Cabinet Decision 28 July 2015	TOWER HAMLETS
Report of: Corporate Director, Development & Renewal	**Classification:** Unrestricted
Strategy And Options For The Use Of Right To Buy Receipts	

Lead Member	**Councillor Rachel Blake, Cabinet Member for Strategic Development**
Originating Officer(s)	Jackie Odunoye, Service Head, Strategy Regeneration and Sustainability
Wards affected	All
Key Decision?	Yes
Community Plan Theme	**A Great Place to Live**

1. EXECUTIVE SUMMARY

1.1 There is significant need for additional housing in Tower Hamlets; this manifests itself in an extensive housing 'waiting list' with 19,650 residents registered at present, 10,966 of which are families. There is also a rising problem of homelessness with 1,684 registered as priority homeless.

1.2 The borough also has very high targets for the provision of new homes – the Further Alteration to the London Plan sets a target of 3,931 new homes per year, the borough is negotiating a target of 1,375 Affordable Homes per annum, whilst the current London Plan targets are 2,885 with an Affordable Target of up to 1,231.

1.3 These new homes will come from a number of sources including a new build programme for Council homes, new build programmes initiated by registered providers and affordable homes provided under S106 planning agreements with private developers.

1.4 This paper deals with the funding of council homes sourced via new build, a programme of buying back ex right to buy properties and further initiatives such as a proposed 'cash incentive' scheme for tenants who wish to buy a home outside the borough, and targeted purchases of other new build properties.

1.5 Receipts from the sale of Council housing can be used for the provision of new affordable housing. The Council entered into a Retention Agreement with the Secretary of State in November 2012 to allow for usage of those receipts. DCLG rules stipulate that these Right to Buy (RTB) 1-4-1 receipts must be spent on the re-provision of council homes. The receipts must contribute to no more than 30% of the overall cost of the housing. If the receipts are not spent within a 3 year time frame (details are set out in this report) then the money must be returned to DCLG with interest. Details of the scheme including the key conditions are noted below.

1.6 A sum of right to buy receipts has been allocated to the existing house building programme, with capital estimates having been adopted for Dame Colet House, Poplar Baths and 4 micro sites. These schemes will utilise £5.2m of the RTB receipts.

1.7 This report seeks to secure consent to develop a programme that will utilise the next tranche of eligible receipts totalling £20.5m, so that they are spent within the allowed timescale ending in 2017/18.

1.8 The Mayor in Cabinet will need to consider a number of options in order to minimise risk and utilise the receipts in a timely fashion. As a result a programme of Council leasehold buy backs is proposed (referred to in previous programmes as RTB buy backs).

1.9 The report recommends that General Fund sites, including those at Tent Street and William Brinson Centre, 3-5 Arnold Road, E3, should be worked up for inclusion into the RTB Receipts programme as they can deliver the required volume and speed of delivery to utilise the RTB receipts appropriately.

1.10 Assessing and progressing the feasibility of alternative sites will be important both to provide risk cover should ‘primary’ options fall away or become delayed, and because right to buy receipts will continue to accrue and therefore additional HRA sites will also be identified and developed subject to their viability for potential inclusion into the RTB programme. It will also provide a range of consented sites for delivery in subsequent RTB receipts deadline quarters and/or for other funding programmes.

1.11 Other options are being explored to ensure the delivery of new homes in this programme within the statutory timescales - these will include exploring Section 106 opportunities, providing new housing options, and developing a grant funded programme for registered providers.

1.12 In order to use some of the 1-4-1 receipts, the report also discusses the option of changing the funding arrangements for the currently approved schemes to the application of 1-4-1 receipts.

2. <u>RECOMMENDATIONS</u>

The Mayor in Cabinet is recommended:

2.1 To note the issues in this report and the proposal that a more detailed report will be brought in September.

2.2 To agree that a strategy to utilise receipts using the measures outlined in this report be developed, in order to secure additional Council Housing, and affordable housing provided by Registered Providers, and to avoid the risk of losing valuable resources.

2.3 To authorise the Corporate Director, Development and Renewal, after consultation with the Mayor, to identify and progress development feasibilities for a number of HRA sites for inclusion in the RTB Receipts programme for presentation to Cabinet.

2.4 To develop further ideas for the development of new homes at Tent Street and William Brinson, to be presented to Cabinet in September.

2.5 To authorise the Corporate Director to procure the professional and technical services required to identify the feasibility for development of these sites to RIBA stage 3.

2.6 To agree that a longer term strategy be developed for the use of right to buy receipts as they accrue and presented to Cabinet. This should include investigating the setting up of a RTB Receipts Grant programme for Registered Providers, utilising s106 schemes and exploring the use of RTB receipts to enhance Housing Options.

2.7 To agree to development of a strategy for a programme of Council RTB buy backs, which will be presented to the Executive at the earliest opportunity, and which may be extended to Registered Providers which satisfy conditions of affordability and good quality management.

2.8 Authorise the Corporate Director, Development & Renewal, after consultation with the Service Head – Legal Services, to agree the final terms and conditions of any agreements to implement the above decision.

3. REASONS FOR THE DECISON

3.1 This report outlines the issues currently facing the Council's Housing Revenue Account, and as a result is primarily concerned with the use of right to buy receipts as a funding source. The use of these needs to be explored against the wider financial context of resources within the HRA. This is particularly the case because of the restriction placed on the use of right to buy receipts as a funding source for the supply of new homes.

3.2 LBTH entered into a retention agreement with DCLG in November 2012 for the use of '1-4-1' Right to Buy Receipts to part fund new housing for affordable or social rent. The main terms of the Agreement are as follows:

- RTB receipts not used within three years from the quarter of their generation will need to be repaid with interest.
- The retained Right to Buy receipt is not permitted to be more than 30% of the total amount spent on eligible development costs for the provision of social housing.

- The balance (70%) must come from the Council’s own resources with no other grant or receipts permitted to be used in addition to the RTB receipts (other than for certain projects started before April 2013).

These terms were not negotiable.

3.3 The primary intended purpose for the RTB receipts is for new build housing, although acquisition of market housing for use as social housing is permitted but it is also subject to the 30% rule. This can be within or outside the Borough so long as the Council owns or has nomination rights over the properties.

3.4 There are no conditions on the number, type, size, rent or location of new homes to be built or acquired. Social rent and Affordable rented homes are permitted subject to financial viability testing.

3.5 The Council can use the receipts for its own direct development projects or it can allocate them to Registered Providers (RP) so long as the RTB receipt is no more than 30% of the eligible costs incurred by the RP.

3.6 The number of right to buy sales has increased substantially; approximately £24.2 million of additional and unallocated net LBTH RtB receipts have been generated as at the end of June 2015. This will be due to be used/spent in five tranches by the end of June 2017, September 2017, December 2017, March 2018 and June 2018. This will require £56.5 million of LBTH HRA resources to be spent in addition ie approximately £80.7m of capital spend in total. Table 2 in (paragraph 6.12) sets out when the RTB receipts need to be used or returned.

4. ALTERNATIVE OPTIONS

4.1 There is an acute need for affordable housing in the borough and there are limited alternatives that will provide an adequate solution to the use of receipts in a timely fashion and in Tower Hamlets.

4.2 DCLG has recently indicated that any returned receipts will be re-allocated to provide new housing, however there is no guarantee that the new provision will be in the originating borough, or even which tenure will be provided.

4.3 This report recommends that officers investigate options to spend the receipts and does not focus solely on a new build approach. A further report will be presented to Cabinet later in 2015.

5. BACKGROUND

Housing Revenue Account

5.1 The Housing Revenue Account (HRA) relates to the activities of the Council as landlord of its dwelling stock, and the items to be credited to the HRA are prescribed by statute. Income is primarily derived from tenants' rents and service charges, and expenditure includes repairs and maintenance and the provision of services to manage the Council's housing stock.

5.2 Since 1990 the HRA has been "ring-fenced"; this was introduced as part IV of the Local Government & Housing Act 1989 and was designed to ensure that rents paid by local authority tenants reflect the associated cost of services. This means that the HRA cannot subsidise nor be subsidised by Council Tax i.e. any deficits or surpluses that arise on the HRA cannot be met from or transferred to the General Fund. In addition, the HRA must remain in balance.

