Agenda Item No. 7

Meeting of the Cabinet – 11th February 2019

Joint Report of the Strategic Director Place and the Chief Officer, Finance and Legal Services

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

Purpose of Report

1. The purpose of this report is:

- To set rents 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 2019/20 in the light of the latest government announcements on housing finance and our latest spending and resource assumptions.
- To set a revised HRA budget for 2018/19.
- To update the capital expenditure budget for strategic investment and necessary programmed maintenance of the Council's housing stock for 2018/19 to 2022/23.
- To approve the Medium Term Financial Strategy and 30 Year Business Plan for the HRA.

Recommendations

2. It is recommended that Cabinet:

a) approve the reduction of rents for HRA dwellings by 1% from 1st April 2019 (paragraphs 3 - 5);
b) approve changes to service charges as detailed in paragraphs 6 and 8;
c) approve the maintenance of current heating and lighting charges for sheltered housing with an average weekly charge of £14.92, as detailed in paragraph 7;
d) approve the reduction of the current charge for pitch licences at Oak Lane by 1% as outlined in paragraph 9;
e) approve an increase of 2.7% for water charges at Oak Lane to £6.67 per week (paragraph 9);
f) approve an increase of £20 in the leaseholders' administration fee from £100 to £120 per annum, and an increase of £10 in the charge for the leasehold information pack, from £50 to £60 (plus VAT), as outlined in paragraphs 10 and 11;

g) approve an increase of 2.1% (30p per month) for private Telecare clients as outlined in paragraph 12;
h) recommend that Council approve the revised HRA budget for 2018/19 and the HRA budget for 2019/20 outlined in Appendix 1, noting consultation arrangements outlined in paragraph 4;
i) recommend that Council approve the public sector housing revised capital budgets for 2018/19 to 2022/23 attached as Appendix 2, noting consultation arrangements outlined in paragraph 4;
j) recommend that Council authorise the Strategic Director of Place and the Chief Officer Finance and Legal to bid for and enter into funding arrangements for additional resources to supplement investment in the public sector housing stock as outlined in paragraphs 27 and 28 and that expenditure funded from such resources be added to the Capital Programme;
k) recommend that Council authorise the Strategic Director of Place, in consultation with the Cabinet Member for Housing and Residents' Welfare, to manage and allocate resources to the capital programme as outlined in paragraph 29;
l) recommend that Council confirm that all capital receipts arising from the sale of HRA assets (other than any receipts that may be specifically committed to support private sector housing) should continue to be used for the improvement of council homes (paragraph 29);
m) recommend that Council authorise the Strategic Director of Place to continue to buy back former right to buy properties, to buy other properties, and to buy land where required to assemble a viable site for housing development, subject to a robust assessment of good value for money and sustainability in terms of lettings, maintenance and major works (paragraph 30);
n) authorise the Strategic Director of Place to procure and enter into contracts for the delivery of the capital programme, as outlined in paragraph 31;
o) receive the HRA medium term financial strategy and thirty year business plan attached as Appendix 3.

Background

3. 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.

<u>Budget Consultation</u>

4. Officers have met with the Board of the Dudley Federation of Tenants' and Residents' Associations (DFTRA) and the Housing Board in October 2018 and January 2019 to discuss proposals for rent levels in 2019/20 onwards and the priorities in the HRA budget, including the capital programme.

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[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.

Rent decrease

5. The self-financing system introduced in April 2012 for Housing assumed that rent increases would be in line with government guidance at the time relating to social housing rents. However, the Chancellor announced in his July 2015 budget that social landlords' rents would be reduced by 1% annually for the next 4 years (2016/17 through to 2019/20) and would then revert to the rent increase formula of September CPI plus 1%. It is therefore proposed that the next rent year will start on 1st April 2019 and that rents will be reduced by 1% compared to 2018/19 levels. The HRA budget for 2019/20 and the 30 year long-term financial forecast for the HRA take into account these rent reductions.

Service Charges

6. In addition to the rents discussed above, we currently apply service charges in certain properties in respect of items such as furniture and garden maintenance. It is proposed that these service charges be increased by 2.7% in line with inflation (CPI August 2018).

7. We also apply service charges to around 344 properties in our eleven 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. We have reviewed current charges and the electricity and gas costs incurred at each scheme, and we propose that all charges be maintained with no increase for 2019/20. The average weekly charge will remain £14.92 over 52 weeks.

8. 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 be increased to £2.60 per token, representing a 10p (4%) increase.

9. It is proposed that pitch licences at Oak Lane be reduced by 1%, in line with the proposal for general rents, and that weekly charging for water be increased by 2.7% in line with inflation to £6.67 per week.

