

Cabinet	 TOWER HAMLETS
30 November 2022	
Report of: Ann Sutcliffe – Corporate Director of Place Kevin Bartle – Interim Corporate Director of Resources	Classification: Unrestricted
Housing Revenue Account (HRA) Capital Programme 2022-23 to 2024-25: Latest position	

Lead Member	Councillor Kabir Ahmed, Cabinet Member for Regeneration, Inclusive Development and Housebuilding
Originating Officer(s)	Jane Abraham, Interim Capital Programme Manager (Housing)
Wards affected	All wards
Key Decision?	Yes
Forward Plan Notice Published	September 2022
Reason for Key Decision	To revise the budget for the housing capital programme incurring expenditure in excess of £1,000,000.
Strategic Plan Priority / Outcome	2. Providing homes for the future

Executive Summary

The Housing Revenue Account (HRA) Capital Programme budget of **£411.927m** for 2022-23 to 2024-25 was approved by Full Council in March 2022, as part of the Council's Medium Term Financial Strategy (MTFS) 2022-23 to 2024-25. The budget is made up of **£323.219m** for the delivery of the new homes programme and **£88.709m** to Tower Hamlets Homes (THH) for capital works.

The budget was revised and approved by Cabinet in July 2022, based on the provisional out-turn figures for 2021/22 including net slippage, to **£425.700m**, with **£335.500m** for the new homes programme and **£90.200m** for THH capital works.

A review of the Approved HRA Capital Programme has taken place under the new administration to ensure that the manifesto pledges and priorities set out in the 2022-26 Strategic Plan are reflected, in particular the Mayor's commitment to tackling overcrowding by increasing the number of family sized homes being delivered.

In June 2021 and March 2022, scheme-specific budgets were approved for the proposed developments which make up the existing capital programme for new homes. To make funding available for new schemes which are ready to progress and will provide more family-sized homes, some schemes in the approved programme will be substituted. This aligns with the programme-wide approach that enables individual schemes to be brought forward and moved back if issues that impact delivery arise to ensure the pace of delivery is maintained.

In parallel with the programme review, an update of the 30-year HRA Business Plan is being carried out to establish the budget envelope for next year's programme.

Where the ambition of the proposed capital programme exceeds the funding available at this time, alternative delivery options are being explored to maximise the delivery of new council homes in the borough.

The report sets out the detail of the revised 2022/25 HRA Capital Programme and how this will be funded, for approval.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Approve the budget allocations for new schemes being added to the programme as substitutes for previously approved schemes which are being removed, subject to sign off through the capital governance process and agreement to proceed given by the Corporate Director of Place in consultation with the Mayor and the Corporate Director of Resources.
2. Approve the addition of Buckhurst Street, Smithy Street, Candy Street, housing on the St Georges Leisure Centre site, the purchase of 9 completed homes at Royal Mint Street, the conversion of Albert Jacob House to be

funded by the removal of the Ashington House scheme and unallocated grant and s106, subject to sign off through the capital governance process and agreement to proceed given by the Corporate Director of Place in consultation with the Mayor and Corporate Director of Resources.

3. Approve the removal of the housing companies from the capital programme.
4. Approve the virement of £2.098m from the THH capital works budget of £90.200m for essential works at Watney Market car park
5. Approve delegated authority to the Corporate Director of Place, in consultation with the Mayor and the Corporate Director of Resources, to substitute schemes within the Approved HRA Capital Programme.
6. Note that schemes funded by future capital receipts (RTB receipts) and/or s106 contributions will not go ahead until such funds have been received by the Council.
7. Approve delegated authority to the Corporate Director of Place in consultation with the Mayor and the Corporate Director of Resources for all activities required to deliver the approved capital programme, for example but not exclusively, go out to tender, appoint consultants and contractors in accordance with the Procurement Procedures, acquire land interests, appropriate land from the General Fund to the Housing Revenue Account (HRA) for the delivery of new council homes and other rights of appropriation, subject to approved budget.
8. Note the Equalities Impact Assessment and specific equalities considerations as set out in Section 4.