Housing Revenue Account Self-Financing

5.3 The Localism Act 2011 abolished the previous Housing Subsidy system and introduced HRA Self-Financing from April 2012. Under HRA Self-Financing local authorities retain all their housing income (mainly rents), but must use this income to finance the day-to-day management and maintenance of their properties, as well as funding all required future capital investment in their stock.

Debt Settlement

5.4 Under the self-financing arrangements, the Department for Communities & Local Government (DCLG) calculated a one-off debt settlement based on their valuation of each Authority's housing business. This valuation was based on cash flow forecasts, and assumptions about each Authority's HRA income and expenditure over the next 30 years.

5.5 For Tower Hamlets this meant that £236 million of housing debt was repaid, so that at the start of Self-Financing the remaining housing debt totalled £70 million.

HRA Debt/ Borrowing Cap

5.6 The HRA Debt/ Borrowing Cap is the upper limit on the amount of housing debt that each Authority can hold. The level of the cap is based on the government's valuation of each Authority's housing business, and therefore their assessment of how much housing debt each Authority can afford to hold.

5.7 LBTH's HRA Debt cap was originally £184 million, although this has been increased by £8.225 million following the Council's bid for additional borrowing capacity under the Local Growth Fund scheme (see paragraph 9.5).

5.8 Each Authority will be able to undertake HRA borrowing up to the level of their debt cap, however, careful assessment will still be needed to ensure that any future borrowing undertaken is affordable within the HRA, as interest on the outstanding debt is an annual cost that must be paid for from housing revenue resources.

5.9 The rationale for imposing debt caps on Authorities was so that extra income and flexibilities arising from self-financing did not lead to an increase in public borrowing, as local authority housing debt counts against the government's public borrowing figures.

HRA 30 Year Model

5.10 Under HRA Self-Financing, each Authority is required to develop and maintain a 30 Year HRA Business Plan.

5.11 Modelling indicates that the HRA will generate annual revenue surpluses over the first 10-15 years, but the anticipated level of capital works required for the housing stock means that these surpluses will be needed to fund the capital programme over the remainder of the 30 year plan, as it is likely that the Authority will, by that point, have reached its debt cap and therefore will be unable to undertake further borrowing. It is currently anticipated that the capital needs over 30 years will be over £1 billion, although this is based on outdated information. A comprehensive stock condition survey has been commissioned and is currently in progress in order that the financial model can be updated.

5.12 Although the HRA Reforms have increased the council's flexibility and ability to undertake long-term planning, in the early years, a high level of resources are committed to support the needs of the existing stock, including the delivery of the Decent Homes capital programme.

6. MAJOR ISSUES ARISING SINCE THE INTRODUCTION OF SELF-FINANCING

6.1 Since the introduction of self-financing in 2012, there have been a number of changes to Government policies that affect the viability of councils' Housing Revenue Accounts. These include:

- the various Welfare Reforms, both proposed and enacted, including the recently announced proposal to reduce the benefits cap in London to £23,000;
- the reinvigoration of the Right to Buy system;
- changes to rent policy, including the ending of rent convergence in 2014-15 rather than in 2015-16 as previously intended;
- uncertainties arising from the announcements concerning future social rent policy contained within the July 2015 budget statement;
- uncertainties concerning future stock numbers as a result of the Government's extension of the Right to Buy scheme to Housing Association tenants, and the proposal that councils will have to sell their high value void properties to compensate RPs.

6.2 This report is specifically concerned with the effects of changes to the Right to Buy system due to the strict timetable that is in place to provide additional social housing, and forms the remainder of this report. The Government's Summer budget, announced on 8 July 2015, will however have a substantial impact on the resources available within the HRA - the initial effects of the budget are outlined in Section 12 of this report.

Changes to the Right to Buy System

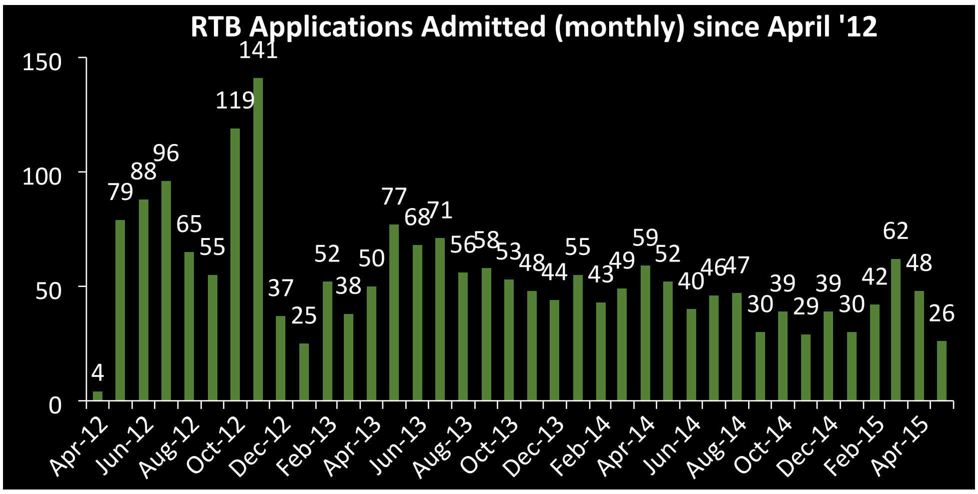
6.3 In April 2012, the reinvigorated Right to Buy regime was introduced by the Government. Key elements of this were the increase of the maximum discount available to tenants and a change to the previous Right to Buy capital receipt pooling arrangements whereby now local authorities can retain receipts for replacement housing – provided they can sign up to an agreement with Government that they will limit the use of the net Right to Buy receipts to 30% of the cost of the replacement homes.

6.4 Prior to 2012/13 the maximum Right to Buy discount in London was £16,000. The new legislation increased this to £75,000 in 2012/13, and then to £100,000 from March 2013. The current maximum discount in London has now been increased to £103,900 with effect from April 2015, and this will continue to increase annually in line with the Consumer Price Index (CPI).

Right to Buy Applications

6.5 Since the new Right to Buy regulations came into effect, the Council has seen a substantial increase in the number of right to buy applications received, and therefore the number of properties sold.

6.6 The following information has previously been reported to Cabinet, most recently in the 'Housing Revenue Account – Budget Report 2015/16', considered by Cabinet on 8 February 2015. This has been updated to include information up to 30 June 2015. As shown in graph 1 below, as at the end of May 2015, 2,060 Right to Buy applications had been admitted to proceed (i.e. excluding those applications rejected for not meeting qualifying criteria) since April 2012.

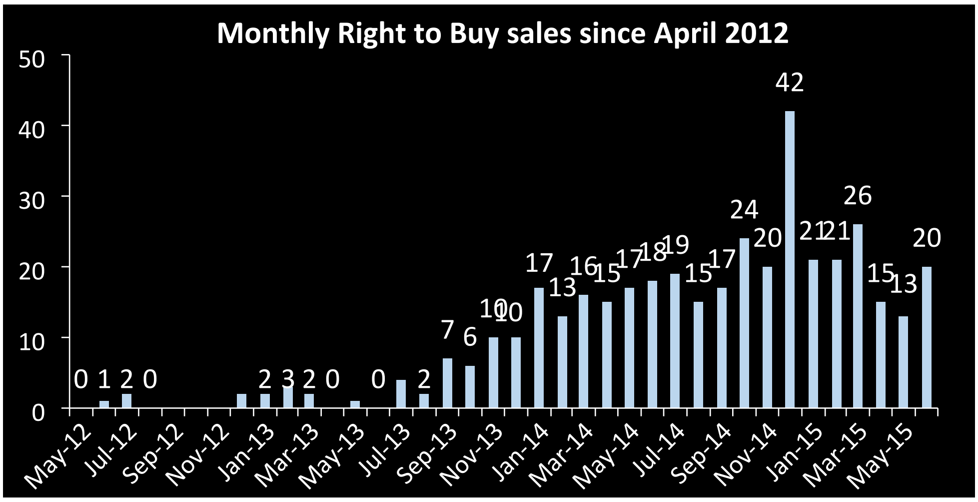


Graph 1: 2,060 Right to Buy applications were admitted between April 2012 and June 2015

6.7 As at the end of March 2015, over 970 live RTB applications were in progress.

Right to Buy Sales to Date

6.8 Between April 2012 and the end of June 2015 there were 401 RTB sales; Graph 2 shows the number of sales each month since April 2012, with further detail in Table 1.



