

APPENDIX E

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 1 JUNE 2011

Title:

HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME - UPDATE

[Portfolio Holder: Cllr Keith Webster]

[Wards Affected: All]

Summary and purpose:

Since the Council approved the HRA Capital Programme for 2011/12 on 15th February 2011 additional resources have been secured for later years and the Council is making good progress in its maintenance re-procurement exercise. This report therefore advises the Executive of proposed revisions to the HRA Capital Programme and provides an indicative forward programme over a longer time horizon.

How this report relates to the Council's Corporate Priorities:

This report relates to two of the Council's Corporate Priorities namely: **Improving Lives** – Improving the quality of life for all, particularly the more vulnerable within our society; **Subsidised affordable housing** – Working for more affordable housing to be built and managing council housing well; and **Value for Money**– ensure our activities are customer-focused and provide good value for money.

Equality and Diversity Implications:

There are no direct Equality and Diversity Implications arising from this report.

Climate Change Implications:

The Decent Homes Standard includes thermal comfort as one of its components. Over the years, Waverley has directed capital investment to improving the thermal efficiency of its homes. Very few of Waverley's homes fail the DHS in respect of thermal insulation. The Council intends to install Solar PV panels on a large number of the homes it owns during 2011/12 in order to make a positive contribution to green energy generation.

Resource/Value for Money implications:

The Council is currently undertaking a procurement exercise for the suite of housing-related maintenance contracts. It is expected that this procurement exercise will generate savings and greater value for money than under current arrangements. Once the successful contractor(s) has been appointed it is your officers intention to review the HRA Capital Programme with contractors to determine whether an even more efficient approach to programme delivery can offer greater savings.

The award of £8.46 million from the Homes and Communities Agency to help the Council meet the Decent Homes Standard was very welcome indeed. The resources available for the HRA Capital Programme have been augmented by recent property disposals resulting in usable capital receipts. Further details on the resource allocation is detailed in paragraphs 18 – 26.

Legal Implications:

There are no legal implications arising from this report.

Introduction

1. The Council approved Waverley's 2011/12 capital programmes at its meeting on 15th February 2011.
2. Since that time there have been a number of changes which mean that the Council needs to review its capital programme for 2011/12 and beyond. These factors are:
 - the award of £8.46 million of additional resources from the Homes and Communities Agency in order to help fund Decent Homes Backlog works;
 - asset disposals and agreement to dispose of other property assets in order to generate additional capital receipts to invest in its housing stock; and
 - the process of procuring a suite of housing-related maintenance contracts, including capital programme works such as installation of new kitchens; bathrooms; re-roofing; double-glazing; new external doors; disabled adaptations and structural works.
3. As a result, it is necessary to revise the capital programme for 2011/12 and in the years following. A draft revised HRA Capital Programme is attached as Annexe 1.
4. The HRA Capital Programme is funded from the following sources:
 - Major Repairs Allowance – a contribution made to capital from the HRA revenue account;
 - Right to Buy (RTB) Receipts – the Council is allowed to retain 25% of the capital receipts arising from RTB sales with 75% having to be paid to the Government;
 - Capital receipts from land/property disposals;
 - Revenue contributions to capital outlay; and exceptionally
 - Decent Homes resources made available from the Government through the Homes and Communities Agency.

Decent Homes Capital Funding 2011/12 onwards

5. In November 2010, the Housing Minister advised of the Government's intention to make £1.6 billion of capital available to local authority landlord that could not meet the Decent Homes Standard to help them fund 'backlog works'. These resources would be administered by the Homes and Communities Agency and would be made available over four financial years viz:

2011/12	2012/13	2013/14	2014/15
£260 million	£352 million	£389 million	£594 million

6. The key areas where Waverley's homes fail the Decent Homes Standard is in respect of 'modern facilities' and the Council made a bid for resources to cover 'backlog works' particularly in respect of: Kitchens; Bathrooms; Heating Boilers; Heating Distribution; Rewiring; and Roofs. Waverley made a bid for £10.46 million of resources spread over a three year period.
7. It is worth noting that the funding is aimed at dealing with 'backlog works'. As Decent Homes Standard is, in part, age related, there will be more elements or homes becoming non-decent each year and there needs to be an on-going capital programme made available from the HRA's own resources to meet the newly arising demand.
8. The Council was awarded £8.46 million of spending power from the Homes and Communities Agency. This is very good news indeed and will enable Waverley to make significant inroads into dealing with the outstanding backlog of Decent Homes work that needs to be addressed.
9. The resources allocated to Waverley are detailed in the Table below:

