Appendix C

Cabinet		*Item*
31st January 2018		

Report of	**Assistant Director of Policy and Corporate**	**Authors**	**Darren Brown** **☏ 282891** **Lynn Thomas** **☏ 505863**
Title	**Housing Investment Programme (HIP) 2018/19**		
Wards affected	All		

This report concerns the Housing Investment Programme for 2018/19

1. Executive Summary

1.1 This report sets out a summary of the proposed allocation of **£9.188million** of new resources to the Housing Investment Programme for 2018/19, along with the sources of funding. It also includes at Appendix A an indication of the potential expenditure requirements and funding sources for the years 2019/20 to 2022/23.

2. Recommended Decision

2.1 To approve the Housing Investment Programme for 2018/19.

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

3. Reasons for Decision

3.1 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.

3.2 Members annually agree to accept a proposed 5 year Housing Investment Programme (HIP) in principle as the framework for procuring housing related planned works, improvements, responsive and void works and cyclical maintenance.

3.3 The proposed investment programme is linked to the Asset Management Strategy (AMS) and reviewed annually in the light of available resources and for each annual allocation to be brought to Cabinet for approval as part of the overall HIP report.

3.4 The Colchester Borough Homes (CBH) Board have considered the content of the Cabinet report submitted and is now seeking approval for the 2018/19 Capital programme.

3.5 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.

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4. Supporting Information

Key Issues for 2018/19

4.1 The main issue relating to the HIP budget for 2018/19 is the continued impact of the Housing & Planning Act and the 1% rent reduction from 2016/17, which undermined the viability of the HRA Business Plan. The rent reduction resulted in removing £143million of assumed rental income over the life of the 30 year business plan, significantly impacting our capacity to deliver on the original AMS's objectives. As a consequence, officers from CBC and CBH worked together on a "Housing Futures Programme", which established a set of principles to ensure the investment required within the stock maintained lettable properties, whilst working to a reduced budget over the next 5 years. It should be noted that further work will be required to prevent us reaching our debt cap in the years following this period.

4.2 Although this is the seventh year of HRA Self-Financing, the level of investment in the housing stock and other projects has been reduced and is reflected in this report. As already stated, it has been necessary to review the Housing Revenue Account (HRA) current budgets and investment plans to ensure that these can operate within the limits of the HRA Business Plan and do not exceed the debt cap.

4.3 Members will be aware of the proposed 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 are yet to announce any further information since it delayed implementation during this year. Given there is no indication of how much the levy that we will have to pay will be, work programmes for 2018/19 have been reviewed to allow a small provision to be made which has been ring-fenced for payment of the levy if it is implemented.

4.4 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.

5. Funding the Housing Investment Programme

5.1 2018/19 is the seventh 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 2018/19 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 2018/19 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

5.2 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.

5.3 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.

6. 2018/19 Programme of Works

6.1 The requested budget allocation for the 2018/19 programme is £9.188million. It should be noted that the CMTFF included within the 2017/18 HIP report considered by Cabinet on 1st February 2017 indicated a budget of £11.860million for 2018/19. The reduced budget allocation for 2018/19 now included in this report primarily reflects the work undertaken by the Housing Futures Programme, to deliver savings to start to mitigate the impact of the Governments rent reduction. A further breakdown of the areas of work that are planned to be undertaken is shown at paragraph 9.

6.2 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 6.1, and the budget sums included in paragraph 9 and Appendix A all include the fee for managing the capital programme, which for 2018/19 totals £1,325,000. A further breakdown of the management fee is included in the HRA Revenue Estimates report elsewhere on the agenda.

7. HRA Capital Medium Term Financial Forecast - 2018/19 to 2022/23

7.1 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 previous years being completed and new updated year’s being introduced.

7.2 Due to the impact of the Housing & Planning Act and the 1% rent reduction from 2016/17 which led to the revision of the business plan, there has been a reduction in capital investment in the housing stock compared to previous years. Our on-going investment reflects what is required to ensure our housing stock continues to meet the decent homes standard as a minimum. It should be noted that the figures for 2019/20 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. As previously stated, the Government announced a decrease in social rents over four years from 2016/17 to 2019/20, rather than the anticipated inflationary increase. However, Government have recently announced that social rents will return to the formulaic increase of Consumer Price Index (CPI) + 1% from 2020/21 for a period of 5 years. 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.

