

# **KIRKLEES METROPOLITAN COUNCIL**

## **HOUSING REVENUE ACCOUNT**

### **BUSINESS PLAN**

**An analysis of the housing market in the Kirklees region, demand for and supply of council housing and the management and investment in the council housing stock to meet the Government's decent standard.**

**The Business Plan is concerned with the Council's landlord activities – which are funded from the rental income of tenants, through the ring-fenced, Housing Revenue Account (HRA). It is not lawful to cross-subsidise the HRA activities from the Council Tax General Fund.**

**Produced by Kirklees Council in partnership with Kirklees Neighbourhood Housing**

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### Editorial Note on July 2003 Edition

This Business Plan sets out how Kirklees Council intends to deliver Government and Council objectives for council housing in the Kirklees Area. A key aim is to bring all of the Council's 26506 houses and flats up the Government's decent standard ahead of target by 2006/07. Additionally, the quality of housing services and quality of life on estates is important to supporting sustainability. For this reason the Council has established an arms length company.

The company, Kirklees Neighbourhood Housing, was inspected by the Audit Commission in the autumn of 2002 and was judged to be delivering a good two star rated service. This rating has released extra borrowing required by the Council to allow property investment to meet the decent standard.

KNH has clear plans to improve its services to a three star excellent rating by working in partnership with the Council and other agencies to regenerate estates, tackle crime and nuisance, involve all members of the community and provide excellent well run housing management services.

This Business Plan was originally produced in July 2001 and updated in July 2002. It sets out how the Council will use the resources in its Housing Revenue Account (The management account for council housing) to deliver improvements in service and meet improvement and investment needs in its houses. The establishment of Kirklees Neighbourhood Housing was an important milestone in meeting this requirement. The company now provides all the housing management services to Kirklees council housing and also delivers (in partnership with five construction companies) the improvement programme required to meet the Government's decent standard.

This updated version of the plan retains the methodology of the July 2002 version and updates this with clear resourced plans that have been consulted with tenants and other stakeholders. The plan also benefits from detailed survey works undertaken by construction partners as the decent homes improvement programmes began work on site.

The document sets out how the council using a stock option appraisal concluded that an arms length company provided the best option to meet the Government's decent standard and how Kirklees Neighbourhood Housing will deliver the improvement programme to meet the decent standard and also improve the housing management service to achieve an "excellent" rating from the Housing Inspectorate.

In summary the headline improvements within this version of the document are:

- A revised format to the document that has removed much of the original detailed modelling but retains a clear format setting out:
  - demand and supply for council housing in Kirklees
  - an analysis of stock condition
  - an analysis of the costs and delivery of a stock improvement programme
  - plans to deliver an excellent housing service
  - management of the housing revenue account.
- A clear estate-by-estate investment programme that has been consulted with tenants. Work has begun on delivering the decent homes programme with two programmes recently officially opened Nick Raynsford, Minister for Local Government and the Regions. Extensive consultation is being undertaken with individual tenants about options as the programme progresses.

- Improvements to services provided by KNH. The Board has a clear overarching Service Improvement Plan that is well resourced, has specific milestones and measurable outputs, and identified lead project officers.
- The company is using the Prince 2 project management system to deliver improvements, and has been praised by the Housing Inspector for its approach to project and performance management.
- Priorities for improvements have been discussed with tenants representatives and approved by the KNH Board. They have been informed by the recommendations from the September 2002 Housing Inspection, the Audit Commission's ALMO Excellence Paper, Assessments by the Government Office and best practice examples from within and outside the housing world.
- In order to tackle pockets of low-demand, KNH and the Council must make bold decisions. This version of the Business Plan sets out demolition, remodelling and partnering works being under taken to address low-demand and to provide dwellings and services that customers want. The approach is being co-ordinated by a Sustainability Core Group within KNH that has Council and tenant members within the group.

# Introduction and Context

Kirklees is a metropolitan district in West Yorkshire, which includes the towns of Huddersfield, Dewsbury, Batley, Cleckheaton and Heckmondwike. The borough covers 254 square miles and stretches from the high moorlands of the Pennines (including part of the Peak National Park) around Marsden and Holmfirth in the west to the edge of Bradford, Leeds and Wakefield in the east. The M62 motorway traverses the northern edge of the borough. Whilst Kirklees is a metropolitan authority over two thirds of the district is protected rural landscape.

The diversity of geography is also reflected in diversity of communities and high and low demand social housing property within the different towns that together make up the Kirklees Borough.

The population is around 390,000 with future projections indicating a reduction in the number of young people and a substantial increase in the over 45-age group over the period to 2021. Kirklees has a significant ethnic minority population at 10.7% with the largest groups being people from Pakistan (4.7%) and India (3.2%) At 1<sup>st</sup> April 2002, the Council stock totalled 27,500 – 20% of the borough's housing stock.

## Purpose of the Business Plan

In 2001, the first draft of the HRA Business Plan set a clear aim to “***develop a method of attracting resources that will secure much needed investment to achieve decent standards***”. The plan explored the options available to the authority to meet that objective and in response the Council resolved in July 2001 to explore the arms length option as the best method of securing additional investment. A bid for additional resources through arms length management was submitted in September, and a conditional allocation of £145m from April 2002 to March 2006 was received in November. Between then and April 2002, preparations were undertaken to develop the new arms length company, **Kirklees Neighbourhood Housing**. It was established on 1<sup>st</sup> April 2002.

Following a Housing Inspection of the ALMO and Housing Service in September 2002, a two star good rating with promising prospects of improvement was awarded. This rating unlocked the additional investment resources.

## Context of the Housing Revenue Account Business Plan

The Council, as the responsible body for the HRA, owns this plan. KNH has assisted in the production of the plan in partnership with the Council as the body responsible for carrying out the Council's policies as they apply to the Council's housing stock.

This updated version of the Business Plan was produced in July 2003 and sets out the strategy, needs, pressures and financial issues for the HRA in the light of the additional capital resources now made available. Together with the Delivery Plan, this Business Plan shapes the operation of Kirklees Neighbourhood Housing and its partnership with the Council. Fundamentally, it is concerned with the investment in Council Housing in Kirklees, and, crucially, the management and partnership working that supports that

investment, to ensure the long term sustainability of communities and investment in the stock. It is set out in the format advised by former DETR in the publication “A new financial framework for local authority housing – guidance on business plans”, June 2000 and the guidance issued in March 2002 by DTLR. It has been further updated with reference to the Government’s thinking set out in the Communities Plan and initial discussions with the ODPM about financial freedoms that may be enjoyed by ALMOs that have a three star excellent rating. .

The Business Plan is part of Kirklees Council’s Housing Strategy for all housing within the Kirklees area. The Kirklees Housing Strategy is produced in the context of the Regional Housing Strategy and sets out how the Council will contribute to and influence the local housing market to provide affordable homes and also contribute to wider social objectives such as tackling crime and social exclusion.

## **Progress against Business Plan objectives**

The following table sets out the objectives from the original Business Plan and the progress made by the Council and Kirklees Neighbourhood Housing to achieve these objectives.

<b>Original HRA Business Plan Objective</b>	<b>Progress Made</b>
Gain access to additional ALMO funding	2 stars has been attained with KNH and the Council striving for 3 stars
Resources used effectively in the interests of tenants	Extra capital borrowing will allow decent standard to be met ahead of target in year 2006/07. Tenants have been consulted about detailed programmes of works
Set out the practical contribution of the HRA Business Plan to the Regional and Council Housing Strategy	The BP sets out an analysis of supply and demand for council housing, the investment and management needs of council housing and the management of the housing revenue account. The contribution of council housing to the wider housing market and to wider social policy objectives is set out and KNH are members of the Housing Strategic Partnership.
To keep under review the size and types of council houses required to meet projected requirements	The Brackenhall estate has been remodelled on a partnership basis with a private developer and several RSLs. Unpopular council housing has been demolished. Several other option appraisals have produced innovative solutions and are detailed within this document. A Sustainability Core Group has been established by KNH to assess future options for estates and communities.