10. The Council currently charges an administration fee of £100 per year to its leaseholders, to cover the costs of managing the properties. This has not been increased since 2009/10. It is proposed to increase this fee to £120 per year to recognise the increased costs involved. We will also seek the views of leaseholders specifically in relation to this proposal.

11. It is proposed that the charge of £50 (plus VAT) per leasehold information pack, introduced from 1 January 2015 to cover the costs of compiling information relating to the sale of council flats, be increased to £60 (plus VAT) with effect from 1 April 2019. This is the first increase in price since the charge was introduced in January 2015.

12. The Council currently charges private residents who are in receipt of Telecare services (provision of an alarm service, and also standalone equipment such as pill dispensing service and GPS tracking watches) £14.10 per month, and also charges Housing Association tenants varying amounts for this service. It is proposed to increase these charges by 2.1% to £14.40 per month from 1 April 2019, and also to increase charges to Housing Association tenants by 2.1%. 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, garage plots and access agreements be made every three years, with the next increase to take effect from 2020/21.

Proposed HRA budget 2019/20 and revised HRA budget 2018/19

14. The proposed HRA budget for 2019/20 (together with a proposed revised budget for 2018/19) is attached as **Appendix 1**. This budget is based on recent trends and our latest assessment of government policy on housing finance.

The key elements of the self-financing system that now operates in relation to local authority housing are:

- Abolition of the HRA Subsidy system and retention of all rental income.
- A one-off allocation of housing debt based on an affordability calculation.
- Transfer of investment, borrowing and inflation risks to housing authorities.
- Continued compliance with central government rent policy.

15. When self-financing was introduced, there was also a cap on new borrowing above a set maximum level. This has now been removed following the autumn Budget in 2018, so that the HRA is free to borrow to fund additional investment so long as it complies with the principles of Prudential Borrowing, in the same way as the General Fund. We are currently considering our options given this new flexibility, and additional borrowing will be aligned to the principles of the Housing Asset Management Strategy, which will be brought to Members for consideration. We would borrow to fund:

- Additional new build on currently vacant sites, which will increase rental income.
- Demolition / significant remodelling and refurbishment of existing stock, which may reduce rental income at least in the short term but will also reduce repair and maintenance costs on some of our red and amber stock, where these properties are not paying their way.

- New build to replace some of our current red and amber stock demolished / remodelled as above, which will increase rental income and would enable us to provide more popular and sustainable homes.

Detailed proposals for the use of the new borrowing freedoms will be brought to Members in due course.

16. The current budget for 2018/19 (approved by Cabinet in February 2018) shows a surplus on the HRA of £0.566m at 31st March 2019. The proposed revised budget for 2018/19 shows a surplus at the same date of £1.821m. This variance reflects latest forecasts, with the main changes being:

- Roll-forward of budget for disturbance and homeloss payments for tenants from the Netherton high-rise flats, as the moves have taken place over two financial years;

- Budgetary provision for potential redundancy costs arising from Stores outsourcing;

- Increased income from other sources such as leaseholder repairs, rechargeable repairs, procurement income and revenue grants;

- Reduced revenue contribution to capital costs.

These adjustments result in an increase in the budgeted surplus for the year from £0.566m to £1.821m, which is a more prudent amount but still represents less than 2% of the total budget for the year.

17. The proposed HRA budget for 2019/20 takes account of the proposed rent reduction of 1% on the 1st April 2019 (paragraph 5).

18. The proposed budget for the HRA is set based on the agreed two-year pay increase covering 2018/19 and 2019/20. We have also accounted for employer pension contributions to 2019/20 reflecting the final outcome of the triennial valuation in 2016. There remains no provision for general price increases on non-pay budgets, and to ensure that the challenge is met, we have reviewed authorisation levels and use of purchase cards and continue to promote an “every penny counts” approach with and for all budget managers.

19. 2019/20 is a 53 week rent year (that is, there are 53 Mondays falling in this financial year). Until April 2016, we charged rent over 50 weeks, with 2 non-chargeable weeks in most years and occasionally, in a 53 week rent year, 3 non-chargeable weeks. From April 2016, we have charged the annual rent over all 52 weeks, resulting in slightly lower weekly rents and allowing better alignment for those who pay monthly and those who are on Universal Credit, which is calculated on a monthly basis. In 2019/20, we are proposing to charge over 52 weeks, with a “free” week for tenants who are not in arrears.

20. The proposed HRA budget for 2019/20 includes a budget for housing management of £18.0m. This covers the day to day management of properties including income collection, tenancy enforcement, support for vulnerable tenants and lettings and void management.