Graph 2 – 401 Right to Buy sales have taken place since April 2012

	2012/13	2013/14	2014/15	2015/16	TOTAL
Q1	1	1	50	48*	
Q2	2	13	51	-	
Q3	2	26	86	-	
Q4	7	46	68	-	
	12	86	255	48	401

Table 1 – Right to Buy sales since April 2012

Future Right to Buy Sales

6.9 Although the HRA financial model assumes a certain level of stock reduction, the disposal of significant additional numbers of properties will cause major financial pressures, as the reduction in rental income will outweigh the marginal savings that will be made in management and maintenance costs.

6.10 The 2015/16 budget assumes 200 sales in 2015/16, with projections of a further 100 sales in 2016/17 and 50 in 2017/18.

6.11 There is a risk that there may be a further surge in the number of applications over the coming months, following the increase to the maximum discount (which now rises annually in line with inflation) and the change to the current eligibility criteria requiring applicants to have been a Council tenant for five years, which is to be reduced to three years.

Right to Buy Receipts

6.12 As at the end of the first quarter of 2015/16, the Authority has £29.4m* of 1-4-1 retained receipts, the breakdown of which is show in Table 2 below, together with the required spend on Social Housing required.

*(*Note: A provisional figure has been entered for the first quarter of 2015/16).*

RTB Sales	Quarter Received	Retained 1-4-1 Receipts (30%) £	Spend needed on social housing £	Spend Deadline	Council resources needed (70%) £
1	2012/13 – Q1	-	-	-	-
2	Q2	-	-	-	-
2	Q3	-	-	-	-
7	Q4	-	-	-	-
1	2013/14 – Q1	-	-	-	-
13	Q2	-	-	-	-
26	Q3	1,503,000	5,010,000	31/12/16	3,507,000
46	Q4	3,508,000	11,693,000	31/03/17	8,185,000
50	2014/15 – Q1	3,480,000	11,600,000	30/06/17	8,120,000
51	Q2	4,246,000	14,153,000	30/09/17	9,907,000
86	Q3	7,065,000	23,550,000	31/12/17	16,485,000
68	Q4	6,115,000	20,383,000	31/03/18	14,268,000
353		**25,917,000**	**86,389,000**		**60,472,000**
PLUS PROJECTED 1-4-1 RECEIPTS FROM Q1 OF 2015/16					
48	*2014/15 – Q1*	*3,500,000*	*11,666,000*	*30/06/18*	*8,166,000*
401		**29,417,000**	**98,055,000**		**68,638,000**

Table 2 – Current level of RTB 1-4-1 receipts and Council contribution needed

6.13 Any receipts unspent within 3 years must be returned to the government with compound interest; the interest rate chargeable is 4% above the base rate, and is charged on a daily basis.

6.14 The Council has schemes in place to spend £5.2 million of the 1-4-1 receipts, as detailed in section 9. In order to allocate the remaining £14.5 million total spend of £48.3 million on replacement social housing is required, with the Authority needing to fund the balance of £33.8 million (70%) from other resources.

6.15 Assuming that the current pace of RTB sales continues the Authority may have close to £20 million of unallocated 1-4-1 receipts by the end of 2014/15. This would mean the need to plan total further spend of £66 million on replacement social housing by the end of 2017/18, with the Authority having to find £46 million to fund 70% of the cost.

6.16 The Authority, in conjunction with Tower Hamlets Homes (THH), is currently assessing the potential for the Authority to spend the 1-4-1 receipts, both in terms of the land availability within the HRA, the HRA resources available, and the feasibility of delivering within the timescales set out by the government.

6.17 Given the need to spend the time-limited 1-4-1 receipts, as well as the possibility of the Authority being involved in further government grant bidding rounds, the HRA Capital Programme includes a notional sum of £33m to reflect the 70% council contribution needed to deliver new social housing supply in order to allocate the currently unallocated 1-4-1 receipts of £14.5 million. However, it must be stressed that any future new build schemes will require Cabinet approval on a scheme by scheme basis, and will contain a detailed assessment of the financial viability of the project and its affordability within the HRA.

6.18 In terms of resources, as part of the ongoing update of the HRA Financial model an assessment is being made of the capacity within the HRA to fund the 70% contribution necessary to spend 1-4-1 receipts. In relation to borrowing to fund the 70% contribution, there are already a number of possible commitments against the HRA debt cap, such as the various new-build schemes already agreed, as referred to in section 9, and the Decent Homes Backlog Programme.

6.19 Therefore it is possible that we may be close to the point of not having sufficient HRA resources to contribute towards the use of an ever-increasing amount of 1-4-1 receipts. In this case, the Authority would need to agree to either

- return newly arising 1-4-1 receipts immediately (to avoid any interest charges);
- pass newly arising 1-4-1 receipts to a third party (i.e. an RP)

6.20 In addition we need to be able to fund the revenue costs of borrowing; savings will be necessary within the HRA in future years in order to provide additional resources to support the delivery of new housing provision.

7. DETAILS OF THE REPORT

7.1 The Department for Communities and Local Government (DCLG) has placed a number of conditions in the RTB Retention Agreement for the use of '1-4-1' Right to Buy Receipts, The Agreement is to part fund new housing for affordable or social rent and the main terms of the Agreement are as follows:

- RTB receipts not used within three years from the quarter of their generation will need to be repaid with interest.
- The retained Right to Buy receipt is not permitted to be more than 30% of the total amount spent on eligible development costs for the provision of social housing.
- The balance (70%) must come from the Council's own resources with no other grant or receipts permitted to be used in addition to the RTB receipts (other than for certain projects started before April 2013).
- The primary intended purpose for the RTB receipts is for new build housing, although acquisition of market housing for use as social housing is permitted but it is also subject to the 30% rule.
- This can be within or outside of the Borough so long as the Council owns or has nomination rights over the properties.

- There are no conditions on the number, type, size, rent or location of new homes to be built or acquired.
- Social rent and Affordable rented homes are permitted - subject to financial viability testing.
- The Council can use the receipts for its own direct development projects or it can allocate them to Registered Providers (RP) so long as the RTB receipt is no more than 30% of the eligible costs incurred by the RP.
- Improvements or conversions of existing social housing are not allowable uses.
- Right to buy receipts cannot be used by a company over which the Council has a controlling interest.
- Land already owned by the Council cannot be used as an eligible development cost.

7.2 Taking account of design, town planning, local consultation, Governance, procurement and construction processes it is clear that any potential development solutions for the use of RTB receipts will be challenging to meet full scheme spend in line with the quarterly tranche deadlines particularly in June, September and December 2017, especially those schemes which do not have planning consent. Accordingly, it will be important to progress potential schemes as quickly as possible through these processes. Modern methods of construction will be considered where viable and appropriate by officers and respective consultants to establish whether the speed of delivery can be improved, without compromising quality and financial viability.

7.3 The council has successfully adopted estimates utilising some of the RTB receipts to schemes at Poplar Baths, Dame Colet House and 4 small sites that will yield ten units (see Table 3 below).

Scheme Name	Units	Planned use of receipts £'000	Planned date of use (latest)
Dame Colet House (housing)	40	1,797	August 2015
Poplar Baths (housing)	60	2,757	April 2016
Brick Lane, Christian St, Spelman St, Mile End Rd	10	648	November 2016
TOTAL	**110**	**5,202**	

Table 3 – Current agreed use of RTB 1-4-1 receipts

7.4 The Full Council budget meeting on 5th March 2015 noted that, as at the end of the third quarter of 2014-15 (December 2015), £14.5 million of 1-4-1 receipts were uncommitted, meaning that £33.8 million of other HRA resources would be required to finance the remaining 70% of the scheme costs.

