

# MUNICIPAL YEAR 2012/2013 REPORT NO. 11A

**MEETING TITLE AND DATE:**

Council  
4<sup>th</sup> July 2012

**REPORT OF:**

Director of Health, Housing and  
Adult Social Care and Director of  
Property and Technical Services –  
Enfield Homes

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<b>Agenda 1</b>	<b>Item: 11</b>
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<b>Subject:</b> Housing Revenue Account (HRA) Asset Management Strategy
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<b>Wards:</b> All
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<b>Cabinet Members consulted:</b> Cllr Oykener, Cllr Stafford
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## 1. EXECUTIVE SUMMARY

- 2.1 The HRA Asset Management Strategy is available in the Members' Library and Group Offices. This document sets the direction for managing the Council's HRA assets over the next 30 years. It is designed to inform the developing 30-year HRA Business Plan, which is due to be presented to Cabinet this month, and then sit alongside it as a complementary document.
- 2.2 The strategy proposes the development of a new standard for maintaining the HRA housing stock. This is referred to as "sustainable high quality accommodation". It also proposes a methodology by which the Council will prioritise its capital investment in the stock over the Business Plan period. This will serve to ensure that future targeting of capital investment is based on agreed objective criteria such that all stakeholders understand the order in which major works investment will be undertaken and why this will be the case.
- 2.3 The Business Plan is supported by a financial model, and the eventual level of capital investment included in the Business Plan will be based on affordability and best value.
- 2.4 Both documents are informed by and will support the objectives of the Council's Housing Strategy, its Local Plan, its Regeneration Strategy and its Corporate Property Strategy. They will set out the proactive and forward thinking approach that Enfield wishes to take to managing its HRA business in the context of HRA Self Financing.

## **2. RECOMMENDATIONS**

- 2.1 To approve the HRA Asset Management Strategy.
- 2.2 To note that this document is integral to the further development of the Council's HRA Business Plan, which is due to be presented to Cabinet this month, and will then sit alongside it as a complementary document.
- 2.3 To note that an Estate Renewal/Area Improvement Framework, which will set out the proposed estate/area investment direction for the next 30 years, will be presented to Cabinet in the autumn.
- 2.4 To note that a fully costed five year capital programme will also be presented to Cabinet in the autumn.

## **3. BACKGROUND**

- 3.1 The Government's Localism Act replaced the former Housing Subsidy system with a system of HRA self-financing with effect from 1<sup>st</sup> April 2012. Under the old subsidy system, Enfield was required to make an annual payment (of £8m) to the Government from its HRA. From 1<sup>st</sup> April 2012, the Council, along with all other English Housing Authorities, keeps its own rental income to pay for capital investment in its stock, management costs and repayment of debt.
- 3.2 In order to manage the transition to the new system, the Government prepared a valuation of each Council's HRA business. Enfield's HRA business was valued at £198.015m (an average £17,532 per dwelling). Based on this valuation, the Council paid the Government £28.789m on 28<sup>th</sup> March 2012 to buy itself out of the subsidy system.
- 3.3 The Government expects Councils to manage their HRA businesses using a 30-year Business Plan backed by an Asset Management Strategy and a Treasury Management Plan. These should be prepared in consultation with interested parties, especially tenants. This report sets out Enfield's proposed HRA Asset Management Strategy. It precedes the Business Plan because the asset base and our ability to manage it proactively and to our best advantage are critical components in creating a good, sustainable, long term Business Plan.

## **4. THE STRUCTURE OF THE STRATEGY**

- 4.1 The strategy has eleven short chapters, the first two of which set out the background, context and objectives of the strategy.
- 4.2 Chapter 3 then comments on involving stakeholders in the HRA Self-Financing project. In recent meetings with tenant and leaseholder groups,

the notion of “sustainable high quality accommodation” and the proposed approach to prioritising areas for investment have been well received. The chapter also introduces the proposal to create a HRA Advisory Board to oversee and scrutinise the 30-year Business Plan and HRA Asset Management Strategy, and their associated delivery targets. This Board will consist of a variety of stakeholders, including tenants and independents.

- 4.3 Chapters 4 to 6 set out the current position regarding the HRA asset base and how it is managed.
- 4.4 Chapters 7 and 8 describe the Council’s priorities and aspirations for the future and how they will be delivered. Further commentary on these chapters is provided in this report.
- 4.5 Chapters 9 and 10 set out the resources available to deliver the strategy followed by an analysis of potential risks.
- 4.6 Lastly, Chapter 11 indicates the necessity to review certain parts of the asset base to ensure that the Council makes optimum use of its investments. There are a number of areas for review, including HRA shops and community halls. These reviews will be achieved within the timescales set out in the document, and progress towards their completion will be monitored along with the rest of the delivery plan when this is formulated.

