Hinckley & Bosworth
Borough Council
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HINCKLEY AND BOSWORTH BOROUGH COUNCIL

HRA INVESTMENT PLAN 2013 -2018

July 2013

Hinckley and Bosworth Borough Council

HRA Investment Plan

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1. Introduction and strategic context

The 2012/13 financial year was a time of great change for council housing in Hinckley and Bosworth. The move to self-financing of the housing revenue account and the freedom and flexibilities it brings created an environment where additional investment was possible.

The Council Housing Investment Strategy and Business Plan were adopted by the council last year. The key aims for the council housing service were as set out below.

- Continue to invest in existing stock to main good quality homes.
- Invest in new build schemes/acquire affordable housing to increase the amount of affordable housing available to meet needs.
- Environmental improvements to estates to ensure they are clean and safe.
- Invest in service delivery.
- Develop and maintain effective engagement with tenants.

It was agreed to refresh the business plan annually to inform the medium term financial plan and to incorporate changes to the external operating environment and reflect opportunities that arise. During the past year the council, like many others, has taken the time to reflect on the changes and gain a much clearer understanding of the priorities of key stakeholders - tenants and members - along with financial needs of the current stock. The Council has

- validated the stock condition information through a comprehensive 20% stock condition survey to ensure that any investment decisions can be made securely in the knowledge that the current stock can be well maintained;
- completed viability studies of sheltered schemes to ensure they are fit for the future;
- consulted with current and future tenants on their priorities for the investment in the housing stock and for new affordable housing;
- commenced service reviews to identify whether pressures on delivery are appropriately resourced.

Building on this work, a review of the housing business plan has been undertaken and a revised financial model produced that reflects these views and also takes account of changes to the operating environment. While there are some significant opportunities for investment, there are also risks to income and service requirements from the introduction of welfare reforms. In addition, the re-invigoration of the right to buy policy also introduces uncertainty into the planning framework. Both of these changes need to be reflected in future plans.

This Housing Investment Plan sets out the new baseline financial model and highlights the short and medium term investment opportunities for council housing in Hinckley and Bosworth.

2. What are the options for Investment?

All local authorities are now looking at how they can use the self-financing regime to invest further in their housing business. There a number of possible areas for further investment authorities are looking to pursue.

Table 1: Potential areas for investment

Area	Detail
Stock investment	• Ensuring that all stock meets the decent homes standards • Going beyond decent homes to reach a more comprehensive local standard
Service Improvement	• Additional investment in specific services, particularly around the need to support tenants through welfare reform and supporting vulnerable tenants. • Investment in services where funding has been reduced to maintain service levels particularly around Supporting People
Regeneration	• To address specific issues around estates or types of property for example those with non-traditional methods of construction • To look at redevelopment to design out crime on specific estates or to increase the level of housing available through increasing densities
'Green' issues	• Improving the energy efficiency of the housing stock through specific 'green' measures. This is often done in tandem with specific funding streams such as the Energy Company Obligation (ECO) funding
New Build/Acquisition	• There are a number of possible routes to adding to the level of affordable (either social or affordable rent) properties o New build HRA properties on HRA land o New build HRA properties on GF land or land purchased on the open market o New build properties via a joint venture or special purpose vehicle in partnership with developers or registered providers o Acquisition of properties previously sold through right to buy or in areas where affordable housing is needed o Acquisition of section 106 properties on privately developed sites

The priorities for each authority depend on their individual circumstances. For some, all additional money goes to meet decent homes, while for others regeneration of hard to maintain or hard to let stock will be a priority. However, these options are not mutually exclusive with most authorities pursuing a mix of options in order to meet a number of priorities.

Officers have worked with stakeholders over the past year to allow a set of priorities to emerge for further consideration.

3. What investment is needed in Hinckley and Bosworth?

Stock condition

Prior to a medium term investment strategy being put in place, it was essential to fully understand the investment needs of the current stock. A review of the stock condition data held by the council has now been completed and it sets out how much needs to be invested over the next 30 years in order to maintain homes to a ‘decent’ standard. This was completed in December and showed the following investment need.