7.5 Approval was given at the meeting for the inclusion of resources to fund these schemes within the HRA, subject to assessment of affordability. Any schemes would require Cabinet approval.

7.6 In the fourth quarter of 2014-15 a further 68 properties were sold, resulting in further 1-4-1 receipts of approximately £6.1m requiring a further £14.3 million of additional Council HRA investment and gross expenditure of a further £20.4 million (see Table 2). It will be important to undertake some detailed cash flow and programme analysis of all the potential options against the RTB receipt spend milestones to help assess risks and establish potential mitigation measures.

7.7 The report noted that modelling of new build schemes within the HRA business plan has been based on the assumption that borrowing will be required to finance the majority of the scheme costs. If the reliance on borrowing can be reduced, the Council will incur lower loan charges, reducing the revenue impact on the Housing Revenue Account.

7.8 Given the very specific nature of the DCLG conditions, prudent cashflow management will be required to ensure strict compliance with the quarterly tranche drawdown dates.

8. RIGHT TO BUY 'BUY BACKS'

8.1 Officers have also been undertaking work to establish the potential advantages and scope to undertake a selective programme of Right to Buy 'buy backs' of properties located on Council Estates managed by Tower Hamlets Homes. Under the Local Homes Initiative in 2010, the council completed a successful buy-back programme, purchasing up to 80 properties.

8.2 The advantages of such a programme would be:

- Speed of delivery
- Ability to match purchasing programme to current housing need
- Limits need to build on scarce development sites

8.3 There are a number of ways the programme could be structured:

- Open advertisement to attract potential sellers
- Open advertisement but restrict purchases to 2+ bedrooms
- Purchases matched to current planning policy for bedroom mix
- Purchases matched to current housing need of those at the top of the housing register
- Purchases targeting properties presenting estate management challenges

Cabinet is asked to comment on the most appropriate purchasing strategy.

8.4 The total costs of the programme would include:

- Purchase price
- Legal and valuation fees
- Refurbishment costs to bring units to agreed lettable standard

8.5 There would also be a potential but initially unquantifiable impact on the Decent Homes Programme. Units purchased might need internal works such as new kitchens and bathrooms to bring them to standard, costs which are not factored into the current DH programme. In addition if units are in the remaining externals programme, purchasing them ahead of the works would increase the net cost of the DH programme to the council. Such increases in cost may not be reflected in the purchase price for the units.

8.6 A further report will be submitted to September Cabinet, setting out a longer term strategy for a programme of RTB buy backs. It is anticipated that at that meeting, Cabinet will be asked to adopt a capital estimate of £23.5 million in order to utilise 1-4-1 receipts of £7.050 million, for the purchase of RTB properties.'

9. EXISTING HOUSING DEVELOPMENT PROGRAMME

9.1 In November 2014, Cabinet approved capital estimates and the funding sources for various new developments.

9.2 Approval was given for a scheme with a value of £2.16 million, to provide ten units across four small sites in Brick Lane, Christian Street, Spelman Street and Mile End Road, with the projects being part funded by retained 1-4-1 receipts of £648,000 to represent 30% of the costs.

9.3 However, four larger schemes were also approved, two under the Mayor of London's Housing Covenant – 2015-18 programme, and two under the DCLG's Local Growth Fund. Although these schemes total £38.157 million in total, the Council is unable to apply 1-4-1 receipts towards their funding because the projects are part funded through Government initiatives – either grant or increased borrowing approvals. A summary of the current funding for these schemes is shown in Table 4 below, with further details of the projects outlined below.

	Costs	**Funding**			
				HRA Borrowing	
	Scheme Costs	**Government Grant**	**Revenue Contribution**	**Existing Headroom**	**Local Growth Fund**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Mayor of London's Covenant					
Locksley Street	15,071	2,340	-	12,731	-
Hereford Street	11,797	1,620	-	10,177	-
Total	26,868	3,960	-	22,908	-
Local Growth Fund					
Jubilee Street	6,582	-	1,987	-	4,595
Baroness Road	4,707	-	1,077	-	3,630
Total	11,289	-	3,064	-	8,225

Grand Total	**38,157**	**3,960**	**3,064**	**22,908**	**8,225**

Table 4 – Current Funding of Locksley/ Hereford and Jubilee/ Baroness new-build schemes

9.4 Funding Programme: Mayor of London's Housing Covenant – 2015-18

Locksley & Hereford Street sites - £26.868 million, 132 units
(Current Funding: GLA Grant: £3.960 million; LBTH Capital: £22.908 million)

9.4.1 Under the 'Mayor of London's Housing Covenant – 2015-18 programme', the Council was successful in securing grant funding of £3.960 million towards the costs of two new build schemes on the Locksley St and Hereford St sites comprising 132 units. These are both infill sites on existing housing estates, with specific details being:

- Hereford Estate. The Hereford Estate is located on Vallance Road and adjacent to the western edge of Weavers Fields, in Bethnal Green. The site identified for infill has good orientation west-east. Weavers Fields offers long views across a public park. The development site will provide housing for 54 households.

- Locksley Estate. The proposed scheme comprises 3 vacant sites within the Locksley Estate. The Locksley Estate is located between Commercial Road and Mile End Stadium, just to the north of the Limehouse Basin. The Regents Canal forms the western boundary to the estate whilst the Limehouse Cut forms a boundary to the south east. The proposal will deliver 78 new homes including 8 wheelchair accessible dwellings. All design proposals are subject to planning permission.

9.4.2 Capital estimates totalling £26.868 million were adopted for these two schemes by the Mayor in Cabinet. The Council was allocated £3.960 million of grant under the Mayor's Housing Covenant, with the residual cost of £22.908 million being funded from HRA borrowing from within its HRA headroom. Under the terms of the grant award, the use of 1-4-1 receipts was specifically excluded from the funding sources that were permitted to finance these projects.

9.5 Funding Programme: Local Growth Fund

Jubilee Street & Baroness Road sites - £11.290 million, 48 units
(Current Funding: HRA Borrowing: £8.225 million; LBTH Capital: £3.065 million)

9.5.1 The Council has been developing potential HRA sites to provide 26 units at 6 Jubilee Street - a disused hard standing area previously used as a car park, and 22 new units in Baroness Road - an infill site on Newling Estate. These sites were intended for the Government's 2014 Local Growth Fund programme, which sought to increase HRA borrowing capacity and stimulate Local Authority house building. Specific details of the developments are:

- 6 Jubilee Street: The existing site is an underused car park, currently presenting a gap in the street frontage - a proposal in this location would provide an enclosure to the road. To the west of the proposed block of flats are the communal Jubilee Gardens, which will serve as amenity space for the new residents. The block will accommodate 3 wheelchair accessible dwellings. The development will deliver 26 new homes.

- Baroness Road: The existing site is a car park currently used by the Council's Decent Homes contractors. The proposal is for a new access road to run along the north end of the existing resident's gardens as a continuation of Baroness Road, which will be fronted by a new four storey residential block to its north. Two wheelchair accessible flats are provided at the ground floor with parking in close proximity. The development delivers 22 new homes for affordable rent.

9.5.2 Capital estimates totalling £11.290 million were adopted for the schemes by the Mayor in Cabinet on 5 November 2014. The Council was allocated £8.225 million of additional borrowing capacity within its Housing Revenue Account (HRA) as part of the Local Growth Fund. The residual cost of £3.065 million was to be funded by a direct revenue contribution from the Council's own resources. Under the terms of the borrowing approval, the use of 1-4-1 receipts was specifically excluded from the funding sources that were permitted to finance these schemes.

9.5.3 As stated in the original report, it should be noted that the approval under the Local Growth Fund enables the Council to borrow funds for the construction of the specific projects, however all capital financing costs will be the responsibility of the Council. In this case, the annual capital financing charge would be approximately £0.7 million which reflects both the payment of interest and repayment of the principal sum outstanding. This will be a charge to the Housing Revenue Account.

