



Board

28 April 2009

Use of HRA reserves to fund capital projects

Report by: Assistant Chief Executive and Director of Business

For decision	Area Implications	All
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Executive Summary	<p>This report relates to the potential use of Housing Revenue Account (HRA) reserves to fund some capital schemes for which we do not currently have a budget.</p> <p>Finance Committee has recently discussed the use of some revenue reserves for unfunded capital projects in principle.</p>
Recommendations	<p>Board is recommended to</p> <ul style="list-style-type: none"> • Agree to the use of £4 million from HRA reserves to fund capital projects • Agree or amend the prioritisation process to identify the projects to be funded • Take updates in the future about the progress of prioritised schemes, or ask Property Committee to do this.

Business Implications	
YHN Mission and Strategic Objectives	This contributes to our strategic objective of investing in refurbishing and building homes.
Value for Money/Efficiencies	<ul style="list-style-type: none"> • It is prudent to maintain levels of reserves in the HRA. This consideration has to be set against the delivery of our strategic objectives. In this case the physical state of our stock and the financial implications that may arise from

	<p>failure to spend on some schemes are relevant.</p> <ul style="list-style-type: none"> • If Board approves the expenditure, projects will be subject to appropriate procurement processes which will help to ensure value for money in each case.
Resources (financial, property, technological or human)	<ul style="list-style-type: none"> • The majority of the overall capital budget for 2009/10 will be spent on the delivery of the decent homes standard. • This standard does not cover all of the needs of our stock, however. The use of £4 million of reserves will allow us to deal with some of the most urgent issues outside the standard. • The use of reserves is a one-off exercise by nature, and will mean that the money will not be available for other priorities.
Impact on Services/Performance	<ul style="list-style-type: none"> • The use of reserves in this way reduces the levels left available for other eventualities. • The schemes that would be funded through this process would contribute to prolonging the life of the assets.
Outcomes for tenants/leaseholders	<p>Tenants will receive the work to their homes that will prolong the life of the building and protect the tenants from hazards.</p>
Risk (reputation, relationship)	<ul style="list-style-type: none"> • The HRA must have adequate levels of reserves to meet future financial pressures. • The kind of schemes prioritised will include those with health and safety implications. The risk of not carrying out these works include risks <ul style="list-style-type: none"> ○ to the safety of the tenants ○ that the properties will deteriorate further and costs will escalate ○ that we will be liable to insurance claims or litigation.
Environmental	<ul style="list-style-type: none"> • Investment will improve the sustainability of properties. • Where possible, opportunities will be taken to improve environmental performance through materials specifications.

	<ul style="list-style-type: none"> • Works to some properties will improve their appearance and will therefore be beneficial to the wider environment. • Environmental impact and sustainability are factors in the proposed investment prioritisation process.
Legal Implications	<ul style="list-style-type: none"> • Newcastle City Council is required to set a budget for the HRA which avoids a year-end deficit. • All improvement works are subject to statutory building regulations.
Equality and Diversity	The projects which are currently unfunded include works to sheltered schemes.
Stakeholder Involvement/Consultation (planned or already carried out)	<ul style="list-style-type: none"> • These proposals have been discussed with the City Treasurer at 'Section 151' meetings. • Consultation takes place with all tenants affected by major works on an individual basis. • There are statutory processes and timescales for works to leaseholders' properties.

Background papers	YHN Finance Committee 19 th March 2009.
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Use of HRA reserves to fund capital projects

1. Introduction

- 1.1 Since the inception of Your Homes Newcastle, the focus of our capital programme has been to achieve the statutory Decent Homes Standard in all of our homes by the government's deadline. Property Committee, Finance Committee and Board receive reports on the progress of this key objective.
- 1.2 Although this work is very important and is well received by our tenants, it does not address all of the needs of our properties. There are many aspects of property maintenance and improvement that are not covered by the government's Decent Homes Standard, or by YHN's enhanced 'Modern Homes Standard'.
- 1.3 Technical assessments indicate that there is a range of work which we should carry out to our housing stock for which we do not currently have a capital budget.
- 1.4 It is permissible to use revenue reserves to fund capital works. Finance Committee have agreed in principle the use of £4 million of the reserves in the HRA to fund a range of prioritised projects.

2. HRA Reserves

- 2.1 Based on relevant statute and financial codes of guidance, a report was taken to March's Finance Committee which suggested that prudent levels of reserves would be maintained if £4 million was released to fund capital works.
- 2.2 Specifically the report recommended the use of £1 million from the pensions reserve, £1 million from the Single Status reserve and £2 million from the General Reserves.
- 2.3 In considering the recommendation, Finance Committee took account of the strategic, operational and financial risks associated with each set of reserves within the HRA. The reserves above were those that were considered to be healthy enough to support the capital programme.
- 2.4 Finance Committee decided to maintain levels of reserves for the
 - Renewals fund
 - Repairs fund
 - Workforce planning

- Investment reserve
- Furniture investment reserve
- Major repairs reserve.

Analysis of these reserves showed that their use for capital projects would place the organisation at financial or other risk.

