

GROWTH PROPOSAL – HOUSING REVENUE ACCOUNT

London Borough of Tower Hamlets
Medium Term Financial Strategy 2023-26

Proposal Title:	Minimum Energy Efficiency Standards – Energy Performance Certificates Programme for HRA Leased properties		
Reference:	GRO / HRA 001 / 23-24	Growth Type:	Budget Pressure
Directorate:	Place	Growth Service Area:	Housing Revenue Account (HRA)
Directorate Service:	HRA	Strategic Priority Outcome:	2. Providing homes for the future
Lead Officer and Post:	Ralph Million, Acting Head of Asset Management	Lead Member and Portfolio:	Cllr Kabir Ahmed, Cabinet Member for Regeneration, Inclusive Development and Housebuilding

Financial Impact:	Current Budget 2022-23	Growth 2023-24	Growth 2024-25	Growth 2025-26	Total Growth
Budget (£000)	-	116	(116)	-	-

Staffing Impact (if applicable):	Current 2022-23	FTE Increase 2023-24	FTE Increase 2024-25	FTE Increase 2025-26	Total FTE Increase
Employees (FTE) or state N/A	N/A	N/A	N/A	N/A	N/A

Proposal Summary:

As part of the national target for the UK to be net zero by 2050, the Government has set a target of raising the minimum energy efficiency standard in rented non-domestic buildings to EPC rating B by 2030. As intermediate targets over the next three years, the Government has set the following.

- 1 April 2023. It will be unlawful for landlords to continue to let non-domestic buildings in the scope of the Minimum Energy Efficiency Standards (MEES) regulations with an Energy Performance Certificate (EPC) rating of 'F' or 'G'.
- 1 April 2025. All non-domestic rented buildings in the scope of the MEES regulations must have a valid EPC.

The MEES regulations were introduced in 2015 to target the least energy efficient buildings. Since April 2018, landlords of qualifying non-domestic property have needed to ensure that their properties comply, and new leases on properties with an EPC rating lower than an 'E' cannot be granted. The 2023 regulation changes will apply to all existing non-domestic leases, and it will be unlawful for landlords to continue to let (although not sell) commercial property with an EPC rating of 'F' or 'G'.

A Government 2021 consultation paper contains the 2025 date, along with a further date of April 2027 by when all rented non-domestic buildings must meet a minimum EPC rating of C. Whilst the energy usage in these properties is managed by third-party tenants, the improvements in energy efficiency are in line with the council's commitment to become a net zero carbon borough by 2045 or sooner.

The council has 407 property leases of 99 years or less, which are in scope of the MEES regulations. Of these 102 have EPCs, and 305 do not. EPCs are generally only obtained when a property is being marketed, when it is a legal requirement. EPCs only last for 10 years, and the Council also had a number which have now expired, which are included within the 305.

In order to meet the 2025 target, EPCs will need to be obtained for the 305 properties. The cost of an EPC is related to the floor area of the property involved. EPCs are produced by accredited energy assessors; the council buys in the service from suppliers. There is an existing small contract with a total value of £7,500 to facilitate any EPCs required for marketing purposes. The estimated cost for obtaining the 305 EPCs, allowing for 10% failure rate and re-assessment after works is £150,000, uplifted to £165,000 allowing for 10% growth, as per the table below. There is no budget provision for the costs of obtaining EPCs. Where individual EPCs have been obtained previously, the costs have been charged to a budget linked to the rental income, most of which is within the HRA.

This proposal excludes the costs associated with undertaking compliance works to ensure the property meets the EPC Regulations.

The unit EPC cost is based on the costs from the council's existing commercial EPC supplier. There is a sliding scale of charges based on the size of the property, as below;

The minimum charge is £290 for properties under 750 ft²,

Over 750 but less than 1500 ft², £330

Over 1500 but less than 2500 ft², £380

Over 2500 but less than 3500 ft², £435

Over 3500 but less than 5000 ft², £490

Over 5000 but less than 6500 ft², £540

Every additional 1,000 ft² + £45, up to £1,000

An average figure of £435 has been used in the calculation of this non-recurrent growth bid as being mid-range, reflecting that some properties will be larger and some smaller.

