

**THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
HOUSING AND PROPERTY SCRUTINY COMMITTEE
7 JANUARY 2015**

REPORT BY THE DIRECTOR OF HOUSING

**HOUSING REVENUE ACCOUNT BUSINESS PLAN 2015/16-
2019/2020**

This report provides the Housing Revenue Account Business Plan for 2015/16 to 2019/20. It sets out the need to spend and considers the sources of funding available over the next 5 years.

FOR COMMENT

1. BACKGROUND

- 1.1 Attached is a Business Plan for Capital and Revenue Expenditure on the HRA Housing Stock covering the period 2015 to 2020.
- 1.2 The purposes of this Plan are:
- (a) to set out the priorities and investment requirements for the Council's housing stock over the next 5 years. The aim of the Business Plan is to protect and maintain the Council's housing stock to the highest of standards within available resources
 - (b) to set out opportunities to regenerate the stock and provide additional units
 - (c) to set out the potential sources of funding to deliver the Business Plan over the short to medium term.
- 1.3. Members are invited to comment on the Business Plan prior to agreement being sought via a key decision.

FOR COMMENT

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Background papers used in the preparation of this Report:

None

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Housing Revenue Account

Business Plan 2015/16-2019/20

1. Purpose

The purpose of this document is:

- to set out the priorities and investment requirements for the Council's housing stock over the next 5 years in order to maintain this to the highest of standards within available resources
- to set out opportunities to regenerate the stock and provide additional units
- to set out the potential sources of funding to deliver the Business Plan over the medium term.

2. Introduction

2.1 This document sets out the Council's plans for maintaining and improving the housing stock over the next five years, and where possible delivers new supply. The Business Plan focuses on the investment of capital and revenue funding, working towards the Kensington and Chelsea investment standards and potential for further stock regeneration.

2.2 The need for a robust Business Plan has become increasingly important since the introduction of the Housing Revenue Account (HRA) self-financing regime that has shifted the financial control of the HRA from central government to local authorities. This plan outlines the finances that are available and sets out some proposed uses of these funds, in partnership with the Kensington and Chelsea Tenant Management Organisation (KCTMO).

2.3 The plan also details the investment objectives that have been achieved in 2014/15.

3. Objectives and Strategic Links

3.1 Housing Strategy

The Royal Borough of Kensington and Chelsea's Housing Strategy 2013-17 sets out how we as a borough want to improve both the quality of accommodation and lives of people who live here by:

- **Resources** - Developing effective asset management and longer term business planning, taking advantage of the new regime for Council Housing finance (Self-Financing).
- **Regeneration and Development** – Regenerating, renewing and developing new affordable housing where opportunities arise.
- **Housing Options** - Providing a service that enables people to make informed decisions about their housing options.
- **Vulnerable Residents** - Supporting people who are vulnerable with appropriate accommodation and advice services.
- **Employment and Training** – Enabling people in social housing to access employment and training opportunities.

3.2 The Housing Strategy is complemented by our Tenancy Strategy and Housing Allocation scheme which ensure that we meet housing need, appropriately allocate tenancies, provide tenancy options and promote mobility.

3.3 Asset Management Principles

The Council has adopted the Housing Revenue Account Asset Management Principles set out in the report to the Housing and Property Scrutiny Committee on 8th January 2014. These principles were agreed with KCTMO in order to provide a framework for ensuring that the stock performs to the highest possible standards:

- **Managing the housing assets** – Assessment of the financial performance of the stock and also other measures of broader neighbourhood sustainability
- **Investing in homes to a local standard** – sets our hierarchy of investment for six categories of work and provide the broad standards associated with each item (see para 5.3)
- **Supporting Regeneration of Estates and Neighbourhoods** - The Council has ambitions to develop more new housing of all tenures and to improve local neighbourhoods through regeneration

3.4 This Business Plan aims to detail what needs to be done to realise our overall objectives and identify how we can maintain our housing assets to an agreed standard and continuously improve people's living environment.

4. Achievements

4.1 Hidden Homes

4.1.1 Through the Hidden Homes project the Council continues to work closely with KCTMO to identify redundant or underutilised spaces within the HRA stock that can be redeveloped to deliver new homes for local people.

4.1.2 We have successfully delivered six new homes through the following schemes:

- Greaves Tower, World's End Estate - the scheme completed on time delivering three 2 bedroom residential units for general use which meet the Lifetime Homes requirements.
- Holmefield House, Hazelwood Crescent W10 - three 3 bedroom general need flats built to Lifetime Homes standards have been completed.

