

SUPPLEMENTARY 1



THE CABINET

Tuesday, 22 November 2011

**Agenda Item 12a Housing Capital Investment Programme 2011-12
Update (Pages 1 - 13)**

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CABINET**22 NOVEMBER 2011**

This report is submitted under Agenda Item 12. The Chair will be asked to decide if it can be considered at the meeting under the provisions of Section 100B(4)(b) of the Local Government Act 1972 as a matter of urgency in order for works to be commissioned and completed within the current financial year.

Title: Housing Capital Investment Programme 2011-12 Update	
Report of the Cabinet Member for Housing	
Open	For Decision
Wards Affected: All	Key Decision: yes
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Accountable Divisional Director: Ken Jones, Divisional Director Housing Strategy	
Accountable Director: Darren Henaghan, Corporate Director Customer Services	
Summary: The purpose of this report is to update Members on the progress of the interim investment programme for the Council's Housing stock, approved by Cabinet on 12 May 2011, and to seek approval to form an additional investment programme in advance of HRA Self-financing in April 2012 to accelerate the Housing capital programme.	
Recommendations The Cabinet is recommended to:	
(i) Note the progress made in delivering the interim capital investment programme as set out in Appendix 1;	
(ii) Agree the investment programme of schemes set out in Appendix 2 in accordance with the strategic investment priorities contained in this report;	
(iii) Agree to the procurement of the schemes set out in Appendix 2 and delegate authority to the Corporate Director of Housing and Environment, in consultation with the Corporate Director of Finance and Resources, the Divisional Director for Legal and Democratic Services and the Lead Member for Housing, to agree terms and award relevant and appropriate contracts in respect of each scheme; and	

- (iv) Agree to increase the budget approved in June 2011 for kitchens and bathrooms from £2m to £4m.

Reason(s)

The Housing Capital Investment Programme assists the Council in achieving the following:

- Better future
- Better home
- Better health and well-being

1. Introduction and Background

- 1.1 The purpose of this report is to seek approval to establish an additional programme of capital schemes to meet the investment needs of the Council's housing stock and estate renewal programme.

The schemes proposed in this report will form an additional programme for 2011/12 that will bridge the period from now until April 2012 when a new Housing Asset Management Strategy (HAMS) will be implemented.

1.2 Investment Standards

Under self-financing it is proposed that the Council will adopt an investment programme that will renew all major building elements on a life-cycle basis. This will bring the Council's homes up to a higher standard than that required by the Government's Decent Homes programme.

As far as possible there will be a maximum of two visits to a dwelling to carry out major works, dealing with external and internal repairs and refurbishment respectively. Thereafter, as properties are refurbished to an as new standard then those properties will be moved onto a rolling life-cycle renewal schedule, as has been adopted for the Council's new HRA properties. Over time this is anticipated to reduce the Council's responsive repairs budget by at least 10% by April 2017.

1.3 Retained stock - strategic investment priorities and scheme selection

The following strategic investment priorities will be contained within the new HAMS. This will guide the formulation of future investment programmes under self-financing. These priorities have been used to formulate the rolling programme of schemes set-out within this report.

No.	Investment Priority	Comments
1	Health & Safety	<ul style="list-style-type: none">• Works essential to meet Health & Safety obligations
2	External repair and refurbishment	<ul style="list-style-type: none">• Works to protect the fabric of flats and houses• Wind and weathertight works
3	Internal repair and refurbishment	<ul style="list-style-type: none">• Decent Homes related works and major improvements to internal major elements to bring homes up to an 'as new' condition

4	External and Common parts – improvements, repair and refurbishment	<ul style="list-style-type: none"> Works to external areas within the curtilage of dwellings/ flatted estates e.g. paths and fences; improvements to common areas
5	Locally determined	<ul style="list-style-type: none"> Schemes reflecting locally determined improvements

1.4 Scheme Selection within Wards

To ensure an equitable allocation of investment resources across the borough at Ward level an investment matrix showing the investment need across major building elements has been constructed to guide the selection of individual schemes within the investment priorities set out above. This approach enables an investment overview to be taken at Ward level which will underpin the investment strategy for the next the next 10 years.

1.5 Investment Resources

The table below presents a summary of the Housing Revenue Account (HRA) for the remainder of 2011 and for the first two years under HRA self-financing.

