

<b>Committee/Meeting:</b> Cabinet	<b>Date:</b> 8 September 2010	<b>Classification:</b> Unrestricted	<b>Report No:</b>
<b>Report of:</b> Corporate Director – Development and Renewal  <b>Originating officer(s)</b> Jackie Odunoye Service Head (Head of Strategy, Innovation & Sustainability) / Paul Leeson, Finance Manager - Development & Renewal		<b>Title:</b> Adoption of Housing Investment Programme Capital Estimates - 2010/11  <b>Wards Affected:</b>  All	

<b>Lead Member</b>	Housing, Heritage and Planning
<b>Community Plan Theme</b>	One Tower Hamlets
<b>Strategic Priority</b>	Ensuring value for money across the Council

## 1. **SUMMARY**

- 1.1 The Council submitted its 2010-11 Housing Investment Programme to the 10 March 2010 Cabinet for consideration in order to minimise delays in commencing works on the approved schemes at the start of the 2010-11 financial year. Consequently, the Council envisaged submitting an updated Housing Investment Programme to Cabinet in the summer.
- 1.2 It has however subsequently become apparent that the resources available to fund the capital programme in 2011-12 are at risk of being much less than originally envisaged, and as a result this impacts upon the 2010-11 programme. Officers in Development and Renewal, in conjunction with Tower Hamlets Homes, have reassessed the programme to mitigate this risk.
- 1.3 This report seeks to vary capital estimates and schemes adopted by Cabinet in March 2010 in respect of the 2010-11 Housing Investment Programme for those elements of the programme that are managed by Tower Hamlets Homes. It also seeks approval for the adoption of a capital estimate to commence the delivery of Decent Homes works that were approved under the Accelerating Delivery of Key priorities scheme.

## **2. DECISIONS REQUIRED**

Cabinet is recommended to: -

- 2.1 Note the contractually committed schemes that have been let and have commitments in 2010-11 and 2011-12, as set out in Appendix A of the report (see paragraph 7.2).
- 2.2 Adopt capital estimates for those schemes set out in Appendix B and delegate authority to the Corporate Director, Development and Renewal, after consultation with the Lead Member – Housing, Heritage and Planning, to progress subject to clarification on the funding for 2011-12 and resources being made available (see paragraphs 7.4 and 7.5).
- 2.3 Adopt a capital estimate of £500,000 within the 2010-11 capital programme to establish a contingency provision for urgent works. (see paragraph 7.6).
- 2.4 Adopt capital estimates of up to £2,000,000, as outlined in Appendix D, to allow the commencement of the Decent Homes programme to be funded under the Accelerated Delivery of Key Priorities as agreed by Cabinet on 4 November 2009. (see paragraph 8.1).
- 2.5 Adopt a capital estimate of £100,000 to incorporate additional Aids and Adaptations funding into the Housing Investment Programme. These resources were also approved under the Accelerated Delivery of Key Priorities as agreed by Cabinet on 4 November 2009. (see paragraph 8.2).
- 2.6 Agree that the capital receipt of £800,000 from the sale of 9 ex-short life properties to Network Housing Association will be used to part fund the Network scheme at 14-20 Alie Street., as outlined in section 9 of the report.

## **3. REASONS FOR THE DECISIONS**

- 3.1 In accordance with Financial Regulations, capital schemes must be included within the Council's capital programme and capital estimates adopted prior to any expenditure being incurred. This report seeks the adoption of the necessary capital estimates for various housing schemes in order that they can be progressed.

## **4. ALTERNATIVE OPTIONS**

- 4.1 Schemes within the Housing Investment Programme are assessed by Tower Hamlets Homes in accordance with relative need, and are then prioritised. Although alternative schemes are feasible, they would not be adopted in accordance with the asset management strategy and would be contrary to the procedures applied to the Housing Investment Programme.

