	Cabinet		***Item***
	1st February 2017		
Report of	**Head of Commercial Services**	**Authors**	**Darren Brown** **Lynn Thomas** **Tel: 282891**
Title	**Housing Investment Programme (HIP) 2017/18**		
Wards affected	All		

This report concerns the Housing Investment Programme for 2017/18

1. Decision(s) Required

1.1 To approve the Housing Investment Programme for 2017/18.

1.2 To note the Capital Medium Term Financial Forecast (CMTFF) set out at Appendix A.

2. Reasons for Decision(s)

2.1 Each year as part of the process to agree the Council's revenue and capital estimates the Cabinet is required to agree the allocations to the Housing Stock Investment Programme. These allow for work to be undertaken to maintain, improve, and refurbish the housing stock and its environment.

2.2 Members will be aware that following the Cabinet meeting on the 30 November 2011 it was agreed in principle to accept a proposed 5 year Housing Investment Programme (HIP) as the framework for procuring housing related planned works, improvements, responsive and void works and cyclical maintenance, subject to overall budget decisions in January 2012 and annually thereafter.

2.3 It was also agreed that the proposed 5 year investment programme would be linked to the Asset Management Strategy (AMS) and reviewed annually in the light of available resources and for each annual allocation to continue to be brought to Cabinet for approval as part of the overall HIP report.

2.4 The Colchester Borough Homes (CBH) Board has been apprised of the content of the Cabinet report submitted on the 30 November 2011 and is now seeking approval for the 2017/18 Capital programme.

2.5 This report seeks the release of funds under grouped headings as described in the AMS and supported by the Management Agreement dated 9th August 2013, which governs the contractual relationship between Colchester Borough Council (CBC) and CBH.

3. Supporting Information

Key Issues for 2017/18

3.1 There are a number of key issues relating to the HIP budget for 2017/18, with further details being included within the main body of the report. However, in summary they are as follows. This is the sixth year of HRA Self-Financing and the continued increase in investment in the housing stock and other projects is reflected in this report. As part of the Sheltered Housing refurbishment programme, construction works continues at Enoch House and is due for completion in summer 2017, whilst the feasibility and scope of the next two schemes is appraised.

3.2 Members will be aware of the forced sale of Local Authority High Value assets to fund the voluntary Right To Buy for housing association tenants, which was announced in the Housing and Planning Act 2016. This requires local housing authorities to make a payment to the Government equivalent to the market value of a proportion of high value vacant housing owned by the authority (165 stock retaining local authorities who maintain a housing revenue account). Government announced in the recent autumn statement that this has been delayed and will not be implemented in 2017/18. However, given there is no indication of how much the levy that we will have to pay will be, work programmes for 2017/18 have been reviewed and a reduction of £1.140million has been made which has been ring-fenced for payment of the levy when it is implemented. An equivalent sum has been provisionally included in futures years as shown in the CMTFF at Appendix A.

3.3 This report is considered as part of agreeing the Housing Revenue Account (HRA) estimates as the funding for the HIP, which covers capital investment in the housing stock, is very much linked to the overall level of resources for housing.

3.4 In recognition of the need to define future trends and changes influencing the needs of the housing assets, a 30 year investment model was established to support the HRA business planning process. This was undertaken as part of the Councils response to the proposal from the Government to disband the Housing Subsidy system and to introduce self-financing from April 2012.

3.5 Members will be aware of the announcements made in the Chancellor of the Exchequer's Budget on 8th July 2015 regarding the proposal to decrease social housing rents by 1% annually from 2016/17 for four years, and the resultant projected loss of rental income within the HRA business plan over the next 30 years. Therefore it is necessary to review the Housing Revenue Account (HRA) current budgets and investment plans to ensure that these can operate within the limits of the Business Plan and do not exceed the peak debt limit.

3.6 The outcome of the review will provide the Council, as part of its budget setting process, alternative options on existing HRA budgets to mitigate the impact of the imposed reduction in income through these changes without detrimentally impacting service to residents in the Borough.

3.7 It is now the sixth year of this programme which is being recommended as the framework for procuring housing related planned works and improvements.

