

The Highland Council
Community Services Committee
20 August 2015

Agenda Item	11
Report No	COM 39/15

Housing Revenue Account Capital Plan: 2016-2021

Report by the Director of Community Services

Summary

This report outlines the resources required to undertake capital investment to the Council's housing stock and recommends capital investment priorities for the next 5 years. It also comments the impact of capital investment on future HRA revenue estimates, and on future Council house rents.

1 Background

- 1.1 Since 2007 the Housing Revenue Account Capital programme has been focussed mainly on investment to meet the Scottish Housing Quality Standard. In addition the Council has continued to invest around £1m per year on medical adaptations to housing.
- 1.2 As we near completion of Scottish Housing Quality Standard work it is necessary to establish future HRA Capital Programme priorities and budgets.
- 1.3 As a minimum the amount of capital investment required in future needs to be established based on:
 - Investment required to maintain property at the Scottish Housing Quality Standard
 - Investment required to meet any additional national standards, such as the Energy Efficiency Standard for Social Housing (ESSH)
 - Maintaining the structural integrity of the housing stock
 - Undertaking adaptations on medical grounds.
- 1.4 Recent feedback through tenant surveys suggests relatively low satisfaction levels with the environment around peoples' homes. There has been no capital investment in environmental works in recent years, and limited revenue expenditure through housing planned maintenance budgets.
- 1.5 The funding available to undertake capital investment needs to be affordable within prudential borrowing rules and decisions on investment need to take account of the impact on tenant rents.
- 1.6 This paper considers these issues and recommends future investment priorities and levels of investment for the HRA capital programme over the next 5 years.

2 Investment Required

- 2.1 The starting point for HRA capital planning is to estimate a reasonable level of expenditure required given the Highland housing stock. In order to establish this as objectively as possible we have undertaken an analysis of Highland Council housing stock based on a standard set of “Major Repairs Allowances” published by the UK Government Department for Communities and Local Government, adjusted for projected annual BCIS indices (contract price inflation).
- 2.2 This method provides standard investment allowances per house based on house type and date of construction. These allowances are based on the costs of standard life cycle replacement of major building elements.
- 2.3 We have used this method to assess a level of expenditure required for our housing stock. For future years we have applied projected BCIS tender price indices to allow for inflation. In addition it is recommended that we continue to allocate an HRA Capital Budget of £1m per year to fund adaptations for disabled tenants. This primarily funds level access showers / downstairs toilets/ bathrooms.
- 2.4 The Council has a current commitment to Council House Building to 2017. At present we have a method for funding Council house building using Scottish Government Grant and the Council’s landbank fund as well as prudential borrowing. The current funding arrangement makes the cost of building “self funding” from additional rents generated through the new housing stock. This means that we are not currently subsidising new build through a general rent increase. For planning purposes only it is assumed that we will be able to fund a programme of 100 houses a year over the next 5 years, at an average unit cost of £130k, involving new borrowing of £60k per house. This model is subject to review depending on changes to grant rates, landbank fund capacity or assumptions on future rent levels.
- 2.5 The detailed outputs from this model are provided in **Appendix 1**. Using this methodology the projected HRA Capital Resources over the next 5 years would be:

Year	Mainstream investment £'000	Adaptations £'000	Council House Building £'000	Total £'000
2016/17	£11,407	£1,000	£13,000	£25,407
2017/18	£12,024	£1,000	£13,000	£26,024
2018/19	£12,602	£1,000	£13,000	£26,602
2019/20	£13,232	£1,000	£13,000	£27,232
2020/21	£13,893	£1,000	£13,000	£27,893
Total	£63,158	£5,000	£65,000	£133,158

3 Investment Priorities

- 3.1 Following the completion of the SHQS programme it is recommended that the mainstream 2016-2021 HRA Capital Programme should focus on the following priorities:
- a life-cycle based approach to major component replacement, which targets replacement of kitchens, bathrooms, windows and doors based on the last installation date recorded on the Housing Information system,

adjusted through area knowledge on other relevant stock condition information.

- a programme of heating and energy efficiency work based on compliance where feasible with the Scottish Government's new Energy Efficiency Standard for Social Housing (ESSH). It is expected that the ESSH programme will be based on generic measures to certain house types rather than specific measures based on individual property energy efficiency assessments.
- An allowance for structural work to roofs, chimneys, external fabric.

3.2 The table below provides recommendations on the proportion of spend / allocation of resources to these priorities based on an assessment of current stock information.

