

<b>Committee/Meeting:</b> Cabinet	<b>Date:</b> 8 June 2011	<b>Classification:</b> Unrestricted	<b>Report No:</b> CAB 001/112
<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 Capital Estimates for the Housing Investment Programme 2011/12, Decent Homes Backlog Funding 2011/12 and 2012/13, and and other Development and Renewal Directorate led Capital Initiatives  <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 In September 2010 Cabinet approved a revised Housing Investment Programme for 2010/11 which sought to limit commitments into the 2011/12 financial year, pending the announcements of definitive levels of resources.
- 1.2 Following the Government announcement of various funding streams, this report seeks to adopt capital estimates for 2011/12 and 2012/13 for the Decent Homes backlog programme and 2011/12 for the Housing Investment Programme.
- 1.3 This report also seeks approval to adopt an additional capital estimate in respect of Section 106 funding to the Tower Hamlets Primary Care Trust in relation to the development of the St Andrews Health and Wellbeing Centre.

## 2. **DECISIONS REQUIRED**

Cabinet is recommended to: -

- 2.1 Agree the principles for the delivery of the backlog Decent Homes Programme (as outlined in paragraphs 6.9 to 6.11), and adopt capital

estimates for 2011/12 and 2012/13 for the schemes set out in Appendix 2. (see paragraph 6.8), subject to the identification of available resources.

- 2.2 Approve the use of the City West Homes “Framework” procurement framework to deliver the first two years of the Decent Homes programme (see paragraph 6.15), and delegate to the Corporate Director (Development and Renewal) in consultation with the Assistant Chief Executive (Legal Services), the decision to appoint the contractors that are successful in the “mini-tendering” exercise within the framework agreement (paragraph 6.15.8).
- 2.3 Adopt capital estimates for 2011/12 in respect of the Mainstream Housing Programme as set out in Appendix 4. This estimate includes a contingency of £1,000,000 for urgent works. (see paragraph 7).
- 2.4 Adopt a capital estimate for the award of Disabled Facilities Grants (£1,000,000) as outlined in paragraph 8.1.
- 2.5 Adopt a capital estimate of £500,000 to fund Overcrowding Reduction Initiatives as outlined in paragraph 8.2.
- 2.6 Adopt capital estimates for the Aids and Adaptations programme (£750,000), the Capitalisation of Voids (£1,500,000) and the Capitalisation of Fees and Salaries (£650,000) as outlined in paragraph 8.3.
- 2.7 Adopt a supplementary capital estimate of £423,500 in respect of the Section 106 Health Provision financing of the St Andrew’s Health and Well-being Centre (paragraph 9.1.1).
- 2.8 Authorise the Assistant Chief Executive to enter into all necessary documents to implement the decisions made in respect of this 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, the report addresses options and explains the reasons for the selected schemes.

## **5. BACKGROUND**

- 5.1 This report is seeking capital estimates for various elements of the capital programme, including the utilisation of the Decent Homes Backlog funding allocation that has recently been announced.
- 5.2 Due to the uncertainty regarding available capital funding resources for 2011/12, the Housing Capital Programme that was initially approved in March 2010 for the 2010/11 financial year was significantly revised by Cabinet in September 2010 to ensure that commitments carried forward into future years were managed within the constraints of the likely reduced resources. The aim of the revision 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.
- 5.3 Following the recent Government announcements of various funding streams, this report seeks the adoption of capital estimates for 2011/12 (and 2012/13 in respect of Decent Homes backlog funding) for those elements of the Housing Investment Programme that are managed by Tower Hamlets Homes, as well as certain funding regimes that are administered by the Council.
- 5.4 At its May 2009 meeting, Cabinet agreed the Housing Strategy 2009-11 which contained the following objectives:
- Delivering and maintaining decent homes
  - Place making and sustainable communities
  - Managing demand, reducing overcrowding
  - New housing supply

The investment programme addresses these aims, where appropriate.

