

## **SLOUGH BOROUGH COUNCIL**

**REPORT TO:** Neighbourhood & Communities Scrutiny Panel

**DATE:** 16th January 2018

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**WARD(S):** All

### **PART I** **FOR COMMENT & CONSIDERATION**

#### **FIVE YEAR PLAN – PRIORITY 5 MAKE BEST USE OF EXISTING PUBLIC SECTOR HOUSING STOCK**

1. **Purpose of Report**

To update the Panel on action undertaken in respect of Outcome 4: Priority 5 – Our residents will have access to good quality homes: Make best use of existing public sector housing stock.

2. **Recommendation(s)/Proposed Action**

- The Panel is requested to note this report

3. **The Slough Joint Wellbeing Strategy, the JSNA and the Five Year Plan**

3a. **Slough Joint Wellbeing Strategy Priorities**

In making the best use of its existing housing stock, the council will ensure that investment decisions will be made at the right time and for the right reasons. In doing so this deliver against the priority for Housing.

3b. **Five Year Plan Outcomes**

Making the best use of its existing housing stock is one of the priorities for:

- Our residents will have access to good quality homes.

4. **Other Implications**

(a) **Financial**

The recent stock condition survey has indicated the need to invest £420m over the next 30 years in maintaining the existing HRA housing stock. Every year, the HRA's scope to fund the day to day and major repairs and maintenance of its stock is updated for changes to the rental income, stock changes, inflation, service demands, policy changes and the impact of Government changes. The 30 year HRA Financial Business Plan is being updated but there are currently no

indications that the HRA cannot continue to meet its day to day and major maintenance obligations and the funding of the £420m required to achieve that over the next 30 years.

(b) Risk Management

Recommendation	Risk/Threat/Opportunity	Mitigation(s)
The Panel is requested to note this report	There are none	There are none

(c) Human Rights Act and Other Legal Implications

There are no legal or Human Rights Act implications for this report

(d) Equalities Impact Assessment

There is no need for an equalities impact assessment in relation to this report.

5. **Supporting Information**

**Summary**

- 5.1 In conjunction with the re-procurement of the Repairs, Maintenance & Investment ('RMI') Contract, the Service Lead – Neighbourhoods commissioned a Stock Condition Survey. This was undertaken by specialist surveyors Michael Dyson Associates and was completed in February 2017.
- 5.2 Subsequently and as part of the Housing Options Appraisal, an Investment Plan and Asset Performance Evaluation of the housing stock has also been undertaken.
- 5.3 The results of the survey have been analysed by Savills, who have been engaged by the Council to develop the first two years of the Capital Investment Programme of the RMI contract.
- 5.4 The information now available to the Council about its housing stock will enable evidence based decision making in respect of strategic options for:
- Re-modelling of individual assets / sites;
  - The extent of capital investment to make, when and where;
  - Undertaking option and / or development appraisals;
  - Disposals; and,
  - Building new homes for both temporary accommodation and permanent housing.
- 5.5 This report sets out the steps taken since the Stock Condition Survey was completed leading to preparation of the Council's Asset Management Strategy.

**The Stock Condition Survey**

- 5.6 The survey results have set out the level of investment required to maintain the housing stock to a decent standard over the next 30 years. Circa 80% of the stock had an internal survey completed and all properties were surveyed externally that provides a reliable data set.
- 5.7 Savills were subsequently asked to review the stock condition survey results and to assist in converting them into detailed programmes of refurbishment work for the first 2 to 3 years of the RMI Contract; then to carry out some investment planning and asset performance evaluation that together will inform a new asset management strategy.
- 5.8 As reported previously, the survey showed the Council will need to invest circa £420m into maintaining the stock over the next 30 years, equivalent to circa £68k per unit. Savills' view is that is typical of stock in reasonably good condition.
- 5.9 In the context of the new 10 year RMI Contract, the £420m investment over 30 years divided equally into 3, 10 year tranches comes in at £140m. The current RMI budget is £100m over the first 7 years that means the investment required is affordable but it is clear there is little room for manoeuvre.
- 5.10 That means the capital programme will need to be carefully managed to contain spend within available budgets. Nothing new for the Council in that regard but it is evident the RMI budget is tight and will be unable to fund anything other than maintaining the stock to its current standard.