Original HRA Business Plan Objective	Progress Made
Continue to develop neighbourhood management	Quality Guarantee provides comprehensive set of service standards for all estate services. Neighbourhood Managers provide joined-up approach with other council services, the police, health authority and other agencies.
Implementation of best value service improvement plans	Plans have been brought together into one overarching plan that is clearly resourced. Prince 2 project management is used to deliver improvements and a Service Improvement Manager has been appointed. Service Improvements are detailed within the Action Plan to this document.
To provide an enabling role to maintain high standards in divested stock	Standards are set out in the Quality Guarantee and Delivery Plan and are being used to co-ordinate services provided by several RSLs within the Deighton estate
Provide support to tenants – particularly, to excluded and hard to reach groups	<p>The Council has agreed a PSA with the ODPM to promote sustainability of young persons lettings including supported tenancies. A comprehensive sheltered scheme improvement programme has been implemented by KNH including the employment of support wardens, remodelling of blocks and improvements to security.</p> <p>The Tenants Consultation Charter continues to set high standards of customer involvement. This has been reviewed and includes a number of initiatives to involve young people and members of the different BME communities to become more involved. A focus group of tenants meets regularly and has 30% of its membership drawn from BME communities.</p>

## The Strategic Context of the Business Plan

The HRA Business Plan is part of a family of strategic documents together with Kirklees Council's Housing Strategy and the Regional Housing Strategy. The core vision for all housing and communities in Kirklees is derived from the Kirklees Local Strategic Partnership Vision and Strategy.

**A community that is well housed, healthy and safe.....creating communities with strong identities**

Kirklees Housing Services' and KNHs' specific strategic objective encompassed within the Housing Strategy is to provide:

**Warm, safe, comfortable homes**

To meet this objective the KNH Board has developed its own mission statement, set out within the KNH Delivery Plan. This statement aims to emphasise the importance of joined up working and a partnership approach that is essential to achieving sustainable communities. The mission statement sets out an intention and a method of working to be shared with KNH's partners, customers, staff and other stakeholders. The statement is:

**"Delivering Quality homes and services in successful communities"**

In practical terms this means a strategic approach that will deliver on the ground benefits to tenants and residents by the following:

- Continue to progress an **integrated business planning approach** to ensure investment is focussed where it is most needed in full consultation with tenants and residents and the Council, and driven by the KNH Board in consultation with the Council.
- Continue to apply our **knowledge of local housing requirements**, taking account of changing housing markets and information gathered from the West Yorkshire market renewal analysis. And analysing information from the allocations system as we develop new approaches to promoting equity and choice based lettings.
- Working with partners to **develop sustainable communities** where people will want to live and bring up children. (Several examples are listed in the Action Plan attached to this document).
- Apply **environmentally sustainable assessments** and standards based on Agenda 21 – this is being achieved, in particular, by construction partners meeting the Councils Environmental policies and contributing to year on year improvements to performance indicators improving the SAP ratings of the council's properties.

## **Meeting wider social policy objectives**

The methodology and outputs arising from this Business Plan and the Housing Strategy are designed to address the Government and Kirklees Council's wider social policy objectives. These include:

- Working in partnership with the Council to meet wider corporate and strategic objectives for example on reducing debt within the framework of an anti-poverty strategy.

- Working with vulnerable communities to overcome inequalities, particularly current and potential tenants from the BME communities. KNH have developed a communication strategy identified as good practice by the Housing Inspector that utilises intranet systems that produce all KNHs 25 service leaflets in four different community languages. Additionally a safe tenant initiative has been developed to provide support to BME tenants who feel insecure or threatened.
- Working with partner agencies and communities to influence investment, co-ordinate preventative work and provide the right sort of housing. Promoting community safety, using anti crime measures, and curbing anti social behaviour
- Working with partners to prevent and tackle homelessness across the district and meet future requirements. In practical terms this means working with agencies to intervene earlier and prevent people losing their homes by ensuring a more co-ordinated approach to the provision of support where it is needed to enable people to sustain their tenancies longer term.

# **The Position Statement – From 2001 to 2003 and Beyond**

## **Needs, Supply and Demand in the Local Housing Market**

- Newly forming households will require affordable homes some of which will be met through KNH relets. From population projections the evidence of people applying for housing future demand is likely to be from young people leaving home or people who have been through relationship breakdowns.
- Smaller sized accommodation is required across all tenures, particularly in south Kirklees. Despite significant demand there are issues which require intervention relating to type and suitability of stock in particular locations where unpopular housing remains.
- In the longer term the needs of older households are likely to come forward. Population projections indicate growth to over 65's age group after 2006. Most older people will prefer to remain at home and live independent lives. However, evidence would suggest that a significant number of older people exhibiting mobility problems and the need for level access adaptations and support are likely to grow.
- There continues to be a problem of unpopular housing in the district. Improved management techniques and process improvements have resulted in reducing the numbers of empty properties by a third. This has been achieved by tackling nuisance, creating good environments to live and working in partnership with the council to provide support to vulnerable tenants to enable them to maintain their tenancies more successfully.
- The challenge of making best use of the housing stock and tackling unpopular housing remains a key issue. A range of options are being explored to understand the changing housing market, the impact it is having in terms of business plan decisions, prevent market collapse and meet future requirements.

## **Matching Demand, Supply and Need**

A critical factor in planning for the future is an assessment of future demand and need for housing in Kirklees in general, and social housing in particular. Assessment has been made using a broad range of information including:

- Centre for Urban and Regional Studies (CURS)– Yorkshire and Humberside: changing housing markets and urban regeneration April 2002
- Calderdale and Kirklees Housing Requirements study 2000
- Socio economic data (KPMG model updated May 2002)
- Management information from Social Housing Providers

- Tenant satisfaction surveys and customer feedback
- Waiting list and needs analysis trends
- Census data 2001
- Trends in homelessness

Some 21% of the stock in Kirklees is Social Rented, the remainder private sector for rent or owner occupation.

The picture of demands and trends in Kirklees arising from the Housing Requirements Study, published in early 2000, has been enhanced by the CURS publication providing a more up to date analysis of the overall position of the market in West Yorkshire, with indicators as to the key issues for Kirklees. The key issues arising from the requirements study as they are likely to affect this plan, and, where appropriate our actions in response, are identified below;

- a) Some 20% of households are planning to move in the next 5 years, Patterns of employment will have a direct affect on demand for public sector housing. This will require the need to evaluate and respond to the issue of condition and suitability of stock and to introduce new approaches to management to ensure neighbourhoods remain popular
- b) Of those moving, 2/3 are seeking home ownership, around 1/3 are seeking rented accommodation, most for affordable rent.
- c) Affordability; the study shows that access to home ownership will not be possible for ½ the newly forming households in the district, income levels of over £14k are required to access owner occupation. It is worth noting that the tenant satisfaction survey completed in September 2000, indicates average income levels amongst current tenants of around £8,500 pa.
- d) Affordable housing demand; the study indicates that current relet rates could accommodate the 4,450 new households requiring affordable housing in the next 4 years. However, there is a mismatch between the available stock and the needs of new households in terms of location and house type.
- e) Shortage of suitable housing; there is a projected population growth of 29,100 (7.5%) in the next 20 years. A significant growth in under 44 year olds up to 2011 will occur, however, of greater impact will be the increase of 30% in those retired.
- f) Newly forming households; these are projected to increase by 4,780 with 58% consisting of single people (a finding supported by the CURS study) The affordability calculation shows that 27% of new households need subsidised rented housing whilst only 16% indicated a preference to rent from the Council, less than the current proportion of Council tenants in Kirklees. There will be a need to promote and market this tenure as an option for these people.
- g) There are significant levels of disability – 23% of households, half of who are over 60.

The study concluded that without change in demand, a possible surplus of approximately 4,500 homes may occur by 2005. Current analysis is indicating that demand is changing, however there remains the issue of unpopular and unsuitable accommodation. Households are indicating that they have preferences about type and location of housing. There are "hot spots" where we are seeing shortages of family housing in some locations particularly in North Kirklees and the availability of adapted homes to meet the number of households with a disabled person is an issue.

The analysis of waiting list applications from April 1998 to May 2003, shows a steady reduction of new applicants on the register from around 600 per month in 1998/9, to around 450 in mid 2001. However, the indications for the last 12 –18 months are of a levelling of demand and possibly a slight increase. Current information would also suggest a change in this trend with housing register applications (now recorded on a weekly basis) increasing from 90 per week in 2000/01 to 137 per week in 2003/04. The demand on the Councils housing needs service has increased in terms of the volume of customers seen by 48% in year 2001/02 and a further 15% in 2002/03.