## **5. THE OVERARCHING PRINCIPLES OF THE STRATEGY**

- 5.1 The strategy has been prepared in the context of managing the HRA business within the following overarching principles. These are set out in chapter 2. They have been formulated in consultation with tenants and residents:
  - a) Construct a business plan which shows the Council controlling at least the same number of tenanted housing units in 2042/43 as it does now (11,300), and, subject to affordability and achievability, seek to increase this number. This principle will require regular review, especially if there is a change in accessibility to funding sources.
  - b) Review the opportunities for further development on infill sites and out of borough estates.
  - c) Ensure that there is a balance of stock within the business which meets need and is desirable for tenants.
  - d) Define the term “sustainable high quality accommodation” and achieve that standard for all stock within the 30-year period, subject to affordability and other constraints (for example, physical features).
  - e) Prepare an Estate Renewal/Area Investment Framework based on an objective ranking methodology and affordability (cost neutrality).

- f) Review the options for all properties which are contributing negatively to the business plan.
- g) Create job, training and apprenticeship opportunities.
- h) Ensure that future development plans give due consideration to community safety issues, the prevention of anti social behaviour, the creation of leisure facilities and making Enfield's council homes better places to live.
- i) Continue to provide a high quality management and repairs service.
- j) The preference is to set rents at social rent levels. However, tenants are in favour of attaching a new build premium to new homes and accepting increases in rent as long as there is a clear connection between the rent level and the standard of accommodation and services received.
- k) Longer term tenancies are preferable to support sustainable communities.

## **6. THE EARLY YEARS**

### **Tackling Decent Homes and Other Capital Works Backlogs**

- 6.1 The base 30-year business plan shows that resources will be scarce in years 1-10. This is due to the need to address the decent homes and other capital works backlogs whilst undertaking four major estate renewals and paying for the additional HRA debt taken on when Enfield became self-financing.
- 6.2 Chapter 7 of the HRA Asset Management Strategy describes that the Council's priorities in the first five years will be:
  - to develop a prioritisation methodology which will lead to investment by area and ensure that there will be no Decent Homes or other elemental backlog by the end of year 5. The term "elemental backlog" in this context means those building elements that are at, or have gone beyond their expected life-cycle. Enfield Homes' database holds information showing which elements will require replacement when, based on their expected asset lives. For example a bathroom may need replacing every 30 years. It is envisaged that, by the end of 2016/17, all elements that are due for renewal under the asset management policy will have been replaced so that from 2017/18 onwards there is no longer a backlog
  - to give appropriate priority to Health and Safety and other legislative investment
- 6.3 The projected level of investment associated with delivering these priorities has been costed into the base Business Plan and is affordable. The costings and life cycles of elements, as recorded in the Enfield

Homes database, have been the subject of external validation by Savills. They are essentially based on replacement of each element on a like for like basis. In a number of instances it may be necessary to upgrade the elements when they are replaced.

### **Prioritisation of Capital Investment by Area**

6.4 Chapter 7 then describes the scoring matrix that has been developed by Enfield Homes in order to inform the prioritisation of capital investment within areas of the borough in the first five years. The results of this exercise are shown at Appendix 7a of the strategy. The matrix uses the following criteria, which are weighted equally:

- Projected % Non Decency in the Stock by the end of 2014/15
- Average Energy Efficiency (SAP Rating)
- Average Day to Day Maintenance cost per Dwelling in 2011

to reach a ranking order for the 28 areas of the borough and a basis on which a fully costed capital programme can be constructed.

(note: the areas referred to in this piece of work reflect Enfield Homes' repairs contract areas, split into manageable groups of 350-400 dwellings. The map at Appendix 7b shows these areas, colour coded to reflect prioritisation order, and overlaid with ward boundary information).

6.5 The outcome of this piece of work will be that the areas in most pressing need of investment will be improved prior to those with a lower ranking. It will allow targeted intervention across whole areas, achieving a maximum impact whilst reducing overall costs.

6.6 However, in order to catch up on all of the backlog in the first five years of the Business Plan, it follows that improvement works will take place in all areas within that period. The capital investment programme for Year 1 (2012/13) is shown as Appendix 8 of the strategy document. The five year capital programme is due to be reported in detail to Cabinet in the autumn.

6.7 In terms of Estate Renewal, the current programme, which will regenerate Highmead, Ladderswood, New Avenue and the Alma Estate, represents the maximum that the HRA business can afford in the early years.