4.1.3 The project is expected to produce more homes in 2015, including:

- Grenfell Tower regeneration and associated hidden homes. This scheme is now on site and will deliver nine new homes by September 2015.
- Whistler Walk – this is using a redundant children's home which forms part of World's End Estate. The scheme has obtained planning permission for 7 new homes and a procurement process has been undertaken to engage a contractor. Start on site is anticipated in January 2015 and completion in August 2015.
- An additional scheme to reconvert one unit in Holmefield House has been agreed.
- Three further schemes have had detailed feasibility studies carried out. All three can potentially provide five new homes, two of which will be wheelchair units.
- A procurement exercise is underway to obtain architectural consultancy services to carry out a feasibility study for a "no longer fit for purpose" former hostel in Tavistock Road. It is

anticipated that it may be possible to deliver between eight and twelve new homes at this site.

4.2 Investment

4.2.1 Capital investment of £7.6m was delivered in 2013/14, which included expenditure on:

- 286 new kitchens
- 358 new bathrooms
- 300 replacement boilers
- Windows at 40 properties at Verity Close
- 367 new front doors
- 789 electrical rewires (some of which were completed at the same time as the kitchens and bathrooms)

4.2.2 In addition the roofs and the lifts were replaced at Tavistock Road sheltered housing scheme.

4.2.3 The budget for day to day repairs, including most repairs that tenants report to the TMO, was £5.4m.

4.2.4 The planned and responsive repairs budget for most mechanical and electrical works was £4.2m, and this included responsive works to estate lighting, communal and domestic electrics and boilers; and planned maintenance to properties including lift and boiler servicing, and an external decorations programme.

4.3 Commercial Portfolio Development

4.3.1 KCTMO and RBKC are working together to improve the performance of the portfolio and achieve better outcomes for the HRA. This includes reviewing the portfolio to identify opportunities to develop residential provision and increase the revenue income by using spaces within HRA estates that could have a commercial use including storage, parking and spaces for arts and culture. The first of the car park projects is now in place with a further three due to come to fruition over the next year. The projects are forecast to bring in an income of approximately £10m over the life of the leases. As such, these projects will generate an estimated £187,000 of new income in 2015/16 (the exact sum will be dependent on the legal completion dates) increasing to £481,000 per annum by 2018/19. Annual commercial income is now expected to surpass £3m for the first time.

5. The Council's Stock and Asset Management

5.1 The Profile of the Council's Stock

5.1.1 The total tenanted stock is 6,928 properties with a further 2,548 leasehold properties. This includes 44 hostel places and 176 sheltered units. The stock is predominately flatted, with a small number of houses. The majority are post war construction built during the boom in council housing. The Council's stock has a disproportionate number of studio and one bedroom properties. It also includes 12 listed buildings in TMO management, which covers 330 properties, and has almost 1400 properties in conservation areas.

5.1.2 The breakdown of the age of the stock is as follows:

Pre 1919	1919-44	1945-64	1965-74	Post 1974	Total
1,662	706	2,844	2,272	1,992	9,476
18%	7%	30%	24%	21%	

5.2 Asset Management Strategy

5.2.1 HRA self financing means that it is ever more important for stock owning councils such as RBKC to understand the performance of its housing assets and the resources available to maintain them. KCTMO in consultation with the Council has developed an Assessment Management Strategy that supports this by setting out:

- the expected standard that the Council's housing should meet.
- how investments will be prioritised within this standard, within agreed budgets.
- A framework for identifying and progressing options for non-performing assets.
- how energy efficiency within the stock will be improved.

5.2.2 The strategy is the framework for a five year capital investment plan, setting out where the Council intends to invest in the short and medium term.

5.3 The Kensington and Chelsea Investment Standard

5.3.1 KCTMO and the Council is developing an Investment Standard that sets out a hierarchy of investment and the broad standards associated with each item. The standards are intended to be aspirational but affordable. The standard also sets out expected lifecycles for each component so residents can understand how the TMO plans to replace key items in their homes and buildings.

5.3.2 KCTMO has consulted widely with residents on the Investment Standard and the priorities for investment. It has done this through their Board; the Assets and Regeneration Panel (a focus group); exhibitions and drop in roadshows at key estates and venues (which is ongoing through the year); and via articles in the residents' magazine the Link.