21. Since 2014/15, the HRA has topped up the Discretionary Housing Payments (DHP) allocation received from central government. This allows for discretionary additional benefit payments to meet housing needs, mainly where a tenant has had housing benefit or Universal Credit (housing element) reduced as a result of underoccupancy penalties or the benefit cap. Around 75% of awards relate to council housing tenants, although awards are also made to tenants of housing associations or tenants in the private rented sector. The proposed budget for 2019/20 continues to include a contribution of £550,000, which will be added to the grant from central government.

22. The proposed HRA budget for 2019/20 includes a budget for repairs and maintenance of £23.3m. This reflects:
    - Undertaking all required statutory and compliance responsibilities such as servicing of gas appliances, electrical installation condition reports, maintenance on specialist electrical systems, warden call equipment and alarms, lift servicing, repairs and inspections, periodic testing of water hygiene systems and maintenance arising from fire risk assessments;
    - Undertaking responsive repairs and routine void works;
    - Cyclical maintenance such as painting of communal areas and social decorations for vulnerable residents.

23. The proposed HRA budget for 2019/20 includes a budget for interest payments of £17.3m. This covers the payments that are due on the debt taken on as part of the self-financing settlement and the subsequent additional borrowing under the Local Growth Fund. The recent lifting of the HRA Borrowing Cap means that we will be able to take out additional borrowing: in future years, therefore, it is likely that this budget line will increase.

<u>Public sector housing capital budget 2018/19 to 2022/23</u>

24. We must have a long-term rolling programme of investment to maintain the condition of council owned homes, to improve living standards and provide affordable homes for residents. A proposed £194m public sector capital budget for 2018/19 to 2022/23 including a revised budget for 2018/19 is attached as **Appendix 2.** This programme covers the current year plus four further years.

25. The proposed £194m rolling year capital investment programme continues to follow the general principles approved in the current programme and reflects the priorities of the Council Plan and the views of members and residents as expressed via the Housing Board, DFTRA and wider consultation events, and is clearly aligned to Council priorities and strategic long term sustainable investment in the housing stock. The impact of the rent reduction for 2016/17 to 2019/20 as outlined in paragraph 5 has been addressed predominantly through reviewing and reducing the amount of unplanned ad-hoc expenditure

in empty homes, with a more strategic, planned approach increasing resources to deliver planned programmes for key building elements in a more efficient way when they are affordable. This was work undertaken as part of the implementation of Phase 1 of the is4 strategic asset management report. The strategic, planned investment flowing from the Phase 2 strategic asset management report targets the following key priorities:

- Planned programmes of expenditure to keep homes in good order by addressing efficient investment in key building components such as roofs, electrics, kitchens and bathrooms;
- Ensuring that as many of the Council's homes as are economically viable are available for occupation;
- Improving fuel poverty and energy efficiency for residents;
- Delivering social care programmes in residents' homes and improvements in sheltered schemes which increase the ability for residents to live independently in their own homes;
- Delivering regeneration, environmental and community safety improvements to estates;
- Strategic stock investment and de-investment programmes in accordance with the ongoing stock sustainability and appraisal work and providing necessary investment at affordable levels for communal facilities in flatted developments;
- Providing new affordable social housing within the borough.

26. The key investment strands over the period from 2018/19 to 2022/23 are as follows:

a. **Maintaining Existing Homes** – essentially core investment in existing core stock replacing key components to ensure homes remain decent in accordance with the Government's minimum tolerable Decent Homes Standard and ensuring the value of the council's assets is protected. This is a £57.2m 5 year programme, including:
    - Over £10m of internal improvements to replace kitchens, bathrooms and undertaking major plastering repairs;
    - Over £9m replacing external doors and fire doors in flatted developments;
    - Over £16m on re-roofing works;
    - Over £9m commencing a new planned double glazing replacement programme in 2020/21 dealing initially with replacement of first generation double glazing installed in the mid 1990s;
    - £2m on electrical related works;
    - Over £2m on arising structural and health and safety related works.

b. **Major Works to Empty Homes** – a £39.7m 5 year rolling programme is proposed specifically addressing essential major improvements when homes are empty but continuing the principle of deferring unnecessary ad-hoc expenditure in empty homes to efficient planned programmes.

c. **Fuel Poverty** – an £18.6m programme over 5 years will replace inefficient boilers / heating with modern, efficient systems, and work to install heating in unheated homes where residents have persistently refused heating. The budget also has provision of £1m for insulation works, all which will contribute towards reducing fuel poverty for our residents.

d. **Independent Living** – a 5 year £22.4m programme that addresses the HRA contribution to the council's priority of Independent Living, and aims to reduce pressures on health and welfare costs. The budget includes:
   - Around £16m for adaptations to peoples' homes following assessment by Occupational Therapists, providing around 450 major adaptations such as level access showers, ramps and extensions in a tenure-blind service, with over 1,250 minor adaptations such as hand and grab rails each year;
   - Provision of over £5m for improvements to sheltered accommodation to fund improvements identified following a current review of sheltered scheme needs;
   - £200,000 to address improvements in Telecare technology.