## **7. THE LATER YEARS**

### **Definition of Sustainable High Quality Accommodation**

7.1 Chapter 7 moves on to give a definition of "sustainable high quality accommodation". The HRA Asset Management Strategy sets out that, in principle, all of its housing stock should reach this standard by year 30. The definition covers:

- Modern Facilities

- Physical Structure
- Energy Efficiency
- Common Parts
- Accessibility
- Estate Environment
- Maintenance Regime

7.2 However, at this stage, the proposed definition and the associated costs and delivery constraints require further work in consultation with tenants and other interested stakeholders. Choices may have to be made around accepting a lower standard, or possibly extending the investment period beyond the 30 years if affordability becomes an issue.

### **Prioritisation of Area Investment/Estate Renewal in the Longer Term**

7.3 Chapter 8 develops a methodology for prioritising investment in the longer term. This work will build on the scoring matrix proposed by Enfield Homes' staff for use in the first five years. It will result in a prioritisation order for investment in the estates with more than 50 dwellings owned by the Council (including Alma and New Avenue), shown in Appendix 3 of the Strategy. From this piece of work, an Estate Renewal/Area Investment Framework will be formulated, which will extend out beyond the estates themselves to take in the surrounding properties in each area. Detailed options appraisals and consultation will be undertaken before finalising the preferred approach to each individual area. For example, one area may require demolition and regeneration whereas another would benefit from refurbishment.

7.4 It should be noted that affordability may prevent the Council from upgrading or regenerating the estates in strict ranking order. For example, some estates may need to be redeveloped ahead of others where there is the possibility of a net capital receipt, or improved rental income streams, which will in turn facilitate the development of other, less viable, estates. Also, at this stage, an assessment still needs to be made as to how many areas can be upgraded in the 30-year period.

## **8. MAINTAINING OR POTENTIALLY INCREASING THE NUMBER OF DWELLINGS IN THE HRA**

8.1 The principle of maintaining the current level of dwellings within the HRA will present challenges in affordability terms, particularly in the early years, but appears from recent costings to prove the preferable option in the longer term to sustain the viability of the HRA business plan. An accountancy company has been engaged to assess the options available to the Council to achieve this goal, and this piece of work will include describing alternative finance vehicles for delivery.

8.2 The outcome of this work will be reported back to Cabinet in due course, together with the preferred option, or options, so that any associated decisions can be taken to allow this initiative to move forward.

8.3 In addition, Sector, who is the company that validates Enfield's HRA Business Plan, has undertaken a desktop appraisal of the Council's ability to retain capital receipts from the sale of properties under the new Right to Buy legislation and deliver "one for one replacement". It is clear from this appraisal that it is both achievable and beneficial to the Council to keep its receipts for reinvestment into affordable housing. Cabinet therefore agreed that the Central Government retention agreement to this effect should be signed by 27<sup>th</sup> June 2012 so that Enfield could participate in the "local delivery with agreement" model.

8.4 It should be noted that not only can government and other funding sources be subject to change, but also at present it is still too early to estimate the impact of the new right to buy legislation on sales of the housing stock. It is therefore important that this whole area is kept under continual review so that the Council can change its approach if necessary.

## **9. ALTERNATIVE OPTIONS CONSIDERED**

9.1 The Council needs to have a HRA Asset Management Strategy to support its 30-year Business Plan and therefore no alternative options were considered.

## **10. REASONS FOR RECOMMENDATIONS**

10.1 Approving the overall direction and proposed prioritisation processes as set out in this report will mean that the strategy document can inform further updates of the 30-year HRA Business Plan and allow the necessary evaluation of affordability of various scenarios to take place.

10.2 It will also mean that future targeting of capital investment in the HRA stock is based on agreed objective criteria such that all stakeholders understand the order in which major works investment will be undertaken and why this will be the case.

10.3 The next stage will be to crystallise this work into a 30-year capital investment programme based on the proposed direction and methodology set out in this report, and to create an action plan to ensure that the programme remains on track.

## **11. COMMENTS OF THE DIRECTOR OF FINANCE AND CORPORATE RESOURCES AND OTHER DEPARTMENTS**

### **11.1 Financial Implications**

The overall approach as described in the HRA Asset Management Strategy document will underpin the setting of the capital investment programme and the prioritisation of resources over the 30 year life cycle. The document introduces the proposed five year

HRA capital investment programme and gives a brief overview of resources.

It should be noted that the current base Business Plan remains constrained within the first ten years, and it is only after this time that cash balances start to increase. The overarching principles outlined in paragraph 5, particularly the achievement of sustainable high quality dwellings for all, in addition to a significant estate renewal programme and the ambition to maintain the existing level of stock, may lead to resource constraints and choices may have to be made in the later years.

