

<b>REPORT TO:</b>	<b>HOUSING AND COMMUNITY SERVICES COMMITTEE</b>	<b>AGENDA ITEM: 8</b>
<b>DATE OF MEETING:</b>	<b>23<sup>rd</sup> NOVEMBER 2017</b>	<b>CATEGORY: DELEGATED/ RECOMMENDED OPEN</b>
<b>REPORT FROM:</b>	<b>GED LUCAS – STRATEGIC DIRECTOR</b>	<b>PARAGRAPH NO:</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>EILEEN JACKSON – STRATEGIC HOUSING MANAGER 01283 595763 <a href="mailto:eileen.jackson@south-derbys.gov.uk">eileen.jackson@south-derbys.gov.uk</a></b>	<b>DOC:</b>
<b>SUBJECT:</b>	<b>INCREASING SUPPLY OF AFFORDABLE HOMES THROUGH DIRECT ACQUISITION AND L.A. NEW BUILD SCHEMES – OPTIONS REPORT</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE:</b>

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## **1.0 Recommendations**

- 1.1 That Members consider the reports content and approve options 1, 3 & 6 as outlined in section 5 of this report.
- 1.2 That Members approve option 5 to be pursued in exceptional circumstances where there are demonstrable benefits for the Council on a case by cases basis
- 1.3 That Members approve in principle that Housing Revenue Account (HRA) surpluses, HRA headroom and RTB capital receipts can be utilised to purchase s106 units and homes on the open market that are suitable for use as social housing following approval of an acquisitions policy. (A further report would be brought to Housing Committee in February to set out proposed guidance on the purchase of s106 units and market housing for use as affordable housing).
- 1.4 That members approve the acquisition of section 106 units on new development sites where appropriate using HRA surpluses and headroom, capital receipts and commuted sums.
- 1.5 That any future scheme brought back to this Committee for approval is also referred to the Finance and Management Committee for further appropriate consideration.

## **2.0 Purpose of Report**

- 2.1 This report sets out options that would enable the Council to increase the overall supply of affordable homes within the district. Each option presented will have cost implications over the long term and these implications must therefore be balanced against capacity to deliver new homes.

2.2 To seek Member approval to agree in principle the acquisition and development of new homes that can be added to our council housing stock. This will effectively kick start the Council's affordable housing delivery programme and commitment to increasing our council housing stock.

### **3.0 Executive Summary**

3.1 The Council currently have 2990 homes (not including leased properties or homes used for temporary accommodation) within its housing stock, 996 of which are sheltered accommodation designated for the over 55s.

3.2 There is a recognised need to increase the supply of housing to meet the district's growing population. The Housing Strategy 2016 – 2021 sets out plans to increase the number of affordable homes, to unlock the potential of empty homes and make better use of existing housing stock within the social rented sector.

3.3 The Council needs therefore to consider the range of options to meet future housing needs and the flexibility required to take opportunities as and when they arise.

3.4 Taking into consideration the financial viability of each option listed below, this report will cover the Council's potential to deliver homes via the following mechanisms;

- Acquisition of new build s106 units direct from developers.
- The creation of a Council Housing Development Company (delivery vehicle) to build.
- The establishment of a partnership agreement with a developing Registered Provider [RP] to enable the Council to develop on LA owned land and purchase back the homes built directly from the RP when completed.
- The purchase of empty and derelict homes to renovate and utilise for council housing.
- Acquisition of units previously sold under RTB and RP stock disposals.
- The development of new Council housing using the HRA reserves and existing headroom.

### **5.0 Detail**

5.1 The population of South Derbyshire is growing at a significant rate and although many new homes are being built within its borders, demand from the number of newly forming households who cannot access market housing will exceed the supply of new affordable homes being built within our district.

5.2 The Council have already made progress in terms of addressing this shortfall by developing its own new council housing in Swadlincote (Penine Way), Overseal (Lullington Road) and Linton (Coton Croft).

