

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**CABINET – 20 OCTOBER 2015**

Title of report	<b>HOUSING ASSET MANAGEMENT STRATEGY</b>
Key Decision	a) Financial No b) Community Yes
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Purpose of report	The purpose of this report is to seek approval from Cabinet for the 2015-2020 HRA Asset Management Strategy.
Reason for decision	To seek approval from Cabinet for the 2015-2020 HRA Asset Management Strategy.
Council Priorities	Value for Money Business and Jobs Homes and Communities Green Footprints Challenge
Implications:	
Financial/Staff	Any costs associated with the adoption of the Strategy, including staffing implications, will be met from within existing budgets.
Link to relevant CAT	Not Applicable
Risk Management	A risk register will be developed as part of the action planning process subject to approval of the Strategy.
Equalities Impact Screening	An equalities impact screening assessment will be undertaken subject to approval of the Strategy
Human Rights	None

Transformational Government	Delivering housing in a sustainable way, considering the environmental and social impacts and benefits.
Comments of Head of Paid Service	The report is satisfactory.
Comments of Section 151 Officer	The report is satisfactory.
Comments of Monitoring Officer	The report is satisfactory.
Consultees	NWL Tenants and Leaseholders Consultation Forum
Background papers	None
Recommendations	<p><b>IT IS RECOMMENDED THAT CABINET:</b></p> <p><b>1) NOTES THE CONTENTS OF THE REPORT; AND</b>  <b>2) APPROVES THE 2015-2020 HRA ASSET MANAGEMENT STRATEGY.</b></p>

## 1.0 BACKGROUND

- 1.1 The provision of a revised and updated Housing Asset Management Strategy is key to making the right investment decisions in relation to the Council's most valuable physical asset, the housing stock.
- 1.2 The proposed revised AMS, attached as Appendix A, replaces the previous version produced in 2008.
- 1.3 One of the key principles behind the AMS is the need to assess the expenditure and income position of each of our homes, and determine whether it is a positive or negative figure. This figure is known as the Net Present Value (NPV), and it provides an indicator of the financial performance of each property over an extended period.
- 1.4 A positive NPV suggests the property will generate more income than it is going to cost to maintain/manage/improve, and a negative NPV suggests the reverse. The principle of asset management is to invest in properties that can produce a positive return, and carefully consider the future of those which are going to cost more than they will generate in income. Properties that have a negative NPV would normally be disposed of, or their use changed, with new properties being acquired to meet identified but unmet housing need.
- 1.5 Normally this assessment is made over a 30 year period with assumptions regarding future costs and rent increases included in the calculation process to reflect projected market conditions. In addition to assessing the financial performance, the NPV process also considers issues such as demand, as there is no point in investing in a financially high performing property if there is not demand for it from prospective tenants.

- 1.6 The recent announcement regarding a change in the Government's social housing rent policy have been incorporated within the revised Strategy.

## 2.0 FUTURE ACTIVITY

- 2.1 The executive summary of the AMS effectively explains the background, purpose and outcomes of the strategy and is included below for ease of reference.

### 1 Executive Summary

- 1.1 The Asset Management Strategy (AMS) is one of three key strategic documents which shape the work of the Housing Service:
- **HRA Business Plan** - Provides the strategic financial and service planning framework for the Councils landlord role over the next 30 years. Contains a narrative section and a financial model section.
  - **Housing Strategy** - Provides a framework through which we assess local housing needs, and seek to meet them through the provision of affordable housing and/or support services for all tenures.
  - **Asset Management Strategy** - Provides a framework document for the maintenance and improvement of the Councils housing stock over the next 30 years. This includes disposal of poorly performing stock and acquisition of new stock to meet future needs.
- 1.2 All three documents are interlinked, and will be updated periodically in response to changes in local/national policy, and housing market conditions. Typically they plan in detail over a 5 year horizon, with forward projections provided over the next 30 years.
- 1.3 The financial details contained within the proposed AMS have been remodelled to take account of the rent increase implications of the Chancellors 8<sup>th</sup> July 2015 statement.
- 1.4 The AMS analyses the housing stock in nine geographical areas, and the system can break this down further by village/street/individual property if necessary.

The areas used are -

1. Coalville and Hugglescote;
2. Greenhill;
3. Ashby;
4. Whitwick and Thringstone;
5. Measham;
6. Oakthorpe and Donisthorpe;
7. Ibstock;
8. Castle Donington and Kegworth;
9. Appleby

These contain 37 separate villages/towns/estates.