1. REASONS FOR THE DECISIONS

- 1.1 The 2022-25 HRA Capital Programme approved in March 2022 requires a review and refresh to reflect the priorities set out by the new administration in the 2022-26 Strategic Plan. The 30-year HRA Business Plan is being updated and the revised programme will need to be set within the affordability constraints of the refreshed HRA Business Plan.

2. ALTERNATIVE OPTIONS

- 2.1 The council is required to approve a capital programme that it can demonstrate it can fund. Funding sources are identified for all schemes listed in the latest position of the 2022-25 HRA Capital Programme as set out in this report.
- 2.2 The alternative route would be to update on a scheme by scheme basis through the Quarterly Monitoring report prepared by Corporate Finance rather than reviewing the programme as a whole that can ensure the priorities in the Strategic Plan are addressed.

3. DETAILS OF THE REPORT

3.1 BACKGROUND

- 3.1.1 In March 2022, Full Council approved an HRA capital programme totalling **£411.927m** for 2022-23 to 2024-25, of which **£323.219m** for the delivery of the new homes programme and **£88.709m** to THH for capital works. The budget was revised and approved by Cabinet in July 2022, based on the provisional out-turn figures for 2021/22 including net slippage, to **£425.700m**, with **£335.500m** for the new homes programme and **£90.200m** for THH capital works. This includes the approved budget allocation for the first three years of the HAP Estate Regeneration scheme.
- 3.1.2 Last year's 30-year HRA Business Plan, carried out by Savills, demonstrated that the existing programme totalling **£425.700m** was affordable at that time. The HRA Business Plan is currently being updated to establish the budget available for next year's housing capital programme for the period 2023 – 2026.
- 3.1.3 The HRA capital programme is funded by a mixture of grant funding, capital receipts (including RTB receipts), s106 contributions and borrowing. The programme maximises the availability of external funding and RTB receipts, but the regulations associated with the use of these sources means that there is a need for borrowing to be used alongside. The revised HRA capital programme, within the approved total of **£425.700m**, will require **£222.130m** of borrowing, as previously approved and which last year's 30-year HRA Business Plan, demonstrates can be afforded.
- 3.1.4 The principles on which this capital report is based are that approved projects will not proceed until the identified funding source is received, or in the case of external grant, confirmed in writing; the council will not borrow more than it can afford to repay; and the total approved HRA capital programme will not exceed the total funding available and if new schemes are prioritised above those already in the programme, they will need to replace existing approved schemes. The programme-wide approach will enable individual projects to be brought forward and moved back as issues that impact on delivery arise, to maintain delivery outcomes.
- 3.1.5 In order to successfully deliver a substantial capital programme, it is essential to have effective governance, project monitoring, financial management and staff resources in place to ensure that quality outcomes are delivered on time and value for money is demonstrated.
- 3.1.6 The substitutions within the revised 2022-25 HRA capital programme proposed in this report are shown in paragraph 3.4.15 Table 2.

3.2 CONTEXT

- 3.2.1 The newly approved 2022-26 Strategic Plan sets a clear direction for the council and is the main business planning document. It sets out the strategic priorities

and objectives, the high level activities which will be undertaken to deliver the outcomes and the measures that will help determine whether the outcomes have been achieved.

3.2.2 Priority 2 is “Homes for the future” and sets out the actions required to meet the ambition of the new administration that “everyone in Tower Hamlets lives in a good quality home that they can afford”. Recognising that the housing crisis being one of the greatest challenges facing London today, with a fast growing population, an acute shortage of social homes and many residents living in overcrowded conditions, the council will work alongside residents, housing providers and landlords in finding solutions to achieve change.

3.2.3 The new homes programme will contribute towards addressing these priorities by:

- Prioritising schemes which provide the opportunity to deliver the greatest number of new homes
- Maximising the number of larger family-sized homes within every scheme
- Making best use of land in the council’s ownership to increase the supply of new homes for social rent
- Exploring opportunities for alternative delivery options to increase delivery through partnership approaches

3.2.4 There are a number of other ways in which the council will be seeking to tackle overcrowding, which will form part of a future housing strategy, including:

- Reviewing potential for an extensions/knock-through programme, initially allocating £0.500m for 10 properties
- Identifying new ways to help reduce under-occupation
- Considering the purchase of completed homes delivered through s106 agreements with developers, such as Royal Mint Street
- Reviewing the buy-back programme, for which there is currently an approved budget of £11.917m in the General Fund for the three year period from 2022-25
- Reducing the number of long-term void properties

3.2.5 In addition to the direct delivery of new council homes, housing associations operating the borough also deliver much-needed affordable homes.