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

## **6. DECENT HOMES BACKLOG FUNDING**

- 6.1 In November 2010, the DCLG and the HCA launched proposals for a process for allocating decent homes funding of £2.1 billion for 2011/12 to 2014/15. A single funding stream for 2011 to 2015 replaces the previous system of Arms Length Management Organisation (ALMO) Supported Capital Expenditure (SCE) and Local Authority (LA) SCE. Of the £2.1 billion, £1.6 billion was to be allocated to local authority landlords and £0.5 billion provided for gap funding of existing stock transfers.

- 6.2 The HRA reform settlement (see paragraph 10) is intended to provide resources to maintain homes at the level of the decent homes standard, but will not provide capital resources to deal with backlogs of work. The November 2010 process sought bids for funding from the 48 local authority landlords with a decent homes backlog covering more than 10% of their dwelling stock.
- 6.3 In accordance with Government requirements, the Authority's bid for Decent Homes backlog funding was submitted in January 2011, and totalled £130 million. The bid identified the back-log costs to make 8,926 properties decent that had been identified as failing the decent homes standard by April 2012.
- 6.4 It should be noted that the Government acknowledges that budgetary constraints mean that most council landlords with a backlog will not receive the level of funding they may have hoped for within this Spending Review period.
- 6.5 The Government's total funding of £1.6 billion was heavily oversubscribed and as a result the Authority was awarded £94.5 million, £35.5 million less than the bid. The HCA's allocation letter is attached as Appendix 1.
- 6.6 The funding allocation has been profiled over 4 years as follows:

**Table 1**

**Decent Homes Backlog Funding Allocation 2011-12 to 2014-15  
London Borough of Tower Hamlets**

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

It is important to note that only the first two years of the allocated funding is guaranteed, with funding for the 2013-14 and 2014-15 years being subject to the meeting of agreed performance and decent homes targets. As a result it is critical that the Authority delivers the allocated funding identified in the first two years and maximises its decent homes returns.

- 6.7 As a result of the reduction in funding of £35.5 million from the bid, the money available to spend on each property has reduced from an average of

approximately £15,000 to £10,500. Clearly this will have an impact on the level of work that can be carried out and as a result priorities and options need to be agreed that will inform the approach taken to the backlog programme.

6.8 It is also clear that the stock will need further investment, both for items that could not be included in the decent homes backlog bid (such as lift renewal), and maintaining decency during and after the backlog programme has completed. For this reason, further work is on-going to identify funding to bridge the gap between the bid and the allocation as well as the additional investment requirement.

#### 6.9 **Principles for backlog programme**

It is important that several key principles are considered to underpin the chosen programme. These are:

- a. To maximise Value for Money through delivery of the work by taking a 'whole property/block approach' i.e. to complete all decent homes work requirements when in a property to avoid having to return at a later date
- b. To take advantage of the current highly competitive marketplace by undertaking as much work as possible over the next 5 years. Deferring work now will cost more later, and increase the burden on the Housing Revenue Account and capital investment programme in future years
- c. To avoid resident inconvenience by taking a consistent approach and avoiding partial works to blocks
- d. To maximise the decent homes return on investment

#### 6.10 **Backlog programme delivery options**

Tower Hamlets Homes has evaluated three options for the backlog programme, based on different coverage of internal works. The level of external works in each option remains constant. The options are outlined below.

6.10.1 **Option A:**  
**No partial works; provide Kitchen and Bathrooms (at block level)**

Cost: £116,321,423

Resource requirement above Decent Homes allocation: £21,821,423

Number of Properties made decent: 8,663

Number of Properties receiving Kitchens and Bathrooms: 9,473

Average cost per property: £13,400

- Where a block has any internal kitchen and bathroom failures, carry out replacement of kitchen and bathrooms to all properties in block.
- Avoids situation where not all tenants in a block receive works.
- Includes some of the properties that will fail the Decent Homes standard beyond March 2012 so reducing future investment needs and maximising value-for-money.
- Omit blocks where partial non-kitchen and bathroom internal works are required (door, electrical or boiler failures). These elements will be picked up in the 2012-2015 investment programme to extend the life of components or renewal where absolutely necessary.
- Meets the HCA decent homes bid target of 8,663 dwellings