- 2.5 The report was debated and agreed assuming the predicted year-end financial outturn.
- 2.6 The use of reserves is, by nature, a one-off exercise, so due consideration needs to be given to the ways that this money could be spent. This recommends the use of reserves for unfunded capital works; this will mean that the money would no longer be available for other priorities.

3. Unfunded Capital Projects

- 3.1 The requirement to achieve the decent homes standard was one of the key drivers behind the creation of YHN. Consequently the programme to deliver this standard, (the modern homes programme) has been the major focus of capital spend since 2005.
- 3.2 If possible, concentration on the modern homes programme should not deflect delivery of other projects which are necessary to sustaining our assets, and offering excellent services to our tenants. There are a number of one-off capital projects which need to be funded which do not currently have an identified budget.
- 3.3 Board has previously approved virements (budget movements) within the capital programme to resource the modern homes programme. This means that capital funding is being fully utilised at present, which is why there is this proposal to use revenue money to support capital projects.
- 3.4 The projects in question have been identified from a wide range of sources.
- Many of the projects are proposed technical solutions arising from repeat or one-off problems
 - Others come from specific Health and Safety survey work
 - Others are requests from staff and/or tenants who would like us to respond to local issues.
- 3.5 It can be difficult to assess the relative merits of different capital schemes. For example, we might need to choose between the underpinning of some flats or environmental improvements or the conversion of sheltered bed-sits into larger units. Each has its own

rationale and benefits. A prioritisation model has been developed to help compare and rank a wide range of disparate projects.

- 3.6 The model that has been developed is called the Priority Investment Calculator (PIC). It has been trialled on planned environmental maintenance schemes.
- 3.7 Board is recommended to approve or amend the model which will then become an operational tool. Projects are assessed using the checklist of categories below, then given a score according to the weightings and factors in the appendix. As things stand currently using the PIC, schemes with Health and Safety benefits are the most likely to be ranked the highest, and therefore receive funding. Examples include fire safety works to multi-storey and sheltered flats, works to repair unstable buildings and programmed repairs to security doors.
- 3.8 Other schemes which would score highly are those with significant environmental impact and which also affect a large number of tenants. Examples include schemes to replace the crumbling external fabric of flats, or to provide safe and attractive car parking in areas blighted by poor design.
- 3.9 With any such numerical model, it is important to ensure that the scoring does not become so sacrosanct as to take precedence over sound judgement. . If obvious anomalies are thrown up by using the model, there would need to be some refinement of it. It is anticipated that this would be at the margins, rather than the core.

4 The categories in the proposed PIC model

- 4.1 Health and Safety/other legal requirement
 - No Health and Safety risk to tenant/leaseholder/public/YHN
 - Low Health and Safety risk to tenant/leaseholder/public/YHN
 - Medium Health and Safety risk to tenant/leaseholder/public/YHN
 - High Health and Safety risk to tenant/leaseholder/public/YHN
 - Other legal requirement – to be specified
- 4.2 Landlord requirements
 - Positive impact on social inclusion
 - Improvement to SAP (energy efficiency rating)
 - Meets tenants' aspirations (Tenants' Investment Priorities Survey)
 - Previous commitment to tenants

- Best practice – to be specified
- 4.3 Strategic objectives
- Support and care to communities
 - Three star excellent services
 - A quality workforce
 - Refurbish and build
 - All four objectives
- 4.4 Invest to save
- Reduces housing management costs/time
 - Reduces void losses
 - Reduces responsive repairs costs/life cycles
 - Reduces short term capital requirement
 - All above applicable
- 4.5 Revenue impact
- Increases revenue stream and creates cashable efficiencies
 - Increases revenue stream
 - Creates cashable efficiencies
 - Neutral impact
 - Increases revenue costs
- 4.6 Environmental impact
- Negative impact
 - Neutral impact
 - Positive impact
 - Significant positive impact
- 4.7 Sustainability
- Measurable improvement on impact of investment
 - Positive effect on sustainability scoring
 - Reduction in fuel poverty
- 4.8 Programme alignment benefits
- Volume efficiencies
 - Match with modern homes programme
 - Match with third party programmes

- 4.9 Number of homes to directly benefit from the initiative
- <10
 - 10 – 30
 - 31 – 75
 - 76 – 100
 - > 100
- 4.10 Average cost per unit
- < £1000
 - £1000 - £5000
 - > £5000
- 4.11 Other resource implications
- External flexible funding source
 - External fixed funding source
- 4.12 Other considerations
- Will this provide new stock?
 - Is there unsatisfied demand in the immediate area?
 - Will this project bring benefit to our customers, current and potential?

5. Future position

- 5.1 The use of HRA reserves in 2009/10 will only resolve specific issues at a point in time. Future reports will need to come to Board on a longer term approach to funding and prioritisation. These will take account of the level of reserves, the outstanding capital schemes and any national developments in public finance, particularly the next Comprehensive Spending Review.
- 5.2 On achievement of the Decent Homes Standard, all future capital programmes will need to be prioritised to make the best use of resources that are available to us.
- 5.3 Programming will also take into account tenants' priorities which will be established by survey. It is some years since we have surveyed tenants on their investment priorities. Revisiting this exercise will influence decisions once the government's expectations with regard to decency are met.

