Committee/Meeting:	Date:	Classification:	Report No:
Cabinet	7 September 2011	Unrestricted	CAB 031/112

Report of:	Title:
Corporate Director Aman Dalvi **Originating officer(s)** Jackie Odunoye Service Head Housing Strategy Regeneration and Sustainability **Authors:** John Kiwanuka: Housing Partnerships Manager	Decent Homes Funding Gap Options for 2011-2015 **Wards Affected:** All

Lead Member	**Cllr: Rabina Khan**
Community Plan Theme	**One Tower Hamlets & A Great Place to Live**
Strategic Priority	**Ensuring value for money across the Council**

1. SUMMARY

1.1 In January 2011 LBTH submitted a revised bid of £133.9 million to the Homes and Communities Agency (HCA) for Decent Homes Backlog funding for the period 2011 to 2015. In February the HCA awarded LBTH £94.5 million for the DH backlog funding which was £39.4 million short of the bid value.

1.2 On 8th June 2011 Cabinet agreed a report which set the principles for ordering schemes included in the backlog DH programmes and also approved capital estimates for 2011/12 and 2012/13 . The adopted capital estimates of £12.94 million for 2011/12 and £29.1 million for 2012/13 were £1.94 million and £16.6 million more than the HCA funding levels for the respective periods. The total difference between the HCA funding and the funding requirement for the approved DH programme over the 2011-13 period is £18.54 million. However, the overall funding gap over the term of the DH backlog funding regime (2011 – 2015) is £39.4 million.

1.3 The Mayor has pledged to fund the entire Decent Homes backlog programme and this report seeks approval to adopt a financial strategy which will bridge the £39.4 million gap between the HCA's allocated funding

and the total funding needed to deliver the whole DH programme. In addition to the Decent Homes programme other major works will be undertaken to maintain and improve the housing assets. These will be considered in future reports to members as part of the budget process.

1.4 The report also asks Cabinet to note that additional resources of £398,000 will be required to fund the Donegal and Sovereign scheme for completion by December 2011. A revised capital estimate is sought, to be financed from savings elsewhere within the capital programme.

2. DECISIONS REQUIRED

2.1 Agree the options being proposed to bridge the funding gap for the Decent Homes Backlog Programme in 2011/12, 2012/13, 2013/14 and 2014/15, as outlined in Table 1, paragraph 6.11.2.

2.2 Authorise the Corporate Director Development and Renewal after consultation with the Corporate Director Resources and Cabinet Members for Housing and Resources to resolve the financing of the Decent Homes funding gap with a view to maximising use of available capital resources both to the HRA business plan and the Council as a whole and subject to any required confirmation in the annual budget going forward.

2.3 Note the projected overspend on the Donegal and Sovereign phase 2 scheme, and approve the adoption of an increase of £398,000 in the capital estimate, to be funded from savings elsewhere in the programme (paragraph 7).

2.4 Authorise the Corporate Director Development and Renewal, with the agreement of the Assistant Chief Executive (Legal), to enter into all necessary documents to implement the decisions made in respect of this report.

3. REASONS FOR THE DECISIONS

3.1 Financial Regulations require capital schemes to be included within the Council's capital programme and capital estimates adopted in the annual budget prior to any expenditure being incurred. This report seeks the agreement of the options being proposed to bridge the funding gap for the Decent Homes Backlog Programme in 2011/12, 2012/13, 2013/14, and 2014/15 totalling £39.4 million.

3.2 Financial Regulations also require Cabinet to be notified of variations in scheme budgets – whichever the lower- either equalling/or over £250,000, or 10% of the budget and this will apply to proposals on Donegal and Sovereign House

4. ALTERNATIVE OPTIONS

4.1 Schemes within the Decent Homes Programme are assessed by Tower Hamlets Homes in consultation with the Council and are prioritised in accordance with the principles outlined in the June 2011 report to Cabinet. Although alternative delivery programmes could be feasible, the schemes that were agreed by Cabinet in June are considered the best programme going forward in the current circumstances and therefore no alternate option is proposed.

4.2 It is also possible to restrict the programme to the HCA funding available but if no additional resources are applied it would not be possible to bring all our homes to the decent homes standard by 2015 as required by the government. Based on current assumptions if this plan was not adopted 3,875 homes, equating to 31% of our current housing stock would still remain non decent by the end of the four year programme in 2015.