This again reflects the need for accommodation for smaller households across the district and the pressure for family accommodation in very localised areas in North Kirklees

The CURS research also examined the changing housing markets and market failure in Yorkshire and Humberside. The research used a statistical index to identify areas experiencing or at risk of experiencing changing demand based on economic inactivity, unemployment, ageing population and prevalence of flats. It also used focus groups and individual interviews. The report identified some 20% of the housing stock in West Yorkshire at risk, for Kirklees this amounted to 18.2%. The research indicates that in many urban areas there is a very significant localised surplus of social rented housing in relation to likely demand trends.

The clear message is that some council accommodation is clearly unsuitable and is unlikely to meet needs in the future without either future investment in innovative management and/or maintenance solutions or in some cases alter entire new build development solutions. Real opportunities exist to regenerate neighbourhoods where "at risk" public sector housing is adjacent to areas of worn out private sector housing. KNH fully support the councils aim to take a holistic approach to neighbourhood renewal.

# Stock Option Appraisal and meeting the Decent Standard

Kirklees Council conducted a detailed stock option appraisal based upon information provided by independent consultants who undertook a comprehensive stock condition survey and stock feasibility study that analysed demand, cashflow and investment requirements. Extensive financial modelling was also undertaken using DETR (later ODPM) HRA models – this is discussed elsewhere in the document.

## KPMG Stock Portfolio Feasibility Study

The use of the KPMG Stock Portfolio Feasibility Study enables an analysis of;

- the stock in detail down to 184 lettings areas
- the financial viability of different stock options for the whole stock and for lettings areas
- developed an approach to deciding investment priorities
- to recommend a 'best fit' way forward

Each of the 184 lettings areas in Kirklees are analysed on the basis of three key statistics.

- Deprivation, using Kirklees regeneration model which has data on unemployment, crime, educational attainment etc
- Demand for housing using void and waiting list data
- 30 year cashflow projections with backlog repairs carried out in 5 years and net income from rents less management and maintenance.

The study is refined to breakdown each element into High, Medium and Low to aid option appraisal. The full analysis is available.

In summary the analysis showed that;

- 4,000 properties experience significantly lower demand than the average for the district.
- 5,000 properties are in areas of higher deprivation than the average, however, not always in areas of low demand and weak cashflow.
- 3,700 properties have significantly worse cash flows than the average.

The inclusion of 2,000 properties for disposal in the financial model is consistent with the revised modelling. However, this analysis does not include those properties within lettings areas where overall demand is reasonable, but where pockets of low demand are present. These will continue to be subject to a more detailed analysis at local levels, together with further proposals for further stock conversion or disposal developed through local business plans. Current progress has exceeded this number of properties and 2300 have now been included in the programme.

## KPMG Study - Revision 2002

The programme was revised again in May 2002 with year end data on repairs and management costs, rent levels and arrears and the regeneration model including demand, offers and turnover. The deprivation scores used in the original model stay the same, using the DETR 1998 index.

Some of the key demand 'headlines' to emerge in comparing the findings from 2000/1 are;

- An overall increase in low demand properties from 7.5% to 9% of the stock
- An overall reduction of 2% in mid demand, to 41 % of the stock, and an increase in high demand of 0.5%
- An increase in demand for some of the areas subject to housing regeneration initiatives; Lowerhouses, Brooklyn, London Park,
- Consistent demand for other regeneration areas; Moorside, Schools, Walpole, all of which stay at mid demand
- An increase in demand as a result of lettings to asylum seekers; Southgate, Rashcliffe

These findings relate to all deprivation levels and are shown on the tables below

<b>Demand</b>	<b>2000/01 (No's and % of stock)</b>	<b>2001/2 (No's and % of stock)</b>	<b>Change No's</b>	<b>% change compared to 2000/1</b>
<b>Low</b>	2138 (7.5%)	2454 (9%)	+ 316	+ 14%
<b>Medium</b>	12104 (43%)	11337 (41%)	- 767	- 6%
<b>High</b>	14027 (49.5%)	13716 (50%)	+ 311	+ 2.2%
<b>Total</b>	28269	27507	- 762	- 2.7%

The increase in the number of low demand properties is relatively low, however, the % increase is significant compared to 2000/1 and the overall conclusion has to be that the models original findings should hold, pending further option appraisals of the areas of concern.

### Cash Flow

The key issues emerging on cash flow are;

- An overall increase of 1% in the number of properties exhibiting weak cash flow to 9% of the stock
- An overall reduction of 3.5% in properties with strong cash flow to 65.5% of the stock

<b>Cash flow</b>	<b>2000/01</b>	<b>2001/02</b>	<b>Change No's</b>	<b>Change % from 2000/1</b>
<b>Weak</b>	2262 (8%)	2488 (9%)	+ 226	+ 10%
<b>Mid</b>	6574 (23%)	6994 (25.5%)	- 420	- 6%
<b>Strong</b>	19433 (69%)	18025 (65.5%)	- 1408	- 7%
<b>Total</b>	28269	27507		

### Disposals

The model assumes disposal of 2,000 properties over the first 5 years at 100 in year one, 200 in year two, 500 in year three and 600 in years four and five. Not all of the disposals will result in demolition; some will be subject to disposal through sale or transfer. These will represent the worst stock and are presently being identified through the local business planning process.

### **Stock Condition Survey**

The overall assessment of backlog repairs and improvements was taken from the original survey data and used to construct the bid for arms length management resources. The DETR financial model was used to project the costs of the backlog of external repairs and improvements as well as the costs of continuing maintenance.

In January 2002 KMC commissioned a Stock Condition Survey of its Public Sector housing stock to assess the condition as well as the current and future repairs and maintenance liabilities. The survey was carried out by specialist consultants between March-May 2002 in accordance with DTLR guidelines that were issued in their final form in March 2002. Our consultants surveyed a representative sample of 14% of the stock based on 23 different archetypes (property types) to be found across 300 estates. The great majority of the properties are of traditional construction although there are a number of non-traditional properties including approximately 800 properties of Easiform construction.

The collected survey data provides accurate and statistically reliable information concerning repairs and maintenance as well as improvement costs forecast over a 30 year term. This has assisted the Council and KNH in the preparation of detailed planned maintenance plans and programmes and to inform business planning decisions. The survey data has now been augmented by detailed surveys undertaken by the construction partners as the decent homes programmes have commenced on site.

Findings from the original survey indicated that the stock has generally been well maintained on a day to day basis but, as expected, has lacked major capital investment. As a result, there are a significant number of major components that have reached / are reaching the end of their useful life and will require replacement in the short term. The Council concentrated much of their investment on meeting landlords' responsibilities and in particular ensuring the fabric of the building was maintained and kept in a wind and

watertight condition. The external fabric of properties is therefore in reasonable condition although a large number of windows require replacement and upgrading with double glazing.

Internally the survey has identified that there has been a general lack of investment resulting in a lot of fixtures and fittings that are beyond their economic life whilst approximately 60% of the properties do not meet the decent standard for thermal comfort (lack of full central heating and/or insufficient insulation). In addition, a significant number of kitchens and bathrooms require replacement and many properties will require rewiring within the next 10 years. However, some areas have benefited from refurbishment programmes in the last 15 to 20 years.

The consultants made an assessment of the total repairs and maintenance costs of the stock for the next 30 years. The total cost for all repairs and maintenance over 30 years exceeds £1,255m inclusive of some £349m of expenditure in years 1-5. However, these figures include cyclical, void and responsive repairs expenditure. This equates to expenditure per unit in excess of £44k over 30 years. This cost purely relates to the actual building work and is exclusive of any management costs and VAT. It also excludes any allowance for future inflation.

Part of the stock condition survey has included an assessment of the properties against the Decent Homes criteria originally set out by the DTLR. In understanding this piece of work, the consultants assessed the properties in terms of the fitness standards, together with the assessment of the key and secondary building components and the performance of the properties in terms of thermal comfort.

## **Joining up the Information and Analysis**

### What does the analysis show?

The analysis of council housing in Kirklees indicates significant problems in demand, financial, and investment terms. This is underlined by the KPMG analysis that highlights those parts of the stock subject to decline in demand, with greater than average financial pressures.