6.10.2 **Option B:**  
**Comprehensive approach: provide Kitchen & Bathrooms for all tenants**

Cost: £130,809,423

Resource requirement above Decent Homes allocation: £36,309,423

Number of Properties made decent: 8,663

Number of Properties receiving Kitchens and Bathrooms: 11,284

Average cost per property: £15,000

- This approach maximises value-for-money by providing kitchens and bathrooms across the Borough.
- It also minimises future costs required to be incurred by the investment programme because it deals with components that will fail the Decent Homes standard in the near future.
- Maximises resident satisfaction.
- Opportunity to bring all stock up to a higher standard by the end of the programme.
- Meets the HCA decent homes bid target of 8,663 dwellings

### 6.10.3 **Option C:** **Minimum works to meet Decency**

Cost: £75,209,423

Resource requirement above Decent Homes allocation: £0

Number of Properties made decent: 8,663

Number of Properties receiving Kitchens and Bathrooms: 4,263

Average cost per property: £8,500

- Partial works to properties and blocks based solely on those failing components. This will lead to a perception that works are ‘pepper-potted’ with neighbours receiving different works within the same block.
- Will potentially generate high levels of resident dissatisfaction.
- This will defer works that will cost more in the long-term, loading pressure onto the future investment programme, and potentially the repairs budget.
- The requirement to undertake future repeat visits to properties, as other internal components fail, will lead to multiple works programmes on the same blocks
- However, does meet the HCA decent homes bid target of 8,663 dwellings

### 6.11 **Recommended Option**

6.11.1 Our aspiration for our residents must be to provide the best possible housing, and therefore a comprehensive programme which ensures not only that all stock meets the Decent Homes standard but that the wider investment needs are met. However, this can only be undertaken if we are confident that the funding is available.

6.11.2 For this reason, at this stage it is recommended that Option B is adopted to allow the initial Decent Homes programme to be started. This provides a sensible approach that will maximise contractor output by taking a ‘whole block’ approach and minimises the ‘spread’ of work that reduces efficiencies and increases costs. This approach also provides the best opportunity to meet spend and decency targets that will unlock further funding for years 3 and 4. It has to be acknowledged that there is a risk that if the Council is unable to bridge the funding gap, we would not be able to complete Decent Homes works to all the stock. There is no immediate risk because Cabinet is not being asked to commit programmes beyond the resources available in years one and two.

6.11.3 Under any option a percentage of any external works will be re-chargeable to leaseholders. It is anticipated that approximately £9 million of the back log

costs will be funded in this way, through major works service charges. This cost will need to be 'forward funded' by the Authority because service charges are paid after the work cost has been paid. This cash flow management issue is being considered as part of the revised medium term financial strategy for the HRA.

## 6.12 **Prioritisation of work**

6.12.1 The prioritisation of the backlog programme has been shaped in relation to the condition of the stock and reflects the desire of tenants for investment in internal works – particularly kitchens and bathrooms. This reflects the previous lack of investment in internal works.

6.12.2 An early internal works programme will:

- Avoid early, lengthy consultation with leaseholders.
- Allow quick mobilisation and delivery.
- Provide the best opportunity to meet HCA targets for years 1 and 2, and so unlock decent homes backlog resources for years 3 and 4.

6.12.3 It is therefore recommended that the year 1 and 2 backlog programme focuses on the delivery of internal works. This is consistent with the profile of works submitted in the LBTH Decent Homes backlog bid in January 2011.