Table 2 – capital investment required over 30 years at 2013/14 prices

Expenditure Type	Amount (£m)
Future Major Works (e.g. kitchens, bathrooms etc.)	88,616
Cyclical works	1,668
Aids and Adaptations	8,670
Contingencies*	13,495
Total	**112,449**

- A 10-15% contingency was determined “best practice” for inclusion by Savills in order to ensure that appropriate financing is available for any over runs/additional costs. Any savings in this area will be transferred to the regeneration reserve

This equates to £33k per unit over the next 30 years or £1,100 per property per year and will be built into the base financial model.

Tenant priorities

Existing tenants, along with potential future tenants, were consulted over the period January and February 2013. All tenants were sent a questionnaire with the opportunity to complete an on-line survey. In addition, 250 people on the current council housing register were also sent the survey via e-mail. Drop-in sessions were also held to consult with tenants of sheltered schemes. From this, 947 (28%) of tenants submitted a response, as did 43 people from the housing register.

The results of the tenant consultation showed that, in priority order, tenants would like to see

1. Investment in existing council houses to maintain good quality (46%)
2. Investment in environmental improvements to estates to ensure they are clean and safe (27%)
3. Investment in providing more council housing in the Borough (27%)

Figures 1- 3 show the results in terms of specific priorities for the existing stock, environmental improvements and new housing.