There is a further £125 for a Recommendation Report, which is recommended even if the property is compliant, as can assist with meeting the more stringent targets. Should the property fail its EPC there is a £30 credit, with a reduced £220 charge for revisiting after the works have been completed to record compliance. It is assumed that 10% of the portfolio will fail to meet an E or higher, based on historic levels. The costs are as per the below Table

Initial Assessment

Properties	305	
Ave Cost	<u>£435</u>	
		£132,675

Recommendation Reports	<u>£125</u>	
		£3,875

Non Compliance

Properties	31	
Credit	<u>(£30)</u>	
		(£930)

Re-survey	<u>£220</u>	
		<u>£6,820</u>
		£142,440

A further margin of 15% is sought to allow for price increases due to the proposals to start next year. For the bulk EPCs covered by the growth bid a new procurement is planned, which will ensure that the council gets value for money. The aim is for the procurement to take place in time for an April 2023 start.

The properties involved are held in both the HRA and General Fund (including King Georges Field Trust). The percentage split by number of properties is 70% HRA, 27.5% General Fund, and 2.5% King Georges Field Trust. This growth bid relates to the properties held in the HRA, which equates to growth of around £116k.

It is proposed that the new EPCs required are obtained during the 2023/24 year. This will allow a period of a year before April 2025 to carry out any improvement works required to deal with any F or G ratings. This excludes any EPCs which are required under Business as Usual (BAU) where properties become vacant and are to be let.

This proposal does not include for works to improve EPC ratings. As the council develops comprehensive EPC coverage, it will be possible to estimate the costs of works and a further growth proposal will come forward at that stage. It is the council's responsibility to ensure that its let properties comply with the MEES regulations, hence the primary responsibility for carrying out necessary work rests with the council.

Based on the situation with the limited number of EPCs carried out to date, the proportion of properties with rating B or above is 8% and 36% at C or above. The achievement of the B or above target for all let properties by 2030 will require intervention in most properties.

Where properties achieve an initial rating of F or G then the assessor will provide guidance as to the works required to improve as well as the impact of them. These will be assessed individually and will be considered on a cost/efficiency basis. It is anticipated these works will be undertaken under the Capital works programme.

The theory is that by having a higher rating then the property is more energy efficient, and the cost of bills will reduce.

Budgeted Outcomes / Accountability (focus on improved performance):

The impact of increased energy performance in terms of reduced consumption benefits the occupiers of let properties. There may a marginal benefit to the council in terms of rental value, however it must be assumed that all landlords will be following a similar trajectory as the council.

Risks and Implications:

The enforcement of MEES regulations is with the council. The penalties for non-compliance are fines. For renting out a non-compliant property for a period of more than 3 months the fine is 20% of the rateable value, with a minimum fine of £10,000 to a maximum of £150,000.

There is reputational risk, given the council's role as enforcement authority and regarding its own carbon reduction policies, as well as Manifesto Commitments.

Value for Money and Efficiency:

The principal driver for the process is to comply with regulations, with a secondary benefit of supporting the council's net zero policy.

Furthermore, by having a higher rated property, then the property should be more energy efficient, with a beneficial impact on bills as well as on the environment.

Due to the anticipated level of costs, it is appreciated a full procurement will need to be undertaken, and we will propose that this is by adopting a local government framework to have multiple providers bid for the work and undertake it across the whole portfolio concurrently.

GROWTH PROPOSAL – BUDGET EQUALITY ANALYSIS SCREENING TOOL

Trigger Questions	Yes / No	If Yes – please provide a brief summary of how this impacts on each protected characteristic as identified in the Equalities Act 2010. This will need to be expanded in a full Equality Analysis at full Business Case stage.
Does the change reduce resources available to address inequality?	No	
Does the change reduce resources available to support vulnerable residents?	No	
Does the change involve direct impact on front line services?	No	
Changes to a Service		
Does the change alter who is eligible for the service?	No	
Does the change alter access to the service?	No	
Changes to Staffing		
Does the change involve a reduction in staff?	No	
Does the change involve a redesign of the roles of staff?	No	

Summary:	
To be completed at the end of completing the Screening Tool.	
Based on the Screening Tool, will a full EA be required?	No

Additional Information and Comments:

GROWTH PROPOSAL – HOUSING REVENUE ACCOUNT

London Borough of Tower Hamlets
Medium Term Financial Strategy 2023-26

Proposal Title:	Housing Management Functions – Strategic Review and Consultation		
Reference:	GRO / HRA 002 / 23-24	Growth Type:	Mayoral Priority
Directorate:	Place	Growth Service Area:	Housing Revenue Account (HRA)
Directorate Service:	Housing	Strategic Priority Outcome:	2. Homes for the Future
Lead Officer and Post:	Nicola Klinger, Housing Companies & Shared Services Manager	Lead Member and Portfolio:	Cllr Kabir Ahmed, Cabinet Member for Regeneration, Inclusive Development and Housebuilding