6.12.4 The internals programme has been developed on the following basis:

- Programme of internal works (excepting where minor communal works – eg communal electrics needed on connected sister blocks).
- Complete whole neighbourhoods or estates i.e. concentrate expenditure on clearly defined areas. Programme up to approximately £12.5 million, allowing an approximate 10% over-programming at this early planning stage for refusals and procurement efficiencies.

This approach spreads the programme across neighbourhoods over years one and two as set out in Appendix 2. A geographical analysis of the profiled works across the borough is shown in the map attached in Appendix 3, Members are asked to approve this proposed programme, noting that the year 2 programme is indicative at this stage and will be managed in accordance with available resources.

## 6.13 **Future Investment Programme**

6.13.1 Under delivery option B, the investment of £131 million will finance the backlog decent homes requirements up to March 2012. As a result of including additional 'non-failing' kitchens and bathrooms in this option, the future

investment costs that would be generated as a result of properties failing decency beyond March 2012 are reduced.

- 6.13.2 However, there will be decent and non-decent external building components outside of those covered under Option B that will fail over the next 5 years and will need to be included in the 4 year programme. These will need to be financed from additional LBTH resources and included in the programme. These costs have been assessed at up to £71 million, of which £26 million is leasehold re-chargeable (£45 million LBTH resources). These would include lifts, structural repairs, roofs and windows
- 6.13.3 Work on some of the above elements identified as requiring replacement in the next 5 years could be deferred, but detailed surveys will need to be undertaken in the coming months to these properties to determine whether these can be given an extended life. If this is the case, the future costs identified for the next 5 years can be deferred, reducing the currently identified need of £45 million.
- 6.13.4 Of the above it is most likely that costs for lift renewals will need to be found from 2012/13. Costs for the other elements could end up being re-profiled for replacement between years 5-10.

#### 6.14 **Decent Homes Return**

6.14.1 The target of 8,926 decent homes as submitted in the HCA bid document has been revised down to 8,663 as a result of a reduction in dwellings following the bid. The figure has reduced by 263 to 8,663 as a result of the following omissions:

- Blackwall Reach Regeneration
- Ashington House
- Phase 2 and 3 of houses disposal.

All three of the delivery options meet the 8,663 target.

#### 6.15 **Procurement**

- 6.15.1 As outlined in paragraph 6.6, the Authority must meet the programme and expenditure targets that have been set in the DCLG grant conditions. It is therefore essential that works can commence as soon as possible in order that the year 1 targets are met.
- 6.15.2 Officers have assessed the potential procurement methods that will be adopted for the decent homes delivery contracts. This has been undertaken in accordance with the Council's procurement procedures as well as meeting all necessary legislation. As part of the process, the Council's Competition Board have considered the various procurement methods as outlined below. Where the works are to be recharged to leaseholders the procurement will also comply with the statutory consultation requirements.

- 6.15.3 The Authority has a number of existing framework contracts that were procured through OJEU in December 2009. The frameworks were designed as an 'interim' arrangement while a long term framework with greater value capacities was procured to meet the then anticipated ALMO funding of £220m. However as a result of the government's comprehensive spending review and the subsequent uncertainty regarding available resources, to avoid additional or abortive costs, the procurement process for the long term framework had to be deferred.
- 6.15.4 The existing 'interim' frameworks provide various procurement options in the delivery of engineering, external and internal refurbishment works. However each framework has a maximum capacity that cannot be breached to avoid the risk of challenge. The internal refurbishment framework has a capacity of £10m of which £9.5m has already been utilised, and as a result an alternative procurement route for the £23.5m of internal works in years 1 and 2 will need to be identified.
- 6.15.5 The longer term plan is to procure a framework through OJEU that will deliver the investment needs. This will be procured as soon as possible but given the need to consult with leaseholders, this is likely to take at least 18 months. This contract will include both external and internal works and therefore will need to be leasehold compliant. It will not be possible to have this in place for the proposed works in year 2 and beyond as the investment needs, as well as the levels of required funding (both HCA and LBTH), will not be firmed up until later this year, providing insufficient time to have completed an OJEU framework procurement. However, as stated above, only the first two years of the allocated funding is guaranteed, with funding for the 2013-14 and 2014-15 years being subject to the meeting of agreed performance and decent homes targets. It is therefore critical that contracts are entered into as soon as possible to ensure that the Authority delivers the allocated funding identified in the first two years and maximises its decent homes returns.
- 6.15.6 It is therefore recommended that a framework delivery option is utilised for the start of the programme. This will enable contractors to bid for a share of the works, with a recommended two contractors being appointed to deliver the initial programme. The mechanism for the year two contract will be reviewed during the year and will be subject to the contractors meeting agreed performance targets. It is anticipated that this approach will generate further price discounts from the contractors and offer improved value for money.
- 6.15.7 This approach will reduce the need to tender again later in the year and will provide the necessary timeframe in which to follow a longer term OJEU procured framework for the delivery in later years, as well as the future mainstream investment programme.
- 6.15.8 The approach recommended by the Homes and Communities Agency is to utilise a previously OJEU procured framework that allowed 'buy in' from other organisations. A number of frameworks that meet these criteria have