## 5. **BACKGROUND**

- 5.1 In order to enable forward planning and clearly identify current and future priorities, the Council has developed a five year Housing Investment Programme, with the outline schemes forming the 2009-10 to 2013-14 programme that was approved by Cabinet on 29 July 2009. An updated programme is presented to Cabinet annually as circumstances change, resources available in the short term become clearer, and preparation work for the next year of the five-year rolling programme is undertaken.
- 5.2 An initial report for 2010-11 was approved by Cabinet on 10 March 2010 in order that the initial necessary capital estimates could be adopted and to ensure that there would be no delay in works commencing on the approved schemes at the start of the financial year.
- 5.3 At its May 2009 meeting, Cabinet agreed the Housing Strategy 2009-11 which contained the following objectives:
- Delivering and maintaining decent homes
  - Placemaking and sustainable communities
  - Managing demand, reducing overcrowding
  - New housing supply

The investment programme agreed in March and updated here addresses these aims, where appropriate. Other aspects of the Housing Strategy are being met through other complementary means e.g. via the Home and Communities Agency funding programme.

- 5.4 The Council is part-way through its currently agreed five year programme. The programme has been updated and informed by the recently completed 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.
- 5.5 In order to ensure that progress continues to be made on delivery of the approved programme, the Council needs to be able to work schemes up to tender and begin detailed resident consultation. Schemes must be part of the approved programme before this process can commence.

## 6. **RESOURCES**

6.1 In common with the majority of capital funded programmes, the Housing Capital Programme is affected by uncertainty concerning the future of various financing regimes.

There are several factors that currently impact upon the funding of the Housing Capital Programme, the main issues being:

- The review of the Housing Capital Financing System, and the possible dismantling of the Housing Revenue Account Subsidy system
- Reduction in Government support for housing projects, including the risk that Supported Capital Expenditure will not be extended beyond 2010-11
- The availability of Decent Homes Funding

6.2 Over recent years, the mainstream Housing Capital Programme has been funded from resources of approximately £28 million per annum, made up of Major Repairs Allowance of £12.5 million and Supported Capital Expenditure of £15.5 million. Major Repairs Allowance is a cash grant that is paid to authorities through the Housing Subsidy system, while Supported Capital Expenditure is an authority specific allocation representing the amount of borrowing that can be undertaken with full financing support for the revenue costs (i.e. interest payments) being met via the Housing Subsidy system.

6.3 Allowing for commitments on regeneration schemes (e.g. Ocean NDC and Blackwall Reach), the capital programme for expenditure on the Authority's own stock has been approximately £23 - £25 million per annum, and this level of on-going resources had been assumed to be available to underpin the Housing Capital Programme in the future.

6.4 However, officers consider it to be a significant risk that the Coalition Government, as part of the Comprehensive Spending Review to be announced in the autumn and any subsequent Housing Revenue Account Subsidy entitlement legislation, will reduce the levels of Supported Capital Expenditure available. Based on recent years, this will mean that in excess of £15 million of resources will be at risk and it is now considered prudent to reassess the capital programme.

6.5 For the purposes of this report, it is assumed that the existing Subsidy system will continue into 2011-12 and that if the proposed new self-financing system, as reported to Cabinet in July, is introduced, it will be after 1 April 2011 (see section 10 below).

6.6 The Council established Tower Hamlets Homes in July 2008 and anticipates this will lever in additional resources from 2011 onwards, subject to the ALMO achieving two star status in its inspection later this year. However, this report is based on existing resources from 2010-11 and estimates for

future years without an assumption of those additional resources. Until the Council has certainty of its ALMO Decent Homes funding allocation, its scope to address decent homes is more limited, however, the Housing Investment Programme does include a decent homes pilot programme.

6.7 The table below (Table 1 – Projected Resources 2011-12) sets out officers' assessment of the best and worst case scenarios for available resources in 2011-12. The residual available resources shown are net of projected levels of commitments for both Blackwall Reach and Ocean Estate. The scenarios determining the indicative 2011/12 level of resources are based on the latest available information, the worst case excluding Supported Capital Expenditure, the best case including it.