9.5.4 As outlined in this report, since the Cabinet decision was made in November 2014, substantial sums of 1-4-1 receipts have been retained by the Council which require significant spend on replacement social housing. Alternative funding arrangements for some or all of the sites above would be to use 1-4-1 receipts to fund 30% of the scheme costs, with other HRA resources funding the remaining 70%.

9.5.5 The table below shows an alternative option for funding the schemes, using 1-4-1 receipts rather than the grant or borrowing capacity that has been awarded. For comparative purposes it assumes that the level of the revenue contribution will be the same as approved by Cabinet, although the Council will ultimately finance the capital programme to ensure that resources are used in the most effective way.

	Costs	Funding		
	Scheme Costs	1-4-1 Retained RTB Receipts	Revenue Contribution	Borrowing - Existing Headroom
	£'000	£'000	£'000	£'000
Mayor of London's Covenant				
Locksley Street	15,071	4,521	-	10,550
Hereford Street	11,797	3,539	-	8,258
Total	26,868	8,060	-	18,808
Local Growth Fund				
Jubilee Street	6,582	1,975	1,987	2,620
Baroness Road	4,707	1,412	1,077	2,218
Total	11,289	3,387	3,064	4,838
Grand Total	**38,157**	**11,447**	**3,064**	**23,646**

Table 5 – Current Funding of Locksley/ Hereford & Jubilee/ Baroness schemes

9.5.6 As can be seen when comparing Table 4 and Table 5, utilising 1-4-1 receipts instead of grant or the additional borrowing capacity will mean that the necessary borrowing will be reduced by £7,487 million.

10. FURTHER DEVELOPMENTS

10.1 Residents' appetite for home ownership through the Right to Buy is high in the borough, and so significant 1-4-1 receipts will continue to accrue quarterly. As a result it is vital that the council has an ongoing viable strategy for the future use of 1-4-1 receipts and develops a planned programme going forward, which will also allow for better management of the programme risks outlined in section 14. However this programme will need to be developed within the constraints of the ability to fund such a programme; both in terms of the available capital to cover the remaining 70% of costs and the revenue capacity to pay additional debt charges.

10.2 To this end further work is ongoing as follows -

10.3 Development of Land at Tent Street and William Brinson House

10.3.1 Tent Street and William Brinson House were initially appraised against a planning compliant delivery in studies undertaken by Architects PTeA. The feasibility studies identified that Tent Street could deliver between 85 and 114 homes and that William Brinson House could deliver 65 homes. These sites will still need to be appraised in more detail to identify the number of homes that they can accommodate.

10.3.2 The ground floor of the William Brinson Centre has been occupied for some years by a service provider who currently provides services under a spot purchase contract effective from July 2013. The building is not fit for its current purpose, having had no significant investment in many years. It is not fully accessible and its facilities are not up to date. Officers will need to agree with the organisation, if required, a relocation plan. Tent Street is also currently occupied under a tenancy-at-will.

10.3.3 In order to achieve the tranche drawdown dates, a very tight delivery programmes will be required. Due to the size of the projects, both the design team and construction contracts will exceed the European procurement thresholds requiring OJEU procurement. This time consuming process will place significant risk on the project timeframes. It is therefore proposed that a GLA framework is utilised to procure and appoint the design team.

10.3.4 The GLA and other bodies have frameworks for the construction of housing. If time allows then the best option would be to tender the contract via OJEU to access the widest possible market and ensure good competition. However if during the design and planning period this looks unlikely to achieve the necessary completion dates a suitable compliant framework will be used.

10.3.5 These sites are currently held in the General Fund and will require appropriation into the HRA for the purposes of delivering Council homes.

10.3.6 Cabinet is recommended to authorise the Corporate Director D&R to proceed with procuring the required professional and technical services to undertake the work to RIBA stage 3 from a suitable framework or OJEU tender.

10.3.7 Set out below is the proposed milestone programme for the delivery of the proposed schemes.

Milestone	Date
Site Appraisal (Tent St / WB)	June 2015
Cabinet Approval (Tent St / WB)	July 2015
Procure Design Team (Tent St / WB)	August 2015
Planning (Tent St / WB)	December 2015
Tender Contractors	June 2016
Practical completion (Tent St / WB)	December 2017

Table 6 – Proposed Milestones

10.4 Development of HRA and General Fund Sites

10.4.1 The Council is currently reviewing other appropriate sites to allow a suitable programme for delivery. Assessing and progressing the feasibility of alternative sites is important in order to provide risk cover should any ‘primary’ options fall away or become delayed. It will also provide a range of consented sites for delivery in subsequent RtB receipts deadline quarters and/or for other funding programmes.

10.4.2 Five initial sites are currently being assessed, it is currently forecast that these sites could yield a minimum of 125 units across the borough. The early assessments highlight a Total Scheme Cost of £36m, of which £10.6m may be utilised from the 1-4-1 programme. It is proposed that the package of such sites is progressed for viability and potential inclusion into the RTB programme. At the appropriate stage proposals will be made Cabinet to agree specific sites and adopt capital estimates.

10.5 Enhanced Housing Options

10.5.1 RTB receipts could be used to enhance the housing option offer to existing residents, particularly those that wish to purchase property outside the borough, or wish to transfer to another rented property outside the borough. Out of Borough purchases appear to provide good value for money, and the recent Right to Buy Mobility bid to DCLG indicates that there is an appetite for such a transfer amongst tenants. Such a programme would free up additional housing in borough.

10.5.2 The advantage is that such purchases are relatively quick to deliver compared to new build construction.

10.5.3 Officers are researching and assessing the viability, value for money and potential of alternative purchase options of market homes both inside and outside the Borough.

10.6 Purchase of Developer-led ‘Section 106’ Affordable Housing

10.6.1 The purchase of developer-led ‘Section 106 affordable homes is also a potential option. There are a number of small development schemes known to the borough that have no appointed Registered Provider (RP) to fulfil the S106 obligation for Affordable Housing. Purchasing such sites could provide a quick win to the programme.

10.6.2 Officers are researching and assessing the viability, value for money and potential of this proposal and have identified 40 potential units across the borough.

10.7 Registered Provider Grants

10.7.1 A further alternative could be to establish a “grant” pot against which the council could fund RPs for their own schemes. In this scenario, it would be down to the RPs to provide the land asset and to finance the 70% cost outlay. RPs would need to demonstrate that they have the capacity and sites to deliver within the required timescales. The significant advantage of this approach is that it will provide new homes for council nominees without the burden of funding the 70% balance. There are a number of sites known to the Council which could be investigated further.

10.7.2 A number of London boroughs are progressing such a scheme, Wandsworth and Greenwich are about to implement a programme, and Waltham Forest have a Cabinet report scheduled for September 2015. Other boroughs such as Hackney and Barking and Dagenham are actively considering proposals.

10.7.3 The Authority could also consider funding RPs to carry out buy-backs of former RP stock, which would also provide the advantage of providing additional homes for council nominees without the Authority undertaking the financial burden of funding the 70% balance.

11. IMPLICATIONS OF NON USE OF RETAINED 1-4-1 RECEIPTS

11.1 As outlined in paragraph 5.1, very tight regulations apply to the use of retained 1-4-1 capital receipts. If receipts are not utilised within three years of the quarter in which they are received, they must be paid to the Government, with interest compounded quarterly. The interest rate to be applied is 4% above the base rate, which, as base rates have been 0.5% since the date that the RTB Agreement came into effect, this means that interest will be compounded at 4.5%.

11.2 As shown in Table 2, as at 31 March 2015 the Council was holding £20.7 million of unallocated 1-4-1 receipts. If these ultimately were not utilised after being held for three years, they will be payable to the Government, with the £20.7 million attracting an interest charge of £2.98 million.

11.3 In the event that the Authority is unable to identify eligible schemes in order to use the 1-4-1 receipts it will be in the best financial interests of the Authority to return the receipts to the government at the earliest possible opportunity in order to avoid financial penalty.