1.5 The updated AMS represents a fundamental review of the 2012-15 Strategy, incorporating:

- The latest stock condition situation to 31 March 2015, incorporating £28m of decency investment in the past 3 years;
- Current housing needs/demand, assessed from both waiting list preferences and actual bidding patterns through the choice based lettings system;
- An assessment of future expenditure (capital and revenue) required to maintain and improve the condition of the Council's housing stock to the decent homes standard;
- A provision for the completion of non-decency works to homes and to the external environment within the curtilage of homes, including outbuildings, garden walls, paths and fences;
- An evaluation of the net present value of the housing stock, to identify areas or types of property, where the future income from rent will not sustain the level of investment required to maintain and improve the home over the next 30 years;
- Use of the Chartered Institute of Housing's asset performance toolkit to carry out the assessment, which has been linked directly to our HRA business plan model;

1.6 Key outcomes from the revised AMS are:

- We have an estimated overall 30 year capital investment need for £110m, which includes £85m for decent homes works and £25m for other non decency improvements. If an annual inflation rate of 2.5% is applied to these costs, year on year from 2016, it equates to a projected need of £158m over the 30 year period;
- The HRA Business Plan model includes £195m (including 2.5% year on year inflation) to be available over the same 30 year period. This £195m is available in full;
- Most of the housing stock has a financially positive future, in terms of net present value. There are however, specific blocks of poorly performing stock, including some sheltered housing schemes, and some poorly performing individual properties. Those properties with a net present value of less than £5,000, or where there are wider and significant strategic reasons (e.g. estate or economic regeneration), will automatically trigger a management review of any future investment decision;
- Financial forecasts predict we have sufficient funds available to meet investment needs over the next 30 years, subject to some cash flow adjustments;

1.7 There are however, a number of caveats that need to be applied and need to therefore be incorporated into the ongoing management and development of the AMS;

- It is considered that the £25m estimation of the costs of non-decency investment is understated and this needs to be revisited on an area by area basis. It would be wise to consider a potential 30% (£8m) additional requirement;
- The year on year provision of an annual inflation rate of 2.5% is clearly not a scientific process and any higher rate of cost inflation during the next 30 years could significantly impact upon the sustainability of some of our housing stock;

- The inflation rate within the construction industry may differ to the general rate of inflation. The economic downturn from 2007-08 had a significant impact on the construction industry. The recent upturn has resulted in a shortage of labour, skills and materials that have significantly impacted upon capacity and subsequently resulted in a construction related inflation level that is estimated to have been in excess of 5% per annum more recently;
- The financial assumptions will be reviewed annually, and will include three case scenarios, reflecting a high, medium and low inflation rate projection, to ensure that the Strategy can be aligned accordingly to the broader economic climate as it develops;
- No provision has currently been made for an improvement standard above the decent homes requirements. It is anticipated that future tenants, will have aspirations above this very basic level. If we are to maintain demand in our housing stock this will have an additional financial cost that will need to be added;
- No provision has been made for investment in any environmental improvements outside the curtilage of homes, including footpaths, fencing, or parking. This will have an additional financial cost that will need to be added;
- No provision has been made for any re-design or building upgrades within individual properties, blocks of properties or to estates. To maintain the demand in our homes over the next 30 years we will certainly need to invest in this type of improvement work and this will have an additional financial cost that will need to be added.
- There will be some properties, blocks and/or parts of estates for which the broader investment and modernisation may not be practicable or financially viable, and a decommissioning, sale and new build or re-investment replacement programme may be more appropriate;

#### 1.8 Key issues/decisions/choices arising from the AMS:

- It is projected to be financially viable to maintain decency and tackle the backlog of non-decency works within the curtilage of our properties over the next 30 years to all of our housing stock that currently has a positive net present value;
- There is however, little financial room for manoeuvre in respect of major refurbishment and redesign of blocks, schemes and estates without generating additional income and/or reducing some costs;
- There is scope to generate additional income from the decommissioning and disposal of poorly performing properties, sheltered schemes and/or garage sites and unused HRA land. Consideration should also be given to the future of individual properties in isolated locations for which demand may be low, and the cost of management and maintenance is relatively high;
- There is a demand for new build/acquisitions, and it is viable and would make a significant positive contribution to the overall net present value of the housing stock;
- Most corridor based sheltered housing schemes are unpopular, and we need to either invest in them to make them more attractive, or decommission them for general needs housing if practicable or redevelop them. Three schemes have already been de-commissioned due to a lack of demand for this type of accommodation. The future of a further three will be reviewed by 31 December 2015 and the future of the remainder will be reviewed by 31 July 2016;