Section A: Baseline - no accelerated spend					Section B: £24m Accelerated spend				
£m	2011/12	2012	2013	Total	2011/12	2012	2013	Total	
Rent		81.8	84.8	166.6		81.8	84.8	166.6	
Man & maint		-41.0	-41.8	-82.8		-41.0	-41.8	-82.8	
HRA recharges		2.5	2.5	5.0		2.5	2.5	5.0	
M&M Savings		2.0	2.0	4.0		2.0	2.0	4.0	
Interest		-9.6	-9.6	-19.3	(inc debt charge)	-9.6	-9.6	-19.3	
HRA resources		35.7	37.9	73.5		35.7	37.9	73.5	
Borrowing/(repayment)		14.0		14.0	24.0	-10.0		14.0	
Backlog funding		9.5	15.0	24.5		9.5	15.0	24.5	
MRA	15.0			15.0	15.0			15.0	
	<u>15.0</u>	<u>59.2</u>	<u>52.9</u>	<u>127.0</u>	<u>39.0</u>	<u>35.2</u>	<u>52.9</u>	<u>127.0</u>	
Capital works	15.0	49.3	28.2	92.4	39.0	25.3	28.2	92.4	
New build		3.5	17.2	20.7		3.5	17.2	20.7	
Estate renewal		6.4	7.5	13.9		6.4	7.5	13.9	
	<u>15.0</u>	<u>59.2</u>	<u>52.9</u>	<u>127.0</u>	<u>39.0</u>	<u>35.2</u>	<u>52.9</u>	<u>127.0</u>	

Section A in the table shows that in 2011 there was £15m of MRA (Major Repairs Allowance) available to fund capital investment schemes and this has been allocated to fund the schemes at appendix 1. Section B shows the impact of the Council borrowing an additional £10m in 2011/12 to bring forward capital investment schemes to meet the strategic investment priorities in paragraph 1.4 above. The additional revenue cost of servicing the brought forward borrowing based upon the Public Works Loan Board rate for 5 year borrowing term as at 22 November 2011 is 2.19%, would be £219,000 pa. The justification for a 5 year term is that post this period the HRA Business Plan has sufficient resources to meet the capital needs of the housing stock. This can be contained within the HRA budget.

If the Council decides to increase HRA borrowing as suggested above the impact would be to increase the borough's Capital Finance Requirement (CFR) above the self-financing draft borrowing cap currently modelled by the Department for Communities and Local Government (DCLG). The debt cap will be calculated according to the process published by DCLG on 21 November 2011. This means that Local Authorities provide to DCLG certified estimates of HRA debt for the point of self-financing implementation. The published process involves an adjustment mechanism up to the final settlement date and should result in the debt cap being increased to reflect the level of expenditure set out in this report. If the debt cap is not adjusted in line with DCLG's published process then the housing capital expenditure during 2012/13 would need to be reduced to bring borrowing within the opening debt cap by 31 March 2013. If this were the case then the capital programme during 2012/13 would be reduced to repay the additional debt.

If it became necessary to reduce the capital spend this would be achieved by slipping some schemes from 2012/13 to later years. Funding for the estate renewal programme and new build programme would be maintained as these underpin delivery and achievement of value for money in the investment programme to the retaining stock.

1.6 As indicated in paragraph 1.5, there is an additional total cost to the HRA over the 5 year term of £1.1m the additional benefits to be derived from this are:-

- The accelerated capital investment in the housing stock would mitigate the risk that DCLG might not provide the additional £30m of decent homes backlog grant
- The Council's baseline Housing capital spend figure for 2011/12 will be increased
- The proposed programme includes provision of new Council affordable homes which will assist the decant / estate renewal programme

1.7 This report and its recommendations have been brought forward as a matter of urgency arising from a recent piece of advice from PricewaterhouseCoopers on the issue of the potential impacts on the Council's borrowing capacity on the introduction of HRA self financing as at 1 April 2012. There had been concern that accelerating housing capital spend beyond the current programme level might prejudice the Council's position post the settlement. The advice is that this would not be the case. Indeed, there is a possibility that to do so might increase the borrowing cap. The details around the issue of HRA self financing have been constantly evolving. Throughout this period the Housing capital spend has been monitored to ensure delivery and it has been recognised that there is now the opportunity to bring forward much needed capital works as detailed further in this report.

2. Proposal and Issues

2.1 Investment programme 2011-12

Cabinet approved the Housing Capital Programme for 2011/12 in June; the programme was approved by CPMO in July 2011.

Procurement of the various projects within the programme has been undertaken and the programme has commenced delivering against the set objectives. Appendix

1 outlines the projects within the programme and indicates the various levels that the projects are at present.