e. **Community and Estate Regeneration –** £11.1m of investment over 5 years is proposed to regenerate communities and provide safe, sustainable estates where people want to live now and in the future. Feasibility work and strategic investment in estates will aim to deliver a range of programmes developed through local consultation, consistent with the priorities identified through community and estate consultations "The Big Conversation" in summer 2017 and resident feedback at "The Big Breakfast" in November 2017. The budget provides for £10m over 5 years for strategic estate wide area based improvements and £300,000 each year for community projects identified by local residents, currently in conjunction with the Housing Board.

f. **Strategic Stock Management** – a £12.8m programme is proposed specifically to address strategic investment and / or de-investment in the Council's housing stock. The budget will address the current approved programme for demolition of the 4 high rise blocks at Netherton. This proposal is consistent with the recommendations from the is4 strategic asset management review which identifies that consideration needs to be made concerning the viability of a further 2,250 – 2,500 homes over the next 9 years with the potential for demolition and / or disposal (predominantly in potentially unsustainable low demand high investment need flatted developments). Viability and investment appraisal work is ongoing but sensible provision is proposed for future strategic stock investment and / or de-investment in flatted developments, with any specific scheme approvals to be sought at future Cabinet. Over £2m is also proposed for significant remodelling and alterations to homes that have high investment needs, but continue to address high levels of housing need.

g. **New Council Housing** – continuing the current new build programme with £32.6m over 5 years providing over 300 new affordable council homes funded from Right to Buy receipts and grant funding where appropriate.

27. Approval is sought to continue discussions with government agencies such as Homes England (formerly the Homes and Communities Agency), Energy Service Providers and similar organisations and to bid for, enter into negotiations and / or seek tenders as appropriate to progress increasing resources to supplement the housing capital programme. This may be used, for example, to access funding to support new build and estate regeneration schemes or to progress carbon saving and / or power generating schemes to improve fuel poverty across the borough.

28. It is proposed that any additional resources obtained under paragraph 27 be added to the Capital Programme accordingly and the Strategic Director of Place and Chief Officer Finance and Legal be approved to enter into any such grant or funding agreements necessary to deliver the schemes.

29. To ensure effective utilisation of all resources that become available, Cabinet is requested to authorise the Strategic Director of Place, in consultation with the Cabinet Member for Housing and Residents' Welfare, to manage the 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 any receipts that may be specifically committed to support private sector housing grants) should continue to be used for the improvement of council homes. In view of increased funding for Disabled Facilities Grant now received via Better Care Fund allocations, it is not proposed for this medium-term period that the HRA makes a contribution to private sector housing grants, though this will be kept under review.

30. Cabinet on 29 October 2014 and Council on 1 December 2014 authorised the Director of Adult, Community and Housing Services – now the Strategic Director of Place - to buy back former right to buy properties and to buy other properties, either via mortgage rescue or on the open market, subject to a robust assessment that the property will be purchased at a discounted price that offers good value for money and will be sustainable in terms of lettings, maintenance and major works, and recommended that Council approve that these be added to the capital programme as they are purchased. As the HRA new build programme progresses, and in particular given the additional flexibility provided by the removal of the HRA borrowing cap, it is proposed that this authorisation be extended to cover land as well as properties, where this is required in order to assemble a viable site for development, and subject to the same requirement for a robust assessment that the purchase will offer good value for money and will facilitate a development that is sustainable in terms of lettings, maintenance and major works.

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

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

32. With the abolition of the HRA Subsidy system and the introduction of self-financing for housing authorities from April 2012, the Council now has an increased level of autonomy and flexibility regarding housing finance. The HRA budget is no longer dependent on annual Government settlements, although the rent increase will still be determined annually. It is therefore possible to set indicative budgets for a longer period and to develop a longer-term financial and business strategy.

33. Although the HRA enjoys some increased flexibility, the HRA ring-fence remains in force, and the Council is also expected to have regard to the Government's national rent policy. Under the self-financing settlement, Dudley has taken on a significant increase in housing debt, which must be serviced. The medium term financial strategy and thirty-year business plan is provided at Appendix 3, 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 over the longer term.

Finance

34. 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 2020. 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 2020 and therefore complies with the requirements of the Act.

Law

35. 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. The Welfare Reform and Work Act 2016, Sections 23 to 33, introduced the requirement in each relevant year for providers of social housing to secure that the rent payable by a tenant of their social housing is at least 1% less than the amount payable in the preceding 12 months. Schedule 2 provides for the application of formula rent where there is a new tenancy.