been assessed by officers, with consideration by the Council's Competition Board, and it is recommended that the City West Homes "Framework" is adopted. Under the terms of the framework, a mini tender exercise will be undertaken between the contractors identified on the agreed framework. Selection will be based on an assessment taking account of price and quality, with the qualitative assessment focusing on:

- The proposed processes and infrastructure for resident consultation.
- A proven track record of delivery of similar scale schemes.
- An assessment of the management structure and experience / qualifications of proposed management team.

The contract included in the tender documentation will include the LBTH standard requirements regarding the use of local labour, sustainability, equality and diversity and waste management.

6.15.9 Members are asked to approve the use of the City West Homes "Framework" procurement framework to deliver the first two years of the Decent Homes programme. In addition it is recommended that to avoid delays in the process, authority is delegated to the Corporate Director (Development and Renewal) in consultation with the Assistant Chief Executive (Legal Services) , to appoint the contractors that are successful in the "mini-tendering" exercise within the framework agreement.

6.15.10 In addition to the Decent Homes programme, this report is also seeking approval for the Non Decent Homes Backlog Funding within the Mainstream Housing programme (see section 7 below). The 2011-12 and 2012-13 programme (which relates to external works) will be delivered through the Council's existing interim framework contracts, which are specific to these external work elements and are leasehold compliant (H3126/H3124). There is sufficient 'headroom' in these contracts to meet the needs for these years until the EU procurement is completed for the future framework.

## **7. MAINSTREAM HOUSING PROGRAMME** **(Non Decent Homes Backlog Funding)**

7.1 As detailed above, due to the uncertainty regarding available capital funding resources for 2011-12, the Housing Capital Programme that was initially approved in March 2010 for the 2010-11 financial year was significantly revised by Cabinet in September 2010 to ensure that commitments carried forward into future years were managed within the constraints of the likely reduced resources.

7.2 The Major Repairs Allowance for 2011-12 has now been confirmed as £13,020,000. After allowing for existing commitments in relation to both Blackwall Reach and Ocean Estate, resources of £7.120 million are available to fund the capital programme. This is a slight increase from the £6.6 million of resources that were assumed in the September report, and from which commitments into 2011-12 were entered. As a result of these

resources, and savings on other contracts, approval is sought to bring some additional schemes into the capital programme. These are marked as “New” in Appendix 4, and are:

Pauline House Works	£121,000
Caretakers Accommodation – Phase 10	£ 52,000
Cranbrook Estate Concrete Repairs	£ 35,000
Domestic Boiler Renewal Programme	£385,000
Paving Renewal	£100,000
Digital Television Installations	£220,000 (Additional Funding)

Members are requested to adopt capital estimates for these schemes.