3.3 FUNDING

3.3.1 The HRA capital programme is funded by a mixture of grant funding, capital receipts (including RTB receipts), s106 contributions and prudent borrowing. The programme maximises the availability of external funding and RTB receipts, but the regulations associated with the use of these sources means that there is a need for borrowing to be used alongside.

3.3.2 The council was allocated grant funding as part of the 2021/26 GLA grant programme. Since the grant was offered there have been a number of adjustments made within the programme to reflect the change in funding

approach to the HAP Estate Regeneration (to be funded by RTB receipts, as approved by Cabinet in December 2021). A total of **£23.970m** remains available for re-allocation. To maximise the use of external GLA grant for the new homes programme, this grant of £170,000 per unit has been allocated when it can be to the new additions to the programme ahead of RTB receipts.

- 3.3.3 Right-to-buy (RTB) receipts are either directly held by the council or held by the GLA. Where directly held RTB receipts are used, these can contribute 40% of the total scheme budget alongside s106 contributions and/or borrowing. For GLA ring-fenced RTB receipts, only 30% of a total scheme budget can come from this source, with the remainder from s106 contributions and/or borrowing. The removal of the approved budget allocation for the community benefit society (Mulberry Housing Society) has released **£9.000m** of directly held RTB receipts for allocation to the HRA capital programme.
- 3.3.4 The council currently holds **£21.043m** of s106 for the provision of affordable housing, of which **£13.938m** is allocated to the HAP Estate Regeneration and **£0.352m** to recently completed schemes. There remains **£6.753m** of s106 which is allocated to the HRA capital programme in this report.
- 3.3.5 The prudent borrowing capacity is established by the 30-year HRA Business Plan. The business plan takes into account the projected income from the housing stock, meaning that annual rent increases will impact directly on the capacity available for the delivery of new homes. The 2022-25 HRA capital programme requires **£222.130m** of borrowing.

3.4 REVISED 2022-25 HRA HOUSING CAPITAL PROGRAMME

- 3.4.1 The currently approved 2022-25 HRA capital programme totals **£425.700m**, of which **£335.200m** is for the new homes programme and **£90.200m** is for THH capital works, based on the 30-year HRA Business Plan produced in 2021.

Capital works to existing council homes

- 3.4.2 The priorities for THH housing capital expenditure for the next three years are to maintain and improve the existing council stock, continue retrospective works to address fire safety and building safety and, subject to the availability of funding, carry out energy efficiency works.
- 3.4.3 Essential works, expected to cost **£2.098m**, required to Watney Market car park to ensure the safety of the residents living in the flats above are being funded as part of the **£90.200m** THH capital works programme for the next three years, approval for which is sought in this report.

New council homes programme

- 3.4.4 In the reports to Cabinet in June 2021 and Full Council in March 2022, scheme-specific budgets were approved for the proposed developments which make up

the existing 2022-25 HRA capital programme for new homes totalling **£335.500m** for the next three years.