However, it is intended to explore opportunities to use alternative funding vehicles to alleviate the resource position. One of these options may be the use of pension funds to facilitate borrowing, for example.

The HRA Business Plan, which will be the subject of a future cabinet report, will build on the strategy outlined in this document and will include detail on the overall financial position of the HRA.

It should also be noted that it is too early to estimate the impact of the change in the right to buy legislation and this remains a risk because of its potential impact on the business plan. This will be kept under review.

## **11.2 Legal Implications**

The concept of 'self financing' is set out specifically under 'Housing Finance' in Chapter 3 of Part 7 of the Localism Act 2011. 'Self financing' is a system for financing council housing to replace the HRA subsidy system. Sections 167 to 175 of the Localism Act 2011 provide for the new system. The HRA Subsidy system will end and local authorities currently operating a HRA will keep all of their rental income and use it to support their own housing stock.

The reforms will only have implications for each stock-retaining local authority's ring-fenced HRA and will not impact on General Fund finances or on other local authorities.

Local authorities will still be required to account to their tenants for income from and expenditure on council housing separately from income and spending on other functions and services. Capital funding will also be provided to tackle the Decent Homes backlog.

The recommendations proposed in this report comply with the reforms set out in the Localism Act 2011.

Under Section 76 of the Local Government and Housing Act 1989 there is a duty imposed on local authorities to prevent a debit balance on the HRA.

### **11.3 Property Implications**

Representatives from Property Services are fully engaged in the HRA Asset Management Strategy working group meetings and their comments and views have been reflected within the strategy document.

The objectives of the Corporate Property Strategy are set out in chapter 1 of the HRA Asset Management Strategy and the two documents are appropriately aligned.

## **12. KEY RISKS**

The risks associated with this strategy are set out in Chapter 10 of the document. Appendix 12 to the document is a risks, issues and opportunities register.

## **13. IMPACT ON COUNCIL PRIORITIES**

HRA Self-Financing allows the Council and Enfield Homes greater opportunity to manage their Housing Revenue Account business in line with their own priorities rather than those imposed by Central Government. The production of the HRA Asset Management Strategy sets the direction for our approach to managing our assets in this context into the long term future.

### **13.1 Fairness for All**

Council tenants and other interested stakeholders are closely involved with the HRA business planning project, and their views have been taken into account in developing the HRA Asset Management Strategy. The strategy is designed to tackle inequality and provide a better place to live for all Council tenants, starting with those who are living in the areas most in need of capital investment.

### **13.2 Growth and Sustainability**

The HRA Asset Management Strategy addresses growth and sustainability issues, with particular reference to the aspirations to increase stock numbers and to develop sustainable accommodation for the future.

### **13.3 Strong Communities**

The Council's HRA stock is sizeable and therefore the choices it makes through the HRA Asset Management Strategy and business planning processes can and will have a significant impact on local neighbourhoods within the Borough.

#### **14. PERFORMANCE MANAGEMENT IMPLICATIONS**

- 14.1 The 30-year Asset Management Strategy will lead to an action plan once affordability has been tested through the Business Planning process. A governance structure is in place to monitor progress. The 2012/13 capital programme is appended to the document, and a five year programme is currently being developed. These will require constant monitoring to ensure that they stay on target, both in budgetary and physical delivery terms.

#### **15. EQUALITIES IMPACT IMPLICATIONS**

- 15.1 The adoption of the "sustainable high quality accommodation" standard, together with the area prioritisation scoring matrices proposed in this report are specifically designed to address issues of inequality in the borough so that all tenants live in better standard accommodation and neighbourhoods are improved.

#### **16. HEALTH AND SAFETY IMPLICATIONS**

- 16.1 Health and Safety issues have been weighted appropriately when considering prioritisation for HRA stock investment over the 30 year period. In addition, it is acknowledged in the HRA Asset Management Strategy that Health and Safety will continue to be given absolute priority in the event that significant issues arise.

#### **Background Papers**

"Implementing Self-Financing for Council Housing" DCLG (February 2011)

"The HRA and Self-Financing Determinations" DCLG (July 2011)

"Self-Financing – Planning the Transition" DCLG (July 2011)

"Depreciation and Treasury Management under the Self-Financing of Council Housing" CIPFA (August 2011)

"Consultation on the Draft Determinations to Implement Self-Financing for Council Housing" DCLG (November 2011)

"The Housing Revenue Account Self-Financing Determinations" DCLG (February 2012)