### What options were considered?

The Council considered the range of options presented by Government in 'Quality and Choice – a decent home for all' which was updated by the Deputy Prime Ministers' Communities Plan. Analysis in respect of each of these options was undertaken. The analysis looked not only at the financial and investment options but also the broader political issues of each.

The outcomes of the stock management options appraisal should be seen in the light of what is right for Kirklees; what makes best sense in the light of the political and social issues the Council faces. In many respects Kirklees has a nationally unique partnership between Members, Officers and tenants.

Tenants are major players in the appraisal. It is the future management of their homes that are at stake. Consequently, tenants representatives have been heavily involved in

the process. There was also detailed informed debate with Members on the options and the implications of each.

## **Conclusions from Overall Stock Option Appraisal**

The option appraisal came to the following conclusions. Firstly, The status quo of staying as council housing managed in-house by a council department was not a viable option for Kirklees. In this scenario, the gap between investment needs and resources remains with the result that tenants, and Government, are unlikely to tolerate failure to improve homes to a decent standard. The projected deficit on the HRA would require continuing budget cuts year on year damaging the ability to improve services. In addition, the requirement to enact the split between landlord and strategic functions would not be met.

From a financial perspective, stock transfer offered the best solution. It also offered the chance for tenants to have a more direct role in managing housing. However, the loss of important links to the rest of the Council raised concerns about the new organisations ability to deliver comprehensive service improvements and address service issues of social cohesion especially in areas of diverse communities. Furthermore, the outcomes of the extensive consultation exercise showed little support for transfer and a wide concern about the consequences should that option be chosen.

The arms length company option (if resources were to be available in full) was seen as the best fit with extra resources going a long way to meeting the funding gap. Establishment of the ALMO has alleviated, but not removed, pressure on the HRA. However, in the short and medium term the HRA is viable and KNH have received a good 2 star judgement with promising prospects for improvement from the Housing Inspectorate. This position can be built upon to attain 3 stars and the financial freedoms that will accompany this judgement.

Continuing Council ownership of the stock will ensure that corporate priorities as they affect housing can be met and a more holistic service to tenants on estates can be delivered. The delivery of services through an ALMO can help ensure service standards are improved with a focused approach to performance. There was considerable support for the option arising from a consultation exercise with individual tenants.

The decision of the Council, established at its meeting on 6<sup>th</sup> February 2002 was to approve the creation and registration of an arms length company to be established by April 2002. This target was met and following a 2 star inspection in September 2002 extra resources, which had been conditionally allocated were released to the Council in December 2002.

# Meeting the Decent Standard

Before the decent homes improvement programmes began, approximately 69% of the stock was not decent in accordance with the criteria (this compares with the national average of 46% and an average of 70% of metropolitan authorities) with a further 19% that were potentially non-decent. Of the properties that fail, the great majority are due to lack of heating systems and poor thermal insulation.

The main areas of failure are shown in the table.

Item	Property No's	%	Cost (£m) Estimate
Thermal comfort	16,500	60%	50,000
Wiring/electrical	5,546	20%	8,769
Kitchens	1,980	7%	5,400
Bathrooms	1,766	6%	3,000

Other findings are that a large number of kitchens and bathrooms exceed their designed life cycles. It should be noted that whilst kitchen units installed in recent years have been to a high standard, units installed in many earlier refurbishment schemes are unlikely to meet their 20-year life cycle. No less than £109m has been identified for kitchen renewals over the next 30 years of which some £43m is required in the first five years. This is based on a £2750 unit cost that the consultants feel is typical of other RSL's and LA's. The survey has undoubtedly highlighted some weaknesses in our present investment plan and adherence to current specifications and procurement routes would require an additional expenditure of some £75m in the next five years alone.

£67m will bring the stock up to the most basic decent standard, but it will not prevent properties falling into non-decency in future. In order to ensure all homes reach the decent standard over the next 5 years, and future liabilities are made more manageable, some £262m is required. This includes £86m for kitchens, bathrooms and rewiring; elements that may meet the decent standard following repair, but will require further, larger scale investment in the short term and without which, will not be attractive to new or current tenants.

The survey has identified that some £11m is required for "catch-up" repairs in the next five years – repairs outstanding at the time of the survey which include remedying some of the fitness standards (potential disrepair claims), the level of which roughly equates to 2 years of our current Responsive Repairs expenditure.

The stock condition database will enable data to be disaggregated to provide information at estate level. It will enable the stock condition to be continually reviewed and updated to enable us to progress and monitor achievement of the decent standard.

The Investment Strategy approved by the Board in October 2002 defined a Kirklees Decent Standard which is felt to be affordable and by meeting the aspirations of tenants' significantly enhances the Government's Decent Homes Standard. Kirklees Decent

Standard concentrates on the provision of modern facilities seen as priorities by our tenants. Our Decent Homes programme will be targeted at ensuring all properties have the following facilities:

- Whole-house programmable central heating
- Double-glazed windows
- Kitchens to be no more than 20 years old and of adequate size and layout
- Bathrooms to be no more than 30 years old
- Other key building components to meet Government Decent Standard (e.g. walls, roofs and doors etc)
- Electrical installations: properties that fail the Government's Decent Standard to be brought up to Kirklees current specification.
- Improved insulation: properties lacking cavity wall and loft insulation to be brought up to current KMC standard.

In order to have greater certainty to meet the challenging timetable to meet the Government's Decent Homes target, the Investment Programme 2003/04 and beyond is being procured through four complementary, but concurrent, programmes of work:

- Installation of new double glazed windows through Term Contracts with 7 specialist contractors.
- Five Construction Partners will deliver the bulk of the Decent Homes investment that requires co-ordination of trades whilst minimising tenant disruption.
- Single element work where only one or two elements require replacement e.g. central heating.
- Other specialist programmes and areas of work, e.g. lead water pipe replacement.

Packages of work to meet Kirklees Decent Homes Standard have been agreed by KNH Board for each of the 5 Construction Partners and the 'in-house' Investment Team. The Delivery Strategy is based on a 'worst first' basis (average number of elemental failures to meet the Government's Decent Standard) with estates grouped in a logical geographical basis.

Some estates/groups of properties have been identified as to be the subject of a full or part option appraisal. Completed option appraisals are presented to the Sustainability Core Group with recommendations to the Board as to some form of intervention or investment to ensure long term sustainability.

The majority of properties in the 2003/04 Decent Homes programme have now been surveyed and all 5 construction partners commenced on site by July 2003. A revised, more realistic, funding profile was submitted to ODPM for consideration in July 2003.

## **Delivery of the Decent Homes Resources**

The Council had for some years a sophisticated methodology for identifying and prioritising investment resources, including a longer term programme for planned maintenance and regeneration schemes. There was, and continues to be, a well-

developed planning process for investment with strong tenant involvement. And this is being continually updated with by the latest stock condition data collated by Partners as they deliver the decent homes programme.

The additional resources have enabled KNH and the Council to achieve decent standards across the stock at the same time as ensuring investment has a sustainable future and tenants wishes are met. These processes have been enhanced through the use of the maintenance planning database. It will enable us to plan investment on a 'just in time' basis – making best use of the asset without incurring additional costs on responsive maintenance.

Assuming MRA is sufficient to prevent deterioration, current analysis shows that access to the additional resources that have been made available through the arms length option will enable the decent standard to be met within the financial year 2006/07. Our approach to investing the additional resources is a targeted one. Resources have been allocated on a 'worst first' basis using stock condition survey data. This means that the areas of the Kirklees with the poorest stock condition, for instance – Honley, Colne Valley, Dewsbury East, have been prioritised.

A detailed year one programme is attached as an appendix this document. The programme was designed to have the following attributes:

- use the stock condition survey as a basis for decision making
- be focused on meeting the decent standard
- be prioritised on a worst first basis
- target those in special need e.g. the elderly
- reflect the needs in North and South Kirklees
- be transparent and clear
- Regular discussions took place with KFTRA Investment Working Group on;
  - the type of work required
  - the involvement of tenants in partnering and the detail of the documentation
- Tenants were involved in selecting construction partners
- A Seminar took place on the decent standard for tenants representatives in April 2002 to examine;
  - what the decent standard means
  - tenants expectations
  - priority for improvement
  - involvement in partnering
- The annual Joint KFTRA/KMC/KNH Investment Conference provides a further opportunity to develop the strategic approach to investment. In 2003, the conference looked at wider issues such as the development of budgets and the opportunities to maximise the health impact from investment.

