

<b>Item No.</b> 17a.	<b>Classification:</b> Open	<b>Date:</b> 14 December 2010	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Decent Homes Funding - Homes and Communities Agency	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	

**FOREWORD - COUNCILLOR IAN WINGFIELD, DEPUTY LEADER AND CABINET MEMBER FOR HOUSING MANAGEMENT**

1. Southwark housing stock is the largest in London consisting of 39,318 tenancies and 14,580 leasehold properties. The majority of the stock consists of mid to high rise blocks which adds to the cost of maintenance particularly landlord obligation elements such as lifts and district heating systems.
2. Despite various endeavours by officers to generate additional capital funding a shortfall continues to exist between level of available resources and that required to deliver decent homes throughout the borough.
3. There have been some achievements to date in that the level of decency in the stock has increased to 65.3%, however 34.7% of the council stock remains non decent.
4. The acquisition of new and reliable stock condition data provides a sound basis on which to base future investment decisions. This coupled with the new major works partnering contract instills confidence that the council are well positioned to build upon past achievements in its bid to ensure that all homes are warm, dry and safe.
5. I am satisfied with the council's response to the proposals for funding backlog investment in Decent Homes.
6. I am therefore asking the cabinet, after consideration of the officers' report set out from paragraph 10 onwards to approve the recommendations set out below

**RECOMMENDATION(S)**

**Recommendation(s) for the Cabinet**

That Cabinet

7. Notes the council's response to the proposals for funding backlog investment in Decent Homes issued by the Homes and Communities Agency and Communities and Local Government.
8. Agrees that a submission for Decent Homes funding is made to the Homes and Communities Agency by the published deadline of 11 January 2011.

9. Delegates authority to develop and submit the bid for funding to the Cabinet Member for Finance and Resources in consultation with the Deputy Chief Executive and the Finance Director.

## BACKGROUND INFORMATION

10. The government has issued a proposal paper entitled 'Decent Homes Funding Backlog for Council Landlords 2011-15'. The paper has been jointly produced by the Homes and Communities Agency (HCA) and Communities and Local Government (CLG). It follows the announcement in the Comprehensive Spending Review of a national allocation of £2.1bn for the period 2011-15, of which £1.6bn has been earmarked for council providers to assist local authorities in achieving Decent Homes, with a target of achieving 150,000 refurbished council homes by 2014/15. Landlords identified with more than 10% of their stock as being non-decent are eligible to bid for this funding, and there is no longer a requirement for authorities to have a 2\* housing inspection rating in order to qualify. For London authorities decisions on allocations will be made by the Mayor for London.
11. Firm funding commitments will be made for the first two years of the Spending Review period and indicative commitments beyond this. For landlords receiving year one or two funding commitments, the first year's funding will be paid as supported capital expenditure within the existing HRA system (with a consequent impact on the council's starting debt position under HRA reform proposals). It is proposed that the second year's funding will be paid through a reduction in the borough's self-financing debt position. Allocations beyond this period are likely to be paid in the form of capital grant. Some funding is likely to be left unallocated for authorities unable to commence work within the first two years of the programme.
12. The government has indicated that the following amount of funding will be available nationally:

2011/12	2012/13	2013/14	2014/15
£260M	£352M	£389M	£594M

13. The government's funding criteria are:
  - Investment need - the size of the authority's backlog as a proportion of its stock
  - Efficiency - the amount of funding per unit requested, although there will be some flexibility over particular stock requirements.
14. Other value for money (VFM) criteria also apply, as well as evidence that capital funding is not a substitute for other local authority resources as boroughs move towards self-financing. Account will also be taken of any authorities which have negotiated particularly high standards with their tenants, to ensure that authorities are not taking an unfair share of available resources. For authorities applying for years one and two funding, priority will be given to those which have programmes already underway, have high levels of non-decent homes and which can demonstrate lower costs/better VFM as a result of early spend.