5. BACKGROUND

5.1 At its May 2009 meeting, Cabinet agreed the Housing Strategy 2009-11 which contained the following objectives:

- Delivering and maintaining decent homes
- Place making and sustainable communities
- Managing demand, reducing overcrowding
- New housing supply

5.2 The investment programme addresses these aims, where appropriate. The capital programme is informed by the latest stock condition survey and resident priorities, and agreed in detail for the current and following financial year, with new schemes added to the programme as appropriate to ensure it continues to roll forward effectively and informs the investment planning process for future years.

6. OPTIONS FOR DECENT HOMES GAP FUNDING

6.1 In February 2011 the HCA awarded LBTH £94.5 million for the DH backlog funding which was £39.4 million short of the bid value. Although this was the second highest award in the country it is still insufficient to bring all our stock to the decent homes standard. A range of funding sources will be required in addition to the HCA funding to address the DH Backlog Funding gap and to deliver the Decent Homes Programme for the four financial years 2011/12 to 2014/15. The overall financial strategy has to be considered within the new HRA self financing regime and the overall 30 year HRA business plan.

6.2 The principal funding sources that have been considered are shown in paragraph 6.11.2 (Table 1), and are explained below.

6.3 **Major Repairs Reserve / Unsupported Housing Revenue Account Borrowing / HRA Balances**

6.3.1 The financing regime for Local Authority Housing Finance is currently being reformed, with an expected implementation date of April 2012. Under this new system, in addition to capital funding generated internally, Councils will have scope to borrow resources provided they can afford to do so within the constraints of the system, and the conflicting resource demands within the rolling 30-year business plan. Although final details of the changes to the financing system will not be announced until the Autumn, it is anticipated that when considered in conjunction with the funding outlined in the following paragraphs, the Authority will have adequate resources available to finance the Decent Homes Programme.

6.4 **Homes & Communities Agency (HCA) Street Properties Purchases Grant**

6.4.1 In February 2009 as part of the overcrowding reduction initiatives Cabinet agreed a capital allocation of £19.4 million to be designated for buying back Council properties that were previously purchased by tenants through exercising their RTB. The money was planned to be spent equally over two financial years 2009/10 and 2010/11.

6.4.2 However, due to the huge response from, and the popularity of the programme to leaseholders, the scheme originally earmarked to span two years, was successfully delivered by December 2010. A total of 79 RTB leased council properties were bought back, allowing over 240 overcrowded families to be re-housed. Towards the end of the of the Buyback programme an opportunity arose for the Council to participate in the HCA's Street Properties Purchases Grant. The HCA required that only properties that had been completed prior to 31/03/2011 would be considered for the grant. We therefore proposed that the RTB buy back programme be considered for this grant.

6.4.3 LBTH delivered on the completion deadline, and accordingly, we were awarded £7.9m un-ring-fenced grant for the bought back properties, averaging £100k per property

6.5 **Major Works Capital Contributions Reserve**

6.5.1 The major works capital contributions reserve is composed of recoveries from recharged capital works to leaseholders. It is planned that £6 million of the DH funding will be sourced from this reserve. The major works capital contribution reserve is readily available for DH funding use subject to Cabinet approval.

6.6 **New Homes Bonus**

6.6.1 New Homes Bonus (NHB) is premised on housing supply failing to meet demand.The NHB is a Government scheme aimed at encouraging LAs to grant planning permissions for the building of new houses, in return for additional revenue. The NHB addresses the disincentive within the local government finance system for local areas to welcome growth. This will ensure that the economic benefits of growth are returned to the local authorities and communities where growth takes place.

6.6.2 NHB which commenced in April 2011 is not-ring-fenced, and will match fund the additional council tax raised for new homes and properties brought back into use, with an additional amount for affordable homes, for the following six years 2018. In 2011 LBTH was award £4,387,276 NHB, the largest allocation across the country. The calculation for the awarded bonus was based on net additional dwellings delivered in the authority between October 2009 and October 2010 discounting units demolished, long term empty homes and properties in receipt of 50% council tax discount formula grant.

6.6.3 LBTH will receive £25.8m of NHB for the six years from 2011 to 2018 due to delivery of new supply to date. That could increase to £69.9m based on current projections of future housing growth.

6.7 Summary of how the DH and Non DH funding gap for 2011-15 is proposed to be bridged

6.7.1 A variety of funding sources is proposed that can be accessed to fund the Decent Homes capital programme for the period 2011-2015. The total funding requirement for the net DH backlog funding is £133.89 million, however the Council will need to forward fund the works accruing to leaseholders totalling £15.6 million. Table 1 below summarises how the capital investment funding requirement of £154.49 million for 2011-15 can be met by the various funding sources.