- 3.4.5 To make funding available within the currently approved budget envelope for other schemes, this report proposes the removal of **£9.000m** (funded by RTB receipts) budget allocation for the community benefit society and the Ashington House scheme with a total approved budget allocation of **£31.603m** (£12.604m RTB receipts; £18.999m borrowing). The Ashington House scheme has progressed more slowly than anticipated and no longer requires a capital allocation. In addition, there is **£6.753m** from s106 contributions available for allocation.
- 3.4.6 All new build schemes that are on site or where contractors have been appointed remain in the revised programme. As a result of inflation and other market conditions, there are expected to be some increases to project budgets to cover total scheme costs and ensure schemes can be delivered as planned. Approval for these will be sought on a scheme by scheme basis once exact costs are known, subject to funding availability.
- 3.4.7 The new additions to the programme require funding of **£44.200m**, which is being made available, within the existing budget envelope, by the removal of the Ashington House scheme. The new additions include two schemes with planning consent for a total of 4 bedroom homes at Buckhurst Street and Smithy Street, the purchase of 9 completed family-sized homes at Royal Mint Street, the delivery of as many modular homes at Candy Street as possible subject to planning, funding for in the region of 27 new homes on the St George's Leisure Centre site and for the refurbishment and conversion of Albert Jacob House.
- 3.4.8 Schemes that have yet to achieve planning consent or are in the early design stages are being reviewed, to ensure that best use is made of land in the council's ownership and the number of larger family-sized homes is increased. Budget allocations for these schemes remain in the programme but are likely to need amending when the final designs have been approved.
- 3.4.9 Future additions will be made to the programme to increase the supply of new council homes, including the development of John Onslow House, subject to funding availability, following the HRA Business Plan Review.
- 3.4.10 Alternative delivery options are being explored to enable the delivery of mixed tenure schemes through partnership approaches at Commercial Road (car pound) and other schemes in the pipeline programme. The ambition for the HRA Capital Programme currently exceeds the funding available. The HRA Business Plan review will establish the revised budget envelope for 2023-26.
- 3.4.11 All schemes in the revised 2022-25 HRA capital programme set out in this report have funding identified and allocated, confirming that the programme can be afforded, based on last year's business plan. Beyond the approved schemes, initial feasibility works continues to be carried out on potential schemes, funded by HRA revenue, to create a future pipeline to be brought forward when funding becomes available.

3.4.12 A programme-wide approach will continue to be taken, to enable individual schemes to be brought forward from the pipeline programme or moved back from the approved programme if issues that impact delivery arise, ensuring the provision of new homes is maintained. This report seeks delegated authority for the substitution of schemes to be approved by the Corporate Director of Place in consultation with the Corporate Director of Resources and the Mayor, to ensure delivery can continue at pace.

3.4.13 If the update of the 30-year HRA Business Plan reduces funding capacity, other schemes may need to be removed from next year's programme.

3.4.14 The funding available for allocation to new schemes, as a result of scheme removals and unallocated grant and s106, is shown in Table 1 below:

Table 1

	GLA £m	RTB receipts £m	s106 £m	Borrowing £m	Total £m
Ashington	-	12.604	-	18.999	31.603
CBS	-	9.000	-	-	9.000
Unallocated grant	23.970	-	-	-	23.970
Available s106	-	-	6.753	-	6.753
Total	23.970	21.604	6.753	18.999	71.326

3.4.15 The proposed budget allocations are shown in Table 2 below. To add any further schemes to the programme, additional borrowing capacity, which is not available, would be required.

Table 2

	GLA £m	RTB receipts £m	s106 £m	Borrowing £m	Total £m
Buckhurst Street	1.020	-	-	1.480	2.500
Smithy Street	0.680	-	-	1.320	2.000
88 Royal Mint Street	-	1.800	-	2.700	4.500
Candy Street	4.080	-	-	4.920	9.000
St George's Leisure Centre site – housing	-	6.400	6.753	2.847	16.000
Albert Jacob House	4.760	-	-	5.440	10.200
Total	10.540	8.200	6.753	18.707	44.200

4 EQUALITIES IMPLICATIONS

- 4.1 The Equality Act 2010 requires the Council, in the exercise of its functions to have due regard to eliminate unlawful discrimination, harassment and victimisation, advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.
- 4.2 With the diversity and rapid growth of the borough, ensuring equality is embedded throughout Council plans, services and activities is a key priority and at the heart of all decision making. To help meet its duty under the Equality Act the Council undertakes equality impact assessments to analyse a proposed change to assess whether it has a disproportionate impact on persons who share a protected characteristic.
- 4.3 As part of the process of establishing a housing capital programme, an equality impact assessment checklist is carried out on all new proposals and schemes to determine if a full equality impact assessment needs to be carried out. Full equality impact assessments are carried out for each new build scheme as part of the governance process. This process prevents any proposal which amounts to discrimination from being implemented and any project which is likely to lead to a differential impact is varied to mitigate the differential impact.
- 4.4 It is intended that the housing capital programme, as a whole, reduces inequality, fosters cohesion and has a positive impact for residents and organisations in the borough.

