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<b>REPORT TO:</b>	<b>Housing and Community Services Committee</b>	<b>AGENDA ITEM: 8</b>
<b>DATE OF MEETING:</b>	<b>17<sup>th</sup> April 2014</b>	<b>CATEGORY: DELEGATED</b>
<b>REPORT FROM:</b>	<b>Director of Housing and Environmental Services</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>Bob Ledger (01283 595775)</b>	<b>DOC:</b>
<b>SUBJECT:</b>	<b>Council New Build – HCA Bid and HRA Resources</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>All</b>	<b>TERMS OF REFERENCE: HCS01</b>

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## **1. Recommendations**

- 1.1 Members agree to the Council submitting a bid for grant funding to the Homes and Communities Agency (HCA) Affordable Housing Programme for 2015-18.
- 1.2 Members approve the formation of a joint member/tenant Housing Revenue Account (HRA) Business Plan working group and appoints five Council members to the group.

## **2. Purpose of Report**

- 2.1 To bring before Committee a proposal to submit a bid for grant funding to the Government's Affordable Housing Programme 2015 – 18, which is administered by the Homes and Communities Agency (HCA).
- 2.2 As part of the process of identifying resources for any subsequent phases of the New Build programme to first revisit the Housing Revenue Account Business Plan to revise current and already agreed financial commitments.

## **3. Council New Build**

- 3.1 In April 2013 Members approved a phase 1 new build development and acquisition programme for 50 homes. £5.37m of funds have been set aside for this initial phase. The intention, approved by the Committee, is to enter into subsequent phases of a new build programme, subject to the availability of funds.
- 3.2 Moving forward, the availability of funds will significantly influence the number of new homes that can be built. Although the Council still has some borrowing capacity within the HRA to establish a meaningful programme it is likely that other sources of funding and working in partnership with other housing providers will need to be considered.

## Phase 1

- 3.3 With regards to phase 1, planning permission has already been granted for 39 new homes across four sites. These will be funded 100% via the HRA. Subject to the tender evaluation process, works are scheduled to commence on site in the summer. From a 'standing start' in April 2013 to have a developer appointed just a year later and having gone through separate procurement processes for architects, quantity surveyors and developers this represents good progress in development terms.
- 3.4 A planning application has now been submitted for a further 10 homes at Pennine Way, Swadlincote. A previous Council flat sold under the Right to Buy was reacquired in the autumn of 2013 i.e. giving a total of 50 homes.
- 3.5 In relation to the Pennine Way proposal it is possible to fund their development from existing resources although inevitably this will mean fewer resources are available for any subsequent new build phases. Officers are therefore mindful of the need to utilise external sources of funds when opportunities arise.
- 3.4 The Homes and Communities Agency (HCA) have recently launched their new Affordable Homes Prospectus 2015-2018 which provides an opportunity for councils to also bid for grant funding alongside Registered Providers (Housing Associations). The main aim of the Affordable Homes Programme is to invest £1.7bn nationwide (excluding London) to increase the supply of new affordable homes in England by contributing to the delivery of 165,000 new homes by March 2018. The timescale for submitting a bid is 30<sup>th</sup> April 2014 with successful allocations being announced late July 2014.
- 3.5 Officers have had some initial discussions with the HCA about whether it is worth this Council submitting a bid for the 10 homes proposed at Pennine Way. The HCA response would probably be best described as 'mixed'. Indications are that the HCA are seeking bids in the region of £10,000 to £20,000 per home.
- 3.6 Any grant awarded would be under the strict condition that those grant earning properties would be let at 'affordable rents'. These are rents set at upto 80% of market rents and are generally at least 20% higher than our normal 'social rents'. The positive about affordable rents is that they generate more revenue income and therefore debt incurred to build in the first place can be paid off more quickly and/or less grant is needed i.e. it frees up resources to build more. The downside of affordable rents is that for those just outside the housing benefit threshold they can have a significant effect on household income. Given though that the Council currently has 3,000 social rent properties and this would mean only 10 let at affordable rents the prospect of substantial grant funding may make a limited number of affordable rent properties acceptable.