Following the Best Value Review on Housing Planned Programmes, a joint project team involving KNH and Council officers implemented the principles of "Rethinking Construction". The majority of the decent homes investment is being delivered through partnering mechanisms.

## Resource Projections

Funding Source	2004/05 £000's	2005/06 £000's	2006/07 £000's
<b>ALMO SCA</b>	<b>46,000</b>	<b>44,000</b>	<b>15,449</b>
<b>MRA</b>	<b>13,663</b>	<b>13,458</b>	<b>13,381</b>
<b>BCA (incl. Discretionary Element)</b>	<b>5,380</b>	<b>4,125</b>	<b>4,222</b>
<b>BCA West Yorkshire Pathfinder</b>	<b>400</b>	<b>1,400</b>	<b>1,400</b>
<b>BCA Sustainable Communities Plan</b>	<b>200</b>	<b>200</b>	<b>200</b>
<b>BCA Transformational Projects</b>	<b>0</b>	<b>1,000</b>	<b>1,000</b>
<b>DFG Specified Capital Grants</b>	<b>780</b>	<b>858</b>	<b>944</b>
<b>Capital Receipts (incl. b/f 2003/04)</b>	<b>7,925</b>	<b>6,718</b>	<b>3,268</b>
<b>Other Contributions</b>	<b>250</b>	<b>250</b>	<b>250</b>
<b>Approved Development Programme</b>	<b>8,000</b>	<b>8,240</b>	<b>8,487</b>
Total Capital	82,598	80,249	48,601
<b>Less earmarked for Private Sector</b>	<b>15,010</b>	<b>16,073</b>	<b>16,503</b>
Proposed for Public Sector	67,588	64,176	32,098

The following assumptions have been made in arriving at the above:-

- MRA – assumes 4,135 disposals in year 1 – 5 (RTB, demolitions & other)
- BCA – assumes allocations in line with GNI plus contribution to Regional funding priorities
- Grants – DFG (SCG) assumes 10% annual increase
- Capital Receipts – anticipated useable receipts arising from sale of assets including receipts brought forward from 2003/04
- Other Contributions – inclusive of affordable housing contributions
- Assumes increase in ADP in 2004/05 with 3% annual inflation uplift

The resource assumptions remain cautious and are set in the context of the uncertainty around the impact that proposed changes in capital financing arrangements and management and maintenance allowances may have on the investment resources available to the Housing Revenue Account.

There has been a clear and positive response from the ODPM in ensuring that the authority can meet its commitment to delivering the government's decent homes standard by approving a re-profiling of ALMO SCA. However, such clarity is not yet available in terms of the effect of other proposed changes in local authority finance and whether these will provide the means to a sustainable asset management and investment strategy in the longer term.

Introduction of the prudential borrowing regime in the Local Government Bill may provide the freedoms and flexibility for the authority to consider additional borrowing within the framework set out in the Prudential Code for Capital Finance in Local Authorities. This could provide much needed additional investment resources to meet a projected funding shortfall (as shown in the Building Cost Model) in meeting the cost of future lifecycle replacements. As such borrowing will not receive subsidy support the authority would need to have some certainty of future revenue income streams, which if not available could prove to be a disincentive in using these new freedoms.

The authority will therefore need to consider the effect of the above changes particularly in the wider context of a longer term HRA capital/revenue resource position. This will require a framework to be developed in which decision can be taken about how best to utilise other funding streams that may become available to support investment such as HRA balances and subsidy allowance.

The benefits or otherwise to individual authorities arising from the pooling of capital receipts remains to be seen. However, confirmation of retention of the useable part of a receipt at 25 per cent from dwelling sales and 50 per cent from land sales has provided some confidence in the assumptions used in projecting the availability of future capital receipts that will be available to support investment.

The proposed changes in local authority finance are quite complex and will receive our closest scrutiny during the consultation period, particularly in terms of the detailed technical and accounting changes. This should provide a greater understanding of the likely impact these changes will have on the HRA and our ability to deal with future investment needs.

## **Costs for Responsive Repairs and Void Property Management**

The Council and KNH have worked in partnership to profile capital and revenue monies as an overall investment requirement and resource. There is a drive to reduce responsive spend and increase planned spend. The profile of future repairs spending has been informed by a projected reduced requirement following completion of the decent homes programme.

### Responsive Repairs

£6.9m is required per annum including vandalism and major repairs at current stock numbers. Average costs per property to meet responsive repair obligations are calculated at £255 per property, based on outturn 2002/3. Work needs to be done to attain the 60/40 target by reducing responsive repair costs further, and by undertaking more work in a planned way. Good progress has been made on “batching” similar types of responsive work and delivering these on a planned basis. However, the Best Value review of repairs identified that the average costs of responsive repairs for Kirklees was already below average for Metropolitan authorities. The total budget will also continue to reduce with the decline in stock numbers.

## Void Repairs

£4.8m required per annum, based on 2002/03 outturn costs, are £177 per property. Average costs per property undergoing void works is £1,255. Assumptions have been built into the models based on this level of expenditure.

## Planning Responsive Resources

Planning of the future maintenance needs of the housing stock is also being assisted through the maintenance planning database which Base costings on “just in time”

replacement methodology via maintenance planning, database and other information sources. In brief this enables:

- i) Plans to be set up for specifying maintenance works to be carried out over a period of time with associated life cycle costings.
- ii) Reports to show attributes that need replacement in a defined time period on properties on a particular estate.

KNH has initiated a West Yorkshire Strategic Procurement Group involving local authorities and Pennine 2000. The group has been established to share intelligence, resources, and best practise. The group are particularly concerned with the current pressures in the construction market and are looking at means by which acting collectively the effects can be minimised, procurement strategies can reduce costs and training and employment opportunities can be maximised.

## **Detailed Option Appraisals**

Considerable work has been undertaken to evaluate and take action on parts of the stock that give particular cause for concern.

### Deighton and Brackenhall

Remodelling programme to divest commenced 2001/2 with demolition programme of 500 properties at 100 pa from 2002/3 to 2006/7. Partnership working through RSL's to provide social rented housing for special needs and some family accommodation. The work is now coming to fruition with new dwellings constructed by RSLs and developers on site. The initiative has raised a good deal of social capital that is being reinvested into the community and the scheme has been the focus of several Government visits and national awards.

### Sheltered Housing

There are 25 sheltered schemes across Kirklees that are mainly located in North Kirklees. Option appraisal identified 7 schemes for which demand is too low to be sustainable. A judgement was made in consultation with local residents about the projected sustainability of all 25 schemes if investment and better management were to be introduced. This work was undertaken in the context of criticism from the Housing

Inspector that many of our sheltered schemes were not supported in any way but simply “communal blocks of flats”.

The following actions and improvements have now been implemented.

- Two schemes that were judged to be unsustainable (even with investment and management action) have been taken out of management stock and will be remodelled with an RSL – options include specialist residential supported housing for young people.
- Several blocks have benefited from security works and remodelling to improve access arrangements and replace bedsits with self contained flats.
- A comprehensive warden support package has been introduced that provides support to 1300 tenants in and adjacent to sheltered schemes.
- An older persons manager has been appointed by KNH to manage the sheltered schemes and develop new services for older customers in partnership with primary health care providers, social services, the regional health authority and specialist RSLs.

### Rashcliffe

Two multi-storey blocks with 68 units, and blocks of maisonettes of 86 units, 154 units in total. Within the SRB5 area, it is one of key regeneration priorities for the scheme. A feasibility study has been completed and detailed proposals are being worked up to remodel the estate. Currently a high proportion of the flats are let to asylum seekers which has increased demand, but this is not a long-term solution. The properties are now being cleared with a view to demolition and rebuilding on the site with an RSL partner.

### Miscellaneous Properties

Around 800 properties are defined as miscellaneous; usually older properties built or acquired by the local Councils preceding Kirklees and spread across the borough. There is already in place a policy of disposal of all miscellaneous voids where costs of repair exceed £4000 and for which there is no sustainable demand. There is a projected disposal of 50 in 2002/3. Discussions are ongoing with local RSLs and another arms length company – the KCA. Included within this group of properties are alms houses managed as trusts by KNH.

### Southgate Flats

Three multi storey blocks, 129 units. Two blocks improved in 2001, high levels of occupancy as a result of lets to asylum seekers has increased demand in the short term. One block part of wider redevelopment proposals for Huddersfield Town Centre.