5 OTHER STATUTORY IMPLICATIONS

- 5.1 Under Section 17 of the Crime and Disorder Act 1998, the council is under a legal duty when exercising its various duties to have due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent crime and disorder in its area, including anti-social behaviour adversely affecting the local environment and quality of life of residents; the misuse of drugs, alcohol and other substances and re-offending. It is anticipated that a number of the capital schemes proposed will have beneficial consequences for crime and disorder in the borough through providing new and improved homes, enhancing the public realm and improving life chances for children and young people.
- 5.2 Any safeguarding implications of individual proposals in the budget are set out in the papers relating to those proposals.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 This report recommends that MAB approve the budget allocations for new schemes being added to the programme as substitutes for previously approved schemes which are being removed.

- 6.2 To make funding available within the currently approved budget envelope for other schemes, this report proposes the removal of £9.000m (funded by RTB receipts) budget allocation for the community benefit society and the Ashington House scheme with a total approved budget allocation of £31.603m (£12.604m RTB receipts; £18.999m borrowing). In addition, there is £6.753m from s106 contributions and £23.970 of GLA grant available for allocation. This would result in total funding of £71.326m being made available, detailed further in Table 1, for re-allocation whilst maintaining the overall budget envelope from last year's 30-year HRA Business Plan, carried out by Savills, which demonstrated that the existing programme was affordable at the time.
- 6.3 The proposed new additions to the programme would utilise £44.200m, which is detailed further in Table 2 including a breakdown of funding sources, of the total funding of £71.326m proposed to be made available. This would leave £27.126m of funding available (£13.430m of GLA grants, £13.404m of RTB receipts and £0.292m of borrowing) which will be reviewed in light of the update of the 30-year HRA Business Plan being carried out to establish the budget envelope for the 2023-26 HRA capital budget.
- 6.4 As part of the proposals, it is recommended to remove the Ashington House scheme from the HRA capital programme. If the scheme is approved for removal, the spend to date of £627k relating to the scheme will need to be expensed to Housing Revenue Account (HRA) revenue and contained within revenue budgets as no tangible asset has materialised. Further, the report also proposes the allocation of £10.540m of Greater London Authority (GLA) grant monies to individual housing schemes, this is subject to approval from the GLA.
- 6.5 The report also looks approval for the Essential works, expected to cost £2.098m, required to Watney Market car park to ensure the safety of the residents living in the flats above. This will be funded by reducing the existing £90.200m THH capital works programme for the next three years by an equivalent amount, releasing £2.098m of HRA revenue funding to finance the expected costs, resulting in a net nil impact on the overall existing HRA capital programme.

7. COMMENTS OF LEGAL SERVICES

- 7.1 The Council is required by section 151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs. The Council's chief finance officer has established financial procedures to ensure the Council's proper financial administration. These include procedures for budgetary control and the expenditure of different funding streams. It is consistent with these arrangements for Cabinet to receive information and requests relating to the allocation of funding.
- 7.2 The allocations of the various funding streams referred to in this report are in line with the various legal frameworks which relate to each funding stream.
- 7.3 Where reference is made to the allocation of S.106 funds in the Appendix, such allocation will occur (or has occurred as the case may be) in line with the

Council's application procedure and in any event the money will be applied to schemes which conform to the conditions imposed by the relevant S.106 agreement.

- 7.4 Recommendation 3 refers to a delegation to the Corporate Director to commit the Council to expenditure of the various sources of funds. Any such commitment will be subject to the Council running an appropriate level of procurement exercise having regard to the Council's constitution and the relevant legislation such as the Public Contracts Regulations 2015.
- 7.5 The winning bidder for each exercise will be chosen against pre-published evaluation criteria which will represent an appropriate blend of price and quality with respect to the subject matter of each procurement. The award to the best scoring bidder on this basis will not only comply with the relevant procurement law and the Council's constitution but will also assist the demonstration of the Council's compliance with its Best Value Duty.

Linked Reports, Appendices and Background Documents

Appendices

- None

Linked Report

- None

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

- None

Officer contact details for documents:

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