

SLOUGH BOROUGH COUNCIL

REPORT TO: Overview & Scrutiny Committee **DATE:** 20th January 2011

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PART I **FOR COMMENT AND CONSIDERATION**

HOUSING CAPITAL PROGRAMME – FUTURE STRATEGY AND DIRECTION.

1 Purpose of Report

This report is a copy of that which is intended to be presented to cabinet on the 24th January 2011 and gives members of Overview and Scrutiny Committee the opportunity to comment prior to consideration by Cabinet.

This report offers members the opportunity to review the priorities within the Housing Capital Investment Programme in light of the closure of the Council's ALMO and the loss of the final tranche of Decent Homes capital funding and to consider any strategic changes in the procurement or delivery of future work programmes.

2. Recommendations

The Committee is requested to note the results of the Housing Capital Programme Option Appraisal process and comment on the recommendations that will be considered by Cabinet on 24th January.

- 2.1 That the future housing capital programme will be planned, procured and funded based upon option six (para 7.5 refers) and
- 2.2 That additional funding requirement of £2.85M to fund the 2011-12 HRA capital programme is met from the Housing Revenue Account (HRA) revenue balances.(para 7.7 refers)

3. Community Strategy Priorities

- **Celebrating Diversity, Enabling inclusion**
- **Adding years to Life and Life to years**
- **Being Safe, Feeling Safe**
- **A Cleaner, Greener place to live, Work and Play**
- **Prosperity for All**

- 3.1 The council's housing capital programme can contribute to each of the strategic priorities as it continues to deliver decent homes for all and when considered together with the estate improvement programme can give tenants a warm, safe and clean home environment in which to prosper.

4. **Other Implications**

(a) **Financial**

The financial implications associated with the proposed changes to the Housing Capital Investment Strategy have been considered by the Housing Asset Strategy Group and the Corporate Management Team. The options appraisal report makes specific reference to the financial impact of each option against the sustainability of the Housing Revenue Account. If members support the approval of option six then the £2.85m funding requirement could be met from either the HRA revenue balances or through additional prudential borrowing.

It is proposed that the Cabinet consider that the capital funding requirement of this option be met from the HRA revenue balances. Through prudent management and savings accrued by returning to in-house service delivery, the HRA is forecasting a £10.5m surplus for 2010/11 and has identified funding of capital schemes as a key growth area to use this surplus. The Government has announced that no supported capital borrowing will be available for the majority of Councils, including Slough for HRA capital schemes. Therefore it is preferable to pursue financing options which reduces the need for unsupported borrowing. The ongoing costs of borrowing both in terms of interest payable and Minimum Revenue Provision (MRP) costs are estimated at £271K per annum and will continue to affect the HRA for the longer term (25 years) as well as having an impact on Prudential Indicators. Whilst the HRA has the capacity to meet these costs from revenue it appears both more prudent and affordable to fund capital investment from the HRA revenue balances.

(b) **Human Rights Act and other Legal Implications**

There are no Legal or Human Rights Act implications.

5. **Background**

- 5.1 The Housing Investment Strategy over the past four years has primarily focused on meeting the requirements of the Government's Decent Homes standard through the delivery of optimum volumes of internal and external packaged improvement work across the Council's housing stock. The priority sequencing of this work was derived from the stock condition survey data based on property investment needs; in addition to this the geographical sequencing was also influenced by local priority considerations around the Indices of deprivation, crime statistics and welfare adaptation priorities.
- 5.2 The Council was able to draw down the Government's additional £45.4m funding allocation to meet the Decent Homes standard after the ALMO was awarded the Audit Commission's 2 star quality standard in October 2007. However by this time the Government had extended their original 2010 deadline for achieving the Decent Homes standard to 2012 and as such altered the council's funding profile over this period.
- 5.3 The impact of this extension to the deadline meant the Council had to deliver a larger programme of work than originally envisaged due to more properties requiring investment work to meet the Decent Homes standard during the 2010 to 2012 period. Had the original funding been available to complete the programme

by the end of 2010 the council would have made further savings against the project management and contractor overhead costs.