Figure1: Priority areas for current stock

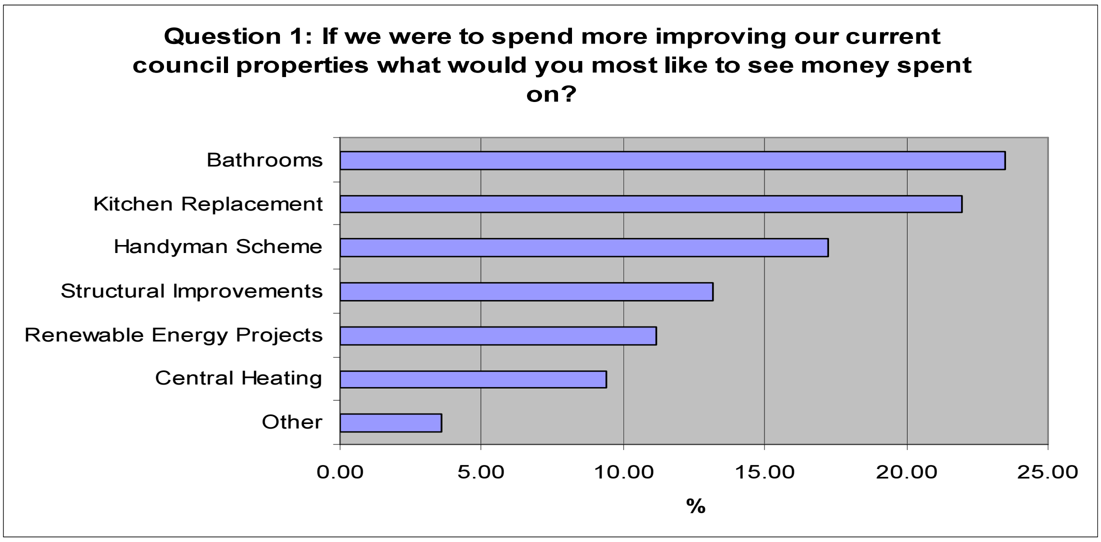


Figure2: Priority areas for environmental improvements

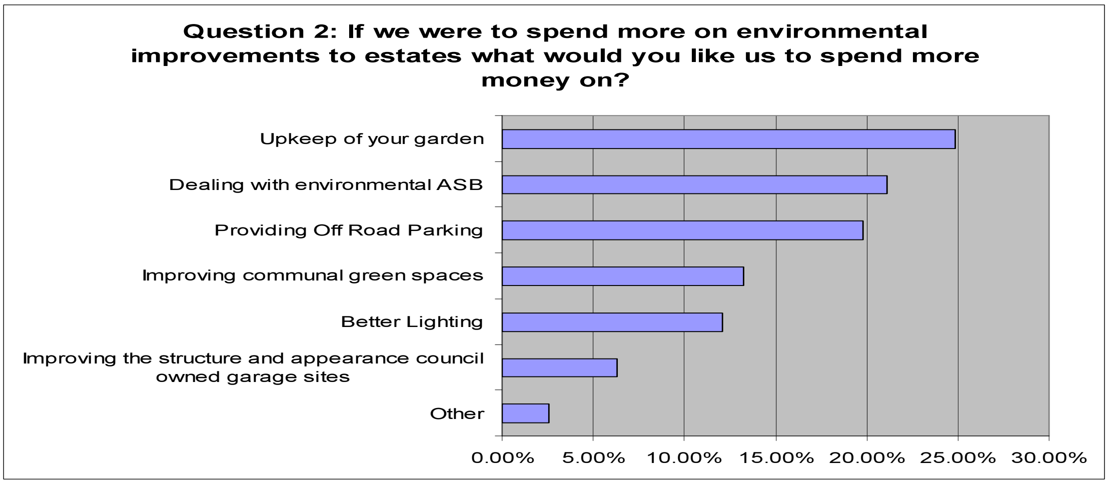
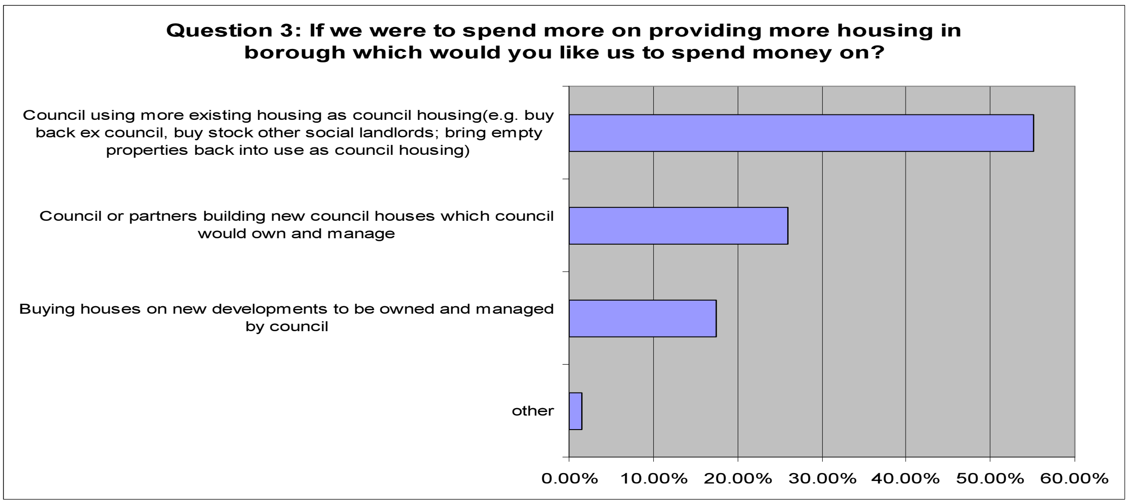


Figure 3: Priority areas for new housing



In the drop-ins that took place at the sheltered schemes a number of common issues were raised across the schemes by a number of people. Sheltered Scheme Tenants wanted to see a different approach to kitchen fitting. A number of people commented that voids get a new kitchen fitted, whilst in some cases kitchens in a much worse condition were not being replaced for tenants who had been there a long time. A number of tenants across different schemes also raised issues with accessibility in the kitchen and that they had cupboards that they could not reach (too high) or get to (in corners). A common concern raised across all the schemes was that they had baths and not showers and due to mobility this was an issue for them. They questioned why baths were fitted and not showers which were easier to use for people with long term health issues or disability. A number of the schemes also raised central heating as a concern due to regular reports of repairs and breakdowns due to old systems.

For those on the housing register, the top priority was, unsurprisingly, investment in providing more council housing in the Borough.