- 7.3 In addition, a combination of scheme slippage from 2010-11, and the planned carry forward of resources, means that £5.6 million of funding has been brought into 2011-12. These resources have already been committed in line with the September Cabinet decisions and Members are asked to formally readopt these capital estimates in order that these schemes can be completed.
- 7.4 It is essential to provide an appropriate financial contingency to cover the risks associated with the delivery of a major capital programme. It is recommended that Members approve a capital estimate to establish a contingency provision of £1,000,000. The utilisation of this contingency will be subject to the approval of the Corporate Director, Development and Renewal.
- 7.5 In total approvals are sought for schemes totalling £8.309 million to be reaffirmed, plus the suggested £1,000,000 contingency (paragraph 7.4) and the the £3.4 million of expenditure in respect of Overcrowding Reduction Initiatives, Aids and Adaptations, Capitalisation of Voids and the Capitalisation of Fees and Salaries (paragraphs 8.2 and 8.3) as detailed in Appendix 4. In total approvals of £12,709,000 are sought against the available funding resources of £12,720,000 for these schemes shown in Table 2.

**Table 2**

**Projected Mainstream Resources 2011-12**  
**(Excluding Decent Homes Backlog Funding)**

<b>Resources</b>	<b>2011/12</b> <b>£</b>
Major Repairs Allowance	13,020,000
Resources carried forward	5,600,000
	18,620,000
Less: Regeneration Commitments (Blackwall Reach and Ocean Estate)	(5,900,000)
<b>Projected Resources</b>	<b>12,720,000</b>

**8. ADOPTION OF OTHER HOUSING CAPITAL ESTIMATES**

**8.1 Disabled Facilities Grants**

8.1.1 Cabinet approval is sought to formally adopt a capital estimate of £1 million for the inclusion of the Disabled Facilities Grant programme within the capital programme.

8.1.2 The “2011/12 – 2013/14 Capital Programme” report that was considered by Cabinet on 9 February 2011 allocated Local Priority Programme resources of £270,000 towards the funding of Disabled Facilities Grants. The Authority has now received confirmation from the DCLG that its allocation of Government subsidy for 2011-12 will be £730,000, representing a total allocation of £1 million.

**8.2 Overcrowding Reduction Initiatives**

8.2.1 Members are asked to formally approve a capital estimate of £500,000 for the inclusion within the programme of various overcrowding initiatives, including funding of the Cash Incentive Scheme and the Knock-through programme. These initiatives are designed to release or create family sized accommodation to relieve overcrowding.

### **8.3 Aids and Adaptations, Capitalisation of Voids, Capitalisation of Fees and Salaries**

- 8.3.1 Members are asked to formally approve capital estimates for the inclusion within the programme of the Aids and Adaptations budget (£750,000), the capitalisation of the major costs involved in bringing void properties back into use (£1,500,000), and the capitalisation from the Housing Revenue Account of fees and charges associated with the delivery of the Capital programme (£650,000).

## **9. ADOPTION OF OTHER NON-HOUSING CAPITAL ESTIMATES**

### **9.1 Section 106 Funded Schemes**

#### **9.1.1 St Andrew's Health and Well-being Centre**

- 9.1.1.1 Many Section 106 developer agreements require the provision for funding additional health facilities. These are agreed through Strategic Development Committee.

- 9.1.1.2 In March 2010, Cabinet approved a Development and Renewal capital estimate for Section 106 health monies totalling £6,387,000. Of this amount, £1,610,000 was spent during 2010/11 for the fit out of the Dunbridge Street Health Centre, in the south of the borough. The remaining £4,776,500 from the 2010/11 capital estimate will be expended in early 2011-12, for the fit out of the St Andrews Health and Wellbeing Centre, in Bow.

- 9.1.1.3 The PCT's St Andrew's Health and Well-being Centre is part of the wider redevelopment of the former St Andrew's Hospital site. The new facility forms part of the wider IHWB strategy drafted in conjunction with the Borough, and is also in line with the requirements of NHS London to ensure that the local population have accessible and high quality health care provision from modern welcoming buildings. The centre provides accommodation for a new GP practice and various community services and the brief has been to create as generic a facility as is practical to ensure as wide a range of services can be delivered to meet changing health and social needs.