- It is proposed to decommission all communal garage and hardstanding parking areas by 31 March 2018, unless there is an exceptional set of local circumstances. The decommissioning programme is proposed as follows:
  - zero occupancy decommissioned as of 1 November 2015;
  - less than 25% occupancy by 31 March 2016
  - less than 50% occupancy by 1 October 2016
  - less than 75% occupancy by 31 March 2017
  - All remaining sites will be decommissioned by 31 March 2018 unless there is a proven demand that justifies retention.
- The decommissioning of communal garage and hardstanding sites will be undertaken alongside a review of overall parking provision on an area by area basis, and the need to potentially invest in other forms of parking provision will be incorporated within any subsequent decommissioning proposals;
- The options for each decommissioned scheme or site will be considered as follows:
  - Location and potential demand for general needs accommodation;
  - Investment need and re-design costs to utilise existing building and site for general needs accommodation;
  - Potential to demolish and utilise site for affordable housing, using one of the development models listed below:
    - RSL partner;
    - Development by external partner for NWLDC;
    - Joint venture model;
    - Developer led;
    - Design & Build;
    - Section 106;
    - Development by NWLDC direct
  - Potential to dispose of site for alternative private use and/or development.
- The key energy efficiency investment priorities under this Strategy are recommended to be:
  - Develop a minimum standard for the energy efficiency of our stock by 31 March 2016;
  - All properties to reach a minimum SAP 65 (band D) by 2021 with interim annual targets;
  - Deliver a loft and cavity wall insulation programme by 31 March 2017. It is estimated that 1,800 properties require a loft insulation top up to 270mm, 400 properties require cavity wall insulation and 30 properties require external wall or internal insulation);
  - Deliver targeted investment programmes to address fuel poverty focusing on off gas areas and including investment in renewable energy where value for money / social benefit can be demonstrated;
  - Replace all solid fuel and oil fired heating systems by 2025, prioritising off-gas areas;
  - Continue to explore the potential to roll out a Solar PV programme to a potential maximum of 1,900 properties by 2017;
  - Deliver targeted retrofit programme(s) for identified priority streets/estates (based on energy efficiency/heating costs/fuel poverty levels/vulnerability)
  - Complete a thermal assessment of 1,000 previously clad properties including non-traditional properties by 31 March 2016.

### **3.0 CONSULTATION**

3.1 Prior to presentation to Cabinet for approval, the consultation activity relating to the production of the AMS is detailed below:

- Initial Portfolio Holder Briefing 21 August 2015
- Tenant and Leaseholder Consultation Forum 26 August 2015
- Housing Senior Management Team 02 September 2015
- Corporate Leadership Team 08 September 2015
- Strategy Group 15 September 2015
- Tenant and Leaseholder Consultation Forum 28 September 2015
- Policy Development Group 30 September 2015
- Cabinet 20 October 2015
- Tenant and Leaseholder Consultation Forum (Feedback) 26 October 2015
- Adoption and implementation 02 November 2015

3.2 The draft minutes of the Policy Development Group meeting are attached as Appendix B to this report and amendments have been made to the Strategy to reflect these where appropriate.

3.3 This timetable has allowed the AMS to be used to inform the production of the 2016/17 draft HRA revenue budget and capital programme.

3.4 A communications plan will also be developed whilst the AMS is being approved to ensure that we share the key outcomes from the adoption with tenants, key partners and other stakeholders.

3.5 Delivery of the actions required by the plan will be overseen by the HRA Business Plan Project Board, with appropriate reference for approval to other groups (CLT/Cabinet etc) as appropriate.

3.6 It is anticipated that specific actions arising from the AMS will be key drivers in the Housing Team and Service planning processes for 2016/17 and beyond.

### **4.0 RESOURCE IMPLICATIONS**

4.1 Implementing the AMS will require the right level of skills and experience, to both commission and deliver the programmes required, in terms of revenue maintenance / planned cyclical works, and capital improvements, as well as new build and acquisitions.

4.2 In order to ensure we have access to the right levels of capacity and skills, proposals to reorganise and restructure the Asset Management Team and the Repairs and Maintenance Team, within existing HRA resources, will be developed for consideration by Corporate Leadership Team. Whilst these will represent a modest increase in overall staffing capacity, the proposals are designed to reflect the scale of the programme of works to be undertaken, and our ambitions to see the in house service delivery arrangements be developed to provide more opportunities for local employment and training/apprenticeship opportunities.

## **5.0 FINANCIAL IMPLICATIONS**

- 5.1 The AMS indicates a need for investment of £110m over the next 30 years, which includes £85m for decent homes works and £25m for other non decency improvements. If an annual inflation rate of 2.5% is applied to these costs, year on year from 2016, it equates to a projected need of £158m over the 30 year period.
- 5.2 The HRA Business Plan model includes £195m of income (including 2.5% year on year inflation from 2020) to be available over the same 30 year period. The financial model has recently been updated to reflect the rent decrease announcement proposed in the Chancellor's 8 July statement (1% real reduction each year for the next 4 years).
- 5.3 Most of the housing stock has a financially positive future, in terms of net present value. There are however, specific blocks of poorly performing stock, including some sheltered housing schemes, and some poorly performing individual properties. Those properties with a net present value of less than £5,000, or where there are wider and significant strategic reasons (e.g. estate or economic regeneration), will automatically trigger a management review of any future investment decision.