

HOUSING MANAGEMENT ADVISORY BOARD - 7th NOVEMBER 2018

Report of the Head of Landlord Services

BUDGET CONSULTATION 2019/20

Purpose of the report

To enable members of the Board to consider the following issues before the draft budget report goes to Cabinet in December 2018.

- Priorities
- Budget pressures
- Rent and service charge setting
- Proposals for planned investment

Action requested

The Board is asked to:

- Advise on any initiatives / priorities it wishes to see budgeted for in 2019/20.
- Comment on the budget pressures submitted for maintenance of external wall insulation and periodic electrical testing.
- Comment on proposed rents and service charges for 2019/20.
- Comment on the proposals for planned investment for 2019/20.

Background

Annual budget setting process

Each year the Council sets budgets for the following year. An indication of the process and the timescales for the key events that drive the process are set out in the below table:

Event	Description
Cabinet Meeting 13 December 2018	A report is taken to Cabinet to: <ul style="list-style-type: none">• Advise members of the projected base budget position for 2019/20.• Review the savings and growth proposals put forward for the year 2019/20, and to begin a period of consultation.

<p>Cabinet</p> <p>14 February 2019</p>	<p>This report sets out the proposed General Fund and Housing Revenue Account (HRA) Revenue Budgets for 2019/20, which together represent the financial spending plans for all services of the Council.</p> <p>The report also presents the proposals to increase rent and service charges within the Housing Revenue Account.</p>
<p>Council</p> <p>25 February 2019</p>	<p>The report sets out the recommendations of the Cabinet regarding the proposed General Fund and HRA Revenue Budgets for 2019/20. These budgets represent the financial spending plans for all services of the Council and it is a legal requirement to set a balanced budget each financial year. The report also includes the original budget for the Housing Revenue Account together with changes to rent and service charges.</p>

The exact amount of available money for the HRA in 2019/20 is not yet known as this is identified after December 2018.

Budget pressures submitted for maintenance of external wall insulation, and periodic electrical testing

In order to arrive at a draft budget position that can be presented to Cabinet in December 2018, Heads of Service submit any pressures and savings they are aware of for the forthcoming year. Pressures and savings over £10,000 require the production of a business case.

A summary of budget pressures and savings under consideration at 20th October 2018 and the net effect on the HRA can be found at Appendix 1.

The budget pressure business cases for periodic electrical testing maintenance of external wall insulation can be found at Appendix 2.

The pressures, savings and business cases will be reviewed by Directors and Heads of Service to determine whether they can be covered within the overall HRA budget and whether the business cases appear reasonable. The finalised pressures and savings, along with the business cases and supplementary information, are then reviewed by the Senior Management Team, and the draft budget is produced.

Rents and service charges for 2019/20

- Housing Rents

2019/20 is the fourth year of 1% rent reductions from a frozen 2015/16 baseline as set out though the Welfare Reform and Work Act 2016. Housing rents will be reduced in line with legislation.

- Charges for garage and shop rents, leasehold management and administration, and lifeline and sheltered accommodation

These charges are not subject to the 1% rent reduction legislation as described above.

It is proposed that the majority of charges are subject to a 2.4% increase in line with the Consumer Price Index (CPI) for the twelve month period to September 2018. CPI is an inflationary indicator that measures change in the price of goods and services. The Council is subject to inflationary increases, therefore charges should increase accordingly.

Table 1 (below) shows how the proposed increase will affect individual charges:

Charge	Average weekly charge at 2018/19	Average charge with a 2.4% CPI increase	Comment
Garage rents	£8.38	£8.59 / week	A review around the best use of garage sites is currently underway. Some sites are in poor condition. The review will inform investment decisions and future charge setting.
Shop rents	£170.92	£175.02 / week	Charges are based on advice from the District Valuer.
Lifeline charge	£4.27	£4.37 / week	Overall, charges are under recovered i.e. the cost of providing services is more than the service charge levied. If charges are increased too much, vulnerable people may stop using the service. There may be scope to increase charges in future years and the shift to digital technology may have a bearing on this.
Warden support charge	£1.68	£1.72 / week	Overall, charges are under recovered i.e. the cost of providing services is more than the service charge levied. If charges are increased too much, vulnerable people may stop using the

			service.
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- Leasehold charges

There is a significant gap between the amount charged to leaseholders and the actual cost of providing the service therefore a 3.4% charge (2.4% CPI + 1% to support convergence) is proposed.

Charge	Average weekly charge at 2018/19	Average charge with a 3.4% increase	Comment
Leasehold management and administration charges	£109.35	£113.06 / year	Overall, charges are under recovered i.e. the cost of providing services is more than the service charge levied. If the actual cost of providing the service is fully recovered, the fee for 2019/20 would be £162.75 for each leaseholder.