5.3.3 The proposed standards of investment are based on six categories of work:

- Your health and safety
- Keeping homes wind and weather tight
- Inside your home
- Improvements to communal areas
- Improvements to neighbourhood
- Accessibility.

5.3.4 The standard will be designed to fit within budgets available in the HRA Business Plan. Where short term resources are insufficient to deliver the standard, works will be prioritised based on cost and deliverability on the following basis:

- Statutory Compliance - Your health and safety
- Physical structure - Keeping your home wind and weather tight
- Modern facilities - Inside Your Home
- Improvements to communal areas and neighbourhoods.

5.3.5 A specific budget for disabled adaptations will be agreed with the Council to address the accessibility element of the standard.

5.3.6 Underneath these high level standards are detailed standards that define the specifications that the TMO works to when carrying out work. The TMO will be publishing a version of this for residents, so they can understand the specific kitchen, bathroom etc. standards.

5.4 Disposals and Conversions

5.4.1 The Council is considering proposals for a Housing Revenue Account Assets Disposal and Conversion policy that sets out the

limited circumstances under which social housing within the HRA could be considered for sale on the open market (disposal) or be converted to an alternative tenure (particularly intermediate tenures that are affordable to working households on low-middle incomes).

5.4.2 Disposals would be considered on a case by case basis and would only be included if they are assessed as not being financially viable, i.e. the property has a negative net present value (NPV) and the investment will not generate sufficient return. Any income from disposals or conversions will be re-invested back into the Council's housing stock, both to increase supply and improve its quality.

5.4.3 If agreed, each year, the Housing Department will include a summary of disposals or conversions of social housing in the HRA Business Plan.

5.5 Older People's Housing

5.5.1 In 2013, the Council outlined its ambition to improve housing options for older people in the borough in the Modernising Older People's Housing and Accommodation with Care Services Strategy.

5.5.2 KCTMO manages five sheltered housing schemes and one extra care housing scheme on behalf of the Council. All of the schemes operate with a negative or marginal NPV and provide accommodation that falls below the desired standard for older people's accommodation. The Council is seeking to explore opportunities for refurbishment or redevelopment of these schemes as well as identifying opportunities within the Council's wider housing stock and regeneration ambitions. The Council also continues to encourage the Borough's Registered Providers to review their own housing stock to meet the needs of ageing residents.

5.5.3 The Council is reviewing options for a site that is made up of temporary accommodation units that operate with a negative NPV and general needs units. This site could enable the Council to realise ambitions to begin to improve the housing stock for older people by providing remodelled or new units of accommodation. While this would create a loss of temporary accommodation in the short term, it is hoped that regeneration of this site could improve housing mobility of older people who are under-occupying family-sized accommodation by offering desirable and accessible homes that are fit for the future.

5.6 Greener Housing

5.6.1 KCTMO is developing an environmental strategy that sits alongside the Asset Management Strategy. This has the objectives of reducing climate emissions through the stock, alleviating fuel poverty, and improving the health and wellbeing of residents.

5.6.2 The strategy will also set out the kind of interventions that KCTMO intends to make. These are divided into two main areas: property based interventions and resident behaviour change.

5.6.3 The property based measures will have a hierarchy of interventions:

- Be Lean – take passive measures over technological solutions (i.e. a building fabric first approach)
- Be Clean – produce less emissions in the first place (e.g. through more efficient boilers, individual and communal)
- Be Green – Use renewable technologies where appropriate.

5.6.4 The strategy will also set out how KCTMO will improve its knowledge of the stock by completing more energy surveys, and identifying sample blocks or properties for the subject of pilot studies.

5.6.5 KCTMO will not plan specific energy programmes; rather any energy improvements will be part of the mainstream capital programme so that works are planned in conjunction with other major investments. This will avoid wasteful one offs and short term measures, which then have to be replaced.

5.6.6 For the resident behaviour side, KCTMO will embark on an energy education programme to enable residents to use their homes in a more energy efficient way, which will save both carbon and money. As an example of this, the new Gas Servicing Contract requires the contractor to explain to residents how to adjust their boiler, radiators and thermostat so that they are using their equipment in the most efficient manner.

6. Regeneration

6.1 Regeneration and Investment Needs

6.1.1 The Council needs to find ways of delivering more new housing across all tenures, and especially housing that is affordable to hard-working households on middle incomes. This sits alongside preserving the diversity, creativity and choice provided by our current mixed communities.