### **The Investment Plan**

- 5.11 The underlying data from the stock condition survey was broken down into the investment needed into two, five year tranches over the next ten years against priorities for technical need, R&M spend, asset performance and available budgets. The aims of the Investment Plan are to ensure spend is made to the right stock, at the right time and it remains affordable.
- 5.12 The investment plans have prioritised the spend required and clustered works by internal and external component so logical programmes of work can be formed and matched to available budgets. The works by component have been plotted onto maps using Ordnance Survey tiles that illustrates the spread of work across the Borough by year over the first 5 years of the RMI Programme. The mapping tool also serves as a useful aid to resident consultation.
- 5.13 The investment plans will be discussed with Osborne Property Services Ltd (the RMI 'Service Partner') so they can prepare detailed programmes of work for the first years of the Contract starting from April. The programmes will include details of the quantum and scope of work that can then be validated by the Service Partner during the pre-commencement stage. Once the scope is firmed up, pricing can be confirmed and s.20 Notices issued to leaseholders with price certainty.

### **Asset Performance Evaluation**

- 5.14 The next piece of work was a detailed analysis of the performance of the stock to provide a tool for managers to use in prioritising investment decisions as part of the investment plan and overall asset management strategy.

5.15 Asset Performance Evaluation includes:

- Utilisation of a modelling tool to generate cash flows and to measure worth to the housing business plan;
- Provision of an objective baseline on which to make investment decisions;
- An approach to the measurement of the long term performance of all HRA assets;
- Help to optimise planning for replacement or modernisation of assets;
- Generating a 'candidate list' for option appraisal;
- Providing a key component of business planning.

5.16 The benefits of this approach are that it enables the Council to:

- Strengthen its business plan and manage risks associated with required rent reductions;
- Make more efficient use of capital resources available;
- Consider long-term planning for obsolescence;
- Understand issues of future demand and where the greatest risks and opportunities exist to manage this;
- Obtain a balance between new build, remodelling & stock investment;
- Test alternative strategies;
- Enable balanced investment decisions and support difficult decision making;
- Demonstrate active asset management to meet the Council's value for money objectives; and,
- Communicate reasons for investment decisions to members, staff and residents.

***Phase 1: Financial sustainability***

5.17 In order to give an objective overview of the performance of the Council's housing portfolio, the model was built using existing data drawn from the housing management system, supplemented with work from the Investment Plan as outlined above.

5.18 Significantly, the model was built up from an individual property level. This enables an analysis of Net Present Values and cashflows in any combination. The model is based on a series of recognisable asset groups the Council can use to analyse groups of stock with similar characteristics.

5.19 The data was then incorporated into a model setting out operating cashflows at individual property and asset group level and assessment of Net Present Value and future projections of worth to the Council's business plan.

5.20 The model can now be used to reflect a range of different scenarios in terms of investment, rent, tenure, management and void levels etc. Inputs can be flexed over time as the Asset Management Strategy develops.

- 5.21 The model gives the Council objective financial data to identify poorly performing assets that would be the target of more detailed local options appraisal. For example, those properties with a low NPV may not be programmed until later to allow time for an options appraisal to be carried out.

### ***Phase 2: Non financial sustainability***

- 5.22 The next step was to incorporate a non-financial measure of sustainability – or Social Return on Investment. Financial results were correlated with non-financial data to enable an analysis of other factors relevant to decision making, linked to the Council's own social housing objectives.
- 5.23 Those measures were sourced from a variety of open/public reports on deprivation indices, stock churn, void rates, tenancy acceptances, crime rates, and the like.
- 5.24 The Net Present Values produced through the asset model were then correlated with the non-financial sustainability factors in order to 'traffic light' each asset group. There will be different strategies for business improvement depending on whether an asset group exhibits weak values, weak sustainability or both.
- 5.25 All reports have been mapped on GIS to illustrate the distribution of results at neighbourhood level, and to make sure the outputs can easily be extracted from the model and loaded into the Council's current GIS systems for future reporting.