	2011/12	2012/13	2013/14	2014/15	TOTAL
Allocation	Nil	£2,317,633	£3,238,225	£2,904,390	£8,460,248

10. It is worth noting that additional resources will become available in the financial year 2012/13. This is the first year of the new 'self-financing' regime for council landlords. In that year, the Government is providing the additional spending power by reducing the opening debt that the Council will need to borrow. The Council will then borrow the £2,317,633 in order to fund the DHS backlog works in 2012/13.
11. At this stage the allocations for 2013/14 and 2014/15 are provisional and will be confirmed. It is understood that these allocations will be in the form of a cash grant.
12. Whilst these additional resources are very welcome, it is worth noting that these are to be invested in dealing with the Decent Homes Backlog works. As the Decent Homes Standard is both time and condition related there is always 'newly arising' Decent Homes work that will need to be dealt with so that the Council's stock does not slip back.
13. The Homes and Communities Agency will be working closely with the Council to ensure that the allocations are being applied to DHS backlog works and that value for money is being achieved in procuring these works.

Revising the HRA Capital Programme

14. In light of the additional DHS capital resources and the procurement exercise being undertaken in respect of the maintenance contracts officers have been recasting the HRA Capital Programme for 2011/12 and beyond. When undertaking this exercise the following factors have been taken into account:
 - i. The additional resources being made available through the DHS funding in 2012/13; 2013/14; and 2014/15
 - ii. The revised draft capital programme reflects the need to address Decent Homes Backlog works over the period finishing in 2014/15.
 - iii. The Council is currently under-going a major re-procurement exercise in respect of its capital and revenue maintenance programmes. New contractors should be in place in the autumn of 2011. It is expected that the new contracts will offer even better value for money. There is therefore more emphasis on capital spend in the fourth quarter of the financial year 2011/12 and in the following financial years.
 - iv. In 2011/12, there is a reasonable provision made for the upgrade of central heating condensing boilers. This reflects the good value being achieved with the current contractor (Faulkners), which has been benchmarked against other recent tender costs by 'echelon', our procurement specialists. Staff have also negotiated a 5% discount on current rates for the installation of 250 boiler systems. Faulkners also have an excellent track record in customer service.

Central heating upgrades help:

- reduce fuel consumption and therefore fuel bills to the tenant;
- help improve the SAP rating of the home;
- improve the effectiveness of the heating system within the home and thermal comfort for the occupiers;
- reduce CO₂ and therefore support the Council's corporate commitment to Climate Change issues; and
- meet the Decent Homes Standard as it is a 'key component'.

The boiler replacement programme will continue into future years.

- v. Wherever possible, heating upgrades will be carried out at the same time as kitchen replacement and re-wiring works. This will not only show a cost saving, but also minimise disruption to tenants.
- vi. The PV panel contract will require a detailed survey of all roofs. This will identify which ones are suitable for panel installation. However, any roofs that require re-roofing, will be omitted from the PV panel contract. The detailed survey will also help to update the asset database.
- vii. Chimneys that require work should be done at the same time as the roofing work is carried out. However, any homes that only require works to chimneys within the next 5 years will be carried out separately.

- viii. There are a number of capital items in the programme which are contingent on other major works – for example, because there will be a relatively large kitchen programme from 2012/13, it is necessary to have resources assigned to dealing with any asbestos removal issues that may arise as a consequence of such works.
- ix. It has been necessary to ‘smooth’ the investment profile so that contractors are receiving a manageable volume and consistent, regular, predictable workflows. This in turn means that they can resource these elements of the contract with confidence and have certainty over staffing levels required, materials and cashflow. This should help Waverley secure better value for money from the contracts. This will be revisited when contractor(s) have been selected and discussions will be had with them to determine how best to programme work to ensure value for money through further efficiencies.
- x. In order to smooth the work profile and also to ‘future proof’ our Decent Homes position, some of the newly arising Decent Homes work in 2015/16 is being brought forward into 2014/15.
- xi. The capital sums involved reflect estimated costs provided by echelon these figures will be further revised once new contracts have been awarded.