### 3.6 Weighing up the possible negatives and positives of a bid:-

Positives	Negatives
<ul style="list-style-type: none"> <li>• It would send a positive message to the HCA that South Derbyshire supports the need for affordable housing and the government's wider agenda to promote housing growth.</li> <li>• Even if unsuccessful, the Council would establish a track record with the HCA which could open up future opportunity to access funding.</li> <li>• It would give officers the opportunity 'test the waters' as to what is involved in the process.</li> <li>• If the bid was successful then this may enable the Council to deliver more affordable housing for the resources identified.</li> </ul>	<ul style="list-style-type: none"> <li>• If successful the HCA would stipulate rent levels on the 10 homes would need to be set at an 'affordable rent' level, up to 80% of market rents. This will be new territory for the Council who have up to now only offered 'social' rents.</li> <li>• Officers would need some limited external support to put in a quality HCA bid given that we have no track record of such.</li> </ul>

3.7 Members of the Strategic Housing and Planning Group have recently discussed whether this Council should consider submitting a bid and the likelihood of success. In principal the group are recommending a bid be made (Cllrs Hewlett, P Watson, Smith (deputising for Cllr Lemmon), Rhind and Taylor).

3.8 The Government, via the HCA, are particularly encouraging bidders to also have policies of selling off high value stock to generate other resources for new build, reletting all void properties within the whole of the landlord's stock at affordable rents again to generate additional resources and building predominantly 1 and 2 bed room properties. For this Council these are decisions that would need fuller consideration in an HRA Business Planning process and then through separate reports to Committee i.e. if we make a bid now for the ten properties at Pennine Way it will not satisfy the criteria of a 'favoured bidder'. However, on the other hand, making a bid will establish us in a relationship with the HCA and improves the chances of funding in the future even if we are unsuccessful on this round. The HCA policies in relation to selling other properties and building smaller properties are also being applied for the first time and therefore could change dependent on the experience of the first bidding round.

3.9 Other factors to consider are firstly that the HCA have announced that at least 25% of the funding will not be released immediately and secondly slippage in programme (some organisations not delivering on building as they promised and monies being freed up as a result) is relatively common and resources in those situations tend to be reallocated to established partners i.e. a substantial part of the £1.7bn will be available later to those already in a relationship with the HCA..

#### Council New Build – subsequent phases

3.10 The Council has not formally committed to any subsequent future new build phases. It has agreed in principle that there will be a consideration of a phase 2 but the detail of that is yet to be established.

3.11 The more fundamental issues in relation to subsequent phases will firstly be our lack of borrowing capacity in the HRA (the government imposed debt cap and the

resources committed under phase 1 mean that borrowing capacity may be down to circa £6m - subject to the current procurement process). The other major issue will be the lack of Council owned developable land. Therefore in looking at and establishing subsequent New Build phases we may need to be more creative on the finance model to be utilised.

- 3.12 The first part of the process though, in identifying potential resources, would be to revisit the HRA Business Plan and the estimates and commitments within it. The current plan is 2½ years old and since then we have had the full detail of the HRA self-financing settlement and we've committed a large part of the originally agreed £27m investment in the existing stock (the actual contract sums achieved for these works should mean some resources 'released' back into the main HRA).
- 3.13 In formulating the last three HRA Business Plans a joint stakeholder working group has always been established serviced by the Head of Service and other officers as required. In two of those three, stock transfer was a fundamental part of the review process and staff were identified as a key stakeholder and as such took an equal place on the group alongside tenants and members. Given though that stock transfer is no longer being considered it is proposed this time that only members and tenants constitute the group. Any draft plan would of course need the agreement of the Council before being adopted.
- 3.14 It is therefore proposed that a joint member/tenant HRA Business Plan working group be established of ten. The tenants group to be asked to nominate five, the Council's controlling group to nominate three and the Council's opposition group to nominate two people to the group.
- 3.15 It is proposed that the group would start to meet in June with a view to the plan being drafted and submitted to Committee in October/November 2014. It is envisaged that the group will meet approx. 6 times over that period.

#### **4. Financial Implications**

- 4.1 The HCA bidding process is complex and new to officers. Therefore some minimal external support would need to be brought in to support officers. This would be contained within £2,000 and funded from existing HRA budgets.
- 4.2 The bid would need to be subject to a full financial appraisal before Council sign-off as the grant only funds between 10% and 20% of the overall scheme, which is estimated at £1m. This is required as part of the application process to demonstrate a funding gap to attract the HCA resources.
- 4.3 The appraisal would need to take account of how much of the Council's current level of New Build reserve could be used (taking into account other potential commitments) and how much borrowing would be affordable within HRA resources, including future income streams from these 10 properties.

#### **5. Corporate Implications**

- 5.1 The report contributes towards the key strategic objective of the Council to deliver and range of affordable decent housing.