12. SUMMER BUDGET 2015

12.1 The Chancellor of the Exchequer made his Summer 2015 Budget announcement to the House of Commons on 8 July 2015.

12.2 The 'Strategic and Resource Planning 2016-17 to 2018-19' report that is considered elsewhere on this agenda, outlines the major implications arising from the budget. Specific issues that affect the Council are included in paragraph 3.4.12 of that report which is reproduced below.

Extract from Strategic and Resource Planning 2016-17 to 2018-19 report
Cabinet – 28 July 2015 – Paragraph 3.4.12

There were a number of other specific changes announced in the summer budget which will have direct and indirect implications for Council resources and these are listed below with an analysis of potential impact on Tower Hamlets:

- *A range of welfare cuts announced, including a reduction in the welfare cap from £26k to £23k and changes to tax credits – Details and potential impact on residents is being analysed but this will no doubt have a significant negative impact on our residents.*
- *Discretionary Housing Payments funding will continue for the next five years – but the risk is that current levels of funding will be insufficient to meet demand that could increase further as a result of new welfare cuts announced.*
- *National Living Wage introduced – should have minimal impact on council budgets as we currently pay London Living Wage which is significantly higher.*
- *Social Housing Rents to be reduced by 1% - HRA income will be affected.*
- *Social tenants with household income £40k will have to pay a market rent - local authorities will be required to recover and repay the rent subsidy collected to the*

exchequer who plans to use the income as a contribution to deficit reduction plans. The complexity of such a scheme requires further consideration.

- *Public Sector Pay increases will be limited to 1% for four years from 2016/17*

12.3 Further detail and clarification is awaited from the Government following the legislative process, however there will be a major impact on the Housing Revenue Account as a result of the implementation of the measures announced, particularly the substantial reduction in HRA resources that will result from the proposed rent reduction of 1% per annum for each of the four years from 2016-17 to 2019-20. This proposal replaces the Government's previous policy of an annual increase of CPI +1%, meaning that rather than an assumed rental increase of 3% per annum for four years, there will actually be a rental reduction for this period, resulting in a rental base that will be in the region of at least 12% lower in 2019-20 than anticipated. This will have a significant impact on the resources available to finance the Housing Revenue Account's capital programme and further detail will be included in the September report if available.

13. COMMENTS OF THE CHIEF FINANCE OFFICER

13.1 This report outlines issues facing the Council's Housing Revenue Account and specifically the need to utilise the receipts that it has retained for the provision of new housing supply which have accumulated significantly following the Government's reinvigoration of the Right to Buy system. The report sets out the latest position in relation to the level of RTB 1-4-1 receipts currently retained by the Authority, the amount of these receipts that have already been committed to replacement social housing, and the various schemes that are being proposed in order to utilise the remaining unallocated 1-4-1 receipts.

13.2 As at 31 March 2015, the Council had generated £25.917 of retained 1-4-1 receipts, of which £5.202 million have been committed for new supply, as detailed in Table 13. Therefore there are currently unallocated 1-4-1 receipts totalling £20.6 million, meaning that total spend of £68.6 million is needed on replacement social housing before the end of Q4 2017/18, with a Council contribution of £48.06 million needed to finance 70% of the £68.6 million spend.

<u>Resources</u>

13.3 All expenditure must be funded from HRA resources, with borrowing being the final option. At its meeting in February 2015, Council agreed the 2015/16 HRA Capital Programme which included an initial sum of £33.716 million of Council resources to be spent in order to finance the 70% Council contribution needed to spend the (then) 1-4-1 unallocated receipts of £14.5 million. It should be noted that the Council decision was an approval to utilise resources to finance schemes if they are available, and subject to viability assessments of each project. The resources are those that are the subject of this report.

13.4 Potential non-borrowing resources that are currently held are shown in Table 7 below.

Table 7

Potential Non-Borrowing Resources Available to Support HRA New Build Schemes

	£m	
New Homes Bonus	7.50	(Subject to Approval – see paragraph 13.5)
Affordable Housing Receipts - Unallocated	1.58	(Section 106 Register)
Preserved RTB Receipts	1.48	(Relating to stock transfer agreements)
RTB Usable Receipts (non 1-4-1)	7.00	
Total	**17.56**	

13.5 The 'Strategic and Resource Planning 2016-17 to 2018-19' report considered on this agenda includes options for the possible allocation of resources to support the use of 1-4-1 retained receipts in the provision of new housing supply. An element of this is the proposal that £7.5 million of unallocated New Homes Bonus be earmarked as a contribution towards the financing of new supply.

13.6 Any residual balance will need to be funded through borrowing, subject to affordability. Although the Council's current borrowing headroom is approximately £114 million, notional commitments of £58 million result in uncommitted funding of £56 million. Details of the borrowing commitments are shown in Appendix 1. Although borrowing headroom is available, subject to ability to repay the ensuing loan charges, it should be noted that if there is any shortfall in resources needed to fund the capital needs of the existing stock or the on-going Decent Homes programme, borrowing will be required to finance these costs.

13.7 As outlined in Section 12 however, the proposals announced in the Government's recent Summer budget are likely to have a substantial impact on the Authority's Housing Revenue Account, particularly the loss of rental income arising from the 1% per annum rent reduction for each of the next four years. More details will become available as legislation is passed, and hopefully further information in respect of the likely impact on the Council can be included in the further Cabinet report that is scheduled for September.

13.8 A review of the Council's 30 year HRA finance model is being undertaken, particularly in relation to the future capital investment needs of the existing stock in light of the ending of the Decent Homes Programme in the next financial year. A stock condition survey is currently being carried out to provide the basis for the assessment and while it should assist in identifying any budgetary pressures that may exist, it will also highlight whether resources that are currently earmarked to fund the capital maintenance programme may be available to supplement the funding of new housing supply instead. The model will also be updated to reflect the impact of the Government's budget proposals.

New Developments

13.9 The report outlines possible new developments which are currently being assessed and will form the subject of a further report to Cabinet in September 2015. These include Tent St & William Brinson House (paragraph 10.3), and five other potential sites (paragraph 10.4). The Tent Street and William Brinson House sites are currently being evaluated, but it is forecast that the other five sites could provide a minimum of 125 units, at an indicative cost of £36 million, of which £10.8m may be utilised from the 1-4-1 programme. These schemes will need to be considered in the context of alternative projects available, but at this stage it is proposed that the schemes are progressed for viability assessment.

13.10 If schemes ultimately proceed on sites that are held for General Fund purposes it will be necessary to appropriate the sites into the HRA for the purpose of delivering council homes. The implications of this will be included in the assessment of potential projects in future Cabinet reports.

13.11 The costs of the further work needed to develop schemes to viability stage will be met from within the approved HRA capital feasibility budget.

Right to Buy 'Buy Backs'

13.12 This report requests that the Mayor in Cabinet agrees to the development of a strategy for a programme of Council RTB buy backs. An indicative figure of £23.5 million has been proposed in order to utilise 1-4-1 receipts of £7.050 million for the purchase of former social housing leasehold stock in the borough. As detailed in section 7, given the tight timescales in which the 1-4-1 receipts need to be spent, it may be necessary to acquire properties on the open market in order to meet the spend deadlines and avoid having to return 1-4-1 receipts to the government with interest.

13.13 Due to the buoyant property market, the costs of all properties within the borough are high. Initial modelling on this is included in Appendix 2. Based on an assumed purchase price of £350,000 for a two bedroom property, the Council would be able to utilise £105,000 of retained 1-4-1 receipts, resulting in a requirement to finance the residual £245,000 from other sources. If this sum is financed through borrowing, assuming that the loan is repaid over 30 years, the initial weekly loan repayment would equate to £270 at an interest rate of 4% or £238 at a rate of 3%.

13.14 This does not include the costs of management and maintenance which could add another £2,000 per annum, i.e. £38 per week, bringing the total weekly costs to the council to £308 at a 4% interest rate, or £277 at 3%. In order to cover its costs the Council would therefore need to charge rents of this level in year 1, although over time rental levels should increase at a higher level than the expenditure items, so there is scope to even the rental levels over a longer period of time in order to recover full term costs.