6.8 The table highlights that there could be a severe adverse movement in the availability of resources in 2011-12 which will impact upon the ability to finance the current level of commitments arising from the agreed Housing Investment Programme. It is therefore prudent for the Council to re-assess its current programme.

**Table 1 – Projected Resources 2011-12**

<b>Resources</b>	<b>2010/11 £</b>	<b>2011/12 Worst case £</b>	<b>2011/12 Best Case £</b>
Supported Capital Expenditure	15,500,000	0	15,500,000
Major Repairs Allowance	12,913,000	12,500,000	12,500,000
Major Repairs Allowance (B/F)	1,075,000	0	0
East London Sub-Regional Funding	160,000	0	0
	29,648,000	12,500,000	28,000,000
Less: Regeneration Commitments (Blackwall Reach and Ocean Estate)	(6,000,000)	(5,900,000)	(5,900,000)
<b>Projected Resources</b>	<b>23,648,000</b>	<b>6,600,000</b>	<b>22,100,000</b>

## **7. REVIEW OF PROGRAMME**

7.1 In light of the potential shortfall in resources for 2011-12 that is outlined in section 6 above, officers in Development and Renewal and Tower Hamlets Homes have jointly undertaken a detailed analysis of the programme to identify the status of each of the Housing Capital schemes. The aim of this was to enable an informed, controlled programme of work to be delivered

over a rolling period within constraints of both known and projected levels of resources.

- 7.2 All schemes within the programme have subsequently been reviewed, with the exception of the capitalised repairs to long-term voids, aids and adaptations and the Council's cash incentive scheme. This review identified that contractual liabilities are currently £12.957 million, with the in-year value (2010-11) of these schemes being £11.707m (around half of the available 2010-11 resources). More significantly the associated contractual liabilities in 2010-11 are only £1.250m, which makes the delivery of these schemes affordable. These are shown in Appendix A and members are asked to note these schemes and their impact on 2011-12.
- 7.3 The remaining proposed 2010-11 uncommitted schemes had an in-year value of approximately £10m. However, many of these schemes also carried a financial commitment into 2011-12 and this sum exceeded £14m, which is now in excess of our prudent estimate of resources available.
- 7.4 The £6.6 million of resources in 2011-12 must encompass the existing commitments of £1.250m already entered into on contracted schemes (paragraph 7.2) as well as other currently unapproved future calls on the programme (e.g. capitalisation of voids, aids and adaptations and the cash incentive scheme). In addition, Tower Hamlets Homes has put forward its recommended proposed priorities to the Council, which are shown in Appendix B. These include various decent homes works. In total these THH schemes project expenditure of £8.003 million in 2010-11, which can be met from within the current year's resources, but would carry forward commitments of £5.122 million into 2011-12.
- 7.5 In light of these concerns, it is proposed that the schemes within the programme will be prioritised and released as appropriate but within the constraints of resources available in both 2010-11 and 2011-12. In order that these schemes can be contractually committed at the earliest opportunity, officers therefore recommend that capital estimates for the schemes shown in Appendix B are adopted but that authority to progress is delegated to the Corporate Director, Development and Renewal, in conjunction with the Lead Member - Housing, Heritage and Planning, as and when greater clarity is forthcoming on the 2011-12 resource position.
- 7.6 It is essential to provide an appropriate financial contingency to cover the risks associated with the delivery of a major capital programme. The previously adopted Housing Capital Programme makes no provision for contingency therefore is recommended Members approve a capital estimate to establish a contingency provision of £500,000. The utilisation of this contingency will only be subject to the approval of the Corporate Director, Development and Renewal.
- 7.7 The Table below shows the resource and expenditure position over the two financial years. This highlights that although the contracts already let place a commitment of only £1.250m in 2011-12, the proposed THH prioritised

works would commit all “worst case” resources without allowing for any specific initiatives or unforeseen expenditure that might arise in 2011-12.