Planned maintenance

Works will continue to be delivered in line with the Charnwood standard. There are two capital budget lines where there is some flexibility outside of the standard:

- Communal area improvement budget - £150,000

It is proposed that further communal area improvements are undertaken on the Bell Foundry estate, due to the very poor condition of those that exist currently.

- Estate and External Works Budget - £205,000

It is proposed that the budget is largely focussed on improving pedestrian areas, footpaths and car park surfaces, to reduce the likelihood of trips and falls resulting in harm.

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Appendix 1 - Summary of Budget Pressures and Savings

Budget Pressures

Item	Outturn Position (Underspent) /Overspent 2016/17 £	Outturn Position (Underspent) /Overspent 2017/18 £	Forecast Outturn Position (Underspent) /Overspent 2018/19 £	2019/20 One-Off Amount £	2019/20 Ongoing Amount £
Electrical testing (legal requirement every 5 years)	53,096	(12,815)	(323,500)		171,300
EWI Works 5 year programme	N/A	N/A	N/A		63,200
HRA tenants lifeline income	(6,606)	21,214	4,500		4,500
Sheltered Courts Laundry equipment budget	10,791	(6,374)	0		5,500
Total Unavoidable Service Pressures	57,281	2,025	(319,000)	0	244,500

Appendix 2 - Business Cases

PERIODIC ELECTRICAL TESTING AND ASSOCIATED WORKS **- BUSINESS CASE**

1. EXPLAIN THE STRATEGIC CONTEXT

Under electrical regulations the Council has a statutory responsibility to conduct periodic electrical inspections and tests. The standard interval for the test is every five years, with subsequent inspection dates driven by the condition of the installation at the time it was inspected.

The Council must comply with the Landlord and Tenant Act 1985 which states that the electrical installation in a rented property must be:

- Safe when a property is let
- Maintained in a safe condition throughout the tenancy

In 2018/19 a programme of electrical tests has been implemented. The revenue budget was allocated for one year only to establish the likely future budgetary requirement.

Fortem have started to deliver the programme of tests. 324 tests have been completed year to date. There have been high numbers of refusals and no accesses.

A basket rate cost for code 1 and 2 (priority works identified at the time of test) is currently being negotiated.

2. ESTABLISH THE NEED FOR EXPENDITURE

A 5 year rolling programme is required to ensure as far as reasonably practicable the Council remains compliant with regulations and keeps tenants, their families, visitors and officers safe.

3. DEFINE THE OBJECTIVES AND CONSTRAINTS

The objectives are to:

- Undertake electrical condition reports and works necessary to meet the required standard under electrical regulations.

At present, there is no in-house provision to carry out the programme of electrical testing. Fortem are currently delivering the programme.

4. IDENTIFY & QUANTIFY THE MONETARY COSTS AND BENEFITS OF OPTIONS

The table below indicates the five year cyclical programme for electrical periodic inspections and tests.

The number of tests required is based on housing stock levels divided over a 5 year period taking in to account the numbers projected to be undertaken through other delivery mechanisms.

Programme year	Electrical Testing (No of occupied dwellings) Revenue Budget	Estimated cost of test & associated works @ average of £280 PP
1	611	£171,280
2	611	£171,280
3	611	£171,280
4	611	£171,280
5	611	£171,280
Total	3059	£856,400

Any re-wires identified will be undertaken via the existing £66K capital budget line (which is not the subject of this business case) and delivered as a programme. Data from the 2018/19 testing programme will be analysed to identify the likely future requirements.

5. APPRAISE RISKS

Risk / Risk No	Status	Likelihood	Impact	Mitigation
Breach of electrical regulations	A programme is in place however a budget is required for future years	5	5	Continuation of the programme
Risk of harm to tenants, their families, visitors and officers	A programme is in place however a budget is required for future years	4	5	Continuation of the programme
Risk to reputation though a breach of regulations	A programme is in place however a budget is required for future years	4	3	Continuation of the programme

Likelihood

Impact

- | | |
|---------------------|-----------------|
| • 1 Remote | 5 Severe |
| • 2 Unlikely | 4 Major |
| • 3 Possible | 3 Moderate |
| • 4 Probable | 2 Minor |
| • 5 Highly Probable | 1 Insignificant |

6. WEIGH UP NON MONETARY COST & BENEFITS (INCLUDING SUSTAINABILITY, CARBON REDUCTION, EQUALITY & LIFETIME OPPORTUNITIES)

The contract with Fortem contains provision to support delivery of the Council's sustainability objectives.

7. SET OUT THE PROJECTED PROFILE OF EXPENDITURE AND (IF APPLICABLE) INCOME

See profile over 5 years at section 4.

8. CONCLUSIONS AND RECOMMENDATIONS

The Council has a duty under electrical regulations and landlord and tenant legislation to conduct periodic electrical condition reports and undertake works to keep people safe.