- 5.4 The Council has also had to re-prioritise some of its financial resources within the capital programme over and above the assumptions made by FD Savills Ltd (the Council's strategic advisors), in the original business plan, thus creating further demands on the overall funding available to deliver decent homes, for example an annual increase of £500k in aids and adaptation spend during 2006 to 2008 to reduce the Council's large waiting list, Housing IT project upgrade £700k, Digital TV upgrade £800k and Building Regulation changes around gas and electrical works, etc.)
- 5.5 A large scale Official Journal of the European Union (OJEU) procurement exercise was undertaken in 2006 with the award of long-term partnering contracts for 3 successful constructors: Apollo, United House and Ian Williams Ltd. Each constructor has been working across the borough in geographical areas, project managing optimum volumes of internal work packages (i.e. 8 to 10 homes per week) that were derived from the SCS to ensure maximum value for money from the programme.
- 5.6 The optimum sequencing of the work meant that a typical internal package of work could include elements that had already failed the Decent Homes standard (e.g. Kitchen and a bathroom) and other elements that were going to fail during the 5 year programme (e.g. boiler, electrics or windows, etc) or in some cases in subsequent years. Our assessment looked at the age, condition and cost of this additional work required in the near future to determine whether it should be brought forward. Thus optimising the use of resources to do the full volume of work per property at the same time.
- 5.7 The effect of packaging the work in this more holistic way has resulted in greater savings per property as well as enabling a greater volume of investment work to be completed in a shorter period of time. It could also be said that it has helped to minimise the disruption whilst maximising the benefit of the improvement work to tenants due to one package of work rather than several across a number of years.

6. **Impact of the Investment Strategy**

- 6.1. When the Council was requested to consider the Government changes to extending the decent homes deadline to 2012 and the funding profile that made up the £45.4m allocation, Savills carried out an assessment of the additional decent homes work required of the Council against the original business plan to establish the financial impact of this change. This resulted in a £4.95m deficit against the original Business Plan that had to be found through greater procurement efficiencies.

The procurement process and supply chain negotiations have clearly met the desired objectives as at the end of March 2010 The Housing Capital Programme had already delivered 196 kitchens, 375 bathrooms, 395 boilers and 1,057 minor electrical upgrades above and beyond the original business plan assumptions.

- 6.2 When comparing the effect the packaging investment strategy has had on the work required in the stock condition database it clearly demonstrates how it has reduced investment need in terms of catch-up but also in future years. As a result of this from 2012/13 the average funding requirement (for the subsequent 5 years)

to carry out all the elements of decent homes work reduces dramatically to £1.6m per annum. This average spend could be reduced further to £1.05m if only those elements of work that fail decency are undertaken.

- 6.4 Nevertheless statistically the database still shows the immediate pressure to meet decent homes compliance by 2012 remains the real priority. To a large extent the priority of the majority of the work required under the external packaged improvements programme (i.e. Bromycroft, Odencroft, Travic, etc on the Britwell estate and Brammas & Spackmans Way, on the Chalvey estate) relate to essential capital improvement works rather than specifically decent homes work. Some of the benefit of the decency works based on the external packaged approach often impact on funding required in future years rather than immediately.
- 6.5 There are a number of previously approved schemes that need to be re-assessed due to changes in terms of their priority or demand. An example of this is the 'Warden Call alarm system replacement'. This became a priority scheme for the council due to the national BT Network upgrading programme (CN21) that was due for completion this year effectively rendering our systems inoperative as there would not be compatible with the new network. BT subsequently announced this summer that the project had been abandoned until future years. Therefore any major investment to the Warden call system has now been deferred until the council has completed the wider review of the 'Supported Housing service that will determine the requirements of the future system.
- 6.6 Similar to this there are other capital investment projects within the 2010/11 capital programme that do not directly impact on decent homes compliance and as such should be considered for deferral into future programme years so that a greater reduction in the number of properties that still remain non-decent can be realised. Through the deferral of these projects a further £1.2m of funding within the current 2010/11 years allocation could be re-prioritised to target homes that fail the decency standard. (See appendix 2 for the full list of schemes recommended for deferral)
- 6.7 There is £1.85m of external 'wall finishes' and 'roof covering' decent homes work identified within the stock condition survey that requires completion by 2012. A programme of re-surveys has commenced and early indication supports the belief that the outcome of these verification surveys will confirm that the majority of these properties are not currently failing the DH standard and their condition is such that any investment work can be appropriately deferred over the next 3 to 5+ years.

