

REPORT FOR: **CABINET**

Date of Meeting:	22 November 2012
Subject:	Housing Revenue Account - Changes to Housing Asset Management Capital and Revenue Budgets
Key Decision:	No
Responsible Officer:	Paul Najsarek, Corporate Director of Community Health and Wellbeing
Portfolio Holder:	Councillor Bob Currie, Portfolio Holder for Housing
Exempt:	No
Decision subject to Call-in:	Yes
Enclosures:	None

Section 1 – Summary and Recommendations

This report sets out a proposal to re-align individual budget lines on the Housing Capital Programme because of information that was not known at the time the budget was set in February 2012. It also seeks approval for supplementary estimates in the revenue budgets, funded from a reduced utilisation of capital resources and HRA reserves.

Recommendations:

Cabinet is requested to approve the following budgets changes:

- a) re-align the HRA capital programme as set out in the Table 1 paragraph 4.1 on page 5.
- b) agree a supplementary estimate for revenue funding of works arising from the new health and safety inspection regime to be funded by

- reduced capital funding costs in the HRA of £300k
- c) agree a supplementary estimate for salaries of £70k

Reason: (For recommendation) To enable the 2012/13 capital programme to be delivered on time and for savings achieved through procurement to be fully utilised, and to increase the staffing budget to reflect a more accurate apportionment of activities between capital and revenue.

Section 2 – Report

1.0 Introduction

1.1 Since Cabinet approved the HRA budget in February, 2012, there has been considerable progress in establishing the new asset management service and in achieving considerable procurement savings. The service has also introduced a comprehensive Health and Safety inspection regime for all assets owned in the Housing Revenue account.

1.2 Changes are therefore required to the budget headings that were approved in February 2012, to allow the procurement savings to be reinvested and the health and safety spend to be appropriately apportioned between capital and revenue. The budget therefore needs to be realigned to reflect the new programme.

1.3 Examples of procurement savings providing the opportunity to reinvest include:

- In 11/12 we procured our window and doors programme at 19% below the previous Kier exercise. This allowed us to bring some properties forward from our then 12/13 draft programme.
- For the 12/13 windows and doors programme we respecified our products to open up the market to more potential contractors. In the latest procurement exercise we estimate we will return up to a 25% further saving compared with 11/12.
- In 11/12 we procured 3 sheltered housing lifts at a 20% below the previous Kiers contract awarded. In 12/13 we have achieved a further 25% saving compared with 11/12.

1.4 In addition to the above, there was a higher than anticipated carry forward from 2011/2012 into 2012/2013. The programme is on target to spend in full in 2012/2013 and includes the total carry forward.

2.0 Options considered

2.1 The only alternative option is to leave budgets as they are. This option is not recommended as it would increase the risk that the entire 2012/13 Housing Capital Programme will not be delivered, and that we will be unable to take advantage of the procurement savings achieved in this financial year.

3.0 Current situation

3.1 At present we are on target to deliver a capital programme in excess of £9 million (including £1.5m carried forward from 2011/12), which is a considerable increase from the total programmes of £6 million in 2011/12 and £5 million in 2010/11. In addition for the first time in many years we have a 5 year external decorations programme that will start on site before the end of this financial year. However to enable us to let contracts the re-alignment needs to be progressed urgently

3.2 Table 1 sets out the previous budget headings and the change required to realign. Column 6 sets out the reasons for realignment which are primarily:

- Savings have been made in procuring works which we would like to reinvest in other areas of the programme.
- A greater value of works were carried forward from 2011-12 to 2012-13 than originally anticipated which means we are able to increase our commitment to vital improvements such as kitchen, bathroom and heating programmes. This enables increased programming in some areas.
- Some contracts are actually being delivered differently from that originally envisaged. For example, kitchens and bathroom improvements are being delivered in a single contract; it makes sense to group the expenditure on these 2 elements of the programme together. This will improve presentation and understanding, as well as the ability to effectively monitor individual contracts on the programme if budget lines reflect the way that contracts that are actually being delivered.

3.3 In addition to the above points, it is worth highlighting that we have recently procured a combined contract, covering both kitchen and bathroom works, that will enable us to improve over 700 kitchens and bathrooms this year. An added element to this contract is that we are now offering tenants in sheltered housing a choice between baths and level access showers, to meet their individual needs, which we anticipate will reduce the need for individual adaptations, procured outside a programme, in the future. We are proposing to combine the capital codes for kitchen and bathrooms, along with the brought forward budget from 2011/12 into one budget heading to align with the contract that has been let.

3.4 We also propose to combine the gas heating and the partial heating programmes to reflect our programme of replacing back boilers from both

works carried forward and this year's programme. This programme will also include the replacement of 2 communal boilers, whilst the boiler capitalisation programme will include one off replacements that are usually required when the existing heating system fails unexpectedly. Rationalising heating and boiler works into a single scheme will reflect how these works are actually being delivered.