4. Funding the Housing Investment Programme

4.1 2017/18 is the sixth year of the HRA self-financing regime. This fundamentally changed the way in which Council Housing is financed, and as a consequence a financial model for the HRA has been developed, which forecasts the HRA and HIP for each of the next

30 years, using a range of assumptions on areas such as inflation, stock numbers, future expenditure & income levels etc. This is considered further in the 2017/18 HRA Estimates report elsewhere on the agenda. The source of resources, and the priority order in which it is assumed they will be used to fund capital expenditure in the 2017/18 HIP budget and financial forecasts are as follows;

- Specific Areas of Finance (e.g. Grants),
- Capital Receipts,
- Major Repairs Reserve (Depreciation),
- Revenue contributions to capital (RCCO),
- New Additional Borrowing

4.2 The assumption made when prioritising resources to fund the HIP is that resources specifically designated to the programme will be used first, followed by capital receipts. This is so the receipts can be re-invested in affordable housing, and be retained locally and not be clawed back by Central Government under the capital receipts pooling arrangements. The next form of resource to be used is the Major Repairs Reserve, which is the reserve that is built up from the depreciation charge to the HRA. This is the resource that is set aside to maintain the housing stock in its current form & condition. If there are insufficient resources within the Major Repairs Reserve to fund all of the capital works in the year, then the next call on funding is revenue. The amount of this resource will depend on the level of balances within the HRA and the extent to which they are directed to the HIP, as opposed to other budget priorities.

4.3 Finally, should there be insufficient revenue resources to fund the overall programme the assumption is that the Council will undertake HRA borrowing to fully fund the HIP. This is assumed to be the lowest priority source of funding, to minimise the resultant additional interest costs that would be incurred by the HRA. Further borrowing will be subject to the debt cap which applies under the self-financing regime. Should this be breached, or should the Council decide it does not want to undertake additional HRA borrowing or use revenue resources etc, then the Council would need to re-consider the programme of works proposed and the corresponding budget provision. This could include foregoing works, or re-profiling the year in which they are undertaken.

5. 2017/18 Programme of Works

5.1 The requested budget allocation for the 2017/18 programme is £11.288million. This continues to represent a substantial increase in investment compared to the years spent operating under the now-abolished HRA Subsidy system, which members will recall was replaced on 1st April 2012 by the HRA Self-Financing regime. A further breakdown of the areas of work that are planned to be undertaken is shown at paragraph 8.

5.2 As part of the new management agreement which commenced in August 2013 between the Council and CBH, the management fee has been expanded to reflect the wider range of services CBH now provides on behalf of the Council, so it now incorporates the fee for managing the capital programme. Members are therefore asked to note that the requested budget allocation in paragraph 5.1, and the budget sums included in paragraph 8 and Appendix A all include the fee for managing the capital programme, which for 2017/18 totals £1,328,000. A further breakdown of the management fee is included in the HRA Revenue Estimates report elsewhere on the agenda.

5.3 Cabinet are also asked to note that provision has been made within the 2017/18 programme to provide funding for the Sheltered Housing review agreed by Cabinet on

12th October 2011. The sixth year of the programme (2017/18) will see the completion of the refurbishment of Enoch House.

6. HRA Capital Medium Term Financial Forecast - 2016/17 to 2020/21

6.1 As previously stated, on the 30th November 2011 Cabinet agreed in principle to accept a proposed 5 year HIP subject to overall budget considerations. As a result, expenditure proposals have been included in the capital medium term financial forecast at Appendix A and updated to take account of the early years being completed and new updated year's being introduced. As previously stated there is a significant increase in capital investment in the housing stock compared to previous years. Members will be aware that the Government introduced the Decent Homes Standard in 2010 which required all social housing within England to be brought up to and maintained to this standard, and therefore our on-going investment reflects what is required to ensure our housing stock continues to meet the decent homes standard as a minimum. The HIP also includes investment in other work programmes identified in the AMS for which the resources had not been available under the previous HRA subsidy system. It should be noted that the figures for 2018/19 onwards are indicative at this stage, and will be subject to confirmation and agreement by Cabinet in their appropriate year's budget setting cycle. This is primarily because the main source of increased resources under HRA Self-Financing is the retention of 100% of tenant's rental income locally. However, as previously stated, the Government has announced a decrease in social rents over four years rather than the anticipated inflationary increase, and we are awaiting more detail from the Government on these proposals and what might happen at the end of the four year reduction. It should also be noted that the assumed level of resources available to fund the HIP is not only influenced by future inflation levels, but also by other income and expenditure requirements within the HRA.

6.2 At its meeting on the 12th October 2011, Cabinet considered a number of recommendations relating to making improvements to the Councils sheltered housing stock. It was agreed that any capital receipts relating to disposals would be ring-fenced to the HRA, and that the financial implications of the in-principle decisions taken are modelled and reflected in the overall budget setting process. It was also indicated in the report that additional borrowing would be likely to be required to fund the programme of works, which would be via the use of the available borrowing headroom arising under HRA Reform. It is worth reminding Members that the 30 year AMS already made provision for investment in the sheltered housing stock, therefore the borrowing required is as a result of bringing these works elements forward, rather than any shortfall in funding in the overall business plan. Therefore the 2017/18 budget, and the capital medium term financial forecast at Appendix A, show the indicative expenditure requirements relating to the review of sheltered accommodation, and have been taken into account when determining the sources of funding available and required.

