



## CABINET

15 June 2016

**Subject Heading:**

**Housing Services Asset Management Strategy**

**Cabinet Member:**

**Councillor Damien White**, Deputy Leader of the Council, Lead Member for Housing

**CMT Lead:**

**Neil Stubbings**, (Interim) Director of Housing

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**Policy context:**

HRA Policy and budgets

**Financial summary:**

Agreement of policy directing capital investment into the existing housing stock ensuring a viable HRA business plan.

**Is this a Key Decision?**

**Yes**

**Is this a Strategic Decision?**

Yes

**When should this matter be reviewed?**

February 2017

**Reviewing OSC:**

Towns and Communities

### **The subject matter of this report deals with the following Council Objectives**

- |                                                              |   |
|--------------------------------------------------------------|---|
| Havering will be clean and its environment will be cared for | X |
| People will be safe, in their homes and in the community     | X |
| Residents will be proud to live in Havering                  | X |

## SUMMARY

The Housing Services Asset Management Strategy (AMS) sets out a framework within which the Council is proposing to manage, maintain and invest in its housing stock. The strategy outlines how capital investment, cyclical maintenance and repairs service will be managed to ensure that homes are safe, secure and well maintained for the benefit of residents.

This report is to outline to members the policy aspects of managing and maintaining the Council's housing stock and is aligned to the detailed review of the HRA Business Plan. This was previously considered by members in February 2016 and a follow on report is being presented to Cabinet in June 2016. This report presents the criteria and proposals for investment in the Council's housing stock and have been used to support the business plan assumptions.

The revised strategy is attached to the report as appendix one.

## RECOMMENDATIONS

That Cabinet:

- 1 **Approve** the Housing Services Asset Management Strategy as detailed in Appendix 1.
- 2 **Delegate** to Interim Director of Housing authority to make any revisions to the strategy that may be deemed necessary following resident feedback
- 3 **Note** the HRA Major Works Capital Programme, detailed in HRA Budget for 2016/2017 and HRA Major Works Capital Programme 2016/17 – 2018/19 subject to full Council final ratification.

## REPORT DETAIL

1. The Council is a complex and diverse organisation and provides services to a wide variety of people; the provision of affordable housing is one part of the Councils broad range of functions. This presents challenges when looking to achieve a holistic approach to the management and maintenance of the affordable housing property portfolio as well any new properties acquired or built. The Housing Services Asset Management Strategy (AMS) sets out the approach to maintaining and investing in the existing portfolio

and complements the direction relating to the production of new properties to meet the needs of current and future tenants and residents. The AMS also recognises there must be a commercial and prudent approach to the use of council resources. This approach will ensure that the portfolio not only retains and indeed increases in value but serves the needs and aspirations of the community in which we work.

2. The AMS is an inter-relationship between many aspects of the areas of operations and the strategy recognises this, and reinforces these. The relationship between new build development, management services and direct services to residents (repairs, servicing etc.) is addressed and ensures that an intelligent and commercial approach is adopted. In addition to these, the AMS supports and informs the Business Planning process and is of significant consideration in all strategic and operational decision making activities.
3. An Asset Management Strategy is, in simple terms, a continually evolving approach and consolidation of plans to target and prioritise investment in the Councils housing assets – its properties. It is key to the Council’s strategic and operational business plans and ultimately impacts on customer satisfaction and participation in the service. The proposed strategy is a revision to the previous AMS developed by the former ALMO to address the issues of the Decent Homes backlog. The primary focus of the previous asset management strategy has been the completion of the DHBF programme following the award of Decent Homes Backlog Funding (DHBF). This followed the achievement of the two star rating, under previous regulatory frameworks, and the changes to rebidding requirements introduced in 2010.
4. The strategy sets out the principles, objectives, themes and definitions which will govern the future decision making process of investment into the housing stock. These will allow the Council to have clear and definitive statements supporting the investment or indeed disinvestment in its housing properties.
5. There are two significant policy matters contained within the strategy which should be of particular consideration by members. The matters are
  - The change to the “Just in Time” principle as detailed in paragraph 4.3 of appendix one.
  - Adoption of new options appraisal model detailed in paragraph 4.6 of appendix one.
6. With regards to the “Just in Time” policy, the significant change is that the industry accepted life cycle of a component or element will no longer be the main basis for making decisions on replacement or other type of major interventions. The policy proposed means action will be taken when total failure is imminent or it is not economically viable or affording value for money to undertake works. The decision to invest will be based on
  - Components or elements function relating to building use and income stream

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- Materials used in construction.
  - Age of component or element
  - Ability to obtain replacement parts and ease of maintenance.
7. A detailed assessment of previous financial forecasts observing potential future investment requirements has been undertaken to establish the impact of a change of approach. It must be noted previous forecasts were based on a hypothetical scenario that building elements and/or components will require renewal at the end of the life cycle attributable. The “Just in Time” method assesses the known and/or actual performance of elements and components and forecasts on this basis. This is continually affirmed by the regime proposed in 4.3.2 of appendix one.
8. To support this and accurately forecast condition it is necessary to continually re-assess items to which the Just in Time policy is applied.. The Council will be committing to, as part of the strategy, to undertake periodic annual surveys and a detailed survey every five years.
9. For the purposes of application of “Just in Time” main elements have been divided into high and low risk. The criteria to distinguish “high risk” is proposed to be items inside of residents homes, therefore not easily surveyed, and can affect the basic function of their home. The items identified as high risk are
- Bathroom installations
  - Common building services
  - Communal heating
  - Domestic heating
  - Kitchen installations
10. In order to ensure risks associated with health and safety or a failure to comply with tenancy terms and conditions are managed, a combination of periodic survey programmes and empirical data from maintenance and servicing regimes will be used to identify trends in demand. This requires flexibility to be maintained in financial planning over the 30 year cycle with priorities being reassessed on the main annual review of the Business Plan.
11. The other key change is the adoption of a new options appraisal model. In considering reinvestment and remodelling of stock the Council must consider capital investment and long term maintenance costs..
12. It is proposed the Council will adopt a new Options Appraisal model to critically assess the suitability of properties for development or disposal when the tenancy or other occupation has terminated. The criteria to be utilised in reaching a decision to redevelop or dispose of a property will be
- Location of the property and its relationship to potential redevelopment opportunities.
  - The number and duration of sustainable tenancies or occupation over the previous 12 months period.
  - The period required to secure a tenant or occupant of the building.
  - The levels of investment required as a Reinvestment unit.