Equality Impact

36. The proposals take into account the Council's Policy on Equality and Diversity.

This is a financial report concerned with forecasting of income and application of resources. Some areas of proposed expenditure are intended to promote independence and improve quality of life for protected groups.

<u>Human Resources / Transformation</u>

37. The proposals in this report do not have any direct Human Resources / Transformation implications.

<u>Commercial Implications</u>

38. The proposals in the report relate to our statutory functions as a social housing landlord, and therefore there are no direct commercial implications.

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Place

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List of Background Papers: none

Appendix 1

Proposed HRA Budget

	2018/19 current budget Feb 2018 £000	2018/19 proposed revised budget £000	2019/20 proposed original budget £000
Income			
Dwelling rents	-85,130	-85,129	-82,596
Non-dwelling rents	-850	-896	-817
Charges for services and facilities	-238	-243	-243
Contributions towards expenditure	-931	-1,217	-913
Interest on balances	-22	-64	-90
Total income	**-87,171**	**-87,549**	**-84,659**
Expenditure			
Responsive and cyclical repairs	22,926	22,612	23,266
Management	17,516	17,554	17,970
Management – homeloss and disturbance	0	400	0
Transfer to Major Repairs Reserve	23,113	23,215	23,431
Acquisition / Disposal of Land / Properties	0	0	0
Interest payable	17,561	17,524	17,305
Revenue contribution to capital expenditure	5,000	4,000	1,000
Discretionary Housing Payments	550	550	550
Other expenditure	1,752	1,839	1,887
Total expenditure	**88,418**	**87,694**	**85,409**
Surplus/deficit for the year	**1,247**	**145**	**750**
Surplus brought forward	**-1,813**	**-1,966**	**-1,821**
Surplus carried forward	**-566**	**-1,821**	**-1,071**

Appendix 2

Proposed capital programme 2018/19 to 2022/23

Thematic Programme	**2018/19 (000's)**	**2019/20 (000's)**	**2020/21 (000's)**	**2021/22 (000's)**	**2022/23 (000's)**
Maintaining Existing Homes	11,459	9,178	11,485	12,446	12,607
Major Works to Empty Homes	9,294	8,374	7,451	7,521	7,025
Fuel Poverty	3,943	3,737	3,748	3,778	3,442
Independent Living	4,808	4,988	4,749	4,179	3,637
Community and Estate Regeneration	1,567	3,167	2,929	1,702	1,711
Strategic Stock Management	401	3,086	3,528	2,905	2,927
New Council Housing	8,138	8,838	5,010	5,746	4,850
Total	**39,610**	**41,368**	**38,900**	**38,277**	**36,199**

Resources

	2018/19 (000's)	**2019/20 (000's)**	**2020/21 (000's)**	**2021/22 (000's)**	**2022/23 (000's)**
Borrowing	0	0	0	0	0
Major repairs reserve	23,215	23,431	23,900	24,378	24,865
Revenue contribution to capital	4,000	1,000	3,400	4,400	4,000
Usable capital receipts	9,333	16,453	11,600	9,499	7,334
Less usable capital receipts transferred to support private sector housing capital	0	0	0	0	0
Other (grants)	3,062	484	0	0	0
Grand Total	**39,610**	**41,368**	**38,900**	**38,277**	**36,199**

Appendix 3

Medium Term Financial Strategy for Landlord Housing (MTFS(LH)) and Thirty Year Business Planning Strategy for Landlord Housing

Purpose

1. The Medium Term Financial Strategy for Landlord Housing (MTFS(LH)) has set out how the Council plans to balance spending pressures and available resources over the medium term, taking into account risks and uncertainties. It relates specifically to the Housing Revenue Account (HRA) and the capital programme for improvement of the Council's own housing stock.

2. The MTFS(LH) should be read in conjunction with the Council's overall Medium Term Financial Strategy (MTFS). The underlying principles set out in the overall document apply equally to the MTFS(LH).

3. In the context of the introduction of Self-Financing for public sector housing, the abolition of the HRA subsidy system, the increased autonomy and flexibility that housing authorities will have to manage their stock and, in Dudley's case, the increased debt taken on, a Thirty Year Business Plan has been developed. This takes into account issues including investment need, treasury management strategy, financial projections and tenants' engagement.

Background

4. The financial strategy for landlord housing takes into account the need for strategic investment in the Council's housing stock, the continued delivery of the Decent Homes Standard to maintain the condition of existing viable stock and the new opportunities and challenges arising from the introduction of the self-financing system. This is the subject of an ongoing consultation process that includes tenants and residents. The key elements of this financial strategy, which covers a rolling five year period, are:

   - Review the suitability of the housing stock and explore the feasibility of new build to increase stock and de-invest in and / or replace properties that are in poor condition, low demand and/or that do not meet modern requirements;
   - Aim to 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;
   - 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;
- Set rents having regard to government rent policy for social housing and our investment needs.