13.15 It should be noted however that the costs above do not include any provision for on-going capital need, nor any additional costs associated with the repurchase of the property, such as the need to bring the property to Decent Homes standard if it is not already at that level.

13.16 Based on the assumed cost of £350,000 per property, 66 properties could be purchased for a budget of £23.5 million. If the average acquisition cost was £300,000 each, then approximately 78 properties could be bought.

13.17 Appendix 3 shows the potential schemes and assumed spend profile in order to use the 1-4-1 receipts.

13.18 If the Council does not utilise its retained 1-4-1 receipts in accordance with the Government conditions, it must repay them with compound interest. Based on the currently uncommitted balance of £20.7 million, an interest charge of £2.98 million would accrue if none of these resources were utilised within the three year period.

14. LEGAL COMMENTS

14.1 The report sets out proposals for using right to buy receipts to build new homes and to buy back leasehold properties previously purchased under the right to buy scheme under Part 5 of the Housing Act 1985.

14.2 The Council is a local housing authority within the meaning of the Housing Act 1985 and is specifically empowered to provide housing accommodation, either by erecting houses, or converting buildings into houses on land acquired by it for the purposes of Part 2 of the Housing Act, or by acquiring houses.

14.3 Right to buy receipts are capital receipts within the meaning of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and those Regulations generally require the Council to pay the amounts received to the Secretary of State on a quarterly basis. However, pursuant to section 11(6) of the Local Government Act 2003, the Council may enter into an agreement with the Secretary of State to retain the whole or part of a capital receipt. As set out in the report, such an agreement was entered into in 2012 which specifies circumstances in which the Council is not required to pay specified capital receipts to the Secretary of State. This primarily covers a percentage of right to buy receipts received on or after 1 July 2012, subject to conditions.

14.4 It is a risk for the Council that if a proposed scheme does not materialise (which could be due to difficulties in funding the balance, but which could also be due to a lack of suitable development opportunities) then the “unspent” funds would have to be paid over to central government with interest (at 4%) calculated from when such funds first became available. To mitigate the potential burden of interest it might be desirable to pay over any funds as soon as it is apparent that it will not be possible to find a suitable project in which to invest.

14.5 It is proposed to investigate the feasibility of development sites for a programme of building new homes. This seems reasonable, given that there will be matters affecting feasibility of any development proposal, including the need to explore details regarding title.

14.6 Permission is sought to procure advisers to assist with both programmes. At the time of writing, the value of the proposed services was unspecified. The nature and value of each proposed contract will need to be understood before proceeding with procurement. Should the value exceed the European threshold, as set down by the Public Contracts Regulations 2015, then the competitive exercise must comply in all respects with the requirements of the Public Contracts Regulations and with European Law. Approval will need to be obtained for any contract award in accordance with the Council's constitutional arrangements.

14.7 The Council has an obligation under section 3 of the Local Government Act 1999 to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness (the best value duty). One way that the Council seeks to deliver this duty is by complying with its procurement procedures. The general principal is that the Council achieves best value by subjecting spend to competition and choosing the winning bidder by applying evaluation criteria showing the best and appropriate mix of price and quality. The Council will need to comply with its procurement procedures when purchasing services from the necessary advisers.

14.8 The report refers to grant funding from the GLA pursuant to "The Mayor of London's Housing Covenant – 2015-18 programme" for the receipt of grant funding of £3.96 million for use on the Locksley & Hereford Street sites. No agreement has been entered into for this funding as it is understood that the Council was unable to comply with the conditions of the grant funding.

14.9 It is understood that the Council's HRA Debt cap has increased by £8,224,794 as a result of the Council's bid for additional borrowing capacity under the 'Local Growth Fund Scheme – Housing Revenue Account Borrowing Programme'. The Secretary of State made a formal determination of the Council's bid in March 2015 through the London Borough of Tower Hamlets (Limits on Indebtedness) Determination 2015 using its powers under sections 171 and 173 of the Localism Act 2011. The determination, which amends an earlier 2012 determination, imposes strict conditions on the use of the additional borrowing for capital expenditure under the Jubilee Street and Baroness Road schemes. The Council must therefore ensure that it is in a position to, and that it does, comply with the conditions set out in the determination.

14.10 The report refers briefly to three additional options for spending right to buy receipts, namely: enhanced housing options; purchase of developer-led "section 106" affordable housing; and registered provider grants. It is difficult to supply legal implications in the absence of the details of these possible options. It is recommended that legal advice be sought during the preparation of these options and prior to their submission to Cabinet.

14.11 On 17 December 2014, the Secretary of State made directions in relation to the Council pursuant to powers under section 15(5) and (6) of the Local Government Act 1999. Those directions are in place until 31 March 2017. The directions require that during the direction period the Council must adopt all recommendations of the statutory officers (relevantly the head of paid service, the monitoring officer and the chief finance officer) in relation to entry into contracts, unless the prior agreement of the Commissioners is obtained not to do so.

14.12 Before awarding the contracts, the Council must 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 (the public sector equality duty). The level of equality analysis required is that which is proportionate to the function in questions. This will need to be addressed in the One Tower Hamlets section of the report prior to it being presented to Cabinet.

15 ONE TOWER HAMLETS CONSIDERATIONS

15.1 On reducing inequalities, this proposal will help deliver real and lasting change. The delivery of more affordable homes will help give households, particularly those from black, Asian, or other minority ethnic backgrounds) on low incomes (many of whom are benefit dependent) a secure home. This has the potential to create an environment for household members – particularly children – to improve their educational attainment which will in turn help them access sustainable employment in the future. The delivery of more housing that is wheelchair accessible and meets lifetime homes standards is a proven method to help reduce inequalities.

15.2 The provision of additional rented schemes can potentially impact on community cohesion. The amount of private housing developed for sale and private rent has been particularly high in Tower Hamlets. However, the large majority of this housing is inaccessible to residents due to high house prices. Therefore, maximising the amount of affordable housing for rent wherever possible can contribute to community cohesion. This can be achieved by reducing the number of households on the Common Housing Register waiting for a home, whilst also giving an opportunity for local applicants to access low cost home ownership opportunities.

15.3 Delivery of these commitments set out in this report has the potential to make a significant contribution to the 'Great Place to Live' strand of the Community Plan. This directly makes a significant contribution to the core Local plan target of new affordable homes delivery. The programme also makes a wider contribution to Community Plan objectives, such as on increasing household recycling; reducing crime (through Secure By Design standards); and increasing skills and training opportunities. The proposal is a good 'strategic fit' with the Community Plan and will help Tower Hamlets deliver both the housing and sustainable communities priorities identified.

16 BEST VALUE (BV) IMPLICATIONS

16.1 The Council is required to consider the value for money implications of its decisions and to secure best value in the provision of all its services. It is important that, in considering the application of funding, Members satisfy themselves that resources are allocated in accordance with priorities and that full value is achieved.

16.2 This report is not seeking approval for specific initiatives or the approval of capital estimates at this stage, but these will come forward to Cabinet in September. The specific Best Value implications will be contained within this and future reports as the schemes and initiatives are developed.

16.3 The report does however seek consideration of the funding mechanisms used for existing schemes (section 9). In relation to the existing Housing Development Programme that has already been approved, the report considers alternative methods of funding i.e. maximising the use of the retained 1-4-1 receipts which can fund 30% of the scheme costs, and therefore reduce the reliance on the Council's own resources to 70%, rather than, in the case of the Mayor of London's Housing Covenant, receiving grant of 14.7%, and therefore relying on 85.3% of Council funding. This will reduce the risk that the unused 1-4-1 receipts will have to be paid to the Government, with a significant interest charge. It should also be noted that the grant is fixed, so any risk of costs increasing is borne by the Council.

17 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

17.1 The schemes will comply with the Council's requirements on the reduction of carbon emissions, energy consumption along with green and sustainable construction delivery.