### Batley Central

319 properties, mainly low rise with 4 large blocks of flats and maisonettes. 70 + flat units are now empty for demolition to create sites for family housing through RSL development. RSLs will be on site from Autumn 2003.

### Primrose Hill

311 properties a mixture of flats and family housing with high levels of crime and anti social behaviour. Council approval being sought for demolition of low demand flats. Management support enhanced through the neighbourhood warden initiative has had a positive effect on demand for houses and OAP accommodation on the estate, which are now medium or high demand. Demand for Ridge Street and Close flats remains low and these are being cleared with negotiations ongoing with Yorkshire Housing Association to remodel the properties.

### Lowerhouses

300 properties subject to major regeneration project from 1999/2000 to 2004/5. Stock portfolio study indicates rise in demand for Lowerhouses, 52 properties (bungalows) demolished in 2001/2. The estate is now nearing the end of a £5.5m regeneration scheme. On the spot estate management is being co-ordinated to sustain the investment.

### Berry Brow

The main issue with 2 high rise blocks refurbished in the mid 90's, low demand and high void rate and turnover indicate unsustainability in the blocks. Radical initiatives under development and being considered by KNH Board. Demand increased as a result of asylum seekers moving from the Rashcliffe estate. This is not a long term solution and lettings have now been suspended into the flats as a sustainable solution is developed.

### Chinewood

146 properties, subject to major investment with partner RSL's in 1995 including CCTV. Continuing concerns with demand and lettability despite improvements, subject to Local Management initiatives.

### Moorside

A *Home Zone Scheme* has been approved and will be on site in Autumn 2003. The scheme is jointly funded by capital financing from Housing Services and Highways Services. The scheme has been extensively consulted with residents, and includes a significant amount of environmental remodelling. The houses on the estate are also benefiting from a roofing improvement programme.

The actions underway in each of these areas are being carried out in the context of the overall business plan and contribute to the overall objectives. The revised analysis will continue be subject to further scrutiny.

# Achieving Excellence in Housing Management

KNH are now responsible for housing management. The Delivery Plan sets out service standards and identifies improvements under three clear heading that are understood by the Board and staff. These are:

- **Balancing the Books** – to maximise the efficiency of KNH and to contribute to addressing the projected deficit of the HRA.
- **Delivering the Investment Plan** – to meet the decent homes target ahead of the Governments target.
- **Improving Services to Customers** – to provide an excellent service in terms of customer care and performance.

A number of tangible improvements have been made in the first year if the contracts. These include:

- The Quality Guarantee of service standards has been revised following consultation and now sets out a comprehensive set of customer service standards that extend beyond housing management services to environmental and community services provided to the estates managed by KNH.
- A robust internal performance management framework that provides clear targets for each member of staff that are discussed at monthly one to ones has been introduced. The Delivery Plan sets out the strategic framework and operational targets to be achieved and these are monitored as part of a formal reporting process of “Quarterly Review”.
- There is a large range of multi agency projects in operation including neighbourhood warden and crime reduction strategies.
- An arrears task force has focused on areas of poor performance and improvements have been made to the joint working of KNH and Council Benefits staff.
- There is greater management responsibility for participation with a revised Tenants Participation Charter that clearly sets out the Councils and KNHs determination to engage hard to reach groups. A Tenants’ Talkback Team has been established with KFTRA that has over 30% of its membership drawn from BME tenants.

## Delivering an Excellent Housing Management Service

The move to the Arms Length Management Organisation and the creation of Kirklees Neighbourhood Housing presented a real opportunity to focus on service delivery and improvement of stock. The Board and Sub-Committee structure has now been developed

that allows for strategic direction and the local focus on delivering improved services and performance.

The Board is now well established and has undertaken a 12-month development programme to ensure strong governance. The Council and KNH have reacted positively to criticism from the Housing Inspectorate that KNH was not arms length enough from the company. There is now a clear separation of staffing within the two organisations. KNH is reviewing its support services and looking outside the Council to provide many of these. Consultants JS Pinnacle has also been commissioned to bring a fresh perspective to the options that KNH has as it strives for excellence. The company has pro-actively recruited independent members who will bring professional disciplines and also challenge senior officers and other Board members. The number of BME representatives on the Board has been increased during the year 2003/04.

There are two local Boards with devolved responsibility for half the stock each. Sub-Committees lead on four key aspects of company business – Performance and Finance, HR, Investment and Development

The structure of KNH means that middle managers have responsibility for defined 'Neighbourhood Areas' and will report directly to the KNH area boards as part of the performance review process. These managers also report to Housing Management Committees, along with other Council Services operating on estates, continuing the scrutiny role of local tenants and elected members.

As the organisation grows, its immediate priorities will be to work in partnership with the Council to improve service delivery and look for opportunities to maximise resources and income generation. Links with Government sponsored programmes will also be maintained to ensure the management effort is closely linked to wider programmes to create more sustainable places for people to live.

KNH have developed a robust internal performance management processes to ensure the Tenants Quality Guarantee and improvements in local and national performance indicators are delivered. Internally, managers are required to report on their Area Office's performance, weekly, including improvement action plans where performance is slipping.

The Council and KNH recognise that excellent housing management services require staff to work beyond the basic housing management boundaries. KNH managers are actively involved in multi agency projects, working closely with the Police, community workers and the voluntary sector. The company has expanded the Nuisance and Harassment Team to develop more preventative work as well as responding to the issues raised in the Government's consultation paper "Tackling Anti Social Tenants".

KNH is steering a path between autonomy in service delivery and a joined up approach with Council Services This involves the following:

- Increasing the use of new technology by estate based staff
- Developing customer and back line processes to ensure a better customer response, as well as improving performance
- Increase ways in which tenants can access the service, using telephone, Contact Centre and e-mail

- Deploying the staff across Area Housing Offices to ensure a more consistent service is delivered, and the spread of standardised best practice between Area Housing Offices using PROTOS procedures and flowcharts.

Neighbourhood Service Managers are now responsible for tenant participation, with line management responsibility for their own Neighbourhood Tenant Participation Officers. This work is being developed further to break down traditional barriers to involving hard to reach groups, and a series of focus groups for black minority ethnic tenants has provided valuable information.

## **Managing Change and Improvement**

Housing Management and the strategy to improve the housing management service is the responsibility of KNH working in partnership with the Council. The company has developed a Prince 2 approach to managing service improvements and this was recognised as good practice in the September 2002 Inspection, resulting in a judgement of promising prospects for improvement.

The main focus of KNH's attention is the implementation of a combined Service Improvement Plan that is built from previous Inspections and recommendations, the Audit Commission "Excellence" paper, recommendations from Government Office and the ODPM and best practices from the private and public sectors. KNH have embraced "challenge" as a tool for change and have worked in partnership with consultants and private sector providers to improve services and deliver aspects of the Delivery Plan

KNH is focussed on contribution to the HRA and to providing efficient services; to ensuring the ALMO investment and mainstream investment for improvement of council housing is spent well and efficiently using partnering arrangements; and that services are of an excellent standard to customers – which will be reflected in a three star judgement from the Housing Inspectorate.

Performance as measured by Best Value Performance Indicators is reported through the KNH Board and the Council through its corporate performance management process.

## Best Value Performance Indicators

BVPI	Description	Top ¼ ALMO 02/03	2001/02	2002/03	2003/04 Target
63	Energy efficiency rating for council homes	60	39	45	48
66a	Proportion of rent collected	98.67	92.4%	93.80%	95.7
66b	Rent arrears on proportion rent roll		6.6%	5.67%	43
68	Average relet times (days)	32	55.5	50	50
69	Percentage of rent lost		4.2%	3.55%	3.4%
74	Satisfaction of tenants with overall service	81%	75.3%	75.3%	78%
75	Satisfaction of tenants with opportunities to participate		45.8%	52%	60%

There are signs that BVPIs in most areas are starting to improve in the first periods of 2003/04, but there are some areas where closer working with parts of the Council will be needed if the desired improvements are to be achieved in time. Examples include Housing Benefits where completion of the Benefits Service recovery plan will make demonstrable improvements in rent collection and arrears.

A system for the Council's performance monitoring of KNH is in place. The key element of this is a quarterly review of their performance (including delivery of improvements under Best Value).