The proposed budget and the MTFS(LH)

5. Ongoing resources are required to maintain the investment in the Council's housing stock and deal with properties where the age of the components and fittings mean that replacement is required, and properties are lettable to an appropriate standard when they become void. The rolling five-year capital programme includes resources to maintain the Government's Decent Homes Standard.

6. A stock validation survey was commissioned and undertaken during late 2013 to externally validate and support existing stock investment information for the housing stock. The detailed output of this is now embedded within the 30 year investment cost plan, which is continually updated to reflect investment undertaken and newly arising investment need. A strategic stock investment appraisal was commissioned in 2015 through i.s.4 housing & regeneration to enhance and accelerate previous in-house work on sustainability modelling and 30 year planning. The is4 stock appraisal assessed the net present value of property management, maintenance and investment need against rental income, and property 'prospects and performance' (essentially current and future demand) and the report provides an overview of the relative performance of the Council's housing stock at a point in time, providing a strategic steer on the some key triggers for action.

   Further investigative work is now ongoing at a detailed area and property level to determine specific mitigations and/or interventions required. The report and the supporting analysis will assist in the production of a detailed asset management strategy for Dudley's housing stock and to inform future investment and de-investment strategies for the short, medium and longer term.

   Part of IS4's strategic asset management process Phase 1 was to "traffic light" the stock using red, amber and green benchmarks. The assessment of Dudley's housing stock found that in the overall assessment the majority (72%) of Dudley's stock is assessed as green, meaning that it is core stock for investment purposes and which, other things being equal, Dudley will continue to invest in over the longer term. 15% is assessed as amber and 13% as red: these units require some further detailed consideration.

7. However, in addition to the 'bricks and mortar' investment needs we also need to consider additional wider community council and housing priorities. This includes addressing priorities such as new build housing, de-investment and conversions, facilitating independent living for vulnerable people with disabilities by adapting properties, and estate based community improvements to provide sustainable communities for the future. This work

was undertaken as part of is4 strategic asset management Phase 2. Key recommendations from the is4 Phase 2 report are:

- In respect of investment in the existing housing stock the Council continue with their commitment to retain and invest in existing stock which is economically viable and in demand and this covers most of the Council's stock. All properties meeting this criterion should be categorised as being in the core or invest to maintain programme with the remaining stock being dealt with through alternative strategic investment.

- Consider for demolition or disposal circa 2,250 – 2,500 high investment units which are not economically viable to the Council and which have no prospect of sale at a reasonable price. Stock for demolition or disposal should be brought forward for consideration on the basis of a detailed business case/options appraisal confirming the technical options available for the stock, consideration of whether the quality of the product which the Council can offer under each option is likely to be sufficiently attractive to existing and prospective tenants over the long term (for the next 30 years) to fully address the issues of low demand as evidenced by no or weak housing demand and other sustainability measures examined as part of the SAMS (Strategic Asset Management Strategy)

- Disposal of around a further 375 units (1.6% of the stock) of low demand and/or high investment need which are also not viable for the Council but which could be reasonably be sold on the open market. Analysis suggests that a modest programme of around 25 properties per year is sufficient (though more would, of course, be desirable if it can be delivered). The disposal programme should specifically not involve properties (flats mainly) which would potentially create issues later either regarding delivery of the Council's investment programme where owners consent is required or is potentially a future buy back burden. Single properties identified as non-viable may still be invested in where they are in the minority in an otherwise performing block

- Undertake a feasibility study across the high rise and low demand flatted developments should be completed to confirm the full cost associated with the option of viable (i.e. in demand) retention by the Council especially in the light of the potential costs of sprinklers, fire alarms and any other fire risk assessment related works.

- Further consideration of the areas of strategic interest is also required to confirm the nature and extent of the community and estate regeneration issues locally and for the Council to assess, through a structured appraisal process, the likely strategic impact of investment and potentially other investments to 'lift' an area or not. The development of the patch portraits involving sufficient estate consultation and engagement with design options (where appropriate) will probably be undertaken through the course of 2018/19.

- Retention of the units earmarked for demolition or disposal is not recommended

- Agree an appropriate communications and consultation plan for engaging key stakeholders including staff and tenants.

8. The 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;
    - review of the existing housing stock provision to consider de-investment options and re-configuration of high investment need and low demand homes
    - addition to and replacement of the housing stock via new build programmes;
    - the level of housing debt;
    - service charges[2].