All the projects that are subject to leasehold section 20 consultation have stage 1 consultations completed and stage 2 consultations are now underway. As the projects are not large for 2011/12, coupled with the current climate within the construction industry, all contractors have confirmed that projects are deliverable within the timescales projected (this is March 2012 completion).

Three projects are being projected to roll into 2012/12, these are External Enveloping, Door Entry Installation and Capitalised Improvement works. The first two projects are subject to leasehold consultations, which must be completed before contractors commence works and as both are external works, they may also be affected by adverse weather conditions in the New Year. The third project is being developed with Landlord services, and is also subject to resident and Member consultations, which impacts on the timescale for delivery.

2.2 Establishment of additional investment rolling programme 2011/12

It is proposed that an additional programme be established that will include elements of decent homes work as well as estate renewal and provision of new affordable homes. It is likely that opportunities may arise to acquire land and properties; these will be evaluated on a case by case basis. It is possible that additional resources may become available through HCA grant. Potential options are set out below.

There would need to be further reports to Cabinet in relation to purchase of street properties, new build homes or land, as appropriate.

Investment stream	Scope	Programme budget
Decent homes/ refurbishment programme	Programme of schemes in accordance with meeting the strategic investment priorities from the retained stock as set out in paragraph 1.3	£10m
Estate renewal programme	<ul style="list-style-type: none"> Accelerated programme of leaseholder buybacks to bring forward the regeneration of phase 2 of Gascoigne estate 	£4m
New build programme	<ul style="list-style-type: none"> Purchase of new homes under construction and land which would unlock development Purchase of street properties to meet housing need and provide decant properties for the estate renewal programme. These homes would enter the HRA. This would also assist prevent buy to let occurring 	£10m

Appendix 2 sets out the proposed programme in detail.

It is proposed that the additional budget will be used for internal works projects only, in order to reduce the time that will be lost due to leasehold consultation and potential adverse weather conditions in the coming months. Works in homes will target multiple failures such as kitchens, bathrooms, rewiring and central heating. The intention is to avoid pepper-potting of the works and concentrate in areas and roads.

It is also proposed that the project budget for the current Kitchen and Bathroom replacements be increased to £4m.

It should be noted that bringing forward the Housing Capital programme as proposed will assist the Council in working towards achieving the government's Decent Homes target at an earlier date and give greater justification for receipt of the Decent Homes backlog funding from DCLG.

3. Options Appraisal

- 3.1 From April 2012 the current system of supporting council housing through the distribution of subsidy by DCLG based on need, will be replaced with a self-financing system. Under the new system each Local Authority will be required to pay to DCLG an amount equivalent to the notional housing debt that is held by central government for each council. The net result of the new system is that LBBD will retain all of its rents and will be responsible for funding and planning the long-term maintenance of its stock. In the longer-term the settlement will provide progressively more resources for investment as rents increase. However, in the early years there are limited additional resources for investment and this requires the establishment of an investment programme profiled in line with resources.

This report seeks approval for the establishment of an initial programme of investment that supports delivery of the following investment streams.

Decent Homes investment programme	A detailed 10 year investment programme is being developed and profiled to align with available resources and to address the decent homes backlog within a 5- 8 year period. The rolling programme contained in this report enables progress to be maintained in addressing the stock's investment backlog.
Estate renewal programme	A fundamental element of the investment strategy is to demolish and redevelop c1700 flats on estates that are deemed uneconomic in which to invest to produce mixed income and tenure communities. The intention is to decant these flats over a 5 year period (in line with the HRA self financing settlement): this will free resources for investment in the remaining stock.
New build programme	Subject to the availability of grant from HCA a programme of new Council homes will be funded from within the HRA which will support delivery of the estate renewal programme.

4. Consultation

- 4.1 The lead Member for Housing has been consulted on the proposals in this report. The future Housing capital programme and Housing Asset Management Strategy will be taken to the recently formed Tenant and Resident Forums for their views to be reflected in the programming.

