
REPORT TO:	Finance and Management Committee	AGENDA ITEM: 7
DATE OF MEETING:	25th April 2013	CATEGORY: DELEGATED
REPORT FROM:	Mark Alflat - Director of Operations	OPEN
MEMBERS' CONTACT POINT:	Bob Ledger 5975 bob.ledger@south-derbys.gov.uk	DOC:
SUBJECT:	Additional affordable housing	REF:
WARD(S) AFFECTED:	All	TERMS OF REFERENCE: HCSO1, FM01

1. Recommendations

That members:

- 1.1 Approve phase 1 for a two year new build development and acquisition programme for affordable housing subject to 6 monthly update reports to the Housing and Community Services Committee.
- 1.2 Approve that progress also be monitored through meetings of the long established Strategic Housing and Planning Group.
- 1.3 Approve that an initial new build and acquisition fund of upto £5.37m is established utilising £1.012m in Right to Buy receipts, Housing Revenue Account balances of £1.434 and borrowing approval of upto £2.924m.
- 1.4 Note that development opportunities may change and arise both within and outside of any agreed programme and that officers will need to respond to those opportunities subject to necessary formal approvals.
- 1.5 Note the intention to enter into subsequent phases of a new build programme to specifically include the possible creation of a separate development company or "special purpose vehicle".
- 1.6 Note the recommendation of the Housing and Community Services Committee which was due to consider this matter at its 18th April 2013 meeting.

2. Purpose of Report

- 2.1 Given the high unmet demand, to consider the delivery mechanism for new and additional affordable housing in the District.
- 2.2 The Chartered Institute of Housing reports that approx 75% of all retained housing stock local authorities already have or are developing plans for new and additional provision.

3. Background

- 3.1 At the October 2012 meeting of the Housing and Community Services Committee it was agreed that a proposal for delivering new affordable housing supply would be worked up in more detail utilising specialist external advice. This is the follow up report and the external advice is appended.
- 3.2 There are currently over 1,900 households registered on the Council's waiting list for alternative homes. Of these 1,188 have a registered need (e.g. overcrowding, underoccupation, etc) to move rather than just a social desire to move.
- 3.3 There is very little mainstream government grant for new build affordable housing currently available. The government body funding such works, the Homes and Communities Agency, had their funding cut by over 60% in the 2010 Comprehensive Spending review.
- 3.4 There are only a handful of Housing Associations (Registered Providers – RPs) with mainstream grant funding for any project in the East Midlands. In the region there is limited money for some rural projects and some continuing new build in the Milton Keynes new town hub. In addition many RPs are struggling to obtain affordable finance and many have significantly scaled down or halted their development programmes. In effect the traditional funding and development mechanism for new social housing for the last 20 years has largely disappeared from this region.
- 3.5 The construction industry has been in decline since 2008 when the supply of finance became tighter. On top of that, public sector funding and new build projects have significantly declined since 2010 which has meant that, although the overall economy is flat lining, the construction industry has been in significant decline for over 3 years.
- 3.6 The government approach seeks to stimulate the construction sector in an effort to reinvigorate growth in the wider economy. The cumulative effect of a number of measures introduced, and about to be introduced, could offer an opportunity to start to realise that aim. The measures include:
- Allowing local authorities to utilise the additional Right to Buy receipts from higher discount sales,
 - Freeing up local authorities from the national housing finance system enabling them to make their own decisions about investment
 - Encouraging local authorities to build themselves
 - Enabling developers to renegotiate Section 106 affordable housing obligations
 - Underwriting loans to RPs to provide additional affordable housing
 - Encouraging the private investment sector to become involved in new build housing.
 - Stimulating the private new build sector by offering equity guarantees
- 3.7 The CBI (Confederation of British Industry) Construction Council claims that for every £1 spent on capital investment in new build housing £2.84 is spent in wider economic activity.
- 3.8 Although the local South Derbyshire economy is in relative terms a success story, with local unemployment at half the national average, more can always be done to improve matters.