3.5 Both the Aids and Adaptations for Council tenants and the Enveloping programme elements are expected to deliver savings this year and so we propose to redirect those savings to expedite other capital schemes in year.

3.6 We propose to allocate £80,000 to a fencing programme, as part of an additional promise to tenants and leaseholders in the Repairs Charter to both meet an existing need and improve the 'look' of our estates.

3.7 We propose to defer £60,000 set aside for garage works to 2013/14 at the request of the Garage Strategy Group. This will provide the opportunity to get clearer information on need and provide for a more substantial programme in that year.

3.8 Increasing the allocation for upgrading the Sheltered Warden Call Scheme allows us to complete the remaining 11 schemes in year.

3.9 We propose to increase the estimate for capitalised salaries to allow additional resources to be invested in more proactively consulting tenants and leaseholders on major works programmes, something that they have asked us to prioritise. There is also a need to increase the revenue budget by £70K as part of this realignment to be funded from balances.

3.10 It is proposed to reduce the capital budget for Health and Safety works by £300,000 (currently £500,000). We had originally assumed that these works would be of a capital nature, but having carried out a number of fire safety reviews, it has become apparent that the majority of these works are more of a revenue nature, and as such should more appropriately be funded from revenue. We are therefore requesting a supplementary revenue estimate in the sum of £300,000 for Health and Safety Works to permit these essential works to be carried out. Given the nature of capital funding within the Housing Revenue Account following the introduction of self-financing, the reduction in capital budget would result in a reduction in the amount of funding required from the revenue side of the HRA. This item will therefore have a revenue-neutral effect.

4.0 The table below shows the original budget, the proposed re-alignment and the change to the overall budget provision.

4.1 Table 1: Realigned HRA Capital Programme

WBS code (1)	Description (2)	Budget (3)	Realignment (4)	Proposed budget (5)	Comment (6)
C11-107E01	Extensions grant	£185,647	£0	£185,647	
C12-107E01	Grant funded extensions	£200,000	£0	£200,000	
C12-108E01	HRA - Aids & Adaptations	£600,000	-£180,000	£420,000	This reflects the 12/13 throughput of aids and adaptations. It also reflects the additional work delivered through the Sheltered Bathroom Programmes below.
C12-110E01	Housing Revenue Account – carry forward of estimated underspend from 2011/12	£1,500,000	-£1,500,000	£0	This was the 11/12 carry forward programme. These have now been placed under their constituent schemes e.g. kitchens and bathrooms now within the relevant codes.
C12-111E01	HRA - Capitalised Salaries	£310,000	£30,000	£340,000	Slight increase in capitalisation which will reflect a resource for resident consultation.
C12-113E01	HRA - Major Voids	£75,000	£75,000	£150,000	Maintenance request for more resources for voids.
C12-114E01	HRA - Kitchens – now to be Kitchens and Bathrooms combined.	£800,000	£2,440,000	£3,240,000	Kitchens and bathrooms to be unified under 1 code to reflect the delivery of the contract. This also includes carry forward contract and extra shower work agreed on Sheltered bathrooms contract.
C12-115E01	HRA - bathroom inc.	£700,000	-£700,000	£0	See above.
C12-116E01	HRA - Health & Safety	£500,000	-£300,000	£200,000	Health and safety inspections indicate that the much of the work is of a revenue nature.
C12-117E01	HRA - Gas Heating Programme	£250,000	£491,000	£741,000	This combines gas boiler, system and any partial heating issues. It includes some carry forward of 11/12 programme.
C12-118E01	HRA - Enveloping Programme	£2,352,350	-£416,379	£1,935,971	In 11/12 we procured a contract for windows and doors with a like for like saving of 19% on the previous Kier contract. Further variation savings during contracts allowed us to bring forward more properties from 12/13.

WBS code (1)	Description (2)	Budget (3)	Realignment (4)	Proposed budget (5)	Comment (6)
C12-120E01	HRA - Door entry upgrade	£400,000	£-375,000	£25,000	Since then we have re-specified the products and re-procured where we estimate that we will achieve a further 25% saving. We will be delivering door entry systems to over 50 locations. This scheme will require intensive leasehold consultation and will be delivered in 13/14.
C12-121E01	HRA - Lifts	£300,000	£-90,000	£210,000	We have achieved significant savings in the procurement of 3 lifts at Durrant Court, Grange Court and Thomas Hewlett house. In 11/12 we achieved savings of 20% against previous Kiers prices (for 3 lifts). In 12/13 we have achieved a further saving of 25% on this years exercise.
C12-122E01	HRA - Digital TV aerials	£50,000	£168,000	£218,000	This includes 11/12 carry forward and 12/13 installations at Virgin analogue sites.
C12-123E01	HRA - Electric night	£200,000	£-127,000	£73,000	This is carry forward. There are no 12/13 electric storage heater schemes.
C12-124E01	HRA - Water tank rep	£25,000	£-25,000	£0	Any water tank replacements resulting from inspections will be within the Health and Safety Programme.
C12-125E01	HRA - Structural issues	£350,000	£48,000	£398,000	12/13 Structural programme and carry forward of 8 Bancroft and 13 Dixon Fold.
C12-126E01	HRA - Sheltered Wardens	£50,000	£20,000	£70,000	Pretender estimates more work than previously anticipated on 2 conversion properties.
C12-128E01	HRA - Garages	£60,000	£-60,000	£0	The Garage Strategy Steering Group have requested that this money is put against the 13/14 programme to ensure deliver strategic objectives.
C12-133E01	HRA - Boiler Replace	£275,000	£-5,000	£270,000	This represents our maintenance team's assessment of one off boiler capitalisations.
C12-134E01	HRA - Partial	£125,000	£-125,000	£0	See Gas Heating