<u>Housing Needs data</u>

A review of Choice Based Lettings data shows that in June 2013 there are 2,102 on the housing waiting list. There are broken down as follows:

1 bedroomed properties	1,184
2 bedroomed properties	677
3 bedroomed properties	199
4 or more bedrooms	42
Total	**2,102**

Of these, there are 482 applicants over 60, 288 of whom are applicants for sheltered and/or supported housing. Therefore, when negotiating with developers around new housing, the council is requesting two bed four person houses and one bedroom flats. There is a greater degree of churn in single person accommodation so the greater focus has been on two bed properties. The Council has also recently been successful in negotiating for two bed bungalows, so we are starting to get a new supply to appeal to 'downsizers'.

4. What is the capacity for investment?

The baseline financial model has been updated to reflect the first year of self-financing, updated stock data, changes to right to buy and changes to the rental increase formula. Based on the updated model, the Council is in a strong financial position.

Figure 4: Capital expenditure funded in all years

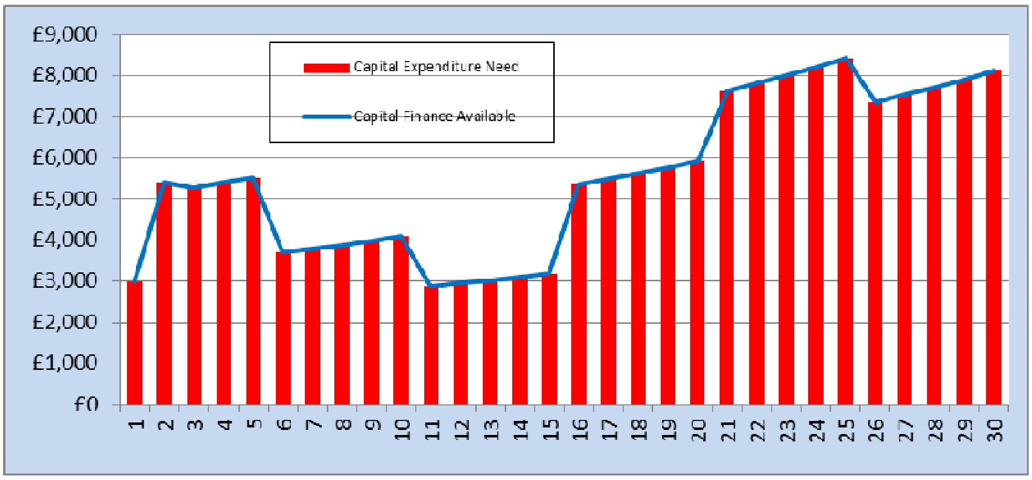
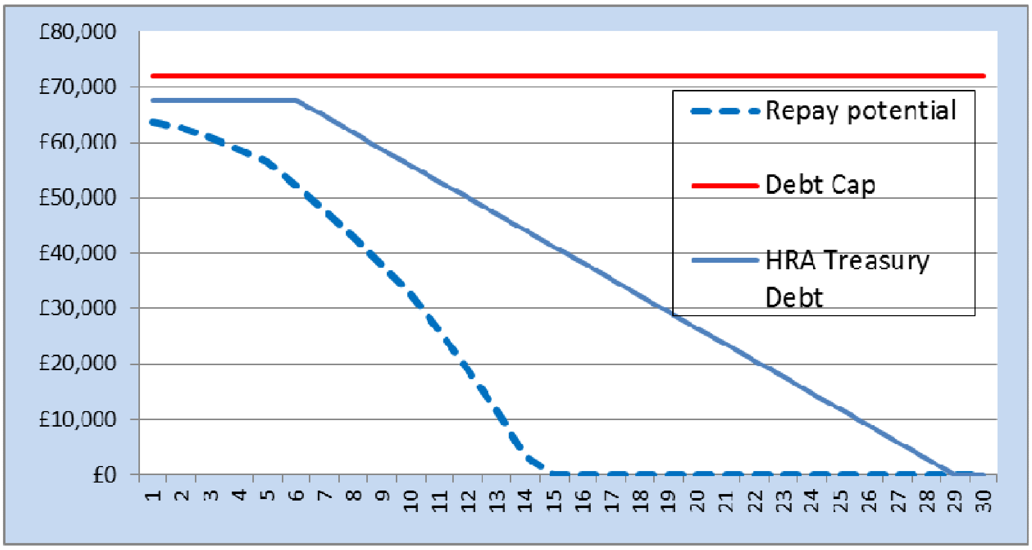
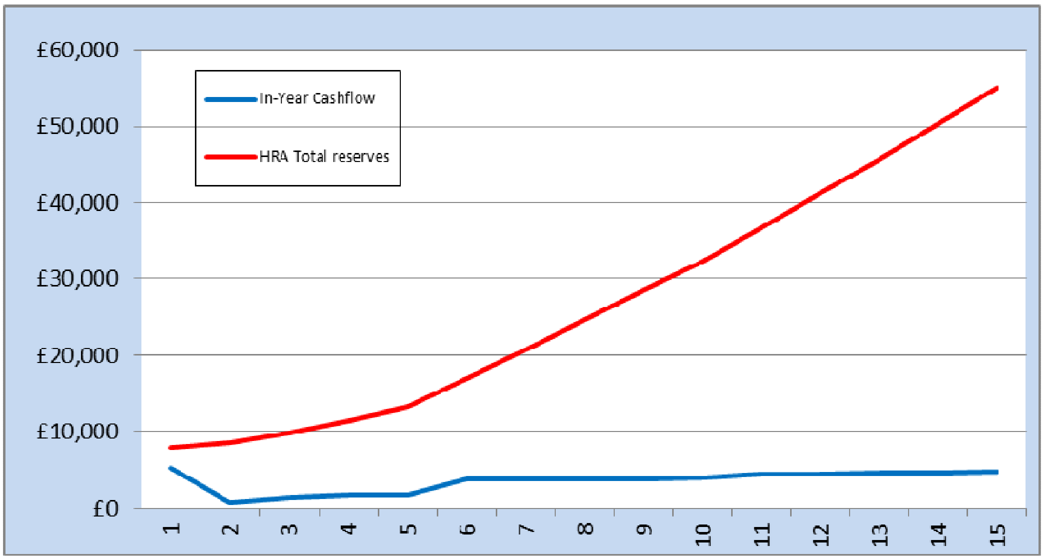