**Table 2 – Projected Expenditure v Projected Resources**

Resources	2010/11 £	2011/12 Worst case £	2011/12 Best Case £
<b>Projected Resources (See Table 1)</b>	<b>23,648,000</b>	<b>6,600,000</b>	<b>22,100,000</b>
<u>Projected Expenditure</u>			
Main Capital Programme – Committed (Appendix A)	11,707,000	1,250,000	1,250,000
THH Proposed Prioritised Works (Appendix B)	8,003,000	5,122,000	5,122,000
Other Housing Initiatives	3,400,000		
Contingency	500,000		
<b>Total Actual &amp; Projected Capital Expenditure</b>	<b>23,610,000</b>	<b>6,372,000</b>	<b>6,372,000</b>
<b>Available Resources</b>	<b>38,000</b>	<b>228,000</b>	<b>15,728,000</b>

7.8 The revised capital programme proposed by Tower Hamlets Homes for 2010-11, which incorporates the projected expenditure shown in the table above, is summarised by scheme type in Appendix C.

## **8. ACCELERATING DELIVERY OF KEY PRIORITIES**

8.1 On 4 November 2009, Cabinet approved funding towards the ‘Accelerating Delivery of Key Priorities’ (CAB 078/090). Included amongst the approvals was £2 million of funding towards the Delivery of Decent Homes (Bid AD/DR/02). In order for the scheme to progress, a capital estimate must be adopted. The proposed schemes are attached as Appendix D to this report.

8.2 In addition to the Decent Homes Funding, members also approved the allocation of £250,000 of resources to fund Aids and Adaptations within the Council’s housing stock. Cabinet approval is sought for the adoption of a capital estimate of £100,000 in order that the 2010-11 element of this scheme can be formally adopted within the capital programme.

## **9. SHORT LIFE PROPERTY DISPOSAL TO NETWORK HOUSING GROUP**

- 9.1 On 8 November 2006 Cabinet agreed to sell a number of short life properties to be redeveloped for affordable housing and to use the resources generated from the sale for further affordable housing or regeneration schemes within the Authority's capital programme. A sale was subsequently agreed with Network Housing Group of nine of these ex-shortlife properties (Ropery Street and others), which have been subject to a number of complaints from neighbouring properties. Following protracted negotiations with the Homes and Communities Agency, grant of £1,400,800 has been agreed and the refurbishment will produce 5 x 3 bed houses and 4 x 4 bed houses.
- 9.2 The HCA were unwilling to support the high level of grant required for the Ropery Street properties, primarily because the scheme costs included an £800,000 receipt being paid to the Council, unless the Council uses this receipt to part fund another Network scheme. This is not at variance with the original Cabinet decision and therefore in order to achieve the sale and refurbishment of these run-down properties, which have caused a substantial number of complaints, officers are now recommending that the receipt from the sale of these short life properties should be used to subsidise the grant level on another Network scheme, 14-20 Alie Street. This will produce 6 x 3 bed properties for affordable rent. Nominations to the properties will be via the Common Housing Register.
- 9.3 The following table shows the combined funding position for these two schemes:

**Table 3 – Funding of Proposed Network Housing Group Schemes**

Scheme	National Affordable Housing Programme Grant £	Recycled Grant from RSL (Recycled Capital Grant Fund) £	LA Grant £	Units	Persons	HCA Grant per Person £
9 Street Properties	1,401,000	128,000	0	9	52	29,404
14-20 Alie Street	99,000	0	800,000	6	29	3,414
<b>Combined Scheme Costs</b>	<b>1,500,000</b>	<b>128,000</b>	<b>800,000</b>	<b>15</b>	<b>81</b>	<b>20,099</b>

- 9.4 The council will receive nominations to all of the Ropery Street houses and at least 5 of the 6 Alie Street properties, because our financial contribution to both will attract a higher proportion of the nominations than is usually calculated under the East London Sub-regional Nominations process.