7.0 Options appraisal of possible future investment strategies.

- 7.1 In preparing this report officers have considered six potential options for future investment strategies and these are as follows

OPTION 1 - Deliver all the previously approved Capital Investment Programme for 2010 to 2012 based on the originally approved strategy. Continue to deliver the programme to meet the Slough DH standard as per the Strategic Framework Contract, combining all elements of investment work into internal and external packages to obtain optimum price per property. Eg package including kitchen, bathroom, heating replacement, electrical upgrades and external door, etc.

OPTION 2 - Continue to deliver packaged improvement as referenced in Option 1 but defer non-decent homes related work programmes into future years. i.e. Estate improvement schemes, Non-decent homes investment works, Re-survey some of the properties within the stock condition survey that have been identified as requiring external work to establish 'just in time' replacement dates.

OPTION 3 - To include all the work identified under Option 1 but on an elemental basis. Rather than packaging all the internal work together, deliver a programme that specifically focuses on the replacement of those individual elements of work that mean the property fails the decent homes standard. The External Works projects would still be packaged together to achieve greater life cycle efficiencies, minimise access equipments/scaffolding costs and obtain improved product warranties, etc.

OPTION 4 - As Option 3 but also defer the non-decent homes work identified in Option 2.

OPTION 5 - As per Option 4 but also extend the deadline for achieving the decent homes standard until the end of 2012 rather than as previously reported to the HCA as the end of 2011.

OPTION 6 - This option follows the same principle as option 5. In that it will deliver the decent homes standard on an elemental basis by the end of 2012. But it also includes £500k funding in the 2011/12 programme to commence the delivery of the councils 'Estate Improvement Programme'

7.2 In reviewing each option in turn, officers and the Council's Corporate Management Team had to considering each in the light of the over-riding question, 'What are the Council's key priorities going forward with regard to the delivery of the Housing Capital Investment Programme'?

- a. To deliver a programme that meets the customer priorities?
- b. To ensure that the Council's housing stock is adequately maintained to meet the Government's Decent Homes standard by 2012?
- c. To continue to deliver more holistic packages of internal work per property, over and above the Government standard?
- d. To ensure the council delivers a 'Decent Communities' programme as well as 'Decent Homes'.
- e. To ensure the Councils Housing Revenue Account remains sustainable in the medium to long term.

7.3 It is also important to note that, the existing Decent Homes Framework contracts will be time expired at the end of 2010/11. Therefore the decision making process around 'Internal packaged' versus 'Elemental' work programmes within the option appraisals will have a substantial impact on the future procurement strategy for this work.

7.2 The Council's commitment to its tenants as part of the return to in-house service provision was the continued delivery of the Decent Homes programme against the current timetable. This, in part, was a response to the fact that tenant representative groups were influential in the original procurement exercise which covered:

- The 'packaging' approach.
- An agreement on the Slough Decent Homes Standard.
- An element of product choice.
- Agreed Customer Service standards.

Tenants priorities still remain the delivery of internal decent homes work i.e. kitchens and bathrooms but with the installation of external 'secure by design' doors featuring more prominently than at the start of the programme. Tenants need to be consulted on any proposed changes to the strategy so that proposals can be considered and agreed by tenants as part of the Council's 'Local Offer' under the Tenant Services Authorities (TSA) 'Home Standard'. This process is already underway and there were a number of very positive comments from tenants about the possible move to an elemental investment programme approach in the future that came out of the council's 'local conversation' workshops that the housing service ran in last quarter of 2010.