- 3.9 The Housing and Community Services Committee of 14th June 2012 agreed that 'additional' Right to Buy (RTB) receipts would be directed into additional affordable housing provision under the central government scheme whereby, given such a local authority commitment, the local authority is allowed to keep 100% of those receipts. Prior to changes to the RTB discount rules the government had predicted the projected number of sales for each local authority area and still takes 25% of these receipts. The additional receipts were presumed to increase as a result of removing capping of discounts effectively increasing them by upto 200%.
- 3.10 The Council sold 18 homes in 2012/13 against our initial government projection of 6. Therefore we are allowed to keep the full receipts from the 'additional' 12 sales, as well as 25% from the first 6 sales. This makes available some £650,000 worth of funding. The additional receipts must be committed to new build housing within three years or they will be claimed by government.
- 3.11 The external report on the delivery options for additional affordable housing was carried out by the Chartered Institute of Housing (CIH), which is the professional body for the affordable housing sector with 22,000 members. Its report concludes that of the £2m+ currently held as balances on the HRA £1.4m could be utilised for new build now.
- 3.12 In establishing the 'self financing' regime for housing in April 2012 the government placed a borrowing cap on each local authority HRA (rather than allowing the business to determine its own safe borrowing level subject to internal and external audit). The cap relates to Treasury concerns over the Public Sector Borrowing Requirement rather than the inability of any of the new HRA businesses to stand the debt. In practice our own HRA could support additional debt significantly higher than our borrowing cap. There has been much lobbying on removing the caps nationally, or lessening their effect, to both deliver more affordable housing and to boost the construction sector.
- 3.13 The local HRA currently has additional borrowing capacity of £8m. The external CIH reports recommends that at least £2.924m of this could be safely utilised now for new build development and acquisition.
- 3.14 Increasing the supply of affordable housing generates approximately £10,000 per unit for the General Fund in New Homes Bonus over a six year period.

4. Affordable Housing demand

- 4.1 At 1st April 2013 there were over 1,900 applicants registered on the Council's waiting list. These can be single person households but the majority are from at least two person households i.e. the formal registered demand is from over 3,000 people. Applicants are asked to verify and refresh their details on an annual rolling basis (the anniversary of the date of their application) i.e. this is a true measure of actual demand.
- 4.2 With a social housing stock of 3,785 (including housing association properties in the district) the annual turnover is around 250 properties a year. Therefore demand outstrips supply by a multiple of over 7.
- 4.3 Whilst there have clearly been a number of benefits to the national Right to Buy policy the effect on those without a home has been dramatic. Without an effective

base to operate from it's very difficult to achieve in other sectors of life whether it be employment or education or to become contributing members of the community.

- 4.4 At one time there were approaching 8,000 affordable homes for rent within the District. 30 years of the Right to Buy has seen the affordable housing stock decline to 3,785 (including the 750 RP homes). Over the same period house prices have risen many times more than the rate of inflation putting homes for purchase outside the scope of most on or below median incomes. The national average age of first home ownership is now 37.
- 4.5 The average lower quartile District house price is £110,000 for which a deposit of around £11,000 would be needed. The Chartered Institute of Housing 2011 survey for the District comparing house prices with incomes revealed that average house prices are broadly 7 times more than the average wage when loans to income ratio was traditionally set at a maximum of 3 times.

5. Proposed delivery mechanism for new and additional affordable housing

- 5.1 In the report to the October 2012 Housing and Community Services Committee the pros and cons of the basic delivery models for new public supply were outlined including the option of funding RP development. The CIH report takes the view that it is currently more expensive for RPs to build than local authorities and that ongoing costs will be higher. Therefore the most cost effective delivery model is one that produces homes that are owned by the Council unless there is additional resource being brought in by a potential RP partner. The point is also made that adding to the stock profile of our business improves the cost base for the HRA.
- 5.2 RPs though do have the recent development experience and therefore rather than establishing our own development team it would make sense to buy in the practical support we need, certainly at the start of this process whilst we build up our knowledge. The report states there is significant spare capacity in the RP sector to facilitate this. The Nottingham Community Housing Association for instance, which has been developing in our area for several years, has a full development service that can be purchased en bloc or particular elements can be spot purchased.
- 5.3 There are though within the Housing Service several officers with direct experience of new build, even if that experience for some is over 20 years old. Initially it is anticipated that we could utilise that experience in a 'client function' only which should mean that we could progress new build without the appointment of an additional manager or team.
- 5.4 We are already committed to spending the additional RTB receipts on new build activity. The report identifies that it is safe to also utilise a significant proportion of HRA balances and that we have unutilised borrowing capacity of £8m. It is proposed that a development fund for phase 1 be immediately established as follows:

£1,012,000	RTB receipts 2012/13 and projected RTB receipts 2013/14/15
£1,434,000	HRA balances
£2,924,000	HRA borrowing
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£5,370,000	Total

- 5.5 One of the key and fundamental reasons why it's cheaper for the Council to develop on its own is that it can access low cost money through the Government backed Public Works Loans Board. The current 30 year interest rate is 3.75%. Private investment will want a return of at least double that although pension fund investment may demand a lower return. Housing associations can currently only access money at little better than the open market rate, e.g. around 6%, unless they enter the bond market but even then rates will still be above that of the PWLB.