6.3 The estimated RCCO in 2017/18 is £3.614million, which is broadly in-line with the assumptions in the business plan. In the years prior to HRA Self-Financing, the RCCO has been used to fund non-works programmes, such as Housing ICT and the capitalisation of costs associated with the Housing Client team. However, as indicated in the HIP report agreed by Cabinet on 25th January 2012, RCCO's have been required to support the works element of the capital programme for 2013/14 onwards. These increased contributions have been affordable as under HRA Self-Financing the Council retains all rental income. However, following the rent reduction announcement by the Government in July, these resources will now be much lower than indicated in previous year's budget reports, which will have an impact on the level of capital investment in the housing stock that we are able to afford in the medium to long-term.

6.4 Members will be aware that the Council entered into agreement with DCLG in 2012 to retain additional RTB receipts to deliver new affordable housing. The Capital Medium Term Financial Forecast considered by Cabinet at its meeting on 28th January 2015 assumed that we would be able to use retained RTB receipts to contribute to the funding of the next phase of new build. However, given the impact the rent reduction announcement has had on our available borrowing headroom and the resultant putting on hold of phase 2 of our new build programme, there is the likelihood that we will not be able to use any more of our retained receipts as a source of funding via this method of delivery, and we would be required to repay any unused receipts to the Government plus interest, unless alternative delivery options can be found which utilise them. The latest projection is that this would occur in 2017/18 onwards, however officers are currently exploring alternative schemes to prevent repayment being necessary where possible. As a reminder, retained receipts can only be used on delivering new additional units of accommodation, not on refurbishing existing schemes.

6.5 The Medium Term financial forecast shows a requirement to undertake additional borrowing in the next 5 years. Prior to the rent reduction announcement, this virtually all related to the funding of new Council House building and the proposed sheltered accommodation improvements discussed at paragraph 6.2. However, we are now having to use borrowing to fund the requirements of our housing stock contained within the AMS, as our ability to use RCCO’s to fund the capital programme have diminished due to there being less rental income available as a result of the rent reduction announcement.

7. Priorities for the Council

7.1 To implement the Colchester Housing AMS that was revised and adopted by Cabinet in April 2015 as the basis for long term planning, provision and sustainability of Colchester Borough Council’s housing assets.

7.2 To allocate appropriate funding to CBH within the resources that are available to enable stock investment to proceed, improving housing conditions for our tenants.

7.3 To ensure that having achieved delivery of the decent homes’ targets in December 2011 that the overall level of decency is maintained at the end of any one financial year but ensure compliance on a five yearly basis.

7.4 To build upon current monitoring arrangements and ensure programme delivery and the effective targeting of resources particularly in respect of maintaining the value of the asset and providing Adaptations for our customers with disabilities.

7.5 To note that the overall and general Building Cost Inflation Indices (BCIS) used within the HIP contracts is showing significant increases, and also the tenders returned on newly contracted works are significantly higher, reflecting the current building market conditions. Both of these are used as a major consideration in producing and delivering the intended programmes of work.

8. Proposals

8.1 The report sets out below a summary of the proposed allocation of new resources for 2017/18 as defined by the AMS with the following comments setting out the basis of the allocation.

8.2 ***Capital Investment Programme - £5.275million –*** This allocation supports the AMS and acknowledges the work required to allow the decency standard to be maintained, therefore this substantial proportion of the overall allocation is recommended.

8.3 ***Aids & Adaptations - £0.600million -*** This continues to support the budget at historic levels. The proposed allocation achieves the requirement to adapt Council dwellings to meet the special needs of our customers and also meet the high priority that Members place on this service.

8.4 ***Emergency Failures (statutory obligation) and Voids - £0.693million –*** This allocation supports the AMS and the experience gained through the management controls being exercised. It reflects the necessity to recognise capital works in the voids process along with emergency failures.

8.5 ***Emergency failures structural works - £0.581million –*** As with the previous allocation this reflects the AMS and the experience gained through the management controls being exercised. The work is generally associated with premature failure of structural elements.

8.6 ***Environmental Works - £1.125million -*** This allocation supports the AMS by continuing to address the improvements to the overall estate living environment. It will include door entry systems, boundary works and PVC installations to continue to reduce the revenue reliance on painting programmes.

8.7 ***Asbestos, Legionella, Fire Safety and Overall Contingency - £0.589million –*** This allocation recognises the need to continue to proactively manage our statutory obligations in the defined areas and provides a general contingency to cover the whole of the programme together with survey work and the potential to Buy Back properties offered back to the Council through the Right to Buy legislation.