## **10. REVIEW OF COUNCIL HOUSING FINANCE**

- 10.1 At the end of March 2010, the previous Government set out a consultation document to dismantle the HRA subsidy system and replace it with a new self-financing system, details of which were presented to Cabinet on 7 July. The Coalition Government is pledged to reform the HRA and has not withdrawn the proposal.
- 10.2 The introduction of self-financing and the 30 year HRA business plan will put a new emphasis on the management of assets and the relationship between capital investment and revenue maintenance of the stock. A critical assumption relates to the stock investment and capital expenditure needs over the longer term. Our current working assumption is that over the period of the business plan the Council's housing capital investment requirement will be some £56,000 per dwelling which equates to £690m in total.
- 10.3 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.

## **11. DECENT HOMES FUNDING**

- 11.1 Tower Hamlets Homes will be subject to its Audit Commission inspection during November 2010. A successful rating could provide access to significant ALMO funding in future years. Neither the 2010-11 HRA estimates, the HRA Medium Term Financial Strategy nor the Capital Programme assume any funding from this source.

## **12. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

- 12.1 This report reviews the 2010-11 Housing Investment Programme in light of potential reductions in the funding available in 2011-12.
- 12.2 The 2010-11 Housing Investment Programme was approved by Cabinet on 10 March 2010. The report approved capital estimates totalling £24,290,000 for a range of schemes that are managed by Tower Hamlets Homes on behalf of the Council.
- 12.3 At the time that the original report was being considered by Cabinet in March, final confirmation of resources had not been received, and a small element of over-programming was included within the programme. The amended approvals sought in this updated report are affordable within the 2010-11 resources available (see Table 2),
- 12.4 No funding announcements have yet been made by the Government for 2011/12 and no financial commitments can be made until funding is

confirmed. The report sets out what the risks to funding in 2011/12 are currently understood to be.

- 12.5 Members will be aware that the Coalition Government is continuing with the review of the Council Housing Finance system as outlined in section 10. Cabinet considered a report into the possible impact upon the authority and the Council's response to the consultation paper at the meeting on 7 July 2010. The dismantling of the HRA Subsidy system will change the financing regime for Local Authority Housing Finance, both revenue and capital, but it is considered unlikely that any reforms will be in place by April 2011 so to be prudent this report assumes that the on-going system will continue.

#### Accelerated Delivery

- 12.6 The report seeks the adoption of capital estimates for two schemes that were approved for funding under the 'Accelerating Delivery of Key Priorities' report that was considered by Cabinet in November 2009 (section 8). Full financing is available for these projects. In accordance with Financial Regulations, because they are capital schemes, capital estimates must first be adopted prior to any expenditure being incurred.

#### Contingency

- 12.7 The report also seeks approval for a capital estimate to be adopted for the establishment of a contingency provision of £500,000 to be utilised in the event of urgent major capital works arising. This will be funded from within the total available capital resources in 2010/11, and is incorporated into the expenditure analysis shown in Table 2.

#### Short Life Property Disposal

- 12.8 The report also seeks approval for the Council to recycle the capital receipt that will be received under 'the future of short life properties owned by the Council' proposals that were approved by Cabinet in November 2006 (section 9). The Homes and Communities Agency has made it clear that it will only grant fund Network Housing Group to fund the acquisition and refurbishment of Authority owned properties, including those in Roper Street, if the Authority agrees to recycle the capital receipt that will be generated (£800,000) into another Network scheme at 14-20 Alie Street.
- 12.9 Table 3 shows the combined funding position for the schemes, but in effect, on the basis that neither scheme will progress unless the Authority agrees to recycle the receipt as Local Authority Grant, the Authority is gaining nomination rights to fourteen of the fifteen redeveloped houses in Roper Street and Allie Street (10x 3 bed, and 4x 4 bed) for a cost of £800,000.
- 12.10 Based on the lost opportunity cost of retaining and utilising the capital receipt for other regeneration related initiatives, the cost to the Authority is approximately £53,300 per property, or £9,900 per bed space. In addition, the HCA's contribution across these schemes equates to £108,500 per property or £20,100 per bed space. These total costs to the public purse of

approximately £162,000 per property compare favourably with the costs of £188,000 upwards (excluding land value) that were included within the successful bids submitted under the Building Britain's Future council house building funding regime.