	Criteria	Principles	Guideline Percentage
1.	Major Component Replacement		
1.1	Kitchens	Prioritise all kitchens over 30 years old	45% of annual programme
1.2	Bathrooms	Prioritise all bathrooms over 30 years old	
1.3	Windows & doors	Prioritise all windows and doors over 30 years old	
1.4	Rewiring	Prioritise all property with wiring over 30 years old	
2	External Fabric Repairs / Replacement		
2.1	Major component works/disrepair e.g. re-roofing	Replace where Health and Safety issue or identifiable damage to property over long-term period	5% of annual programme
2.2	Environmental Improvements	Undertake local priority projects to improve the environment of HRA housing estates.	5% of annual programme
3	Heating / Energy Efficiency		
3.1	External wall insulation	Install on suitable properties	45% of annual programme
3.2	Gas heating replacement	Prioritise all gas boilers over 20 years old. The assumption would be that radiators and pipework would only be replaced where absolutely necessary.	
3.3	Renewable heating installs	Prioritise all heating systems over 20 years old and all low performing electric heating systems and replace with renewable systems from our	

		heating options approach	
3.4	Solar panels/district heating	Based on individual feasibility studies and availability of external funding.	

3.3 It is also recommended that we continue to fund equipment and adaptations to allow disabled and elderly tenants to remain in their current tenancy.

3.4 A summary of the overall mainstream HRA Capital Programme based on these proposals is attached as **Appendix 2**. This is also available at area level.

4 **Impact on HRA Revenue**

4.1 The level of expenditure on the HRA Capital Programme needs to be affordable within Prudential Borrowing Rules and to take account of future revenue implications.

4.2 The Right to Buy will end for all tenants during 2016, and HRA Capital investment will need to be funded through a combination of Capital from Current Revenue (CFCR) and prudential borrowing. Loan Charges for all borrowing used to fund HRA capital investment are funded through HRA Revenue.

4.3 **Appendix 3** provides a summary of current HRA projections over the next 5 years. These include loan charges associated with the investment set out in this Capital Plan.

4.4 This shows that loan charges will increase by £2.879m over the next 5 years. Based on current assumptions this will require rent increases averaging 1% per year over the following 5 years. We will continue to produce detailed annual revenue estimates and update projections annually, but at this stage the level of investment required appears manageable within HRA projections.

4.5 Both the Capital Plan and HRA revenue estimates will be reviewed annually and may need to be revised subject to changes in assumptions or risk analysis.

5. **Implications**

5.1 Resources – resource issues are outlined in the report.

5.2 Legal – there are no specific implications arising from this report.

5.3 Equalities – this report recommends continuing investment in adaptations to allow disabled tenants to remain in their homes.

5.4 Climate Change/Carbon Clever – continuing investment in heating and energy efficiency in council housing will help meet council objectives in relation to fuel poverty and climate change.

5.5 Risks – there are risks associated with the delivery of this level of capital programme. We are currently reviewing HRA Capital Programme management arrangements, and this will include a review of the current risk analysis and mitigating actions. Monitoring reports on the HRA Capital Programme are provided to each meeting of the

Committee. Both the Capital Plan and HRA revenue estimates will be reviewed annually and may need to be revised subject to changes in assumptions or risk analysis.

5.6 Gaelic and Rural implications – there are no known specific impacts arising from this report.

Recommendations

Members are invited to:

- (i) approve this HRA Capital Plan 2016-2021 as the basis for future programme planning.
- (ii) agree that consultation takes place with Ward Members on local HRA Capital Programme projects for 2016/17 and that the final programme for 2016/17 be reported to Committee in November.