WBS code (1)	Description (2)	Budget (3)	Realignment (4)	Proposed budget (5)	Comment (6)
C12-135E01	Heating HRA - Capitalisation	£75,000	£75,000	£150,000	Programme above. Our maintenance team's assessment of general capitalisation.
TBC	Carry Forward Sheltered Warden call system		£176,379	£176,379	Carry forward of 11/12 Sheltered Warden Call System final 11 sites.
TBC	Fencing	£0	£80,000	£80,000	This is for the 12/13 fencing programme.
	Total	£9,382,997	-£300,000	£9,082,997	

5. Legal Implications

5.1 This report comes to Cabinet to ensure that financial regulations are met in terms of changes to a budget, previously agreed by Cabinet and Council.

5.2 However there are no policy changes or other legal implications arising from this report.

6.0 Financial Implications

6.1 The Council's financial regulations require Cabinet approval for temporary virements exceeding £500k which do not result in a major change of policy. The proposals in this report are primarily to allocate out £1.5m of HRA capital resources carried forward from 2011/12 to detailed capital schemes within the HRA programme; they do not result in a major change of policy.

6.2. The proposals will result in an overall increase in revenue budgets for the HRA of £70k to be funded from HRA balances. The HRA balance is currently forecast to be in the region of £3.5m at the end of 2012/13. It should be noted that whilst this is an increase in net expenditure, the HRA balance will be in the same place as it would have been had these salaries been included in the original budget.

7.0 Performance Issues

7.1 A key performance indicator for Housing is to deliver our capital programme in year, and in budget; current spend to date is approximately £2m. This is an important reputational issue as we have made some firm promises to tenants and leaseholders that we will do so, and it is a critical part of the Housing Ambition Plan.

7.2 Although we are on target to deliver it is necessary to re-align the budgets as detailed to enable contracts to be let in time to deliver the complete programme in year.

8.0 Environmental Impact

8.1 There are no significant environmental impacts of this recommendation as there are no changes to the procurement arrangements or the elements of the Capital Programme that improve environmental factors in homes. However replacing baths with showers where appropriate could make more efficient use of water and rationalising heating and boiler works into a single scheme could generate sufficient savings to bring forward the installation of more energy efficient heating systems from the future year's programmes.

8.2 However capital investment in council homes has the potential to contribute positively to reduce carbon emissions; help to address fuel poverty; and, improve health and well-being – thereby making a positive contribution to the Delivering Warmer Homes strategy. The forthcoming Housing Asset Management Strategy will address these issues.

9.0 Risk Management Implications

9.1 The Housing Risk register includes our obligation to deliver the capital programme, within budget and on time as well as to carry out external decorations to the homes of tenants and leaseholders. Re-aligning the budgets as detailed will enable us to meet these obligations.

10.0 Equalities implications

10.1 An Initial Equalities Impact Assessment on the procurement of the Capital programme was undertaken and agreed in February 2012. There is no change to this arising from the report as there are no recommended policy changes in relation to the capital programme. Any decisions made to bring forward works from future capital programmes to utilise procurement savings will be based on the stock condition information, so that the properties most in need of the improvement will be done first.

11.0 Corporate Priorities

11.1 The proposals in this report support the corporate priorities:

- Keeping neighbourhoods clean, green and safe.
- United and involved communities: A Council that listens and leads.
- Supporting and protecting people who are most in need.

Section 3 - Statutory Officer Clearance

Name: Julie Alderson

Chief Financial Officer

Date: 26 October 2012

Name: Sarah Wilson on behalf of the Monitoring Officer
Date: 26 October 2012

Section 4 – Performance Officer Clearance

Name: Martin Randall on behalf of the Divisional Director Strategic Commissioning
Date: 26 October 2012

Section 5 – Environmental Impact Officer Clearance

Name: Andrew Baker on behalf of the Divisional Director (Environmental Services)
Date: 25 October 2012

Section 6 - Contact Details and Background Papers

Contact: Maggie Challoner, Interim Head of Asset Management
Tel: 020 8424 1473 (internal 2473)

Background Papers: None

Call-In Waived by the Chairman of Overview and Scrutiny Committee	NOT APPLICABLE <i>[Call-in applies]</i>
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