15. The proposed timetable for bids is set out below:
- Responses to allocation process proposals to HCA/DCLG: 6 Dec 2010
  - Invitation to councils to request funding to be sent by HCA: 13 December 2010
  - Deadline for responses: 11 January 2011
  - Notifications by the HCA of council funding allocations: January/February 2011.

## **KEY ISSUES FOR CONSIDERATION**

16. The proposal anticipates that the funding will form part of a sustainable business plan within a reformed HRA system. The government has announced that the forthcoming Localism Bill will include measures to introduce self-financing for Housing Revenue Accounts (HRAs). This will involve abolition of Housing Subsidy and adjustment to each housing authority's debt, to leave that at an 'affordable' level over time, i.e. equal to the net present value of the expected surplus of rent income over expenditure in the next 30 years. The HRA review proposals however, do not take account of the backlog of some authorities in meeting Decent Homes. That is the purpose of this funding initiative.
17. In Southwark, rent affordability limits mean that we are some way below formula rents and it will be several years before we reach the income level implied by the net present value calculation. Therefore the debt level we start with, as yet not known, could well be unaffordable in the short term until future rent rises eventually bring income and expenditure into balance. During this early period it will be difficult to justify any borrowing for capital expenditure as it might worsen an underlying revenue deficit.
18. The proposed funding channel for successful bids is through supported capital in year 1 (2011/12), in year 2 via reduction in initial debt, and capital grant in years 3 and 4. The year 2 proposal would then require subsequent borrowing to release the funding; we would start with less debt than otherwise and then borrow to take us back to the self-financing debt position. However, the background to this is that the self-financing debt level could be seen as unaffordable and hence borrowing to that level would not be advisable under the prudential system.
19. In order to more easily release resources for Decent Homes investment, we have therefore asked in our response that capital grant, rather than debt adjustment, be used in 2012/13.
20. Southwark meets the eligibility criteria to bid for this additional funding because the 2010 Stock Condition Survey (SCS) concluded that approximately 34.70% of its housing stock is currently non decent (at baseline of April 2010) with potentially more homes falling out of decency in future years. The current 2 year investment programme runs from April 2010 to March 2012 and is scheduled to make 3,092 properties decent. However it is projected that overall non-decency will rise to 37% in the period because of the number of other properties becoming non decent.
21. The council's housing stock consists of 39,318 rental and 14,580 homeowner properties and is composed of a mix of dwelling types including Victorian terraces and pre war walk-up blocks and system built, high rise blocks.

Although we have the largest housing investment programme in the capital, much of our housing still does not meet the Decent Homes standard, and we have greater landlord obligations given the nature and size of our stock, and number of high rise blocks. Southwark had the highest number of dwellings in high blocks in the whole of London at 10,646 (26% of our total stock); consequently we have more lifts and more district heating systems.

22. Analysis of the council's new stock condition data, obtained in May 2010, has shown that whilst street properties were in better condition than assumed, based on previous stock data, electrical installations, both internally and externally require renewal in more of our stock than previously known. Additionally a significant number of estates within the borough were identified as having a high level of investment required, placing an additional pressure on capital resources.
23. The value of the housing investment programme is approx £100m per annum; 80% of which is used to fund the area investment schemes (which includes Decent Home works, works undertaken to meet the council's landlord obligations and engineering services which includes the maintenance of electrics, heating, lifts, tanks etc). The balance funds other housing related services such as hostel refurbishment, area renewal schemes, home improvement, and estate regeneration schemes.
24. A significant amount of these resources have been used to fund Decent Homes works over the years which has contributed to the positive increase in the number of homes made decent in the borough, which has risen from 53% to 65.3%. However, following a review of the council's base case position in 2008 (which looked at the level of investment required to continue to complete these works and meet statutory obligations and other priorities against available resources) it became apparent that a significant shortfall was being faced. Several measures have been put in place to work towards closing the resource gap including raising additional capital through the sale of assets such as land and void properties, and obtaining capital funding through external grant where possible.
25. Further detail is contained in the separate report to cabinet on 'Review of Housing Investment Strategy'. However it is evident that the council can adequately demonstrate the size of Southwark's decent homes backlog as a proportion of the stock, and that this is despite substantial historic and ongoing investment.
26. The council can also demonstrate that there are robust arrangements in place to deliver investment in the stock and that they are geared to achieving good value for money. The council has recently procured new long-term major works partnering contracts. Five companies have been appointed to deliver decent homes works; they will be deployed geographically across the whole borough, with one focusing on the specialist area of street properties and major voids. The tendered costs provided by the contractors are extremely competitive and represent a 10%-15% reduction on prices previously secured by the council.
27. This means that more decent homes work can be delivered for the same resources. The longer-term approach is based on contractors demonstrating a commitment to the council and managing resources to deliver capital works with a predictable workstream that lead to further savings that are shared with the council. The contracts also have the ability to scale up quickly in the event of