- 9.1.1.4 The St Andrews Health and Wellbeing Centre fit out project has a full cost of £5,200,000, which means that a further £423,500 is sought from the Section 106 health allocation. The Section 106 accounts include approximately £9,840,000 held for health purposes (as at 28 February 2011). This includes the £4,776,500 already allocated to the St Andrews Health and Wellbeing Centre.

- 9.1.1.5 Funding is available to finance these additional costs. The appropriate Council procedures have been adopted to consider and approve the additional funding, including consideration of the proposal by the Planning Contributions Officer Panel (PCOP). Prior to funding the project however, an

additional capital estimate must be adopted. Cabinet is asked to approve this capital estimate.

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

- 10.1 The Government published the Localism Bill in November 2010. This includes the proposals for the dismantling of the HRA Subsidy system, and its replacement with a new self-financing system. It is scheduled to come into effect from 1 April 2012.
- 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. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

- 11.1 This report seeks the adoption of capital estimates for the 2011-12 Housing Investment Programme schemes in light of Government funding announcements.
- 11.2 The main element of the report outlines the proposals for the Decent Homes Backlog funding programme following the announcement of the allocation of resources in February. In respect of this element of the programme, estimates are sought for the first two years of the scheme (2011-12 and 2012-13) to ensure that the programme runs smoothly and to minimise the risk of not meeting Government targets. Adopting a two year programme at this stage will minimise delays and will allow flexibility as to the timing of schemes. As noted in paragraph 6.6, funding for the third and fourth years of the programme (2013-14 and 2014-15) is dependent upon the successful delivery of years one and two. It is however essential at this stage that no commitments are entered into beyond 2012-13 until funding is secured.
- 11.3 In a capital programme of this size over a long period, there will inevitably be changes to the scope and timing of some schemes as they are worked up and detailed consultation takes place. It is therefore important that sufficient flexibility exists within the programme to ensure that any such necessary changes are accommodated without the risk that available housing capital resources are not spent in full in any year. To this end the comments set out

in paragraph 15 below are supported. This is particularly the case in relation to the Decent Homes Backlog Funding where the funding is year specific.

- 11.4 It should be noted that in year two, an indicative programme of £29 million has been proposed against provisional resources of £12.5 million. Although capital estimates will be adopted to this level, the programme will be robustly managed in line with resources available, with no commitments being entered into beyond the secured funding level. The programme includes significant over-programming, again to ensure that resources are not put at risk through non delivery in years one and two. The identification of significant additional resources will be necessary for 2012-13 with the programme being closely managed within the resource constraints. Contracts will only be entered into once funding is definitely secured.
- 11.5 The report also seeks approval for the adoption of capital estimates for the mainstream programme (Appendix 4). The 2011/12 programme is financed through the Authority's residual Major Repairs Allowance allocation (after allowing for commitments on regeneration schemes), plus scheme slippage from 2010/11. The schemes detailed in Appendix 4 will generate commitments of approximately £390,000 into 2012/13. These commitments will be a first call against the Council's housing capital resources for that financial year.
- 11.6 Members will be aware that as part of the Localisation Bill, the Coalition Government is continuing with the review of the Council Housing Finance system as outlined in section 10. The dismantling of the HRA Subsidy system will change the financing regime for Local Authority Housing Finance, both revenue and capital, and it is the Government's target that the reforms will be in place by April 2012. When the final implications for the authority are announced, the Authority will review the financing of the capital programme to identify any potential new funding options.
- 11.7 It should be noted (paragraph 6.11.3), that although the Decent Homes backlog works will not involve leaseholders, it is proposed that additional external or communal area works are undertaken to blocks. A significant element of these costs will be chargeable to leaseholders, and although the Authority will be required to finance the works initially, it is vital that all costs are appropriately recharged in accordance with the terms of the lease. It is estimated that the leaseholder contributions will total approximately £9 million in respect of the related works on external and communal areas.