- The potential net value the sale of property with a minimum 5% yield and any loan security arrangements.
  - The relationship of the property to the primary functions of Housing Services.
  - The results of an analysis of all financial factors including rental income, costs to manage and maintain and market value.
13. Each option appraisal will be presented to the Cabinet member for Housing with the range of redevelopment or disposal options. The formal decision will be taken in accordance with the Councils constitution.

## **REASONS AND OPTIONS**

### **Reasons for the decision:**

As a large scale owner of built assets it is essential for an Asset Management Strategy to provide a structure and rationale to direct and inform the decisions and assumptions used for the Business Plan. Also the AMS sets out the parameters for the physical management of the buildings (housing) owned by the Council in its capacity as a landlord. It is also intended to reference the Housing Services position with regard to growth and regeneration.

### **Other options considered:**

To continue with the existing asset management strategy.

REJECTED – The existing asset management strategy relates to the regime associated with the Decent Homes programme which has now come to an end. Changes in funding assumptions within the HRA have led to a significant reduction in available resources. Therefore investing on the basis of a predetermined life cycle is unsustainable.

## **IMPLICATIONS AND RISKS**

### **Financial implications and risks:**

The implementation of this strategy is linked to the financial implications and risks concerning the setting of the HRA budget for 2016/17 and the revision of the figures for the 30 year Self Financing Business Plan. The HRA is sufficiently robust to generate working balance reserves of an estimated £2m and provide the levels of investment for stock investment and development as detailed.

There are risks associated with any HRA budget, but it is felt these can be managed.

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The underlying assumptions concerning rent levels underpinning the HRA Business Plan however, have been materially changed with the introduction of the Government's announcement that social housing rents would be reduced by 1% a year for the next four years.

The financial effect of the change is a 4% reduction from levels previously assumed in the model; moving from CPI plus 1% (assumed to be 3% in total) to -1%. In cash terms this amounts to just under £1.9m a year and around £7.9m a year by the end of the 4 year freeze period. This equates to around £68m after 10 years.

Officers have completed a further review of the Business Plan, to determine the most appropriate strategy to meet the forecast shortfall. To some extent this is dependent on the final details of the rent reduction legislation, which is still being considered by Parliament.

HRA Investment Capital Budget sets out the Major Works Programme 2016-19. This is funded from resources available for housing expenditure:-

- HRA resources/revenue surpluses
- Right-to-buy receipts subject to the Council's agreement with the DCLG to use them to fund new housing.

The strategic shift to the "Just in Time" arrangements has reduced the forecast liabilities and enabled for a realistic level of future liabilities to be provided within the HRA Business Plan. The other aspects associated with the strategy gives a clear statement of management arrangements to maintain a long term viable position.

### **Legal implications and risks:**

As a large scale building owner the Council has a variety of statutory obligations to comply with. One of the main duties is that of the council as landlord under the Landlord and Tenant Act 1985. Under the Act, the council must maintain the structure and exterior of its dwelling houses and installations for the supply of gas, water and electricity. Where this duty is breached the council may be sued and found liable for damages and costs. To minimise such claims, it is important that any disrepair caught by the Act is remedied as soon as possible, whether or not the triggers for works under the 'Just in Time' policy are met.

Under the Housing Act 2004, the council has a duty to keep under review housing conditions in their area and deal with any hazards that exist which are determined by reference to a Housing health and safety rating system (HHSRS). The HHSRS is a method of assessing housing conditions. It employs a risk assessment approach to enable risks from hazards to health and safety in dwellings to be minimised. The system applies to all dwellings, regardless of ownership. The HHSRS addresses all the key issues that affect health and safety. It provides an analysis of just how hazardous a property is and includes evidence and statistical information to assist surveyors in making their judgements. Whilst council cannot enforce against themselves, they are expected to apply this system when assessing the condition of their own stock and to ensure that it meets the decent home standard. Again, this will continue to apply and necessary action/works will

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need to be taken whether or not the triggers for works under the 'Just In time' policy are met.

In essence, wherever there is requirement to repair under any legislation that will take precedence over the 'Just in Time' policy.

Whilst the proposed changes are not such as to trigger the need for a statutory consultation under S.105 of the Housing Act 1985, it is recommended that residents views on the proposals are sought and taken on board. In this regard, Paragraph 11 of the strategy document refers to some proposed actions.

**Human Resources implications and risks:**

There are no direct HR implications or risks to the Council or its workforce that can be identified from the recommendations made in this report.

**Equalities implications and risks:**

There are no direct equalities implications or risks to the Council that can be identified from the recommendations made in this report.

**BACKGROUND PAPERS**

None