6.1.2 Regeneration can also provide solutions to how we pay for the maintenance and improvement of our existing tenants' homes, and to ensure the stock meets the needs and aspirations of our tenants now and into the future.

6.1.3 Regeneration can also deliver opportunities to improve the health, education, employment and community safety outcomes (many of which can be related to housing conditions) in our most deprived areas.

6.1.4 With these objectives in mind, the Cabinet has already agreed that further work on two ambitious schemes be initiated:

- Pembroke Road/Warwick Road Estate – this scheme will allow the re-provision of 116 existing homes as well as the development of approximately 150 additional new homes, including a doubling of affordable housing on the site. The redevelopment also provides the opportunity to deliver a new, fit for purpose depot, improve the existing nursery provision and provided new retail and office space for the area. High level feasibility work has begun and will continue throughout the following financial year.
- Barlby School/ Treverton – this will involve the redevelopment and expansion of an existing school, which is very popular and in need of extra places, plus a brand new special needs school. The existing housing estate adjoining the school will be considered for an ambitious regeneration scheme which could increase the quantum of housing and provide better quality housing and an improved urban environment. Feasibility studies for this scheme will be developed during the forthcoming financial year.

6.1.5 To fund any regeneration activity, the Housing Department has developed proposals to establish a Council owned company (CoCo) to help finance development. In addition, we will use, where appropriate and only when additional affordable homes will be delivered, money collected through commuted sums from planning gain.

6.2 Edenham Way and Trellick Tower

6.2.1 This is a vacant site currently made up in part as a temporary car park on Edenham Way and in part of the site at the rear of Trellick Tower (including the unused former garages, ballpark and

garden). The site is owned partly by the General Fund (60%) and partly by the Housing Revenue Account (40%).

6.2.2 The Core Strategy states the site will be used for at least 60 new homes.

6.2.3 A Cabinet decision was taken in March 2013 for a housing development made up of 50% affordable housing (of which 70% would be intermediate and 30% would be social rent) and 50% market housing.

6.2.4 An architectural and massing study was completed in 2012 and provided options for the development of the site. A full OJEU procurement exercise was then undertaken to appoint architects to put together a planning application for the site in line with the soon to be issued Supplementary Planning Document guidance.

6.2.5 Haworth Tompkins were the successful architectural firm and they are currently working on a full options appraisal for the site. The first public exhibitions are expected to take place in early 2015 with the final planning application scheduled for submission in Autumn 2015. Subject to approval, it is anticipated that the build out of the site could commence by mid 2016 and is projected to take approximately two years.

6.2.6 Trellick Tower has shown a negative net present value (NPV) of £48,000 per unit in Trellick Tower over the next 30 years. Trellick Tower thereby presents the HRA with a significant financial liability.

6.2.7 Consideration needs to be given to addressing this investment shortfall at Trellick Tower. To inform this work, officers are currently developing a fully informed investment need plan for the estate which will help to shape decisions as regards the future of Trellick Tower.

7. Need to Spend/Priorities for Capital Expenditure

7.1 Need to Spend

7.1.1 An additional £25 million to enhance the HRA Main Capital Programme was agreed as part of the HRA Business Planning process last year. This funding has been profiled over a 4 year period.

7.1.2 Each year, the Council sets a 3 year capital programme. The HRA Main Programme for the next 3 years 2015/16 to 2017/18, has been set to match the TMO's estimates of priority expenditure

needing to be incurred during this period. Details are set out in Appendix 1. The level of funding to be made available in subsequent years needs to be determined, taking into account all HRA spending requirements and resources available. At this stage, our financial modelling assumes £10 million will be available in each of these two years taking the 5 year funding available for the HRA Main Programme to £64 million.

7.1.3 The principles from the Asset Management strategy have been applied to the programme, and works identified are the works required to meet the standard agreed above.

7.1.4 Some estates remain essentially unplanned, or planned after this five year period, while decisions are made about their future. This includes Treverton Estate and Warwick Road Estate. Given the exceptional costs involved, Trellick Tower's future maintenance is also being considered separately.

7.1.5 Some elements of work are not included in the programme, in particular works and improvements to communal areas and external landscaped areas, parking, and other communal features. This is in line with the Asset Management strategy that prioritises other elements of work.

7.1.6 The forecast stock condition need is therefore greater than the planned programme resources identified. The five year stock condition forecast of investment need in all the stock is £110m when fees are included. Therefore there is a gap of £46m.