5. Financial Implications

Implications completed by Jo Moore, Finance Manager

- 5.1 As detailed in this report if the full £24m programme were to be implemented by 31 March 2012 then the Council opening debt would be higher than its draft debt cap under the self-financing settlement. Under the terms of the settlement the Council currently has around £14m of "headroom" which is the difference between its opening debt settlement amount and the HRA's actual level of debt. Therefore, any borrowing in excess of this £14m would need to be repaid before 31 March 2013 unless the final debt cap is higher as determined by the published process.
- 5.2 The total housing investment programme for 2011/12 is £23m which is funded from various sources including the MRA allowance indicated in 1.5 above. In addition to this there is a budget for £6.3m (funded from corporate borrowing) to fund the decanting and buy-backs costs in relation to Phase 1 of the Estate Renewals programme.
- 5.3 At present, the housing investment programme is projected to be fully spent but the Estate Renewals budget is currently forecast to be under spent by about £3m. There is, therefore, already capacity within existing budgets to accelerate leaseholder buy-backs from Phase 2 of the Estate Renewals programme.
- 5.4 In addition to the above budgets there is also a £2m Decent Homes borrowing allowance given by CLG for 2011/12 (funded within subsidy) which has yet to be programmed to be spent.
- 5.5 There is also unused rolled forward MRA of £500k which similarly has not been programmed to be spent.
- 5.6 The 2011/12 HRA budget currently has £14m of borrowing costs provided for which equates to the "headroom" available for borrowing under the self-financing system which comes into effect from 1 April 2012. This borrowing was originally earmarked to fund the completion of the Phase 1 estate renewals but due to slippage in the programme remains unutilised in 2011/12.
- 5.7 The additional investment programme of £24m identified above would, therefore, require an additional £10m of borrowing to be funded from the 2011/12 HRA budgets, for which, there is currently no budgetary provision.
- 5.8 There is, however, a budgeted surplus of £1.4m which has been provided for, under Cabinet approval, to increase the HRA reserves which have been historically low (£4.4m b/fwd 2011/12). This report is proposing to use approximately £1m of this budgeted surplus to fund the borrowing costs associated with the additional £10m

borrowing requirement. This would therefore have an impact on the outturn level of reserves for 2011/12.

- 5.9 From 1 April 2012 there will no additional borrowing for the HRA until there has been any repayment of the opening debt figure. The capital investment programme for 2012/13 and beyond is, therefore, to be funded from revenue surpluses generated and/or reserves.
- 5.10 By increasing borrowing this year there will be additional costs to the HRA that would otherwise not be incurred if the investment were to remain in future financial years and funded from surpluses as profiled by the new draft HRA business plan.
- 5.11 In the event that the debt cap were to be increased and therefore the £10m was not required to be paid by the end of 2012/13, then there would be ongoing borrowing costs which would be need to be funded from the HRA revenue budgets until such time as it has been repaid.
- 5.12 The draft business plan currently makes provision of £31.7m for new build. The £10m programme identified in this report will be in addition to this provision. Any additional spend on new build will result in less money being available for investment works to existing stock.

6. Legal Implications

Implications completed by: Doreen Reeves Legal Group Manager

- 6.1 The Capital programme will be subject to the European and United Kingdom Procurement Regime and necessary compliance. Where funding is sourced from agencies such as the Housing and Community Agency funding, Agreements will need to be entered and compliance with their terms will be an additional consideration.
- 6.2 Timing of events is critical where the programme involves decanting as Housing Notices to tenants of planned regeneration including demolition have a limited life span which can only then be extended by agreement with the Secretary of State. A further consideration is that earmarking an estate or block for refurbishment or demolition will not mean that investment in repairs can be reduced while tenants are still occupying the blocks.
- 6.3 In addition there will need to be special consideration to leaseholders including formal consultation carried out with any leaseholders affected by the works to ensure recovery of costs by means of Service Charge. Where they will be displaced the preferred route will be by negotiation for buy-back but as a last resort Compulsory Purchase powers may need to be exercised.

7. Other Implications

7.1 Risk Management

The investment programme identified within this report will be delivered with the Council's CPMO structure for capital programmes and scheme. This is a gateway

project management process that ensures all project risks are identified and mitigated before approval to contract the project is given.

7.2 Contractual Issues

The investment programme proposed within this report can be delivered through the Council's existing Contractor Frameworks and will be approved within the CPMO structure set out above.

7.3 Staffing Issues

The investment programme proposed within this report will be delivered by staff within Strategic Capital Delivery and Commercial Services)

7.4 Customer Impact

Approval of the investment programme proposed within this report contributes to delivering the Council's Housing Strategy. Improving housing conditions and quality of life for people living in Council owned housing is the principle of Housing Investment activity and the schemes proposed for inclusion within this report reflect this priority.

Tenants and leaseholders will be consulted on the formulation of the Housing Asset Management Strategy and scheme selection through the arrangements being put in place for tenant and resident involvement.

7.5 Safeguarding Children

The investment programme proposed within this report contributes to improving housing conditions which can contribute to better educational outcomes for Children living in homes benefited from the investment.

7.6 Health Issues

Approval of the investment programme proposed within this report contributes to improving housing conditions which in turn contribute to better health outcomes for residents.