6.7.2 **Table 1**
Decent Homes & Non Decent Homes Capital Funding Requirements for 2011-15 - Funding Options and Potential Resources

DH & Non DH Capital Funding Requirements for 2011-15	Amount £m	Funding Source	Amount £m
Decent Homes Programme	133.890	HCA Decent Homes Backlog Funding	94.500
Decent Homes Works Programme (Non Tenant)	15.600	Major Repairs Reserve / Unsupported HRA Borrowing / HRA Balances/ New Homes Bonus	25.490
		Leaseholder Contributions	15.600
		Homes & Community Agency	7.900
		Major Works Service Charge Reserve	6.000
Total	**149.490**		**149.490**

6.7.3 This financial strategy is grounded in the assumption that the Government's proposals for a ring fenced HRA will come into force as anticipated. It is these changes which will allow us to utilise both the Major Repairs Allowance and the additional borrowing elements shown above. A 30 year HRA business plan has been developed, and tested, and this demonstrates that both depreciation and borrowing are sustainable based on the funding streams shown in the table and their associated modelled cash flows. If the government amends its current proposals, now or in the future, it will be necessary to revisit the funding and cash flow assumptions.

6.7.4 In the past it has not been the practice to allocate Leasehold Major Works Service Charges directly to the scheme to which they related, hence a cash reserve is available as part of this strategy. Going forward however, it is essential that Leaseholder Charges are matched more directly to the schemes to which they relate as the HCA backlog funding is net of Leaseholder contributions. It is also absolutely crucial that these Major Works Service charges are collected, because otherwise the Council will be left with a major unfunded liability.

7. Donegal and Sovereign

7.1 Cabinet approved works worth £2.49 million to be carried out on Donegal & Sovereign Houses, and phase1 of these works involving internals have been completed whilst Phase 2 relating to externals, commenced in January 2011. THH is projecting an over spend on the scheme as a result of:

a. Requirement for special designed scaffolding for use over highways, public houses, extensions in rear gardens and entrances with wider access;
b. Occurrence of voids since the completion of phase 1 works;
c. Additional concrete repairs required due to identification of more areas with high chlorides and deeper carbonation than previously planned.
d. Additional preliminary costs as a result of extended period of works.

7.2 Cabinet is therefore asked to note that additional resources of £398,000 will be needed to fund the Donegal and Sovereign scheme for completion by December 2011. This will be funded by compensatory savings elsewhere in the decent homes pilot schemes and will therefore have no adverse impact on the overall programme.

8. COMMENTS OF THE CHIEF FINANCIAL OFFICER

8.1 Cabinet on 8 June 2011 approved the "*Adoption of Capital Estimates for the Housing Investment Programme 2011/12, Decent Homes Backlog Funding 2011/12 and 2012/13, and other Development and Renewal Directorate led Capital Initiatives*" report which included the specific approval of capital estimates for the first two years of the Decent Homes programme, as well as the procurement methods to be adopted.

8.2 A two year approval was sought to ensure that the programme runs smoothly and to minimise the risk of not meeting Government targets. Adopting a two year programme at this stage will minimise delays and will allow flexibility as to the timing of schemes. Funding for the third and fourth years of the Decent Homes programme (2013-14 and 2014-15) is dependent upon the successful delivery of years one and two.

8.3 The June report approved a programme of £12.9 million for the first year of the programme (2011-12) and an indicative year 2 programme of £29 million. This compares to DCLG grant resources of £11 million and £12.5 million respectively.

8.4 Although capital estimates have been adopted to this level, the programme (where works are anticipated to commence in October 2011) will be robustly managed in line with resources available, with no commitments being entered into beyond the secured funding level. The programme includes significant over-programming, again to ensure that resources are not put at

risk through non delivery in years one and two. However, the report highlighted the need for the identification of significant additional resources for 2012-13 and future years, with the programme initially being closely managed within the resource constraints. Contracts will only be entered into once funding is definitely secured.

8.5 This report outlines proposals for the four years of the decent homes programme which incorporates decent homes works of £149.49 million (including leaseholder works). The analysis of the proposed programme, plus suggested funding sources, is outlined in table 1.

8.6 The proposed resources can be divided into specific groups, all of which require different consideration and approval. These are outlined below.