Financial Impact:	Current Budget 2022-23	Growth 2023-24	Growth 2024-25	Growth 2025-26	Total Growth
Budget (£000)	-	213	(213)	-	-

Staffing Impact (if applicable):	Current 2022-23	FTE Increase 2023-24	FTE Increase 2024-25	FTE Increase 2025-26	Total FTE Increase
Employees (FTE) or state N/A	-	2.5	(2.5)	-	-

Proposal Summary:

The growth bid for this proposal will enable the establishment of a core project team to deliver the Housing Management Functions Programme taking into account the consultation underway regarding housing management services potentially coming back in house under the direct control of the council.

The key workstreams for this programme are: Resident Consultation, Communications, Strategic Review and Efficiencies Analysis, Governance & Legal, Shared Services/Service Integration, People (staff engagement and consultation, TUPE), Contracts, Accounts & Assets.

The budget includes resources for the programme team and specialist support as set out below. The resources will be brought in as necessary to the programme, and only where there is not capacity within current services. The bid does not include any potential costs associated with transfer of staff (e.g., redundancies, tribunals, etc).

Table 1: This table shows a breakdown of the costs of the programme team and non-staff resources

Post	Grade	Salary & on-costs	Length	2023-24 Cost (£000's)
Programme Lead	O	£90,795 (Salary plus on-costs p.a.)	15 months	91
Senior Strategy and Policy Officer	L	£70,386 (Salary plus on-costs p.a.)	15 months	70
Business Support Officer (0.5)	I	£27,046 (Salary plus on-costs p.a. 0.5 FTE)	15 months	27
Total Programme Team				188
Non-staff resources (e.g. mail-out; printing; translation, etc.)				25
TOTAL PROGRAMME				213

Programme Lead

- Will be responsible (along with the Project Sponsor) for the delivery of the consultation and strategic review, ensuring that governance and legal requirements are met, ensuring all stakeholders are engaged, managing the programme budget, ensuring the delivery of the programme and managing the programme team.
- Risks of not funding this include lack of direction for programme team, lack of strategic input into programme, lack of engagement with stakeholders, programme not running to budget or timescales.

Senior Strategy and Policy Officer

- Will build capacity within Strategy, Policy and Improvement team. Will consider impact of legislation and national policy (including Building Safety Act 2022, the Fire Safety Act 2021 and the Social Housing Regulation Bill) on proposals for the future of housing management services.

Business Support Officer (0.5 FTE)

- To arrange meetings, take action notes, input data (e.g., from consultation) to ensure that processes run smoothly, and other officers have more capacity to deliver their responsibilities.
- Risks: other members of the programme team spend extended time completing tasks such as arranging meetings which impacts on the ability to deliver the programme.

Non-staff resources

- To provide additional support or resources where needed for example: costs of mail-out and return postage to all residents, costs of translation, etc.
- Risks of not funding this include: inability to deliver consultation.

Budgeted Outcomes / Accountability (focus on improved performance):

The Council has set out in the Strategic Plan that one of its strategic priorities is that “Everyone in Tower Hamlets lives in a good quality home that they can afford”. As part of achieving this outcome, the Council has committed to “Consult residents on the future of housing management services, including Tower Hamlets Homes”. Additionally, the Council has also set out a strategic priority to “Invest in public services”, with an aim to bring outsourced public services back into public hands and introduce an ‘insourcing first’ policy.

Risks and Implications:

The core risks and implications are:

- Inability to deliver project due to lack of resources resulting in lack of basis on which an informed decision can be taken
- Project takes extremely long period of time to delivery due to lack in resources
- Consultation does not test the opinion of stakeholders at a formative stage in the decision-making process in line with legislation and Gunning & Mosely principles, resulting in potential legal challenge
- Low staff morale/staff leaving due to concerns around the future which could result in negative impact on service delivery
- Residents and staff receive incomplete, confusing, or conflicting information/communications causing confusion and anxiety
- Full appraisal of benefit and target outcomes and risks is not conducted result in lack of basis on which an informed decision can be taken
- Lack of adherence to TUPE and other legislation
- Service continuity and delivery is negatively impacted due to low staff morale, lack of strategic planning and loss of corporate knowledge due to staff leaving
- Staff and residents become confused and anxious due to lack of communication
- Lack of strategic approach to transfer results in protracted period of change and restructure causing prolonged disruption
- Relevant legislation/requirements specific to winding down a company is not followed resulting in potential legal challenge
- Lack of resources to deliver transformation programme creates delays/undesirable approach which impacts negatively on residents and staff

Value for Money and Efficiency:

A full analysis of potential efficiencies will be undertaken during the process.