5.3 The Council has the capacity with its current capital programme to enable the delivery of more Council Housing and with a further approved scheme in Overseal in the pipeline, there will be another 6 units of affordable rented housing delivered next financial year.

5.4 In conjunction with the grant funded approved new build programme, the following range of options are available to increase our stock numbers and should therefore now be considered;

1. Acquisition of new build Section 106 units direct from developers  
***This option would enable the Council to increase its housing stock within selected preferred locations with minimal risk. There is the potential to tailor what is built for specific housing needs cases and make large scale savings by incorporating adaptations into the design of the homes. In addition, the homes would be purchased 'off the shelf' and would be significantly less expensive to maintain within the first 10 years. The Council could also utilise RTB receipts to part fund the homes (30% of the value). The final purchase price of the units would be negotiated to ensure maximum VFM for the Council.***
2. The establishment of a Council Housing Development Company (delivery vehicle) to build homes for sale and rent  
***This would not be recommended as the set up costs of the creation of the Company would mean the overall cost per dwelling increase would significantly outweigh the cost of direct purchasing market housing. This option has worked well for some Local Authorities and may be considered in future if the Council wanted to build market housing for rent or sale and offset the cost of the affordable dwellings with the profits from the market homes sold.***
3. The establishment of a preferred development partner arrangement with a Registered Provider  
***This option would ensure the Council achieved VFM without having to contract manage the design and build phase of the scheme. The Council would need to identify a site and work with a preferred development partner (appointed through a tendering process) who would build the homes that would be purchased by the Council when the site was completed.***
4. The purchase of empty and derelict homes to renovate and utilise for social housing  
***This option would allow the Council to purchase homes on the open market that have been identified as a long term empty home. The Council is able to bid for HCA funding under the current SOAHP (Shared Ownership and Affordable Housing Programme) which would allow an indicative bid to be made for a set number of units for purchase and repair. Once renovated, these units could be let at affordable rent levels and held within the Councils HRA housing stock. Although this option has the potential to achieve VFM and improve our neighbourhoods and estates by bringing empty homes back into use, this option would require significant staffing resources to deliver. This option could therefore be considered at a later date if the initial outlay can justify the outcomes.***
5. Acquisition of homes previously sold under Right to Buy and Registered Provider stock disposals  
***This option would not be recommended as stock disposals are requested when homes require more investment than they are worth and are no longer considered an asset to the provider. Homes sold under RTB that come back on the market usually require significant investment and would mean using public funds to pay for a home sold at a considerable financial loss to the Council (as they are heavily discounted). The option to buy back RTB***

**properties should therefore only be considered when VFM can be demonstrated or where there are other benefits to the Council (i.e. as part of a regeneration scheme or to unlock land) and not as a blanket policy for the Council to adopt.**

6. The future development of new Council Housing using the HRA reserves and existing headroom in conjunction with grant funding from the Homes and Communities Agency (HCA)

***This option could be taken forward in conjunction with option 3 once a preferred development partner has been appointed. The benefits of developing through a preferred partner include the ability to transfer risks through the contract agreement, a guarantee of delivery on time and within the agreed budget, the partner agencies previous experience of developing social housing and the reduction in staff time against in house management of a design and build contract.***