### ***Phase 3 - Appraisal of poorly performing assets***

- 5.26 The APE analysis identified a total of 331 assets with marginal financial performance, which decline in value in the short term even after assumptions are adjusted to control costs in line with income. These assets require further appraisal that is currently underway.
- 5.27 A workshop with key staff has been held recently that agreed the number and scope of appraisals required both in terms of the properties to be included, and the range of options that might be feasible on each site.
- 5.28 Following the workshop, Savills are preparing a programme to complete the appraisals, a framework for how they will be carried out and the outputs required to support decisions on these properties.

### **HRA Management Strategy**

- 5.29 The Council now needs to establish a HRA Asset Management Strategy (HRA AMS) linked to the objectives that it wants to achieve and rooted in a sound understanding of its housing assets and the market in which it operates (both in terms of value and demand).
- 5.30 Savills were appointed in December and have made a start on the strategy that will include:
- Introduction, background and strategic context
  - Asset management objectives

- Demand and sustainability – including residents’ priorities
- Stock profile and condition, including standards, compliance and energy performance
- Approach to active asset management – asset performance, tools for assessment and how understanding of this is used to support investment and value improvement; plus alternative strategies including disposals, demolition, regeneration and development and the outcomes from the appraisal process.
- Approach to investment planning – including principles for how plans are put together and priorities agreed at neighbourhood level as well as business plan affordability
- Proposals for internal controls and ongoing review and monitoring.

5.31 Initial scoping meetings have been held with a small project group to understand the Council’s strategic priorities, the challenges it faces, the appetite for active asset management, future objectives, the needs and aspirations of current and future residents, including the needs of the most vulnerable, and the current approach to repairs and investment planning. The last of those workshops will complete in February that will give Savills the objectives and structure for the strategy.

5.32 The aim is to develop the strategy in a collaborative way ensuring it is not an off the shelf document, but a true reflection of Slough’s ambitions for the future, and a robust framework to support delivery. The results of the options appraisals will be brought to those meetings so an overarching strategy can be developed for the whole stock.

5.33 An outline strategy document will be in place by the end of February with a fully worked up HRA AMS using the results of the option appraisals ready over the next 6 to 9 months.

5.34 The document will be a strategic one and Savills do not envisage any statutory consultation requirements at this stage. However, the action plan may well include projects for which statutory consultation and or formal consents might be required that may require the support of the Council’s legal team where this might be necessary.

### **Additional Investment**

5.35 The analysis, options appraisals and the HRA Asset Management Strategy will provide the Council with a raft of reliable information and modelling on which to make decisions on where and when to invest.

5.36 Whilst the HRA AMS focusses on investing wisely to maintain the stock to a decent standard over the next 30 years, the Council has aspirations to build more homes and re-model the existing stock to increase capacity. Funding for that activity will come from a variety of alternative sources outside the HRA and RMI budgets including use of retained 141 Right to Buy receipts, possible Public Works loans or other forms of institutional investment.

5.37 Proposals currently in development are to provide modular housing for Temporary Accommodation on existing dis-used garage sites. Subject to

approval and planning, the first pilot schemes could get underway from May. The works include opportunities for local investment and employment through establishing a factory in Slough to construct the timber frames and roof trusses off site. Site preparation and construction is likely to be carried out by the RMI Service Partner

- 5.38 Once the proposals, costings and funding streams have been established and agreed in principle by Officers, Cabinet approval will be sought to proceed and this Committee briefed on progress.
- 5.39 In addition, there is expected to be capacity to build additional stories of housing onto existing low rise blocks. Known as 'top-hatting', the practice is becoming increasingly popular with social landlords but does require careful consideration, not only in respect of structural surveys to assess the technical requirements, but in resident consultation and the impact any additional housing may have on the existing infrastructure and community.
- 5.40 These are all considerations the Service Lead for Neighbourhoods is looking to develop over the short to medium term and will be discussed further with this Committee.

## 6. **Comments of Other Committees**

This report has not been considered by other committees at Slough Borough Council.

## 7. **Conclusion**

This report provides Panel with an update on actions in relation to Outcome 4: Priority 5 of the 5 Year Pan. From the information provided through the Stock Condition Survey, Asset Performance Evaluation, and the development of the HRA Asset Management Strategy the council will be able to make the best use of existing public sector housing stock. This will result in improved void turnaround times and increased under occupation moves.

## 8. **Background Papers**

None