Non-Decent Homes work

15. The Council has, of necessity, concentrated on the issue of the Decent Homes Standard over the past few years – because of its financial inability to meet the standard. It is good news that there are now enough resources (subject to the HCA confirming resources for 2013/14 and 2014/15) to deal with the Backlog works.
16. The HRA Capital Programme includes a range of capital related works which are not covered by the Government’s Decent Homes Standard and yet need investment and in some cases there has been no capital investment in these areas of work for some considerable time. For example:
 - Lift replacement
 - Missing or failed cavity wall insulation
 - Remodelling of poor layouts and poor conversions
 - Replacement of failing old double glazed windows
 - Sound insulation
 - Estate improvements – e.g. car parking
17. Asbestos removal work needs to be in line with other capital works such as re-wiring and heating upgrades.

Financial Implications

18. It is worth noting that the Council currently has a significantly increased capital resources over the coming few years. This is indeed welcome and will make a significant impact on its ability to deal with the Decent Homes standard.

However, there remain significant investment needs within the Council's housing stock and so the pressure on this budget area has not been solved by the spending power allocated by the HCA and recent capital receipts.

19. The HRA Capital Programme has been developed on the basis of capital works that need to be undertaken in a timely and appropriate fashion and one that can be afforded within the resources that are known to be likely to be available over the period 2011/12 – 2015/16.

20. The additional resources identified since the Council set its budget in February 2011 to contribute towards funding the HRA Capital Programme are:

	£ ,000
Revenue Contribution 2011/12	780
DHS Backlog Works Allocation from HCA	8,460
Capital receipt from Rowland House	<u>1,945</u>
TOTAL	<u>11,185</u>

21. The HRA Capital Projections have been recast so that these resources can be used primarily in pursuit of the DHS programme. The Table below shows the Capital Projections approved in February 2011, with the latest revised draft Capital Programme:

	2011/12 £ ,000	2012/13 £ ,000	2013/14 £ ,000	2014/15 £ ,000	TOTAL
Approved Feb 2011	6,340	5,175	5,170	5,170	21,855
Latest Proposal	<u>5,402</u>	<u>9,284</u>	<u>9,053</u>	<u>9,301</u>	<u>33,040</u>
	<u>-938*</u>	<u>4,109</u>	<u>3,883</u>	<u>4,131</u>	<u>11,185</u>

* NB The capital programme has been reduced in this year because of the Maintenance Contract Re-procurement exercise in order to get better value for money in future years from the new contractors rates.

22. The Council will need to keep both the HRA revenue and capital budgets under careful scrutiny to ensure that the landlord business can meet its commitments and there will be a need to continue to proactively manage its HRA capital assets in order to generate capital receipts to support the capital programme in the medium term.

23. Whilst the news about the DHS backlog funding is welcome, there remains some risk about the cash being available in 2013/14 and 2014/15, as the Homes and Communities Agency has only given provisional allocations for these years and they will be confirmed nearer the time.

Conclusion

24. The draft revised HRA Capital Programme for 2011/12 outlines the Council's intentions in respect of investment in its housing stock. It reflects the known resources likely to be available; takes into account the need to deal with the DHS backlog works by March 2015; takes account of newly arising DHS

works; and spreads work consistently over years in order for contractors to have an even flow of work.

25. The draft revised HRA Capital Programme may well need further revision once the Council has appointed its new maintenance contractor(s) for the capital LOTS currently being tendered; and also in the light of discussions with the Homes and Communities Agency, which are administering the DHS funding.
26. The resources available for the HRA Capital Programme are reasonably healthy in the early years, but it is worth noting that there will be newly arising DHS works each year, as well as normal capital investment. The Council will therefore need to keep the opportunities to maximise capital receipts under review in order to fund the HRA Capital Programme into the medium and longer term.

Recommendation

It is recommended that the Executive recommends to the Council that:

1. the additional £8.46 million of capital resources that have been secured through the Council's bid for Decent Homes Backlog Funding from the Homes and Communities Agency be wholeheartedly welcomed; and
2. the revised HRA Capital Programme for 2011/11 – 2014/15 be approved.

Background Papers

'Decent Homes Backlog Funding for Local Authorities 11-15 – Invitation to Bid' issued by the Homes and Communities Agency December 2010.
Correspondence from the Chief Executive of the HCA dated 17th February 2011

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