7.3 The estimated RCCO in 2018/19 is £3.454million, 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 2015, these resources have been much lower than indicated in previous year's budget reports, which has impacted on the level of capital investment in the housing stock that we are able to afford in the medium to long-term.

7.4 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, the impact the rent reduction announcement had on our available borrowing headroom resulted in phase 2 of our new build programme being suspended. There is the likelihood that we will not be able to use 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 will occur in 2017/18 onwards, however officers are currently exploring alternative schemes to minimise repayment where possible. As a reminder, retained receipts can only be used on delivering new additional units of accommodation, not on refurbishing existing schemes.

7.5 As a result of the work undertaken by the Housing Futures group, the Medium Term financial forecast is projecting that there is no requirement to undertake additional borrowing in the next 5 years. As demonstrated in the HRA Revenue Estimates report elsewhere on the agenda, further borrowing will be required in Year 6 onwards to meet the requirements of the Asset Management Strategy in those years.

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8. Priorities for the Council

8.1 To implement the Colchester Housing AMS, that has been updated to reflect the revised investment plan, as the basis for long term planning, provision and sustainability of Colchester Borough Council's housing assets.

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

8.3 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.

8.4 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.

9. Proposals

9.1 The report sets out below a summary of the proposed allocation of new resources for 2018/19 as defined by the AMS with the following comments setting out the basis of the allocation.

9.2 ***Capital Investment Programme - £3.784million –*** 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.

9.3 ***Aids & Adaptations - £0.618million -*** 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.

9.4 ***Emergency Failures (statutory obligation) and Voids - £0.909million –*** 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.

9.5 ***Emergency failures structural works - £0.570million –*** 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.

9.6 ***Environmental Works - £1.030million -*** 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.

9.7 ***Asbestos, Legionella, Fire Safety and Overall Contingency - £0.703million –*** 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

9.8 ***Garages - £0.364million*** – This investment in the garage stock is intended to secure additional revenue income that will support the business plan in future years. We have seen a return on the investment made in previous financial years by increased garage tenancies and fewer empty garages on the sites that have been refurbished.

9.9 ***Non-Works Programmes - £0.710million*** – This allocation is for the further development of the Capita Housing system, various other one off projects, High Value Voids levy and a provision for costs linked to the return of any Right To Buy receipts to Government.

9.10 ***Acquisitions - £0.500million*** – This allocation supports the potential to Buy Back properties offered back to the Council through the Right to Buy legislation. This also provides the opportunity to use funding through retained 1-4-1 Right To Buy receipts (up to 30% of total cost), with the balance of 70% coming from S106 commuted sums for affordable housing.

10. Strategic Plan References

10.1 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

11. Consultation

11.1 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.

11.3 Consultation has been undertaken as part of the process to review spending plans given the impact of the Governments rent reduction announcement referred to in paragraph 4.1.

11.4 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.

12. Publicity Considerations

12.1 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.

13. Financial implications

13.1 As set out in the report.

14. Equality, Diversity and Human Rights implications

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

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

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15. Community Safety Implications

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

16. Health and Safety Implications

16.1 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.

17. Risk Management Implications

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

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HRA Capital Medium Term Financial Forecast – 2018/19 to 2022/23

Appendix A

Expenditure	Notes	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Stock Investment Programme etc		7930	8,149	8,321	8,557	8,815
Adaptations		618	641	661	690	704
Stock Investment Sub - Total		**8,548**	**8,790**	**8,982**	**9,247**	**9,519**
Acquisitions		500	-	-	-	-
ICT		140	144	149	153	158
Other Works Sub - Total		**640**	**144**	**149**	**153**	**158**
Total Programme		**9,188**	**8,934**	**9,131**	**9,400**	**9,677**

Resources	Notes	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Major Repairs Reserve		3,484	6,096	6,403	6,543	7,025
Revenue Contribution to Capital		3,454	2,588	2,478	2,607	2,652
Capital Grant		350	-	-	-	-
Capital Receipts	Disposal of Assets/Stock Rationalisation	1,750	250	250	250	-
Retained RTB Receipts Reserve		150	-	-	-	-
New Borrowing		-	-	-	-	219
Total Funding		**9,188**	**8,934**	**9,131**	**9,400**	**9,677**