# Balancing the Books – Managing the HRA

Financial modelling of the Housing Revenue Account undertaken in July 2002 indicated an operating account deficit of £78m in 10 years time. A number of actions were considered to help address this, including reducing management costs, improving performance, and an asset management strategy.

In view of the projected HRA deficit and the desire to reach top quartile performance on Best Value Performance Indicators in support of gaining eventual 3 star status, there was particular focus on addressing the long term deficit position through resource gains from improving performance, and targets were set to reach top quartile performance in three years, in a number of key areas. These were fed through into the HRA Service Plan, budget process and HRA Business Plan 2003, as follows:

- BVPI 69 Void Rent Loss targets of 3.4% in year 1, 3.05% in year 2 and 2.7% in year 3.
- BVPI 66a Percentage Rent Collected targets of 95.7% in year 1, 96.3% in year 2, and 96.9% in year 3.
- BVPI 66b Current Tenants Arrears as a percentage of rent roll targets of 4.3% in year 1, 3.7% in year 2, and 3.1% in year 3.

Current performance, as measured against the 2003/04 targets, indicates continuing improvement re BVPI 69, at 2.77%. The success of process improvements started last year have exceeded expectations. BVPI 66a, at 96.43% is also above target, however, current performance is enhanced by annual payments made at the beginning of year and does not yet give a true indication of the likely year end position. Regarding BVPI 66b, current performance is at 4.71%, and is being looked at with a view to assessing alternative options for tackling former tenant arrears.

## Baseline Financial Modelling for the current year Business Plan – Assumptions

Since completing the business plan modelling in July 2002, certain assumptions have been revised when updating the business plan in 2003.

The main changes are:

Right To Buy Sales - these have continued to exceed expectations and have been increased to 800 in year 1, 700 in year 2, 600 in year 3, 500 in year 4, 400 in year 5, 300 in years 6 to 8, then tapering down in years 9 onwards. Bad Debts - a reduction in the bad debt percentage to reflect a target for improved former tenants arrears cash collection of £100k per year.

Other Stock Changes - changes to the numbers, properties, and timing of disposals / conversions to reflect the current asset management strategy.

Asset Management Strategy - the disposal of 2,300 properties is factored into the baseline position of the HRA Business Plan over the 30 years with the majority of the stock reductions in years 1 to 10.

Kirklees Neighbourhood Housing Ltd Management Fee - there is a real terms decrease assumed in the KNH management fee for the next two years reflecting the projected percentage decrease in the fee to equate to the level of Right To Buy sales.

Management and Maintenance Allowances - management and maintenance allowances are assumed to increase by 10.45% in years 2004/05 and 2005/06, then by RPI in years 5 to 10, which takes a prudent approach to anticipated management and maintenance allowance increases beyond 2005/06. The 10.45% increases are consistent with the ODPM's pre-consultation position on guaranteed national increases on management and maintenance allowances over these two years.

## **Baseline Financial Modelling for the current year Business Plan – Outcome**

Baseline financial modelling of the HRA in 2003 now projects an operating account deficit of £81m in 10 years time with the account first reflecting an in- year deficit in 2006/07. Due to the HRA Business Plan model's assumptions about previous year accumulated balances being utilised to offset the deficit, the first 'true' or unbalanced HRA position is delayed until 2007/08.

The continuing trend in Right to Buy Sales is by far the overriding factor affecting the HRA baseline position from the previous year.

## **Future Management Actions to address the baseline deficit position**

### Service Delivery

KNH currently has 16 Area Housing Offices, although maintaining a base of 16 area offices could affect the capacity to deliver a housing management service within the context of the proposed fee reductions (pro-rata to RTB disposals) over future years, without significant re-alignment of current service delivery. Options around service re-alignment and their potential resource impact on the HRA have not been quantified at this stage, although it is worth noting that current Housing Management IS/IT and Customer Service Strategies are under review, and developments here are likely to be a key driver for future service realignment and delivery.

The baseline position assumes that the BVPI three year targets set last year to reach upper quartile performance, still hold, and the extent to which any further performance gains could be made here would possibly need to be put into context of the above as well.

### Rent Restructuring

The level of rent and service charges paid by Kirklees tenants over the next 8 years will be dictated by rent restructuring. Formula rents and service charges were introduced in

April 2003 at Kirklees on a nine year path to reach target rents by March 2011. Modelling has shown that target rents can be achieved for all properties by March 2011 within the provisions for damping individual increases / decreases.

Kirklees rents will reduce in real terms over the next 8 years with an average path of actual rent increases of 2.14%. This has a negative impact on the resources available in the HRA to fund management costs and repairs. There are no management proposals to increase rents by any other path than the straight line rent restructuring path.

### Repairs and Maintenance Expenditure

The baseline deficit position assumes a continuation of the current repairs and maintenance budget line, totalling £18.9M, into the longer term, (uprated by an annual inflation factor of 6% in the model).

Monitoring of the repairs budgets are currently projecting a significant underspend on responsive repairs in the 2003/04 financial year, and continues the trend of the latter half of 2002/03. Although there are proposals to utilise some of these resources, it is likely that by the year end the £500k responsive repairs contingency will not be required. This underspend is mainly due to a reduction in both volumes and values of responsive repairs, and to a lesser extent, voids orders, which has been sustained now for one year.

Based on current and anticipated future trends, and in the context of a current repairs and maintenance budget line of some £18.9M, a reduction of responsive repairs budgeted expenditure by £500k in 2004/05, and by a further £200k in each subsequent year to year 10 and then remaining at this level of expenditure, may be sustainable. This has the effect of reducing the 10 year HRA deficit by £25m.

Just to note as well in terms of the sustainability and viability of the above option, the Council has recently set up a Corporate Procurement Group, whose specific remit is to review Council wide Building Maintenance Contracts. Regarding the impact of this review on Housing, this will therefore include a review of Housing Repairs and Maintenance Contracts, the outcome of which is anticipated to include improved forward planning and budgeting and the achievement of procurement benefits which can be shared, although these can't as yet be quantified.

### Asset Management Strategy

Included in the 2,300 properties assumed for disposal are estates with approval for demolition such as Rashcliffe, 154 high management and maintenance cost properties, and properties at Ridge Street where proposals are still being considered. There are also option appraisals still to be completed and a Sustainability Core Group has been set up and meets regularly. (see pp. 23-25 above).

### KNH Management Fee

Although there is an assumed reduction on the KNH management fee factored into the business plan to equate to the level of Right To Buy sales this will be subject to negotiations between KNH and the Council during the forthcoming budget process. If the management fee were increased in line with inflation of 3% over the next 2 years to equal

the inflation built in for years 3 to 10 this would increase the HRA baseline deficit position by £4m.

The fee arrangement does not factor in other disposals (non Right to Buy). If management costs could be reduced in line with the 2,300 disposals included in the model, this would reduce the 10 year HRA deficit by £9m.

### Three Star Financial Freedoms

ODPM is currently in ongoing discussions with the highest performing ALMO's to help formulate a view as to what such financial freedoms might be. These are uncertain at present, although KNH and the Council will be looking to assess the relative merits of the financial freedoms available to ALMO's should KNH attain 3 stars.

## **Other developments impacting on the baseline deficit position**

### Management and Maintenance Allowances

ODPM published a consultation paper to Local Authorities on 17<sup>th</sup> July 2003 entitled "Allocation of Management and Maintenance (M&M) Allowances within HRA Subsidy". The proposals within the consultation paper represent a significant re-basing of current management and maintenance allowances, which are a key component of the subsidy system.

The rationale behind the proposals is a recognition that current formulae within the allowances calculations are over 10 years old, and are in need of review, the outcome of which, via the consultation paper, is a much more robust methodology for assessing need to spend on management and maintenance.

The consultation paper proposes that the re-based 'target' allowances be phased in over at least a two year timeframe, hence the proposed actual allowances will be dampened down slightly due to transitional arrangements i.e. cash freezes for those Local Authorities adversely affected.

In terms of the consultation paper's impact on Kirklees, there are four possible scenarios, dependent on a range of indices which are being considered as part of the consultation exercise. The scenarios with the least and greatest effects on the HRA have been modelled for illustration.