Figure 5: Potential to cover down debt in 15 years



igure 6: Reserves grow quickly



The business generates significant resources in the short to medium term in additional to current levels of reserves. In order to assess how much investment capacity there is within the plan, the maximum amount of additional investment the plan can sustain has been calculated. Table 2 shows the maximum investment, while still maintaining a minimum revenue balance of £850,000.

Table 3 – Maximum investment (£000s)

	2014	2015	2016	2017	2018	Total
Maximum investment	8,549	1,099	1,390	1,362	3,089	15,489
Funded by:						
Borrowing	1,697					1,697
Reserves/revenue	6,852	1,099	1,390	1,362	3,089	13,792
Total	8,549	1,099	1,390	1,362	3,089	15,489

However, such an investment programme would be inefficient due to large year on year fluctuations and also leave the plan susceptible to adverse movements in revenue or increased expenditure. To illustrate this, if the amount set aside for bad debts increased from the current 1% to 2.5%, this would reduce the amount of income for investment to £14,504k. Further increasing the bad debt provision to 5% reduces the investment potential to £12,862k and a bad debt provision of 10% reduces the potential to £9,577k. However, even under this scenario, the business still generates sufficient funds for additional investment.

In addition to the risks from welfare reform there is also uncertainty from the reinvigoration of right to buy. However, there is some protection offered in terms of the retention of a proportion of any capital receipts to cover down debt associated with sold properties plus the opportunity to re-invest a proportion of the receipts in new affordable housing should receipts go above a certain level. At this stage no additional investment from RTB receipts has been included.

There is further uncertainty regarding the funding currently provided under the Supporting People Programme. A project is now underway to look at how the programme will be funded in future.