8.7 **Decent Homes Funding**

8.7.1 The major element of the financing of the programme is Decent Homes Backlog Funding of £94.5 million from the Homes and Communities Agency. Over the four financial years of the decent homes programme (2011-12 to 2014-15), a programme of £133.89 million (tenanted properties) and £15.6 million of leaseholder recoverable works is planned. The Government's funding allocation is £94.5 million, profiled over 4 years as follows:

Year	Funding Allocation (£ million)
2011-12	11.00
2012-13	12.50
2013-14	25.00
2014-15	46.00
Total	**94.50**

8.7.2 It is important to note that only the first two years of the allocated funding is guaranteed, with funding for the 2013-14 and 2014-15 years being subject to the meeting of agreed performance and decent homes targets. As a result it is critical that the Authority delivers the allocated funding identified in the first two years and maximises its decent homes returns. It should also be noted that the funding of £71 million for years 2013-14 and 2014-15 is dependent upon the continuation of Government policy and resources.

8.8 **Reform of Council Housing Finance**

8.8.1 Members will be aware that as part of the Localisation Bill, the Coalition Government is continuing with the review of the Council Housing Finance system. The dismantling of the HRA Subsidy system will change the financing regime for Local Authority Housing Finance, both revenue and capital, and it is the Government's target that the reforms will be in place by April 2012. Under this new financing system all future capital investment must be financed either through prudential borrowing (financed on an annual basis from rental income), capital receipts, specific grants or available HRA balances. When the final implications for the authority are announced, the Authority will review the financing of the capital programme to identify the potential new funding options, although at this stage it is anticipated that the Authority will have the capacity to finance significant capital expenditure over the first few years of the programme. These projected resources are included within the funding sources suggested here.

8.8.2 In addition, there will be scope to borrow resources, within the constraints of the self-financing system. Again, details will be confirmed when the final details of the self-financing "offer" are published by the DCLG later this year.

8.9 **Housing Related Specific Resources**

8.9.1 Certain proposed funding sources are housing specific, and are secured and held in reserves. These are the Homes and Communities Agency funding and the recoveries from leaseholders for major works. These HRA specific resources are available to finance the programme immediately, subject to Cabinet approval.

8.10 **General Fund or Housing Revenue Account Resources**

8.10.1 Certain other resources are held in reserves that can be utilised for either General Fund or Housing Revenue Account activities. It is essential that any decisions to commit these resources are considered in the context of the on-going funding reductions that the Authority is facing and the wider budgetary processes currently being undertaken. The specific items are:

New Homes Bonus – this grant came into effect in 2011-12, with the Authority being awarded the highest allocation in the country, at £4.28 million. It is anticipated that the Council will be entitled to similarly significant sums over the next few years, with these resources being available to finance either General Fund or Housing Revenue Account activities. The current financial modelling suggests that up to £10 million of the New Homes Bonus could be required over the four years of the Decent Homes programme, but as mentioned above, decisions as to the extent of its use as opposed to prudential borrowing will need to be considered within the context of the Council's overall medium term financial strategy. Recommendation 2.2 seeks authority to delegate final capital financing

decisions to the Corporate Director Development & Renewal after consultation with the Corporate Director of Resources and Lead Members

8.11 **Leaseholder Contributions**

8.11.1 Due to the high numbers of leaseholders within the Authority, a significant element of the capital programme will be rechargeable to leaseholders.

8.11.2 Although the Decent Homes backlog works themselves will not involve leaseholders, it is proposed that additional external or communal area works are undertaken to blocks, as well as necessary works within the non-Decent Homes element of the programme. A significant element of these costs will be chargeable to leaseholders, and although the Authority will be required to finance the works initially, it is vital that all costs are appropriately recharged in accordance with the terms of the lease. It is estimated that the leaseholder contributions will total approximately £15.6 million, and members will be aware that we have a Legal duty to fully recover costs incurred. Failure to achieve this will present a significant risk to the ultimate resourcing of the programme.

8.12 **Donegal and Sovereign House**

8.12.1 This report also informs Members of additional estimated costs in relation to the programmed mainstream works being undertaken at Donegal and Sovereign Houses. The reasons for the overspend are outlined in paragraph 7, and in accordance with financial regulations, members are asked to approve a revised capital estimate for these works. The additional costs will be funded from savings elsewhere within the existing approved programme.

9. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)

9.1. The report proposes use of money from a variety of sources to meet the shortfall required to complete the Council's Decent Homes programme. Cabinet may accept the proposals, but they will need to be executed having regard to the following matters.

9.2. To the extent that grant or project funding is to be used for this purpose, care will need to be taken to comply with the terms of the grant or agreement pursuant to which the monies are received by the Council.