increased resources being made available and vice-versa in the event of a reduction. Therefore, there is a delivery mechanism in place which is geared up to effectively invest any additional resources allocated through backlog funding, particularly if this should fall within the initial two years.

28. In order to meet the consultation deadlines, a response to the allocations process proposals has been sent to the HCA by officers in consultation with the Cabinet Member for Housing Management. In summary, the availability of funds to meet the Decent Homes backlog is welcomed. However it is noted that the amount made available nationally is insufficient to meet the needs identified. The allocation of funds which is based on delivery, value for money and investment needs would most benefit Southwark. The proposal to make a debt adjustment in 2012/13 would be less financially advantageous to the council, because of the costs associated with borrowing.
29. The detailed content of our bid to the HCA will be dependent on the guidance anticipated to be received during the week commencing 13 December. Any such bid will need to maximise the funding available for the purposes set out within these guidelines. Officers will be considering and developing the content of the proposed bid through the Housing Investment Board, chaired by the Director of Finance. It is proposed that authority is delegated by the cabinet to then cabinet member for Housing Management, in consultation with the Deputy Chief Executive and Director of Finance, to submit the detailed funding submission to the HCA.

#### **Policy implications**

30. There are no specific policy implications arising from this report.

#### **Community impact statement**

31. Southwark's Housing Requirements Study 2008 found that certain types of households are over-represented in the borough's social housing, including lone parents and pensioner households. The study also found that 40% of council renters contain at least one person with a health problem, and that disadvantaged groups overall are more likely to be living in social housing - for example certain BME groups.
32. Increasing the amount of resources available to invest in the council's stock will therefore have a beneficial impact for a number of communities in Southwark.

#### **Resource implications**

33. The Housing Investment Programme is resource-led and seeks to invest all available resources in line with the council's priorities for housing investment. This report seeks to attract additional resources for the decent homes element of the programme.

#### **Financial implications**

34. Financial matters relating to this report are included at paragraphs 11—15 above.

## Legal implications

35. There are no specific legal implications arising from this report.

## Consultation

36. No specific consultation has been undertaken, or is proposed, in relation to this report. However consultation is planned on the wider housing investment strategy, as outlined in the separate report to cabinet, and the subject of this report will form part of that consultation.

## REASONS FOR URGENCY

37. The published deadline for the council's submission of the decent homes funding to the Homes and Communities Agency is the 11 January 2011. The next scheduled meeting after this cabinet is the 25 January 2011, after the specified deadline and therefore requiring a decision by cabinet at this meeting.

## REASONS FOR LATENESS

38. This report was not circulated five clear days in advance of the meeting due to an administrative omission from the agenda pack documents at the publication stage.

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Decent Homes Funding Backlog for Council Landlords 2011-15 - Proposals	Investment Strategy Team 160 Tooley Street London SE1 2TZ	Sonia Esnard 020 7525 7743

## AUDIT TRAIL

<b>Cabinet Member</b>	Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	
<b>Lead Officer</b>	Eleanor Kelly, Deputy Chief Executive	
<b>Report Author</b>	Maurice Soden, Regeneration Initiatives Manager	
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<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Strategic Director of Communities, Law & Governance	Yes	No
Finance Director	Yes	No
<b>Cabinet Member</b>	Yes	Yes
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