### **13. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)**

- 13.1 Cabinet is asked to approve capital estimates associated with the housing investment programme and to the allocation of a capital receipt from the sale of nine ex-short life properties.
- 13.2 As the local housing authority for Tower Hamlets, the Council has broad functions in relation to reviewing housing need, providing housing, combating overcrowding and providing accommodation to the homeless. The Council is also responsible for maintaining its housing stock. It is consistent with good administration for the Council to adopt a 5-year investment programme related to the delivery of its housing function.
- 13.3 The Financial Regulations set a threshold of £250,000, above which Cabinet approval is required for a capital estimate. The Financial Procedures supplement this requirement. In accordance with Financial Procedure FP 3.3, senior managers are required to proceed with projects only when there is a capital estimate adopted and adequate capital resources have been identified. Where the estimate is over £250,000 the approval of the adoption of that capital estimate must be sought from the Cabinet.
- 13.4 The items in Appendix B of the report appear to concern maintenance and repairs to be carried out in relation to specified properties. These works may be considered consistent with the Council's repair obligation under section 11 of the Landlord and Tenant Act 1985. The other capital estimates are for urgent works and commencement of the Decent Homes programme. There are matters capable of being carried out within the Council's statutory functions.
- 13.5 It is proposed that the identified capital receipt be used on a scheme at 14-20 Alie Street. It is understood that this scheme concerns the purchase by Network Housing of 6 x 3 bedroom units from the developer. The Council is to contribute the £800,000 receipt from the Ropery Street properties to the purchase price. The Council's housing provision functions are broad enough to encompass such an arrangement (see for example section 9(3) of the Housing Act 1985). There is a need for the nomination rights received to constitute value for money, consistent with the Council's duty as a best value authority under the Local Government Act 1999.
- 13.6 It will be for officers to ensure that individual commitments are carried out in accordance with legal requirements. Any procurement associated with works or projects must be carried out in accordance with the Council's procurement procedures and the requirements of the Public Contract Regulations 2006.

## **14. ONE TOWER HAMLETS CONSIDERATIONS**

- 14.1 This report concerns progress in formulating housing investment programmes. 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.

## **15. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 15.1 The Housing Investment Programme contains specific provision to improve the energy efficiency of the Council's own stock. For example, a significant proportion of the Council's annual 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.

## **16. RISK MANAGEMENT IMPLICATIONS**

- 16.1 The risk management principles that underpin the operation of the capital programme are:
- 16.1.1 Minimising the Risk of Underspensing. The Housing Investment Programme is assembled with regard to the fact that schemes, especially those which are currently uncommitted, can often suffer delays. Overprogramming is therefore built into the operation of the programme in order to provide the flexibility required to quickly reprogramme in the case of any scheme where unforeseen delays occur.
- 16.1.2 Minimising the Risk of Overspending. No funding beyond that already confirmed and available for the current year 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.
- 16.2 This report is driven by the major risk that resources will be much reduced in future years and addresses the principle outlined in paragraph 16.1.2.

## **17. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 17.1 There are no specific Crime and Disorder reduction implications 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.

**18. EFFICIENCY STATEMENT**

- 18.1 The contracts used to undertake the Council's major works 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

## 19. APPENDICES

**Appendix A** - Housing Investment Programme 2010-11 - Committed Schemes

**Appendix B** - Tower Hamlets Homes Proposed Priority Schemes

**Appendix C** - Summary Analysis of Committed and THH Proposed Priority Schemes by Category

**Appendix D** – Proposed Decent Homes Schemes to be Funded from Accelerated Delivery Funding

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### **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.x
<b>Housing Investment Programme Files</b>	<b>Paul Leeson Development and Renewal Finance Extension 4995</b>