#### Disabled Facilities Grant

- 11.8 The report seeks the formal adoption of a capital estimate of £1 million to fund the Authority's Disabled Facilities Grant regime. As outlined in paragraph 8.1, the resources to fund this programme are made up of the £730,000 allocation by Central government, plus the £270,000 Local Priorities programme funding that was approved by Cabinet in February,

## Contingency

- 11.9 The report also seeks approval for a capital estimate to be adopted for the establishment of a contingency provision of £1,000,000 to be utilised in the event of urgent major capital works arising. This will be funded from within the total available capital resources in 2011/12, and will only be released with the approval of the Corporate Director (Development and Renewal).

### 11.10 Section 106 Health Scheme

In respect of the Section 106 proposal to adopt an additional capital estimate of £423,500 (paragraph 9) to enable the utilisation of Section 106 funding to finance the development of the Andrews Health and Wellbeing Centre, funds are already held by the Authority for these purposes, but cannot be utilised until Members approve the adoption of the appropriate capital estimate.

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

- 12.1 Cabinet is asked to approve capital estimates associated with the housing investment programme.
- 12.2 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 an investment programme related to the delivery of its housing function.
- 12.3 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.
- 12.4 The items proposed in respect of decent homes and the mainstream housing programme are concerned with maintenance and repairs to dwellings and 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 disabled facilities grant, combating overcrowding and aids and adaptations. All of these are matters that are capable of being carried out within the Council's statutory functions.
- 12.5 The Council administers the disabled facilities grant scheme under Part 1 of the Housing Grants, Construction and Regeneration Act 1996. The Secretary of State makes a contribution to the expenditure incurred, but

there is no barrier to a further allocation being made by the Council if the cost of the scheme exceeds the government contribution.

- 12.6 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 and where the works are to be recharged to leaseholders will comply with the statutory consultation requirements.
- 12.7 The proposals in this report for the Decent Homes works are to focus initially on internal works so leaseholder consultation will not be required and to draw down on an existing framework contract which permits this Council to utilise it. At the same time work will take place to procure a contract for the remaining works using the EU procurement procedures and carrying out the necessary leaseholder consultation.

### **13. ONE TOWER HAMLETS CONSIDERATIONS**

- 13.1 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.
- 13.2 It is the intention that over the course of the full four year Decent Homes programme, every tenanted Council owned dwelling that does not meet the Decent Homes Standard will receive a new kitchen and bathroom. Assuming that the programme proceeds as planned, it is therefore not foreseen that there will be any specific equalities issues.

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

- 14.1 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.

## **15. RISK MANAGEMENT IMPLICATIONS**

- 15.1 The risk management principles that underpin the operation of the capital programme are:
- 15.1.1 Minimising the Risk of Underspending. 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.
- 15.1.2 Minimising the Risk of Overspending. No funding beyond that already confirmed and available has been assumed and regular monitoring of the programme is carried out to ensure that unacceptable levels of contractual commitments are not allowed to build up both in the current and future years.
- 15.2 This report is driven by the major risk that Decent Homes Backlog funding is year specific, with resources only being available for years three and four if the Authority successfully delivers the year one and two outcomes in accordance with the Government specified requirements. Flexibility has therefore been built into this element of the programme to enable adaptations to be made if necessary to ensure targets are met.

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

- 16.1 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.

## **17. EFFICIENCY STATEMENT**

- 17.1 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.

**18. APPENDICES**

**Appendix 1** – Decent Homes Backlog Funding Allocation Letter from the Homes and Communities Agency

**Appendix 2** – Proposed Decent Homes Backlog Programme 2011/12 and 2012/13

**Appendix 3** – Map showing the Geographical Distribution of the Proposed Decent Homes Backlog Programme

**Appendix 4** – Mainstream Housing Investment Programme 2011/12

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