It is recommended that the Business Case for Periodic Electrical Testing and Associated Works is approved.

EXTERNAL WALL INSULATION MAINTENANCE - 19/20 BUSINESS CASE

1. EXPLAIN THE STRATEGIC CONTEXT

Under section 11 of the Landlord and Tenant Act 1985, the landlord is responsible for keeping in repair the structure and exterior of the dwelling, including drains, gutters and external pipes.

The DCLG have issued guidance post Grenfell on the landlord's responsibilities in respect of EWI inspection and maintenance. A summary of the advice can be found at Appendix 1.

2. ESTABLISH THE NEED FOR EXPENDITURE

To improve the thermal comfort of tenants' homes a capital programme was undertaken to install EWI (External Wall Insulation) at 981 properties.

In order to ensure the system performs for the whole of its life, the Council needs to establish a regime of maintenance that covers cleaning and painting of the EWI system and the replacement of silicone sealant.

Initially a budget of £72,900 was estimated and allocated for this work in 2018/19. However the budget is insufficient to cover likely remedial works required. The survey cost is £77.35 per property excluding any works required. Surveys are being completed this year.

A 5 year rolling programme is required to plan the work effectively. It is proposed that sealant replacement work is carried out at 200 properties per year at an estimated cost of £316 per property. The survey may identify further works required and the position will be monitored in this respect.

3. DEFINE THE OBJECTIVES AND CONSTRAINTS

The objectives are to:

- Comply with legislation and government guidance.
- Undertake a maintenance programme for EWI in order to preserve the system, the Council's property and the health of tenants and their households.

At present, there is no in-house provision to carry out the programme; however, there is a contract in place with the Council's capital contractor Fortem to deliver the work.

4. IDENTIFY & QUANTIFY THE MONETARY COSTS AND BENEFITS OF OPTIONS

The below table outlines a five year cyclical EWI maintenance programme.

The price is fixed for 2019/20 and thereafter will likely be subject to a CPI increase.

Programme year	No of properties	Estimated revenue cost of works at an average cost of £316 PP revenue
1	200	£63 200
2	200	£63 200
3	200	£63 200
4	200	£63 200
5	181	£57 196
Total	981	£309 996

Benefits are:

- Properties will be well maintained, and there will be a reduced likelihood of water ingress causing damage to the Council's housing stock.
- Reduced likelihood of breach of right to repair legislation and government guidance.
- Reduced likelihood of disrepair claims from tenants, and of tenants suffering ill health due to poor property conditions.

5. APPRAISE RISKS

Risk / Risk No	Status	Likelihood	Impact	Mitigation
Deterioration of EWI leading to repair issues in the Council's housing stock	There is no current programme in place beyond survey	5	4	Implementation of the programme
Risk to reputation	There is no current programme in place beyond survey	3	3	Implementation of the programme
Breach of legislation, and increased number of disrepair claims	There is no current programme in place beyond survey	3	3	Implementation of the programme

Claims from tenants suffering ill health	There is no current programme in place beyond survey	3	4	Implementation of the programme
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Likelihood

- 1 Remote
- 2 Unlikely
- 3 Possible
- 4 Probable
- 5 Highly Probable

Impact

- 5 Severe
- 4 Major
- 3 Moderate
- 2 Minor
- 1 Insignificant

6. WEIGH UP NON MONETARY COST & BENEFITS (INCLUDING SUSTAINABILITY, CARBON REDUCTION, EQUALITY & LIFETIME OPPORTUNITIES)

The enhanced thermal comfort for tenants at properties with EWI will be maintained.

7. SET OUT THE PROJECTED PROFILE OF EXPENDITURE AND (IF APPLICABLE) INCOME

See profile over 5 years at section 4.

8. CONCLUSIONS AND RECOMMENDATIONS

That an EWI maintenance regime is implemented and that sufficient budget is identified for this work.

Appendix 1 - DCLG EWI Guidance

In general, the key steps for building owners are as follows...
Undertake a visual recorded survey of EWI system condition, including checking that waterproofing is adequate and that the system is not absorbing moisture (which can increase risk of structural failure). EWI systems are likely to fail gradually rather than catastrophically, meaning that ongoing visual inspection will also be important in identifying any at risk EWI systems in the longer term.
Obtain design records, construction details, structural calculations, specifications, system certification for the EWI system, and appoint suitable expert advisors to assess the adequacy of the design and installation.
On the basis of both of the above, establish what further non-invasive or invasive investigations are needed to confirm that the EWI system is installed in a way which can safely resist all likely actions, including wind-loads and dead loads.

If necessary, commission remedial work to address inadequacies in the design or installation of the EWI system. Also consider mitigating measures to protect people moving around the outside of the building until remedial work is complete.

Consider what ongoing inspection regime is advisable.