one. It is expected that the programme for all Council owned homes will be completed during 2010.

17. A Partnership with E-On has also been agreed 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] to deliver energy efficient whole house measures to combat climate change and CO2 emissions in Council Homes..
18. Housing also has strategic partnerships that are being delivered in accordance with the principles of Sir John Egan's report 'Rethinking Construction'. Through innovative payment mechanisms, incentivising good performance and modern methods of collaborative working the three partnerships outlined below are delivering improved services at a measurably lower cost and have allowed valuable and limited resources to be re-invested in the housing stock.
 - Servicing, maintenance and repairs to gas appliances, together with provision of replacement boilers and new heating systems;
 - Electrical rewires and upgrades to electrical installations; and
 - External painting, internal decorations to dwellings and to common areas of flatted developments

The replacement of warden call equipment with equipment compatible with modern Telecare technology is being delivered by one contractor in a collaborative contract combining the expertise for designing sophisticated systems with the ongoing servicing, maintenance and repairs. Further collaborative working arrangements utilise contractor expertise to supplement in-house resources and contribute towards Council objectives such as improved turn-around times for empty properties and providing training for staff, operatives and local people. Arrangements are for:

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