

Cabinet

28th January 2015

Item

| | | | |
|-----------------------|---|----------------|-----------------------------------|
| Report of | Head of Commercial Services | Authors | Darren Brown John Rock |
| | | | Tel: 282891 |
| Title | Housing Investment Programme (HIP) 2015/16 | | |
| Wards affected | All | | |

This report concerns the Housing Investment Programme for 2015/16

1. Decision(s) Required

- 1.1 To approve the Housing Investment Programme for 2015/16.
- 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 2015/16 Capital programme being the fourth year of the (HIP).
- 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 2015/16

- 3.1 There are a number of key issues relating to the HIP budget for 2015/16, with further details being included within the main body of the report. However, in summary they are as follows. This is the fourth year of HRA Self-Financing and the continued increase in investment in the housing stock and other projects is reflected in this report. Secondly, provision has been made for the anticipated continuation of our own programme of house building. As part of the Sheltered Housing refurbishment programme, construction works will be drawing to a close at Worsnop House and be continued into the next scheme which has been identified as Enoch House. This commitment signals our ongoing commitment to undertake improvements to a number of sheltered housing schemes over the coming years. The programme reflects a bringing forward of the replacement of a significant number of timber fascias, soffits and other external elements. This has been proposed to maximise the benefit of current advantageous contracted rates which will come to an end in early 2016.
- 3.2 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.
- 3.3 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.
- 3.4 It is now the fourth year of the opening five years 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 2015/16 is the fourth year of the HRA self-financing regime. This has 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 2015/16 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 2015/16 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. 2015/16 Programme of Works

- 5.1 The requested budget allocation for the 2015/16 programme is £14.714million. 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 2015/16 totals £1,370,000. 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 2015/16 programme to provide fourth year funding for the Sheltered Housing review agreed by Cabinet on 12th October 2011. The fourth year of the programme (2015/16) will see the completion of Worsnop House coupled with a start on the second scheme which will be at Enoch House.

6. HRA Capital Medium Term Financial Forecast - 2015/16 to 2019/20

- 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, the expenditure proposals from that report have been included in the capital medium term financial forecast at Appendix A and updated to take account of the early year's 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, reflecting the need to maintain decency, and to start to invest 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 2016/17 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. Future rent increases are not known until the Government announce the inflation figures in November of each preceding year, so at this stage future rent increases are based on an estimate of inflation. It should 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 2015/16 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 Officers continue to progress the building of 34 new Council owned homes on former garage sites, and the 2015/16 estimate reflects completion of this programme and an allocation to allow officers to investigate the potential for the second phase of this programme. The May 2011 Cabinet report stated the intention was to use a part of the borrowing headroom arising under HRA Self-Financing to finance the Councils expenditure relating to new build, which is currently still the case.
- 6.4 The estimated RCCO in 2015/16 is £4.689million, which is broadly in-line with the assumptions in the business plan. In recent years, 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 are required to support the works element of the capital programme for 2013/14 onwards. These increased contributions are affordable as under HRA Self-Financing the Council now retains all rental income. Furthermore, as these resources increase in line with inflation, we are able to substantially increase investment in the housing stock and meet the needs contained within the Councils AMS. Finally, provision has been made within the RCCO to fund the continued programme of works to Sewage Treatment Plants, which will lead to their adoption by Anglian Water.
- 6.5 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 2015/16 budget includes resources from this source, which will contribute to the funding of our 34 units of new build accommodation on our garage sites. The budget also assumes that we will be able to use retained RTB receipts to contribute to the funding of the next phase of new build. However, as this work is at a very early stage and no decisions have been made on the next sites, there is the possibility that we would not be able to use retained receipts as a source of funding. As a reminder, retained receipts can only be used on delivering new additional units of accommodation, not on refurbishing existing schemes. Furthermore, the budget also includes capital grant as an additional resource, which is EU funding we have received as a result of the improvement works being undertaken at our sheltered schemes.
- 6.6 The Medium Term financial forecast shows a requirement to undertake additional borrowing in the next 5 years. This virtually all relates to the funding of new Council House building discussed at paragraph 6.3, and the proposed sheltered accommodation improvements discussed at paragraph 6.2. Were these projects not included in the spending plans for the next 5 years, then only minimal additional borrowing would be

required to fund the CMTFF shown at Appendix A. This confirms the approach that has been adopted, which is to ensure there is maximum flexibility in the early years of the programme to deliver the needs of the housing stock as well as the other projects the Council has committed to.