6. Next Steps

- 6.1 The PIC model will be amended in line with Board recommendations and the model will be applied to the unfunded capital schemes in order to produce a list of schemes to the value of reserves as agreed by Board.
- 6.2 Specifications will be drawn up for the projects and works will be commissioned. Some schemes will require bespoke consultation.
- 6.3 Tenants will be surveyed to establish their investment priorities.
- 6.4 Work will continue to inform investment planning and programming post decent homes.
- 6.5 Updates will be brought to Board or Property Committee as directed.

PRIORITY INVESTMENT CALCULATOR

Date of PIC creation:

Budget : (Please enter Budget Head/Holder)

Budget Head: Relevant section of the HIP

Budget Holder: Proposer / Key Contact

Project Title

Project Detail

Internal Reference

No. homes 0

YHN resource bid £0

Total resource requirement £0

External funding contribution £0

Clarify on all items where **Marginal** v **Significant** and **Measurable**.

1 Health & Safety Implication

No direct H&S risk to tenant/leaseholder/public/YHN	20	Tick one only	0		
Low H&S risk to tenant/leaseholder/public/YHN			1		
Medium H&S risk to tenant/leaseholder/public/YHN			3		
High H&S risk/impact to tenant/leaseholder/public/YHN			5		
Other legal requirement identified e.g. DDA / HHSRS			1	Tick if identified	

Will the effect of doing or not doing this project pose a H&S risk to either tenant / leaseholder, public domain or YHN? Is the project to improve H&S e.g. bulging chimney stack?

2 Landlord Responsibilities/Legal Requirement

Positive impact on social inclusion	12	Tick all relevant matches	1		
Improvement to SAP Rating (energy efficiency rating)			1		
Meets tenant aspirations (Tenants Investment Priorities)			1		
Previous commitment to tenants/leaseholders			1		
Best practice - to be specified:			1		

This section is intended to cover implications and requirements (legal / moral?). Items identified may need better qualification and guidance on obligations of YHN in certain areas. Is there a specific reference point?

3 YHN Strategic Objective

Support & care to communities	1	Tick all relevant matches	1		
Three star excellent service			1		
A quality workforce			1		
Refurb & Build			1		
All four objectives			1		

Does this project meet the Strategic Objectives of YHN? How can we show 3* service - achieved, what is to improve/do we strive to improve?

4 Invest to Save

Reduces housing management costs/time	10	Tick all relevant matches	1		
Reduces void losses			1		
Reduces responsive repairs costs/lifecycles			1		
Reduces short-term capital modern homes requirement			1		
All above applicable			1		

Will this project bring about a reduction on expenditure in the area. Is there a measurable reduction in the items noted?

5 Revenue Impact

Increases revenue stream & creates cashable efficiencies	10	Tick one only	3		
Increases revenue stream			1		
Creates cashable efficiencies			1		
Neutral impact			0		
Increases revenue costs			-2		

Are there any revenue benefits/implications? Will this project bring about a reduction or increase on REVENUE/R&M expenditure in the area. Effect on Housing subsidy or service charges?

6 Environmental Impact

Negative impact	10	Tick one only	-2		
Neutral impact			1		
Positive impact			3		
Significant positive impact			5		

Will this project have an impact on the surrounding environment? Will it be a positive or negative impact e.g. creating communal greenspaces - removing communal green spaces? Will this project bring energy cost savings?

7 Sustainability

Measurable improvement on 'Impact of Investment'	12	Tick all relevant matches	1		
Positive effect on sustainability scoring			1		
Reduction in fuel poverty			1		

Will this project effect sustainability/turnover of the property/estate/area? Effect on health/crime/education etc-as per NNIS scores? [Factor NNIS into Sustainability scoring.](#)

8 Programme Alignment Benefits

Volume Efficiencies	10	Tick all relevant matches	1		
Match with modern homes programme			1		
Match with third party programmes			1		

Has or can this project be aligned with other/larger programmes to maximise efficiencies and resource i.e. Modern Homes, BNG, NCC projects etc?

9 No. of homes to benefit directly from initiative

<10 homes	4	Tick one only	1		
10 - 30 homes			2		
31 - 75 homes			3		
76 - 100 homes			4		
>100 homes			5		

A direct measure of the number of properties directly effected (positively) by this project

10 Average per unit cost

<£1,000 p.u.	3	Tick one only	3		
£1,000 - £5,000 p.u.			2		
>£5,000 p.u.			1		

Calculated via details input above.

11 Resource Implications

External flexible funding source	3	Tick all relevant matches	1		
External fixed funding source			1		

Higher score for bringing in external funding. Also, is this a bid in an already maxed out budget?

12 Other considerations

Will this provide new stock?	5	Tick all relevant matches	1		
Is there unsatisfied demand in the immediate area?			1		
Will this project bring benefits to our customers - current and potential?			1		

Are there any other consideration for this project - is there innovation or benefit?

TOTAL

#VALUE!

Comments / extra clarification or follow up needed