6. Property acquisition

- 6.1 In some parts of the District, and particularly some parts within the Swadlincote environs, ex Council properties can be purchased for less than the cost of building new. Although purchase of such properties does not increase the overall supply of housing, and the investment does not generate wider economic benefits, it will make strategic housing sense to buy rather than build in some circumstances. Such purchase of course still meets the primary aim of increasing the supply of affordable rented accommodation.
- 6.2 Long term vacant, ex Right to Buy, properties on what are traditionally identified as council estates can become blights on those estates particularly where properties have been boarded up. Buying such properties would have the effect of also positively contributing to the new homes bonus by reducing the numbers of long term empty properties

7. Scale and ambition

- 7.1 The appended report makes the point that given the limitations on the available finance in the HRA and the lack of a ready supply of our own land that a more ambitious or longer term new build programme would be difficult to maintain through these traditional routes.
- 7.2 In addition there are clearly wider economic regeneration opportunities that could also be met by the Council taking on a development role within a public private partnership.
- 7.3 On this issue the report also points out that some Councils are developing outside of the HRA either in the General Fund and/or through SPVs (Special Purpose Vehicles). These options exist for South Derbyshire and the report and officers propose that these should be explored further and considered as a possible way of delivering on subsequent phases of a new build and regeneration programme.
- 7.4 Further, some of the larger sites with planning permission in South Derbyshire which are not currently developing out could be 'kick started' by the Council taking on a more proactive investment role in addition to trying to facilitate their development.

8. Financial Implications

- 8.1 The full detail of the financial aspect of the proposal is the main element of the appended report.
- 8.2 Becoming a provider of new additional affordable housing clearly has significant financial and risk implications. Building homes is expensive. The review by the CIH

though confirms that the HRA has the capacity to deliver at least the proposed phase 1 programme.

8.3 Risk is also proposed to be minimised by utilising the development knowledge of RPs rather than establishing an in-house new build team from a 'standing start'.

8.4 **Comments of Chief Finance Officer**

8.4.1 Financially, the recommended delivery model is considered to be prudent and presents a strategy which involves low risk. The funding package for Phase 1 is sound and fits available resources; it will also ensure that the Council is able to meet the Government Guarantee to invest in New Build under pooling arrangements.

8.4.2 New borrowing will be monitored as part of the Treasury Management Strategy. The legal and any procurement requirements will need to be considered as part of the detailed delivery of specific schemes.

8.4.3 Based on the assumptions outlined in the report, rental income from the provision of new housing will cover the costs of repairs, management and capital.

Capital Receipts

8.4.4 As noted in the report, the full delivery of Phase 1 is still dependent on a certain level of capital receipts being generated in 2013/14. In addition, it also proposes that all retained receipts, including those that could potentially be set-aside for debt repayment, will be used for Phase 1.

HRA Reserve

8.4.5 The budget report to the Committee in February 2013 projected additional resources in the HRA of approximately £2m by 2016/17. Assuming Phase 1 is delivered over the next two financial years (2013/14 and 2014/15) current reserves will fall to just under the minimum level of £1m by 31st March 2015.

8.4.6 However, as reported during the year, there is likely to be an overall under spend on the HRA in the current financial year of 2012/13. Assuming that this is returned to the HRA reserve, this will maintain the overall level above the minimum during the Phase 1 period.

8.4.7 Following confirmation of the budget out-turn for 2012/13, the 10-year HRA financial projection will be updated and will include the financial implications of Phase 1.

8.4.8 The proposals for Phases 2 and 3 should be subject to a further financial options appraisal at the relevant time.

9. Corporate and community implications

9.1 A key strategic objective of the Council is to deliver a range of affordable and decent housing.

9.2 Council housing waiting list information clearly indicates that there is very high demand for additional affordable housing in the District.

- 9.3 It is proposed that members remain engaged with the project development through 6 monthly reports to the Housing and Community Services Committee and reports to the already constituted Strategic Housing and Planning group made up of Cllrs Hewlett, Lemmon, Rhind, Taylor and P. Watson.