Both cashable and non-cashable benefits will be achieved by:

- Service integration and redesign
- Lack of requirement to administer company
- Reduction of duplication in effort
- Streamlining process and governance generating additional officer capacity

GROWTH PROPOSAL – BUDGET EQUALITY ANALYSIS SCREENING TOOL

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Based on the Screening Tool, will a full EA be required?	No

Additional Information and Comments:

GROWTH PROPOSAL – HOUSING REVENUE ACCOUNT

London Borough of Tower Hamlets
Medium Term Financial Strategy 2023-26

Proposal Title:	Compliance with Building Safety Act		
Reference:	GRO / HRA 003 / 23-24	Growth Type:	Unavoidable Growth
Directorate:	Place	Growth Service Area:	Housing Revenue Account (HRA)
Directorate Service:	HRA	Strategic Priority Outcome:	2. Providing homes for the future
Lead Officer and Post:	Karen Swift, Director of Housing	Lead Member and Portfolio:	Cllr Kabir Ahmed, Cabinet Member for Regeneration, Inclusive Development and Housebuilding

Financial Impact:	Current Budget 2022-23	Growth 2023-24	Growth 2024-25	Growth 2025-26	Total Growth
Budget (£000)	-	858	(858)	-	-

Staffing Impact (if applicable):	Current 2022-23	FTE Increase 2023-24	FTE Increase 2024-25	FTE Increase 2025-26	Total FTE Increase
Employees (FTE) or state N/A	N/A	N/A	N/A	N/A	N/A

Proposal Summary:

One off growth to meet the requirements of the Building Safety & Fire Safety Acts.

There are 77 buildings over 18m and within the scope of the Building Safety Act. One is due to be demolished (Robinhood gardens) leaving 76 that require the following surveys:

- Full building floor plans/point cloud/laser surveys (unit cost likely to be at least 6000)
- External Wall System surveys (unit cost approx. 14,500)
- Type 4 Fire Risk Assessments (Unit cost approx. 4000)
- Structural surveys (unit cost approx. 4000)

Some surveys have been undertaken in the current financial year with the balance of the work falling into 2023/24, as set out below:

- As part of the continuing need to undertake Building Safety Case Reviews there is a need to undertake structural surveys to 46 blocks in 2023/24, totalling £138,000. This is predicated on the basis that we are able to complete a number of surveys in the current financial year from existing budgets.
- More specialist (Laser Scan) surveys are required to produce full building plans in an editable format for the Building Safety case. In the future these plans can be integrated into BIM. 74 surveys will be required in 23/24 (3 buildings will be complete in 22/23). The cost of this is likely to be approx. £450,000 but we will part fund this from existing stock condition budget so we are seeking £345,000.
- Due to a slight delay in procuring the fire engineering contract, 15 External wall surveys inspections due this year will now be undertaken in 2023/24 requiring an additional resource of £235,200.
- Directly linked to External Walls System (EWS) inspections, 34 blocks in 2023/24 will require a Type 4 Fire Risk Assessment, totalling £140,000.

We will need to complete external wall surveys to some blocks of flats below 18m over the next couple of years. We will review these in 23/24 and where we are unable to fund these surveys from existing budgets we will incorporate this into 24/25 budget.

Budgeted Outcomes / Accountability (focus on improved performance):

These proposals will ensure statutory compliance on building safety.

Risks and Implications:

Failure to undertake these surveys will mean incomplete Building Safety Cases and non-adherence to new fire safety regulations coming into force in January 2023.

Some of this work will generate additional requirements, for example waking watches, which cannot yet be quantified. It is suggested that provision for these costs is addressed as and when the need arises.

Value for Money and Efficiency:

The proposal to use laser surveying techniques will future proof the floor plan data and ensure that it is retained in a usable format. There is high demand for such services as a result of the statutory deadlines. This will be managed by using reputable organisations with a proven track record who will deliver a good quality product at a reasonable cost.

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