7.7 Crime and Disorder Issues

The investment programme proposed within this report contributes to maintaining demand for housing within the homes benefiting from the investment; in turn this supports community sustainability.

7.8 Property / Asset Issues

The investment programme proposed within this report contributes to maintaining the economic viability of the council's housing stock and will assist in moving the housing investment programme to a planned, rather than responsive, basis which will provide better value for money.

Background Papers Used in the Preparation of the Report:

None

List of appendices:

Appendix 1: Investment programme update

Appendix 2: Investment rolling programme

APPENDIX 1: Investment Programme Update

Projects	Budget	Contractor	start on site	Practical completion	Comments
Central Heating Installation	1,000,000	Aston Heating	Nov-11	Mar-12	Will be delivered by the end of March 2012
Kitchen & Bathroom Replacement	2,000,000	United House	Nov-11	Mar-12	Will be delivered by the end of March 2012
		Mears Group	Nov-11	Mar-12	
Communal Lighting & Oldmead & Bartlett (Low)	1,000,000	Evans & Shea	Nov-11	Mar-12	Will be delivered by the end of March 2012
Defective Overflow works	100,000	A C Preou			Will be delivered by the end of March 2012
Adaptations (Housing)	45,000	Kirkman & Jourdian	Sep-11	Jan-12	Will be delivered by the end of March 2012
Window Replacement	200,000	LLS Ltd	Aug-11	Feb-12	Will be delivered by the end of March 2012
Central Heating Installation (R & Major Maintenance)	200,000	T.B.A	Jan-12	Mar-12	Will be delivered by the end of March 2012
	1,000,000	Enterprise	Jul-11	Mar-12	Being delivered by Enterprise
	1,000,000	Enterprise	Jul-11	Mar-12	Being delivered by Enterprise
Estate Improvement	350,000	Landlord Services	Aug-11	Mar-12	Will be delivered by the end of March 2012
Estate Improvement	800,000	Landlord Services	Aug-11	Mar-12	Will be delivered by the end of March 2012
Capitalised Improvement	224,000	Landlord Services	Aug-11	Mar-12	Will be delivered by the end of March 2012
High Rise Surveys	1,000,000	Consultants	Dec-11	Mar-12	Will be delivered by the end of March 2012
External Enveloping works	800,000	United House	Jan-12	Jun-12	Delivery will commence in January 2012 and
Door Entry Installation	500,000	T.B.A	Jan-12	Jun-12	Delivery will commence in January 2012 and
Estate Renewal	1,581,000	Regeneration	Jul-11	March 212	Will be delivered by the end of March 2012
Expected spend 2011/12	11,800,000				
Capitalised Improvement works (Income Generation)	500,000	Landlord Services	May-12	Sep-12	This will delivered during 2012/13 as advised by Landlord Services
External Enveloping works	1,700,000	United House	Jan-12	Jun-12	Delivery will commence in January 2012 and
Door Entry Installation	1,000,000	T.B.A	Jan-12	Jun-12	Delivery will commence in January 2012 and
Total	15,000,000				

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APPENDIX 2: Investment Rolling Programme

Projects	Ward(s)	Number of properties	Budget	Start on site	Practical completion	Comments
Central Heating Installation	Abbey; Albon; Becontree; Chadwell Heath; Eastbrook; Eastbury; Gascoigne; Goresbrook; Heath, Longbridge; Mayesbrook; Parsloes; River; Thames, Valence, Village and Whalebone	1,953	2,000,000	Jan-12	Mar-12	Will be delivered by the end of March 2012
Kitchen, Bathroom, Central Heating & Rewire	Abbey; Albon; Becontree; Chadwell Heath; Eastbrook; Eastbury; Goresbrook; Heath, Longbridge; Mayesbrook; Parsloes; River; Thames, Valence & Village	2,000	2,500,000	Jan-12	Mar-12	Procurement is anticipated to be complete by the end of December. Contractor will commence works in January and delivery is expected by the end of March 2012.
Kitchen & Bathroom			3,000,000	Dec-11	Mar-12	The contractors undertaking the current year's programme are able to increase their capacity.
Electrical Rewiring	Albon; Becontree; Chadwell Heath; Eastbrook; Eastbury; Gascoigne; Heath; Mayesbrook; Parsloes; River; Thames; Valence & Village	900	1,500,000	Jan-12	Mar-12	Will be delivered by the end of March 2012
Voids	Driven by voids occurrence		1,000,000	Dec-11	Mar-12	
Total			10,000,000			

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