Finally, the Government has recently announced changes to the formula used to calculate rent increase for social rents. The current guidance increases rents by RPI plus 0.5% following the completion of rent convergence. However, from 2015/16 this will change to CPI plus 1%. CPI is predicted to be around 1.5% lower than RPI over the long run but, like all inflation measures, is subject to fluctuation. The financial model has been updated to reflect rents rising 1% lower than previously from 2015/16. However, the precise mechanism for achieving this is due to be consulted on by Government and this may lead to a revision in the base assumptions.

On a positive note, there are additional resources in the form of a commuted sum taken on the Barwell SUE development. This is a considerable resource (circa £12million) but the timings of the cash flows are not yet known. As and when they are, these can be added to the new affordable housing resources contained within this plan.

The Housing Investment Plan seeks to balance the level of investment with the level of risk and needs to ensure there is sufficient 'resilience' built into the plan to mitigate against the financial risks.

In additional to financial capacity, there are other resources required to fulfil the ambitions of the investment plan. In particular, with regard to new affordable housing, capacity also relates to land.

The HRA has few developable sites with limited capacity within the council generally. While there are market sites, these can be expensive to develop and would quickly eat into any investment headroom. Work on the Strategic Housing Land Availability Assessment has identified some sites but these, along with any sites that become available on the open market, will need to be further appraised.

5. Outline programme of investment

As set out in section 4, while there is substantial investment headroom, there are also risks to the plan, in particular from welfare reform. In order to allow for this, a headline programme, in financial terms, has been put together that balances investment need with sound financial planning. The current 2013/14 investment programme is for £2,995k as set out in table 4

Table 4 – 2013/14 Housing capital investment programme

Description	**Budget 2013/14**	**Quantities 2013/14**
Boiler	338,164	189
Electrical Installation	320,000	382
Kitchen	560,887	152
Roofs	63,000	9
voids	780,000	250
Programmed enhancement	320,000	1,359
Windows	20,000	25
Low Maintenance doors	32,000	55
Tenant led projects	20,000	
Adaptations	288,000	39
Exceptional extensive/contingencies	252,972	
Total	**2,995,023**	

The overall financial envelope is for investment from 2014/15 is shown in table 5.

Table 5 – Proposed programme of investment (£000s) at 2013/14 prices

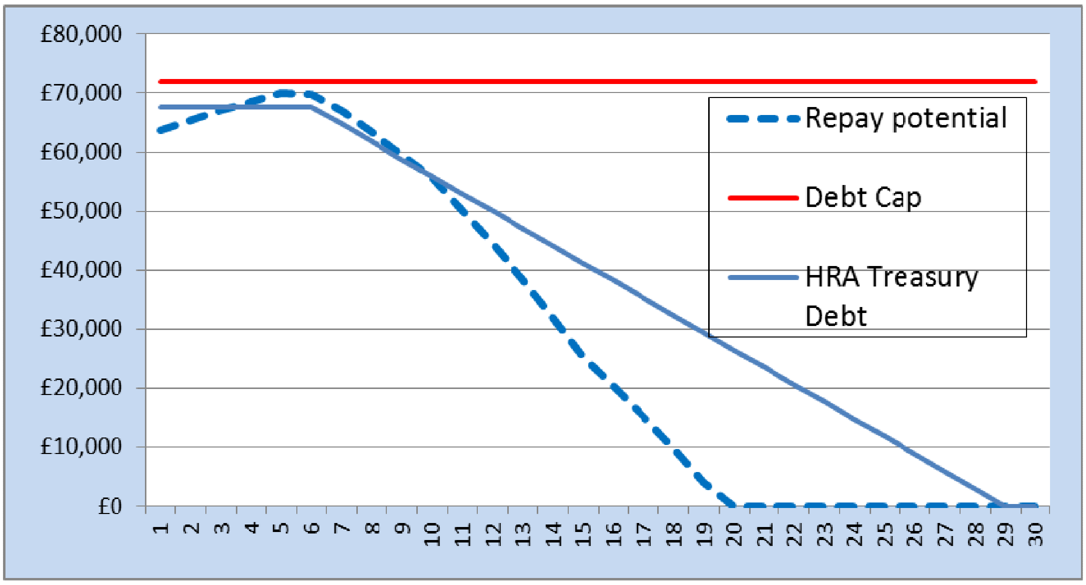
Programme	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Service	100	100	100	100	100	500