7. Priorities for the Council

- 7.1 To use a refreshed Colchester Housing AMS as the basis for long term planning, provision and sustainability of Colchester Borough Council's housing assets following Cabinet acceptance of the Strategy on 1 December 2010.
- 7.2 To update the AMS and obtain approval for its continued use as the basis for long term planning.
- 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 this is 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 2015/16 as defined by the AMS with the following comments setting out the basis of the allocation.
- 8.2 **Capital Investment Programme - £3.520million –** 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 - £0.580million -** 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 - £0.800million –** 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 - £0.330million –** 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 **Roofing Programme - £0.110million –** This allocation supports the AMS in the continuation of a new roof replacement programme.

- 8.7 **Environmental Works - £3.730million** - 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. As previously mentioned this allocation is recommended to take advantage of favourable current contract rates
- 8.8 **Asbestos, Legionella, Fire Safety and Overall Contingency - £1.270million** – 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.
- 8.9 **Non-Works Programmes - £0.140million** – This is for the further development of the Capita Housing system and various other one off projects.
- 8.10 **Sewage Treatment Works - £0.160million** – This is to provide funding for the continued programme of works, leading to the adoption of the sewage treatment plants by Anglian Water which will significantly improve customer satisfaction and generate ongoing savings within the HRA.
- 8.11 **Sheltered Accommodation Improvements - £2.350million** – This allocation supports the continuation of the overall refurbishment programme and a feasibility study for an Extra Care scheme. Individual delivery contracts will be reported to Cabinet as tenders are returned.
- 8.12 **Garages - £0.280million** – This allocation supports investment in our garage stock to bring them back into use and is a recommendation by a sub-group of the Asset Management Group.

9. Strategic Plan References

- 9.1 The HIP links to the following areas of the Councils strategic plan:
- Regenerating our borough through buildings, employment, leisure and infrastructure
 - Promoting sustainability and reducing congestion
 - Providing more affordable homes across the borough
 - Supporting more vulnerable groups

10. Consultation

- 10.1 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.
- 10.2 The consultation process has been inclusive of tenants and leaseholders and the Asset Management Group.
- 10.3 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/4962/Strategic-Policy-and-Regeneration>

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 – 2015/16 to 2019/20

Appendix A

| Expenditure | Notes | 2015/16 £'000 | 2016/17 £'000 | 2017/18 £'000 | 2018/19 £'000 | 2019/20 £'000 |
|-------------------------------------|-------|------------------|------------------|------------------|------------------|------------------|
| Stock Investment Programme | | 10,044 | 8,894 | 8,891 | 9,282 | 9,479 |
| Adaptations | | 581 | 585 | 607 | 618 | 652 |
| Sheltered Accommodation Review | | 2,348 | 2,407 | 2,686 | 2,735 | - |
| New Build | | 1,444 | 1,700 | - | - | - |
| Stock Investment Sub - Total | | 14,417 | 13,586 | 12,184 | 12,635 | 10,131 |
| ICT | | 140 | 143 | 146 | 149 | 152 |
| Sewage Treatment Works | | 157 | 161 | 164 | 167 | 176 |
| Other Works Sub - Total | | 297 | 304 | 310 | 316 | 328 |
| Total Programme | | 14,714 | 13,890 | 12,494 | 12,951 | 10,459 |

| Resources | Notes | 2015/16 £'000 | 2016/17 £'000 | 2017/18 £'000 | 2018/19 £'000 | 2019/20 £'000 |
|---------------------------------|-------|------------------|------------------|------------------|------------------|------------------|
| Major Repairs Reserve | | 5,199 | 5,406 | 5,514 | 5,624 | 5,737 |
| Revenue Contribution to Capital | | 4,689 | 4,515 | 4,757 | 4,929 | 4,722 |
| Capital Grant | | 68 | - | - | - | - |
| Capital Receipts | | - | - | - | - | - |
| Retained RTB Receipts Reserve | | 393 | 440 | - | - | - |
| New Borrowing | | 4,365 | 3,529 | 2,223 | 2,398 | |
| Total Funding | | 14,714 | 13,890 | 12,494 | 12,951 | 10,459 |