7.1.7 This is partly caused by the historic backlog of catch up work that is required.

7.2 Capital Programme Priorities

7.2.1 Using the principles established in the Asset Management strategy, KCTMO has developed an investment plan to set out the programme priorities over this period. The plan will be reviewed on an annual basis to take into account changing levels of resources, any planned regeneration works, updated survey information and feedback from KCTMO departments and resident consultation on where investment priorities should be made.

7.2.2 The plan is based around creating sensible geographic concentrations of work for internal refurbishments, so that programmes can be efficiently managed and delivered from local site set ups. External works have been planned around the seven year cyclical decorations programme, with the intention that where

scaffolding is erected for external decorations other key components that require work are also replaced. This will prevent repeated costs of erecting scaffolding. All the works identified have been surveyed, however before any works are instructed validation surveys will be completed to confirm that any works are necessary.

7.2.3 Detailed condition surveys have been completed for mechanical and electrical items such as central plant, lifts and door entry systems. This has enabled KCTMO to plan over the longer term for the replacement of these items.

7.2.4 Surveys will be completed on an ongoing basis so that KCTMO keeps its stock condition information up to date and is able to adjust its planned programme accordingly.

7.2.5 KCTMO is also developing ways of communicating the planned programme with residents. Estates that have been identified as being part of the 2015/16 programme have been visited as part of a programme of "Future Fit" roadshows. At these events, KCTMO presents what work is being considered and asks for residents' feedback on what their priorities are. These have then been factored into the programme planning.

7.2.6 In 2015/16 major investment in kitchens and bathroom replacement, as well as rewires and heating improvements will continue.

7.2.7 A major programme of lift replacement will also commence in 2015/16 – a number of lifts are becoming increasingly difficult to repair as their parts have become obsolete, and they must now be replaced. Initially this work will focus on feasibility, with delivery beginning towards the end of the year. In a similar vein, the process to replace ageing central plant will begin – at Lowerwood Court work is already underway and will continue, and work is planned at several sites around the borough.

7.2.8 Replacements of roofs and other external elements continue, alongside the cyclical decorations programme, subject to detailed survey results. In addition a programme of window replacements will begin, focusing on those areas where existing single glazed windows have reached the end of their useful life.

7.2.9 As has already been said the scheduled works will be those prioritised in accordance with the Asset Management Strategy. This would leave some works that would be required in the time period outstanding.

7.2.10 The works not prioritised in the Asset Management strategy, and therefore not scheduled to be completed within the five year programme include: insulation to solid wall properties, improvements to internal communal areas, replacement of communal areas windows, improved flooring. In addition to this external improvements to environments such as paving, roads and other landscaping arrangements.

7.2.11 The total spending requirement over the five year period is estimated to be £110m. However, at this stage only resources of £64m have been identified. Investment has been prioritised in accordance with the Asset Management strategy.

7.3 Procurement

7.3.1 In order to deliver the next five years of the capital programme KCTMO has procured a bespoke framework of contractors, from which it can call off up to two contractors to complete the works. These frameworks will begin in April 2015.

7.3.2 The frameworks can deliver all works required under the capital programme, with the exception of the lift programme. However, KCTMO is under no obligation to use the frameworks should it decide that better value for money can be obtained from outside of the framework.

8. Revenue Budget – Financial Outlook

8.1 The Self Financing regime for Council housing finance was introduced in April 2012. It provides more certainty over HRA resources, in particular rental income, and enables authorities to plan over a longer timescale. However, authorities must take full responsibility for costs attributable to the HRA including capital financing and depreciation.

8.2 The Royal Borough therefore needs to ensure that robust financial planning is embedded into its processes and is closely aligned with its business planning.

8.3 The Business Plan presented to Scrutiny Committee in January 2014 set out various ways of increasing capital resources. This included proposals to increase rental income as rents are set to converge with their target/formula rent over the five year period 2014/15 to 2018/19. This revised policy was introduced in April 2014 and was expected to generate an additional £7m over 5 years.

8.4 This additional income can be used to increase capital

resources and thereby enhance/develop the funds available to invest in the Council's housing stock.