Designation: Director of Community Services

Date: 16 July 2015

Author/Ref: David Goldie: Head of Housing

Appendix 1 Capital Programme Model

Architype	Total	Major Repairs Allowances 2012/13	Resources at 2012/13 allowances	2016/17	2017/18	2018/19	2019/20	2020/21
Pre 1945 small terrace houses	423	£429.76	£181,788.48	£ 225,143.89	£ 237,313.83	£ 248,723.15	£ 261,159.31	£ 274,217.27
Pre 1945 semi-detached houses	327	£494.84	£161,813.30	£ 200,404.75	£ 211,237.44	£ 221,393.09	£ 232,462.74	£ 244,085.88
All other pre-1945 houses	8	£507.12	£4,056.97	£ 5,024.53	£ 5,296.12	£ 5,550.75	£ 5,828.28	£ 6,119.70
1945 - 64 small terrace houses	940	£702.36	£660,214.85	£ 817,671.94	£ 861,870.43	£ 903,306.51	£ 948,471.83	£ 995,895.42
1945-64 large terr, s-det and det houses	857	£805.50	£690,313.02	£ 854,948.34	£ 901,161.77	£ 944,486.85	£ 991,711.20	£ 1,041,296.75
1965-74 houses	1705	£795.68	£1,356,628.05	£ 1,680,175.33	£ 1,770,995.62	£ 1,856,139.64	£ 1,948,946.62	£ 2,046,393.95
Post 1974 houses	1688	£590.62	£996,962.73	£ 1,234,732.08	£ 1,301,474.36	£ 1,364,045.24	£ 1,432,247.50	£ 1,503,859.88
NonTraditional houses	1800	£645.87	£1,162,571.45	£ 1,439,837.44	£ 1,517,666.49	£ 1,590,631.23	£ 1,670,162.79	£ 1,753,670.93
Pre 1945 low rise (1-2 storey) flats	911	£563.60	£513,443.27	£ 635,896.27	£ 670,269.04	£ 702,493.51	£ 737,618.19	£ 774,499.10
Post 1944 low rise (1-2 storey) flats	1046	£838.65	£877,230.64	£ 1,086,444.64	£ 1,145,171.38	£ 1,200,227.69	£ 1,260,239.08	£ 1,323,251.03
Medium rise (3-5 storey) flats	891	£850.93	£758,180.03	£ 939,001.21	£ 989,758.03	£ 1,037,342.55	£ 1,089,209.68	£ 1,143,670.17
Bungalows	2850	£644.65	£1,837,238.62	£ 2,275,408.51	£ 2,398,403.56	£ 2,513,711.42	£ 2,639,397.00	£ 2,771,366.84
Post 1944 multi-occupied dwellings	12	£838.65	£10,063.83	£ 12,463.99	£ 13,137.72	£ 13,769.34	£ 14,457.81	£ 15,180.70
	13458		£9,210,505.24	£11,407,152.93	£12,023,755.79	£12,601,820.97	£ 13,231,912.02	£ 13,893,507.62
Equipment and adaptations				£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000
Council House Building				£13,000,000	£13,000,000	£13,000,000	£13,000,000	£13,000,000
Total				£25,407,152.93	£26,023,755.79	£26,601,820.97	£27,231,912.02	£27,893,507.62

Appendix 2 Capital Programme 2016-2021

	2016/17	2017/18	2018/19	2019/20	2020/21
Major Component Replacement	£5,133,219	£5,410,690	£5,670,819	£5,954,360	£6,252,078
External Fabric Repairs / Replacement	£1,140,715	£1,202,376	£1,260,182	£1,323,191	£1,389,351
Heating / Energy Efficiency	£5,133,219	£5,410,690	£5,670,819	£5,954,360	£6,252,078
Equipment and adaptations	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000
Council House Building	£13,000,000	£13,000,000	£13,000,000	£13,000,000	£13,000,000
Total	£25,407,153	£26,023,756	£26,601,821	£27,231,912	£27,893,508

Appendix 3

HRA Draft Budget Future Years

	2016/17	2017/18	2018/19	2019/2020	2020/21	Assumptions
	Projection	Projection	Projection	Projection	Projection	
Expenditure:-						
Supervision & Management	7,494,200	7,569,142	7,644,833	7,721,282	7,798,495	net 1% p/a increase in service running costs.
Repairs & Maintenance	15,888,540	16,206,311	16,530,437	16,861,046	17,198,267	2% p/a increase in housing repairs expenditure
Arrears and Voids	748,410	755,894	763,453	771,088	778,798	1% p/a increase reflecting increased rents / stock
Central Support	3,579,440	3,615,234	3,651,387	3,687,901	3,724,780	1% p/a increase
Loan Charges	19,149,000	19,464,000	20,299,000	21,153,000	22,028,000	based on prudential borrowing assumptions
CFCR	3,000,000	3,000,000	3,000,000	2,500,000	2,000,000	based on previous long term projections
Gross Expenditure	49,859,590	50,610,581	51,889,110	52,694,316	53,528,339	
Income:-						
House Rents	48,848,484	49,773,001	50,711,123	51,663,030	52,628,904	1% p/a increase assumed
Other Rents	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	0% p/a increase assumed
Other Income	300,000	300,000	300,000	300,000	300,000	
Interest on Revenue Balances	80,000	80,000	80,000	80,000	80,000	
Gross Income	50,478,484	51,403,001	52,341,123	53,293,030	54,258,904	
Surplus / Deficit	618,894	792,419	452,012	598,714	730,564	up to 2% contingency

HRA Capital Programme

Expenditure	2016/17	2017/18	2018/19	2019/2020	2020/21
Mainstream programme	11,407,153	12,023,756	12,601,821	13,231,912	13,893,508
Adaptations	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Council House Building	13,000,000	13,000,000	13,000,000	13,000,000	13,000,000
Total HRA Capital Programme	25,407,153	26,023,756	26,601,821	27,231,912	27,893,508

Resources

Capital Receipts	1,278,000	0	0	0	0
CFCR	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Grant / Landbank fund	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000
Prudential Borrowing	14,629,153	16,523,756	17,101,821	17,731,912	18,393,508
Total Resources	25,407,153	26,023,756	26,601,821	27,231,912	27,893,508