- 5.5 Whilst the focus on increasing overall numbers of affordable housing is a corporate priority and must be the primary objective, consideration must also be given to the financial benefits over the longer term as the units will need to provide payback to the HRA within a reasonable timescale dependant on the resources utilised for the purchase and all homes acquired by the Council would need to represent value for money against purchasing on the open market (i.e. must be less expensive per dwelling than buying at market rate)
- 5.6 The options outlined above are all within the Council's capacity and financial ability to deliver, however option 2 would not be recommended, and option 5 would only be considered in exceptional circumstances for South Derbyshire at this stage due to the associated risks and option 4 would be subject to further investigation and subsequent approvals to proceed.
- 5.7 Option 6 relates to future development plans following what has already been agreed and is currently in progress, (i.e. the funding for the new Homes at Lullington Road is already in place and a further scheme to deliver 20 homes has been approved subject to land availability). As the HCA now has a significant increase in grant funding available for affordable housing, it would be wise to get future schemes approved within the scope of the SOAHP (2017 – 2021) programme whilst the funding is accessible.
- 5.8 The preferred option 1 would, subject to approval require additional capital funding to enable the Council to take advantage of opportunities that arise when planning applications are received that incorporate the delivery of s106 units on site. The council could seek to acquire these rented units that are built for the purpose of social housing at an agreed sum direct from the developer.
- 5.9 The preferred option 3 would require the Council to undertake a procurement exercise to appoint a development partner (Registered Provider) who would manage the design and build stage of the development on Local Authority owned land or land purchased by the Local Authority for that purpose. The council would then purchase the units from the development partner when completed to the agreed specifications.
- 5.10 It is therefore recommended that approval is given for Principal Officers within Strategic Housing to proceed with options 1, 3 and 6 and in exceptional circumstances where appropriate option 5, in order to increase the number of social housing units within the HRA. Once approvals are in place to pursue these options, further individual reports can be brought back to Housing and Environmental

Services Committee where specific sites, acquisitions or partnering arrangements have been identified so that any impact on the Councils General Fund or Housing Revenue Account can be costed and evaluated to ensure the new homes represent value for money over the longer term.

## **6.0 Financial Implications**

- 6.1 The HRA Medium-Term Financial Plan (MTFP) was reported to Finance & Management Committee in October and surpluses are projected every year over the 10 year plan.
- 6.2 HRA capital receipts are generated from right-to-buy sales and it is forecast in the MTFP that sales are going to continue at a steady rate of around 15 per year.
- 6.3 The HRA revenue reserve is estimated to be £4,603k at the end of 2017/18 achieving a surplus of £1,150k in year. The HRA capital receipts reserve is forecast to have a balance of £352k by the year-end but this includes the cost of development of 6 units at Lullington Road which will not start on site until 2018/19.
- 6.4 Under self-financing, housing subsidy payments to DCLG were replaced by a one off debt allocation which is funded through the HRA. The total debt allocation was £57,423k with a debt cap of £66,853k. The HRA are able to borrow up to the debt cap to provide more housing stock but any borrowing must be worked through the HRA Business Plan to ensure viability in the longer-term.
- 6.5 Consultation - where there are financial implications, sufficient consultation must take place with the relevant officer early in the process, before a report is circulated to finalise the wording and figures. The report should show the true costs in terms of life cycle costings with appropriate pay back on investments.
- 6.6 Any decision to spend from or borrow within the HRA would be brought back to Committee for future approval. Officers require an agreement in principle to be able to pursue opportunities to expand the social rented stock as and when they arise.

## **7.0 Corporate Implications**

- 7.1 Approval of the recommendations contained within this report and the associated increase of affordable housing supply in the district would have a direct positive impact within the Place theme of the Corporate Plan that aims to;
  - Facilitate and deliver a range of integrated and sustainable housing and community infrastructure

And meets the associated action to;

- Increase the supply and range of affordable housing provision

## **8.0 Employment implications**

- 8.1 Options 2, 4 and 6 may require additional staffing resources with the Strategic Housing Team, any new posts required would be brought to Committee for approval at a later date

## **9.0 Community Implications**

9.1 The direct acquisition and development of additional affordable homes will have a significant positive impact on our communities and wider environment in terms of our ability to;

- Rehouse people living in unacceptable living conditions
- Tackle homelessness
- Enable people who cannot access market housing to remain within their communities to give support and benefit from established support networks

## **10.0 Background Papers**

10.1 Members may recall two previous reports brought to the Housing and Community Services Committee relating to new housing delivery within the last three years;

- Council New Build – HCA Bid and HRA Resources – April 2014
- Housing Capital Investment Programme 2012 – 2017 Progress Report – April 2015