8.5 The gross budget for 2015/16 is £47.944 million and can be summarised as follows:

	2015/16 Budget £ Million
Management Fee	10.631
Maintenance – planned and responsive	12.183
Capital Charges	10.838
Various Smaller Budgets	14.292
Total HRA Gross budget	47.944

8.6 In addition a contribution of £ 18.661m is being made to the Major Repairs Reserve in 2015/16 which is being used to fund capital expenditure.

8.7 There is a close link between revenue maintenance budgets and the Capital Programme. Spending on revenue through planned and reactive maintenance programmes will extend the life of a property, thus minimising the capital spend on major works. It is anticipated that in future year's revenue maintenance budgets will reduce as revenue and capital budgets are realigned.

8.8 A Members Working Group has been established by the Housing and Property Scrutiny Committee to review and make recommendations regarding income generated from parking facilities within the HRA; this includes charges for garages and parking bays.

8.9 The rental income produced during the year 2013/14 for the commercial portfolio totalled £2.962m. This is up on £2.856m from commercial tenant receipts in 2012/13. Income from this portfolio will increase further in 2014/15 particularly in relation to telecoms site, basements let to storage companies and parking initiatives.

8.10 The key risks to the HRA revenue budget over the medium term are:

- Inflation, particularly relating to employee costs (have been very low in recent years) and maintenance contracts;
- Interest charges on HRA debt;
- Changes in Government policy regarding the annual increase applied to target rents (CPI + 1% compared to the previous increase of RPI + 0.5%)
- Leaseholder contributions towards capital schemes (contributions depend upon the works undertaken) and
- Bad debts arising from the welfare reform changes.

8.11 Based on a number of assumptions (see the rent report, elsewhere on this agenda), the HRA working balance is estimated to be £35 million at the end of the next 5 years (March 2020). This balance is after transferring £72 million to the Major Repairs Reserve as a contribution to the overall HRA Capital Programme.

8.12 There will always need to be a working balance to allow for both known and unknown risks to the HRA (see above). At this early stage of the new self-financing arrangements, it would not be considered prudent to reduce the working balance below £10 million. However, there clearly is further scope to draw down additional funds for capital purposes over the medium term.

9. Capital Resources

9.1 The work undertaken by Savills has helped to determine the level of investment needed to maintain the current stock to an agreed standard. As a result, an additional £25 million was added to the main HRA Programme over a 4 year period. The 5 year Main Programme now stands at £64 million. This excludes the funding of specific regeneration schemes.

9.2 A number of new developments/regeneration projects are anticipated over the next 5 years. Each scheme will be considered separately to determine both the short and long term financial implications that could arise. Any implications for other services e.g. Adult Social Care will need to be determined.

9.3 The capital funding arrangements for each scheme will need to be identified prior to any scheme being approved. Funding sources are likely to include:

- Contributions from the revenue budget/working balance
- the use of capital receipts;
- S106 contributions (some of which are ring fenced to older people's housing)
- Use of the Council Owned Company and

- Borrowing.

9.4 The potential sources of funding are considered further below:

a) Contributions from the revenue budget/working balance

The annual budgeted revenue contribution to the HRA Capital Programme has in recent years been set at £7m. An additional £25 million is being made available from the working balance to supplement the main HRA Capital Programme over a 4 year period. The annual budget is then assumed to be £10m, but will need to be reviewed to ascertain adequacy and affordability.

As indicated above, there remains further scope to draw down from the working balance for capital funding purposes.

b) Use of Capital Receipts

- I. The number of Right to Buy sales has significantly increased following the increases in discounts available to tenants. The intention is that the additional capital receipts available to councils are used to replace properties on a one for one basis. However, there are constraints on the usage of these receipts. If appropriate schemes cannot be undertaken in the required timescales then the receipts plus interest will need to be returned to Central Government.
- II. Other capital receipts can arise which may be available for use on HRA assets. For example receipts arising from lease extensions.
- III. Some authorities sell a number of their properties each year in order to fund capital works to their stock.

It is not proposed that the Royal Borough adopts an approach of annually selling properties to fund capital expenditure. However, there are a number of properties in the stock where sale on the open market may be the most effective course of action. It is therefore proposed that consideration is given to a small number of sales thereby releasing capital receipts which could be used to increase the Capital Programme.

Any properties sold in this way would be replaced on a one for one basis so that the overall stock level would be maintained.

c) S106 Contributions

As part of Planning considerations, commuted sums are often lodged with the Council in lieu of developing on site affordable housing. Some of these funds can be ring fenced e.g. to Older People's housing. Use of such funds can be determined on a scheme by scheme basis.

d) Borrowing

Despite the aim of HRA's becoming self-financing, local authorities have been set a borrowing cap for their HRA which cannot be exceeded. Authorities can borrow up to their cap provided they can afford to finance the loans.