9.3. In relation to the proposed use of housing revenue account (HRA) reserves, the Council must be mindful of its obligations under Part VI of the Local Government and Housing Act 1989 regarding maintenance of the housing revenue account. The Council must act consistently with its own adopted proposals designed to secure that the HRA does not show a debit balance.

9.4. Borrowing forms a part of the funding proposals. Pursuant to section 1 of the Local Government Act 2003, the Council may borrow for any purpose relevant to its functions under any enactment (which would includes its repairing obligations under the Housing Act 1985) and for the purposes of the prudent management of its financial affairs. The borrowing must be within the Council's affordable borrowing limit, which it has determined having regard to the "Prudential Code for Capital Finance in Local Authorities" published by CIPFA. The New Homes Bonus will be reported in the annual budget going forward as part of capital expenditure.

9.5. Before making the proposed budget decisions, Cabinet will need to have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. Some form of equality analysis will be required before Cabinet can give the required consideration to the equality implications of the proposed decisions.

10. ONE TOWER HAMLETS CONSIDERATIONS

10.1 It is the Council's intention that over the course of the full four year Decent Homes programme, every tenanted Council owned dwelling that does not meet the Decent Homes Standard will receive a new kitchen and bathroom. Residents have been consulted on their preferences for kitchens and bathrooms. In addition Resident Liaison Officers will be on site to address resident concerns which will include specific equalities issues.

10.2 This report concerns progression of the identification of funding options that can be used to bridge the gap between the DH backlog funding from HCA and costs for delivering the Council' DH programme as whole. The extent to which this can be achieved and programme targets reached will have a direct bearing on helping to achieve the Council's objectives in regard to tackling some of the material effects of poverty in the borough.

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

11.1 Bridging the gap funding for the DP Programme is vital if the Council's homes are to be made decent. The DH Programme contains specific provision to improve the energy efficiency of the Council's own stock. For example, a significant proportion of the programme consists of renewing outdated, less efficient boilers with modern equivalents. In addition, all schemes, especially those involving new roofs, windows, heating and insulation are developed to maximise energy efficiency benefits. Work is also being undertaken to further develop this aspect of investment as part of the improvement plan arising from the Best Value review of the Council's major works function. These aspects of the programme help to ensure that resources are directed appropriately at local Agenda 21 objectives.

12. RISK MANAGEMENT IMPLICATIONS

12.1 The risk management principles that underpin the operation of the capital programme are:

12.2 This report is driven by the major risk that Decent Homes Backlog funding is year specific, with resources only being available for years three and four if the Authority successfully delivers the year one and two outcomes in accordance with the Government specified requirements. Flexibility has therefore been built into this element of the programme to enable adaptations to be made if necessary to ensure targets are met.

12.3 Minimising the Risk of Under-spending. The DH Backlog Investment Programme is assembled with regard to the fact that homes, especially those which are currently none decent require improvements to reduce deterioration. However, in order to meet the desired spend over-programming is therefore built into the operation of the programme in order to provide the flexibility required to quickly re-programme in the case of any scheme where unforeseen delays occur.

12.4 Minimising the Risk of Overspending. No funding beyond that already confirmed and available has been assumed and regular monitoring of the programme is carried out to ensure that unacceptable levels of contractual commitments are not allowed to build up both in the current and future years.

12.5 The Council's forward funding of works accruing to leaseholders present a risk. Therefore, it is vital to ensure all capital funding investments owing to the Council by leaseholders are collected to ensure amicable delivery of the programme.

12.6 The delivery of the DH and other Capital Programmes in this report will be dependant on the availability of the earmarked funding sources in a timely manner in order to address the cashflow requirements. It is therefore, important that these funding sources are protected -"ring-fenced"- so as to guarantee delivery of these programmes.

13. CRIME AND DISORDER REDUCTION IMPLICATIONS

13.1 Crime and Disorder reduction implications on the DH Backlog Investment Programme is limited; however working closely with the ASB teams and local residents, schemes for e.g. door entry systems and environmental improvements, like additional lighting, contribute to a reduction of crime and disorder.

14. EFFICIENCY STATEMENT

14.1 The contractors procured to deliver the programme have been organised in line with the findings of the Best Value review of the service and makes use of partnering principles to reduce overheads and tendering costs to a minimum in order that the service may operate in as efficient a way as possible.

15. APPENDICES

Appendix 1 – June Agreed Decent Homes Backlog Programme 2012/13

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

Brief description of "background papers"	Name and telephone number of holder and address where open to inspection.
Housing Investment Programme Files **LBTH Capital Board Documents**	**John Kiwanuka** **Development and Renewal** **Extensions 2616**