investment (ongoing)						
Stock enhancements	60	596	146	806	371	1,979
New Build/Acquisition	2,500	2,500	2,500	2,000	2,500	12,000
Total	**2,660**	**3,196**	**2,746**	**2,906**	**2,971**	**14,479**
Peak Borrowing[1]	70,197	70,197	70,197	70,197	70,889	70,889
Useable Reserves	5,227	3,136	1,778	850	850	

However, this investment level is not set in stone. It sets a broad framework for investment over the next 3-5 years and is dependent on the detailed timing of specific projects so may be subject to some fluctuation. In particular where land opportunities arise, these may be time limited and require some movement between years.

Figure 6 shows the impact the above programme has on the potential to cover down debt.

Figure 6: Repayment potential with additional investment



As can be seen from the chart, it is still possible to cover the debt in 20 years even with the additional investment. At this point, it is the debt cap that is the constraining feature of the business plan with additional investment over and above this possible if the cap wasn't in place.

[1] The maximum amount of borrowing allowed for Hinckley and Bosworth is £71,815k. This is commonly referred to as the debt cap.

Table 6 sets out the key priorities, actions and investments that will be made by the Council over the next five years. There is still further detailed work to be done in order to deliver these priorities and progress against these targets will be monitored.

A number of Affordable Housing Delivery Options have been considered by the council. The council remains open to all opportunities for delivery, but are particularly focused on:

- Developing through a partner developer, with the properties being owned and managed by the Council.
- Acquisition of units on 106 sites.
- Increasing supply of affordable housing through the Private Sector Leasing schemes (these properties would not be owned by the council).
- Buy back of existing housing stock, in particular former Right to Buy properties.
- Exploration and development of rural exception sites

Along with the HRA reserve, additional funding is available for this priority through the Barwell SUE commuted sums and retained Right To Buy receipts.

Immediate priority will be given to packaging HRA land holding, including Martinshaw Lane, Groby, drawing up a specification including design type and standards and procuring a development partner. The council will also draw up a strategic plan of S106 sites where the council will consider negotiating alongside Registered Provider's for the affordable units, taking into account housing need and affordable housing supply. Exploration of land purchase to support rural exception sites will be undertaken to support affordable housing delivery. The council will also ensure that any opportunities which arise whilst the strategic plan is put in place will be duly considered.

Table 6 – Investment priorities, resources and outputs

Priority	Detail	Investment proposed	Outputs required	Responsibility/timescales
Improvement to existing stock	Enhanced programme of kitchen and bathroom renewals over and above the stock condition survey to meet tenant priorities	£1.98million over five years	551 enhanced bathrooms 436 enhanced kitchens	Julie Kenny Commence 2013/14 and delivered by 2018/19
Service improvement	Additional resources to support the transition through welfare reform, supporting vulnerable tenants and providing older persons support services.	£100k per annum over five years	Further report on options to be considered.	Identify improvements by March 2014 Sharon Stacey
Handyperson scheme	To explore supporting a partner to set up a handyperson scheme in the Borough	Included in the service improvement funding	Further report on options for provision to be considered.	Identify options by December 2013 Sharon Stacey
Council house new build/acquisition	To progress a programme of new build and acquisition on HRA sites initially, plus buy back of previous right to buy properties and acquisition on strategic 106 sites.	£12million over five years	Detailed programme to maximise the number of new units while retaining quality of development	Sharon Stacey/Valerie Bunting Commencing 2013/14
Energy Company Obligation Funding	To explore the potential to tap into ECO funding to improve the efficiency of the	Funded through ECO	Not known at this stage	Sharon Stacey/Rosemary Leech 2013/14

	housing stock.			