8.8 ***Non-Works Programmes - £0.140million*** – This is for the further development of the Capita Housing system and various other one off projects.

8.9 ***Sheltered Accommodation Improvements - £0.770million*** – This allocation supports the continuation of the overall refurbishment programme and a feasibility and appraisal of the next two schemes. Individual delivery contracts will be reported to Cabinet as tenders are returned.

8.10 ***Garages - £0.375million*** – This investment in the garage stock is intended to secure additional revenue income that will support the business plan in future years. We have already seen a return on the investment made in the last financial year by increased garage tenancies and fewer empty garages on the sites that have been refurbished.

8.11 ***Higher Value Voids Levy - £1.140million*** – This allocation is setting resources aside to meet the estimated impact of the disposal of higher value voids levy, which the Government are using to fund the extension of the Right To Buy for Registered Provider tenants introduced as part of the Housing and Planning Act 2016.

9. Strategic Plan References

9.1 The HIP links to the following areas of the Councils strategic plan:

- **Welcoming -** a place where people can grow and be proud to live.

- **Vibrant -** Develop a strong sense of community across the Borough by enabling people and groups to take more ownership and responsibility for their quality of life.

- **Prosperous -** Provide opportunities to increase the number of homes available including those that are affordable for local people and to build and refurbish our own Council houses for people in significant need

10. Consultation

10.1 The Council conducted the bi-annual STAR survey through ARP Research in April 2016 with the specific aim of obtaining customer feedback through a sample survey of general needs tenants (1600), and all sheltered tenants and leaseholders. Questions were centred on Colchester Borough Homes performance, tenant satisfaction with their homes, neighbourhood and services. The survey also attempted to identify tenants' priorities on where we focus the provision of non-statutory services.

10.2 As a result of the Cabinet report submitted on the 30th November 2011 members will be aware of the extensive consultation process which has been undertaken to arrive at a position where it has been possible to recommend this report and budget allocation.

10.3 Further consultation will be undertaken as part of the process to review spending plans given the impact of the Governments rent reduction announcement referred to in paragraph 3.5.

10.4 It should also be noted that thorough consultation will be carried out with tenants and leaseholders affected by any works to properties or areas as a result of the works programmes proposed within this report.

11. Publicity Considerations

11.1 Any housing investment has a significant impact on the quality of life for local people. As a consequence the targeting and effectiveness of the programme has huge interest for members and the public as a whole. It is recognised that ongoing publicity will need to be conducted particularly as existing programmes continue and new capital programmes are introduced. Updates will be publicised to the customers in the areas to receive work during the year.

12. Financial implications

12.1 As set out in the report.

13. Equality, Diversity and Human Rights implications

13.1 An impact assessment has been prepared and can be viewed through the following link

http://www.colchester.gov.uk/article/12743/Commercial-Services

14. Community Safety Implications

14.1 These are taken into consideration in delivery of the HIP programme.

15. Health and Safety Implications

15.1 CBH will be responsible for implementing the delivery of this programme in a manner that reflects Health and Safety legislation, although the Council does retain the responsibility to ensure that all procedures are in place and being implemented.

16. Risk Management Implications

16.1 Risk management will be considered as the programme is developed, particularly the issues around the introduction of new programmes of work.

HRA Capital Medium Term Financial Forecast – 2017/18 to 2021/22

Appendix A

Expenditure	Notes	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Stock Investment Programme		8,638	8,528	7,645	7,603	8,280
Adaptations		600	617	648	690	703
Sheltered Accommodation Review		770	1,397	1,247	-	-
Stock Investment Sub - Total		**10,008**	**10,542**	**9,540**	**8,293**	**8,983**
Higher Value Assets Levy		1,140	1,174	1,209	1,246	1,283
ICT		140	144	149	153	158
Other Works Sub - Total		**1,280**	**1,318**	**1,358**	**1,399**	**1,441**
Total Programme		**11,288**	**11,860**	**10,898**	**9,692**	**10,424**

Resources	Notes	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Major Repairs Reserve		5,000	5,150	5,305	5,464	5,628
Revenue Contribution to Capital		3,614	3,433	2,527	2,414	2,488
Capital Grant		-	-	-	-	-
Capital Receipts	Disposal of Assets/Stock Rationalisation	650	1,950	500	500	500
Retained RTB Receipts Reserve		-	-	-	-	-
New Borrowing		2,024	1,327	2,566	1,314	1,808
Total Funding		**11,288**	**11,860**	**10,898**	**9,692**	**10,424**