The Royal Borough's cap is £221m, given our current debt our headroom for borrowing is only £11.4m.

Some of the current external debt is at fairly high rate, the loans were taken out a number of years ago. The penalties arising from early redemption mean that refinancing the loans is not cost effective.

Given, the limited scope for additional borrowing, the intention is to not use it to fund maintenance work but to invest in future regeneration or development of affordable housing.

e) Development of Private Housing Schemes

Opportunities could be taken to develop housing schemes where market or Affordable Rents are charged. The surpluses could then be used to support other HRA capital projects.

f) Council Owned Company

The Council intends to establish a Council Owned Company to support future developments. One of the key advantages from such an arrangement is that a higher level of borrowing could be achieved, as the HRA debt cap would not apply to the Company.

10. Delivery

10.1 Implementation of the Capital Programme Business Plan will be a joint workstream which sits in both the Council's and KCTMO's Business Plans and features in the on-going Performance Agreements written as part of the governance requirements under the Modular Management Agreement.

10.2 KCTMO's Asset and Regeneration team will work closely with the Housing teams on delivery. Processes and monitoring are in place to ensure:

- the on-going procurement timetable is met
- the Keystone Asset Management system is updated
- monthly review of capital programme spend requirements is undertaken
- quarterly and annual reporting of capital spend is undertaken.

11. Resident Engagement

11.1 The Council has undertaken to engage with the community and provide transparency. This extends to providing information on capital programmes and regeneration works associated with HRA estates.

11.2 The capital programmes associated with this plan require consultation with residents which the Council would expect KCTMO to lead on.

11.3 KCTMO has a hierarchy of involvement structures that move from estate or neighbourhood based residents' associations through to the TMO board itself.

11.4 KCTMO will consult with residents on the proposals, including the practicalities of how the works will be delivered.

11.5 Where more significant changes to estates are considered, KCTMO will carry out detailed consultation with residents on their aspirations for their home and neighbourhood, before reviewing with residents the best option for their home.

12. Conclusions

12.1 Maintaining the Existing Stock to the Required Standard

12.1.1 The estimated cost over the next 5 years of investment need in all the stock is £110million, while the planned programme for this period is £64million. This means there is a shortfall of £46m.

12.1.2 The works that have been scheduled are the works given priority in the Asset Management strategy. This means that during this five year period a backlog will develop of these works that have not been prioritised.

12.1.3 The cost of not doing these works could be tenant dissatisfaction, increased expenditure on reactive repairs and the risk of failure of items not prioritised.

12.1.4 Including these works in the programme would require additional funding from the working balance, or identification of another funding stream to fund the works.

12.2 Regeneration and Development Funding

12.2.1 The Capital Programme contains an annual provision of £250k to undertake initial feasibility studies. Any development programmes will however be considered on a case by case basis with a separate supporting business case. For each scheme an appropriate delivery and funding mechanism will need to be agreed.

13. Recommendations

13.1 Maintaining the existing stock to the required standard

- To allocate capital resources of £44m to the Main HRA Programme for the three year period 2015/16 – 2017/18 Capital Programme to enable us to carry out the necessary works to our stock in line with the Asset Management strategy.

Appendix 1**DRAFT 2015/16 – 2019/20 BUDGET**

Item	2015/16	2016/17	2017/18	Total
Internal Works (Kitchen, Bathroom, Electrics, Heating)	£7,500,000	£4,000,000	£5,000,000	16,500,00
Windows and Doors	£1,000,000	£3,000,000	£2,000,000	£6,000,000
Roofs and External Elemental Renewals	£2,500,000	£2,500,000	£4,000,000	£9,000,000
Lifts	1,000,000	1,140,000	£1,140,000	£3,280,000
Central Plant and communal services	£1,000,000	£2,350,000	£2,790,000	£6,140,000
Aids and Adaptations	£200,000	£210,000	£220,000	£630,000
Capitalised Repairs	£450,000	£450,000	£475,000	£1,375,000
Capitalised Voids	£250,000	£250,000	£275,000	£775,000
Commercial Properties	£100,000	£100,000	£100,000	£300,000
Totals	£14,000,000	£14,000,000	£16,000,000	£44,000,000