18 RISK MANAGEMENT IMPLICATIONS

18.1 There are a number of key risks that can be identified under the following headings.

Programme

18.2 The programme for delivery of the schemes is very tight and failure to spend the monies on time will require them to be paid to DCLG.

18.3 With limited due diligence on the site, surveys will need to be undertaken in order to de-risk the programme and the costing of the work.

18.4 There is sufficient time available to deliver the project but there is no float available in the critical path and alternative mitigation of spend must be considered, The mitigation is being reviewed currently by D&R strategic housing a further report is to be brought forward.

18.5 A timely decision is needed to enable the technical team to be appointed and the procurement and design to be started.

Planning

18.6 The proposed schemes are all for 100% affordable housing rather than the normal policy position of mixed tenure. Moving forward, sites could be considered for mixed tenure. In this instance however there is a risk that planning will be delayed or rejected on the basis of the mono-tenure position although there is good precedent in the Borough for mono-tenure affordable rent models to be provided on Council owned delivery sites.

18.7 In particular, the introduction of mixed tenure would a) support Planning Policy b) create mixed neighbourhoods c) assist the viability assessments of individual schemes by bringing in an element of cash injection through either market sale units (reducing the capital costs) or intermediate rent products (improving the payback period and revenue implications).

Cost

18.8 The construction market is currently very active and there are shortages of both labour and materials. This, combined with a pent up cost inflation from a long period of cost stagnation, means that the coming years will see significant cost inflation, alongside developers being selective about schemes they will bid for.

18.9 Minimising uncertainty for the contracting market will mean less risk pricing. To this end the market has confirmed that the fuller the design the better before going out to tender.

The Balance of Competing Priorities

18.10 The level of HRA borrowing considered in this report will have an impact on the long term strategy for the Council owned stock. Due to the 30/70 proportion in which schemes are capable of being funded, the HRA will have fewer funds to allocate to maintenance needs and to upgrade existing stock. The Tower Hamlets Homes Board agreed a report in December 2014 on a proposed asset management and investment strategy. The asset management needs will need to be reviewed in the light of the asset survey; the report is currently expected for Quarter 2.

19 <u>CRIME AND DISORDER REDUCTION IMPLICATIONS</u>

19.1 The project will provide homes that are of a better design in terms of orientation to maximise passive supervision of common and external areas, with safe pedestrian routes to and from the homes.

20 <u>EFFICIENCY STATEMENT</u>

20.1 Provision of additional new homes will contribute to the Councils Overcrowding Strategy, through rehousing those tenants most in need. The homes will be built to sustainable design standards, therefore reducing the financial impact for residents and users. The procurement process will identify the most efficient means of delivering this key Mayoral priority.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 - Indicative HRA Borrowing Headroom Available
- Appendix 2 – Implications of Purchasing RTB Buybacks
- Appendix 3 – Current Agreed Use of 1-4-1 Receipts

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- NONE

APPENDIX 1

Indicative Available HRA Borrowing Headroom

	£	£
Initial Debt Cap	184,381,000	
Add: Local Growth Fund	8,224,794	192,605,794
Total		
Less: Actual debt	(70,000,000)	(70,000,000)
Current Headroom		**122,605,794**
Committed:		
Local Growth Fund		
Jubilee Street	4,594,980	
Baroness Road	3,629,814	8,224,794
Affordable Housing Programme 2015-18		
Locksley Street	22,908,000	
Hereford Street	-	22,908,000
Mayor's Housing Covenant: Building the Pipeline Supply Programme		
Ashington East	5,796,000	5,796,000
Watts Grove		
Watts Grove	19,433,000	19,433,000
Poplar Baths / Dame Colet		
Poplar Baths - Residential	15,180,000	
Dame Colet House		15,180,000
Ocean Estate Retail Units Fit-Out	1,000,000	1,000,000
Total Commitments		**72,541,794**
Uncommitted Headroom		**50,064,000**

But:
Position on Decent Homes and capital need of existing stock needs to be determined

Implication of Repurchasing RTB Properties

Effect of Individual Repurchase:

Assumed Purchase Price - Two Bedroom Flat:		350,000	
Financing:	1-4-1 receipts	105,000	
Balance to Fund:		245,000	
At Assumed Interest Rate of 4%			
	Annual Principal & Interest	14,036	(Repaid over 30 years)
	Weekly Principal & Interest	270	(Repaid over 30 years)
	Annual Interest	9,800	
	Weekly Interest	188	
At Assumed Interest Rate of 3%			
	Annual Principal & Interest	12,395	(Repaid over 30 years)
	Weekly Principal & Interest	238	(Repaid over 30 years)
	Annual Interest	7,350	
	Weekly Interest	141	

	Interest Only 4%	Principal & Interest 4%	Interest Only 3%	Principal & Interest 3%
Maintenance	1,000	1,000	1,000	1,000
Management	1,000	1,000	1,000	1,000
Interest	9,800	14,036	7,350	12,395
Total Cost*	11,800	16,036	9,350	14,395
Weekly Cost*	226.92	308.39	179.81	276.83

* Does not include any on-going capital requirement

APPENDIX 2

Effect of Total Programme:

Based on a programme of £23,000,000 and above average cost of:		350,000	
Number of Properties Purchased:		66	
Assumed Purchase Price - Two Bedroom Flat:		23,100,000	
Financing:	1-4-1 receipts	6,930,000	
Balance to Fund:		16,170,000	
At Assumed Interest Rate of 4%			
	Annual Principal & Interest	926,377	(Repaid over 30 years)
	Weekly Principal & Interest	17,815	(Repaid over 30 years)
	Annual Interest	646,800	
	Weekly Interest	12,438	
At Assumed Interest Rate of 3%			
	Annual Principal & Interest	818,080	(Repaid over 30 years)
	Weekly Principal & Interest	15,732	(Repaid over 30 years)
	Annual Interest	485,100	
	Weekly Interest	9,329	

APPENDIX 3

	2015/16			2016/17				2017/18				2018/19			
	Q2 £'000	Q3 £'000	Q4 £'000	Q1 £'000	Q2 £'000	Q3 £'000	Q4 £'000	Q1 £'000	Q2 £'000	Q3 £'000	Q4 £'000	Q1 £'000	Q2 £'000	Q3 £'000	Q4 £'000
(a) TOTAL RETAINED AMOUNTS FOR THE RECKONABLE QUARTER (Cum.)						1,503	5,011	8,491	12,738	19,802	25,917	25,917	25,917	25,917	25,917
(b) LESS: RECEIPTS RETURNED (Cum.)															
(c) SUBTOTAL (a-b)						1,503	5,011	8,491	12,738	19,802	25,917	25,917	25,917	25,917	25,917
(d) SPEND NEEDED ON SOCIAL HOUSING (c divided by 0.3)						**5,010**	**16,703**	**28,305**	**42,459**	**66,007**	**86,389**	**86,389**	**86,389**	**86,389**	**86,389**
(e) FORECAST SPEND ON SOCIAL HOUSING IN PREVIOUS QS (Cum.)	5,991	5,991	5,991	15,180	15,180	15,180	17,341	17,341	17,341	17,341	17,341	17,341	17,341	17,341	17,341
(f) CUMULATIVE RECEIPTS AS % OF CUMULATIVE FORECAST SPEND ON SOCIAL HOUSING (c) divided by (e) must be less than 30%	0%	0%	0%	0%	0%	10%	29%	49%	73%	114%	149%	149%	149%	149%	149%
*** Dame Colet/ Poplar Baths**	5,991			9,189											
*** Brick Lane, Christian St etc**							2,161								
*** Additional spend needed by that Quarter to keep within 30%**								11,000	14,200	23,500	20,320				

The table above shows the total spend on schemes where it has been agreed that 1-4-1 receipts will be applied, the assumed timing, and whether the Authority will remain within the 30% rule each Quarter. It is currently projected that the Authority will be in breach of the 30% rule each Quarter from Q1 of 2017/18.

The last Row above shows the additional total spend on social housing needed – and when – in order to remain within the 30% rule; the **total additional spend on replacement social housing needed by Q4 of 2017/18 is £69m.**