9. Whilst in some areas the volume of smaller responsive repairs has generally decreased due to recent investment, particularly around central heating, there is an emerging trend of increasing investment need to deliver major improvements to homes and to maintain decent homes, which was only ever a minimum tolerable standard, to a housing stock that is, on average, 63 years old. Delivering planned programmes of improvements in cyclical, strategic programmes (such as the current planned boiler and double glazing programmes) is the optimal solution to delivering value for money through efficient procurement and planned works delivery

10. A proposed rolling capital programme has been developed to maintain current standards and improvements.

11. Resources have been identified for a new build programme which will continue to meet our current Right to Buy Replacement targets and also fund the schemes for which we have Local Growth Fund approval. Resources have been allocated to future years assuming that government rules will continue as they are currently.

12. The table below summarises the 30 year financial business plan (based on the PriceWaterhouseCoopers self-financing 30 year model, and detailed in the HRA Estimates 2019/20 detailed 30 year financial plan). This is updated

[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.

annually and will take into account changes in policy. It reflects our current approach of stock retention, maintenance of the Decent Homes Standard, investment in the maintenance and improvement of our stock, and regard to national rent policy.

	Years 1 -5	Years 6 - 10	Years 11 - 15	Years 16 - 20	Years 21 - 25	Years 26 - 30
	£m	£m	£m	£m	£m	£m
Income						
Dwelling rents	-428,489	-459,497	-486,625	-519,883	-560,012	-601,920
Other	-11,357	-11,027	-11,902	-12,855	-13,892	-15,023
Total Income	-439,846	-470,525	-498,527	-532,738	-573,904	-616,943
Expenditure						
Management and maintenance (net of retained surpluses)	216,168	225,538	236,902	248,846	258,666	264,816
Depreciation and transfer to Major Repairs Reserve	119,788	131,987	145,725	160,892	177,638	196,126
Revenue Contributions to Capital / Debt Repayment	16,800	23,000	25,900	33,000	47,600	66,000
Interest Payments	87,090	90,000	90,000	90,000	90,000	90,000
Total Expenditure	439,846	470,525	498,527	532,738	573,903	616,943

Risks to the financial forecast

13. 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 increase (or decrease) applied. If cost inflation (pay and / or prices) is lower than general inflation as used to determine the rent increase, this will have a positive budgetary impact. However, if cost inflation (pay and / or prices) is higher than general inflation as used to determine the rent increase, this will have a negative budgetary impact. With the government's new policy of rent decreases for social landlords for 4 years from

	2016/17, and pressures on both pay and price inflation, this risk becomes even more significant. From April 2020, the Government has reverted to the rent increase formula of September CPI plus 1% for social landlords, and our forecasts for a viable HRA budget have been based on this level of increase.
Income levels not achieved	<u>Rent loss from void properties</u> We have seen over recent years an increase in void properties owing mainly to greater tenant mobility and this has resulted in an increased rent loss of up to 3% of total rent available. We have seen an increase in the number of hard-to-let properties, for instance two-bedroom flats, particularly in high rise blocks, and some three-bedroom houses. We have allowed in our forecasts for a rent loss of 3.02% of total rent available in 2018/19, reducing to 2.8% in 2019/20 and 2.5% in 2020/21, on the basis that we achieve a reduction in the average re-let time. The cost for each 1% void loss is around £1m per annum. <u>Rent loss from non-payment of arrears</u> As part of the Government's proposed welfare reforms, many tenants will receive Universal Credit direct and will therefore be responsible for paying their own rent rather than as a transfer from Housing Benefit. We have already seen a trend over recent years towards a greater proportion of rent being paid directly by tenants rather than via Housing Benefit. The number of tenants receiving partial rather than full Housing Benefit has also increased. This is leading to an increase in arrears and potentially in bad debts. The longer term impact of Universal Credit on rent collection rates is still difficult to assess, but initial estimates suggest that the collection rate may fall from the current 97% to 80% - 90%. The management cost of collecting rents is also expected to rise as more payments are made

	direct by tenants rather than via transfer from the Benefits system. Dudley was in the first tranche of the next roll-out of Universal Credit to new, single claimants nationally, which started in March 2015. Numbers were fairly low, although managing this caseload has proved very intensive in terms of staff time and we are seeing higher arrears for this group. From July 2017, all new claimants and many existing claimants who have changes in circumstances are moving to Universal Credit in Dudley. We are working actively to mitigate the risk of loss of income, including tenant profiling, pre-tenancy training, support for tenants experiencing financial difficulties, increased automation and other efficiencies in the income recovery process, and partnership working across the council and with DWP, CAB and other agencies. Since July 2017, we have seen numbers on Universal Credit increase significantly, from an average of 4 new tenants a week moving to Universal Credit previously to over 45 a week (and increasing) since the full roll-out in July. We await details of the managed migration programme, which will transfer remaining claimants of legacy benefits to Universal Credit. This is likely to commence during the 2019/20 financial year, but based on DWP communications to date, we expect this not to affect Dudley until the end of the financial year at the earliest. In addition to Universal Credit, tenants may also be affected by underoccupancy charges (since April 2013) and the reduced Benefit Cap (since November 2016).
Change in rent policy	The government has superseded the national formula for a maximum rent increase for social landlords of September CPI plus 1%. Social landlords are now required to reduce their rents by 1% annually from April 2016 for four years.