- 7.3 Whilst there is an immediate financial pressure to deliver Decent Homes compliance by the Governments 2012 deadline, once the Council has achieved this, the level of financial resources required to maintain this standard across the borough over the following 5 years is affordable within the Government's current housing subsidy allowance. What also remains affordable is the Council's ability to deliver a number of substantial external and estate improvement work programmes, e.g.:

Roof coverings.	£3.75m
Wall finishes.	£2.25m
Gutters and rain water goods.	£2.3m
Estate improvement schemes.	£3.0m

- 7.4 Although six options were proposed and the levels of expenditure/funding required calculated accordingly, there was an obvious assumption that with reduce public expenditure forecast for future years, it would not be prudent to increase levels of borrowing as a means to fund the programme. Accordingly if the options were considered to be based upon additional funding from HRA balances then only option four onward remained viable, the first three options resulting in the HRA falling into deficit at varying points within the next eight years.

- 7.5 Based upon the above there is a strong recommendation to members from both the Housing Asset Strategy Group and the Council's Corporate Management Team (CMT) in support of option 6 as the preferred way forward based on the following reasons:

- a. Due to the uncertainty of the current economic climate and the substantial financial efficiencies the council needs to realise over the next four years, this option minimises the level of additional funding required to support the delivery of the housing capital programme. It also provides the council with sufficient time and opportunity to assess the impact of the proposed Government changes to the Housing Subsidy allowance if the new self-financing legislation comes into force as expected in April 2012.
- b. The option provides a clear procurement strategy for officers to maximise the benefits of the highly competitive construction market through the commissioning of short term contracts. (i.e.1 to 2 year max duration)
- c. It delivers the priorities of work within the programme that tenants hold as the most important. E.g. kitchen, bathroom and entrance door replacement.

- d. Ensures the condition of the Council's housing stock meets the Government's decent homes standard by the end of 2012.
 - e. Relies on additional funding of only £2.85M from HRA balances ensuring that the Council's Housing Revenue Account (HRA) remains sustainable in the medium to long term.
 - f. It supports the Council's wider strategic objectives as it delivers the equivalent of a 'Decent Communities' and 'Decent homes' programme in parallel through the commencement of a dedicated 'Estate Improvement' programme.
- 7.6 A revised five year housing capital programme has been produced to demonstrate the likely outcome of the proposed strategic changes associated with option six. (see appendix 1 attached) The programme estimates a projected final outturn of £7.95m for the 2010/11 year against the £10.9m budget. This is based on the re-prioritisation of schemes, deferral of non decent homes work and the timescales associated with the procurement of new contract as detailed in the enclosed report. It also reflects the current contract dispute claim with Ian Williams Ltd that has impacted on the continuation of the internal works scheme originally scheduled for delivery from April 2010. The original budget allocation of £1.3m has been set aside to mitigate any further financial risk until the negotiations are concluded.
- 7.7 The programme sets out the required funding to deliver a scheme of internal elemental improvements to meet decent homes compliance plus other essential capital investment works in line with the 30 year housing investment plan. An indication of the financial resources required to support the programme has been included to demonstrate whilst £2.85m of additional funding is required in the 2011/12 year, subsequent years remain affordable to meet the investment demand. If members approve this recommendation, the transfer from HRA balances will be reflected in the HRA budget report for 2011-12 due to be considered at the February meeting.

8.0 Conclusion

- 8.1 When the Council approved the proposal to end the contract with People 1st (Slough) Ltd and return to in-house service provision it did so in the knowledge that this would reduce the available funding to complete the decent homes investment work in line with the Government's 2012 deadline. Despite this a commitment was given to all tenants that the programme would continue to be delivered as originally planned. This report is final confirmation that through the short term use of available HRA balances this commitment to tenants can be achieved. In future years the Government's proposals on self financing could drastically alter how a Council plans the investment and maintenance of its stock and as details of these proposals emerge members will of course be fully appraised of their implications.

Appendices

Appendix 1: Housing capital programme 2010/11

Appendix 2: Housing capital programme 2010/11 to 2016/17