Scenario 1 - uses the lesser of the proposed allowance increases in 2004/05 and 2005/06; £398.19 (18.48%) and £474.26 (19.1%) for management and £756.97 (22.14%) and £850.40 (12.34%) for maintenance. This would reduce the 10 year baseline HRA deficit by £45m.

Scenario 2 - uses the greater of the proposed allowance increases in 2004/05 and 2005/06; £398.41 (18.55%) and £475.24 (19.28%) for management and £776.13 (25.23%) and £869.80 (12.07%) for maintenance. This would reduce the 10 year baseline HRA deficit by £51m.

Both scenarios above have a massive impact on the current baseline deficit position, and clearly illustrate why there has been extensive lobbying by a good number of (in particularly northern) authorities in recent years requesting an overhaul of current management and maintenance allowances for a more equitable redistribution of resources matched to need.

The major caveat to the above is the fact that the proposals are still at the consultative stage, and will not be firmed up until December 2003. This Council's response to the consultation paper will endorse the proposals, particularly in the context of the extent of their longer term positive impact on balancing the HRA.

Both scenarios above delay the account first reflecting an in- year deficit until 2007/08. However, with previous year accumulated balances being utilised to offset the deficit, the first 'true' or unbalanced HRA position is delayed until 2010/11.

The proposals within the consultation paper do not indicate what the allowance increases might be beyond 2005/06, and the baseline position takes a prudent view in assuming only RPI. For illustration, longer term allowance increases of 1% above RPI from 2006/07 would reduce the 10 year baseline HRA deficit by a further £11m as per both scenarios above.

### Rent Rebates

ODPM and DWP are currently working up the resourcing arrangements behind the anticipated transfer of Housing Rent Rebates from HRA to the Council's General Fund, from 2004/05. Early indications suggest a small, or at worst, budget neutral impact for HRA. Until such proposals are firmed up, it is not possible to assess the extent of their impact on the current HRA position.

### Prudential Borrowing

In conjunction with a number of housing capital finance reforms proposed by ODPM, will be the introduction of the new Prudential borrowing framework for Local Government, from 2004/05, underpinned by the CIPFA Code of Practice; "the prudential Code for Capital Finance in Local Authorities". This allows Local Authorities greater freedom to borrow for capital purposes within what is deemed to be affordable limits i.e. following the good practice guidelines in the Code, including an assessment of affordability to borrow against a range of local prudential indicators.

The impact of such proposed capital financing reforms will take some time to determine, and at this stage it is not possible yet to illustrate whether or not such proposals will have a major impact on the HRA in future years.

### **Summary**

It is clear that there are two options in particular which have a very significant effect on the HRA baseline deficit, namely the proposed rebasing of management and maintenance allowances and the responsive repairs and voids reductions.

Regarding the former, comments on the ODPM consultation paper on the proposed management and maintenance allowances are to be submitted to ODPM endorsing

strongly the proposals, given that the outcome of the consultation exercise will go a long way to determining the longer term viability of the HRA within current arrangements. Volumes of repairs orders and the average order cost will continue to be monitored weekly to ensure the validity of this particular proposal.

These options do not, however, negate the need to continue to look at other management options such as service realignment in the context of improved service delivery.

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# Conclusions – The way forward

Kirklees Council working in partnership with Kirklees Neighbourhood Housing have worked through a logical and systematic process in putting together this business plan. The analysis and actions in the plan has rigour, not least because of the challenge to the process and to established thinking provided by detailed consultation with tenants and other stakeholders and by external consultants.

The business plan follows a logical structure that meets the requirements of the ODPM to find a best fit for management and investment of stock within the spirit of the Communities Plan. In updating the plan in 2003, the Council and KNH have also been minded of the Government Regional Office assessment of the Housing Strategy and Business Plan and a desire to gain a “Fit for Purpose” assessment.

The logic within the business planning process is set out in the structure of the documents. This begins with an editorial note explaining how the process and plan has been reviewed and updated to move us to “Fit for Purpose”.

The context of the plan is set within the geography and demography of Kirklees. With any planning process we are keen to deliver what local people need and to reflect the diversity within Kirklees both within different BME communities, because of age and lifestyle differences and because of disability and the need for supported housing.

This approach is explored in detail by examining need, supply and demand for social housing in Kirklees. Analysis has been based upon a requirements study updated with information from the CURS regional study. Additionally waiting list registrations have been projected. From this analysis a housing market emerges that will require more supported housing, more housing for young people and those in other newly forming households. Analysis also shows that demand for social housing is fragile and vulnerable, but this can be acted upon positively by stock investment, improvement management and therefore improvements in social capital and sustainability.

Having made a sound analysis of needs, supply and demand and capturing this in the business planning process the viability of the council stock was analysed. This included a comprehensive stock condition survey to assess investment requirements, a stock options survey to consider the best management and ownership model to deliver our goals and a procurement arrangement to deliver the massive investment required to bring the stock up to the “decent standard” ahead of Government requirements. This work was in turn based upon a stock feasibility survey and analysis undertaken by KPMG that found by using cashflow and demand projections that 20% of the council stock was vulnerable.

In matching demand and need to supply the assessment of what is needed to be done to the council stock in terms of remodelling, demolition and disposal coupled with the investment requirements for the remaining stock provides the next stage of the process of business planning. Within this version of the plan the process for how and why an arms length company was selected as the best option for Kirklees for ownership and management is set out. The costs of investment are also clearly discussed together with the method for delivering the investment programme by partnering with five construction companies. As a successful round one ALMO the method of funding the investment

plan, through extra capital borrowing being made available by virtue of a successful housing inspection is also recorded.

The business plan then sets out the housing management arrangement and framework to move KNH from a two to three star organisation. This is included for three reasons:

1. The quality of housing services is an important requirement by the Council, tenants and other stakeholders in its own right and it is proper that it is well planned and costed using a business planning approach
2. The quality of housing management service, particularly in the ability of KNH to manage partnerships and to influence other organisations who deliver services to estates is critical in providing joined-up management that will deliver wider social policy objectives and will improve the social capital within estates and maintain their sustainability. Excellent management therefore goes hand in hand with an efficient and effective investment programme.
3. In seeking excellence KNH and Kirklees Council are keen to maximise the freedoms and flexibilities that are currently being discussed with the ODPM. While the HRA is currently in a healthy position because of well planned and executed financial and management strategies, projections over ten years require prudent management that maximises resources. However, current discussions about the level of management and maintenance allowances to be paid into the HRA has a significant effect in making this account and therefore the Councils council housing strategy viable.

The needs and requirements analysis is therefore sound as is the planning and delivery of the investment plan. A two star rating from the housing inspectorate has released resources to deliver the investment plan, and the housing management service itself continues to improve under the clear leadership of an increasingly confident Board.

However, financial projections for the Kirklees HRA continue to cause concern not least because of the loss of subsidy through the RTB process. Rent restructuring requirements have been met and day to day financial management continues to be good. Improved performance in void management, current arrears management and a reduction of spend on responsive repairs continues to close the gap in the HRA and focussed management together with proposed changes to management and maintenance allowances provide a basis for a future that is financially viable. Greater certainty following proposed changes to the national subsidy system will allow us to plan a clear way forward for management of the HRA and the services that are resourced by this account.

This plan sets out a well argued and measured business planning process. The appendices to this plan include a detailed estate by estate decent homes improvement programme to evidence the tangible work that is being undertaken which is based on the analysis within this plan. An action plan is also attached that sets out how the decent homes programme is to be rolled out.

## Consultation on the Business Plan

A range of consultation events have been undertaken in drawing up the original draft Business Plan, and the option appraisals. Briefings have taken place with political groups and staff representatives on a regular basis. There will continue to be detailed consultation with local tenants and residents on individual projects in line with Kirklees Tenants Consultation and Participation Charter. As complementary or updated analysis has been undertaken consultation has taken place with relevant stakeholders. Additionally as the decent homes programme becomes operational, tenants representatives and individual customers are being consulted about the prioritising of works and the detail of improvements within homes.

The KNH Board have been consulted on the plan and involved in its production. This plan was revised in summer 2003 and considered by KNH Board and the Council's Cabinet.

5.14 Further information is available from;

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### Detailed Action Plans

1. **Action Plan – To deliver the proposals set out in the HRA Business Plan**
2. **The Investment Plan for 2003/04 to achieve decent homes**

### Appendices

1. **The Delivery Plan for Services – showing improvements to be made to achieve Excellence**