	This will have a significant impact on future budgets and has meant that we have revised our HRA Business Plan to reflect this lost income. Compared to our forecasts for 2015/16 original budgets, this ongoing, cumulative rent reduction represents a loss of income of almost £28m by 2019/20. From April 2020, the maximum rent increase will return to the September CPI plus 1% formula and our projections take this into account, albeit with prudent assumptions around inflation levels.
Interest rates higher than forecast	Our debt on housing properties is around £470m following the introduction of self-financing. Hence, interest rate risk is much more significant than it was under the subsidy system. Risk will be mitigated by borrowing at fixed rates and spreading repayment dates to minimise refinancing risk.
Reduction in property values in the borough	Any reduction in property values will reduce the value of usable capital receipts.
Reduction in land sales and capital receipts	We have seen as a result of the general economic situation a diminution in the value received for sale of housing land. We also recognise that with a new council house building programme we are likely to be disposing of fewer housing sites.
Reinvigoration of Right to Buy	The Government has increased the cap on Right to Buy (RTB) discount from £26,000 to £78,600 per property, and in future years this will continue to increase by inflation annually. The maximum discount for houses was also increased during 2014/15 from 60% to 70% and in May 2015 the requirement to have been a council tenant for 5 years before exercising right to buy was reduced to 3 years. The changes have resulted in increased sales from the last quarter of 2012/13 onwards, although sales have been fairly consistent at around 180 – 200 per year from 2013/14 onwards.

	However, because the value of the maximum discount has increased and there has been a reduction in the average value of the properties sold, increased sales will not necessarily result in a proportionally greater value of capital receipt income. New regulations have replaced the capital receipts pooling arrangements and require councils to build replacement homes for all extra homes sold under Right to Buy.
Suitability of stock	Some of our stock is old and nor particularly suited to modern styles of living. In addition, changes to the benefit system mean that some of our properties are less attractive than they were previously (e.g. two-bed high rise flats or three-bed maisonettes). We are already experiencing difficulty in letting such properties, which will lead to a loss in rental income and also potentially an increase in security costs and an increase in anti-social behaviour. Work is ongoing to assess the sustainability of the housing stock addressing the net present value of housing investment needs and rental income against demand, resulting in an assessment of the housing stock at an individual unit level, and potentially leading to proposals for stock remodelling, disposal and or demolition.
Availability of borrowing	Following the removal of the HRA borrowing cap in the autumn 2018 Budget, we are reviewing options for additional borrowing in order to build new council homes, undertake estate regeneration, and remodel / refurbish existing homes.
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.

Prudential indicators

14. 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 2018/19	**Forecast 2019/20**	**Forecast 2020/21**	**Forecast 2021/22**
Ratio of financing costs to net revenue stream: HRA	46.5%	48.0%	46.9%	46.6%
Capital expenditure: HRA	£39.6m	£41.4m	£38.9m	£38.3m
Capital Financing Requirement: HRA	£470.3m	£470.3m	£470.3m	£470.3m

15. 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.

16. The forecast debt charges resulting from anticipated borrowing are fully reflected in the Housing Revenue Account budget at Appendix 1 of the report.

17. 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 was £464.1m. Additional borrowing under the Local Growth Fund was available in 2015/16 and 2016/17 and this has increased the HRA CFR limit to £470.3m from 2016/17. The debt charges resulting from this new borrowing will be funded by the rental stream from the additional homes provided.

18. These indicators will be updated in due course to take account of additional borrowing now that the limit on the HRA CFR has been lifted.

Partnerships

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

- A strategic partner for delivery of new council housing under a framework arrangement to 2020;

- 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, partnerships are delivering improved services at a measurably lower cost and have allowed valuable and limited resources to be re-invested in the housing stock (e.g. gas servicing, maintenance and repairs).

20. Funding partnerships have also been forged with Homes England (formerly the Homes and Communities Agency) to support new council housing and historically with energy service providers to increase resources for reducing carbon emissions under the Government's ECO (Energy Company Obligations).

21. Procurement consortia are also used (e.g. the LHC Framework, Procurement for Housing) and other partnership arrangements will also continue to be used where appropriate, forming partnerships with established bodies to deliver procurement efficiencies.