South Derbyshire District Council

Delivery Options for Affordable Housing

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Executive Summary

South Derbyshire District Council (SDDC) have commissioned CIH consultancy to investigate the options for delivering new affordable housing within the District. We have interviewed relevant officers and reviewed available information in order to come to a view on the available resources – both land and financial – along with options for deployment of those resources.

It is clear that there is investment capacity within the HRA and that the Council has the opportunity to put together a programme to invest these resources for the benefit of the South Derbyshire's housing offer. While there are resources, these are limited in terms of both finance constrained by the debt cap and the very limited supply of HRA land.

In order to make best use of the available resource, a phased programme should be adopted. This will allow the authority to build the confidence to progress into other delivery vehicles as resources and opportunities allow. Phase one, covering the 2013/14 and 2014/15 financial years, should consist of building on HRA land, repurchase of previous right to buy properties and some investment in new build on either general fund land or regeneration sites. Where the opportunity arises, some of the phase one funding could also be used to take section 106 properties from private developments where other registered providers do not have the available resources to do so. All of the sites identified require some upfront development work in order to get them to a position to build out but we think progress can be made quite quickly with some sites for Inclusion within the Phase one programme. In total a phase one programme of £5.4million has been outlined for consideration. The impact of this programme on the HRA business plan has been modelled and is affordable.

The land constraints will be an issue as the programme moves into phase two with few HRA land opportunities. There is funding available to further develop some general fund sites or land currently in private ownership but to continue to develop, particularly on any larger sites, other delivery mechanisms would need to be considered.

Our recommendation is for the development initiative to be reviewed and refreshed at the end of phase one so the forward opportunities and delivery options can be re-evaluated at that time.

In order to manage the phase one programme, delegated authority should be given to the Head of Housing and Environmental services in conjunction with the Chair of the Housing Committee to use the resources outlined in phase one. A designated development reserve should be set aside within the business plan, made up of revenue reserves and permissions to borrow, for this purpose. A six monthly report should then be made to the housing committee outlining progress in meeting the programme along with any proposed diversions from the plan.

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1 Background and methodology

1.1 Introduction

South Derbyshire District Council (SDDC) have commissioned CIH consultancy to investigate the options for delivering new affordable housing within the District given the new range of freedoms and flexibilities available through the implementation of self-financing for the Housing Revenue Account (HRA) in April 2012. Virtually all local authorities have been considering how to maximise the opportunities available within the new system to develop more housing.

Initial findings from research being undertaken on behalf of the council housing trade bodies (ARCH, the NFA and LGA) into self-financing business plans '8 months on' suggest that over three-quarters are planning some degree of new council housing development in the next 5 years, totalling in excess of 22,000 new homes. A limited number have developed their plans in line with bids for grant from the HCA in the Affordable Homes Programme. However, the majority are bringing forward plans without grant.

The context at South Derbyshire is one that we are seeing across the country.

- A much improved business planning and financial position under self-financing, enabling the long term sustainability of the existing stock to be secured
- A continued shortage of social and affordable housing
- The reinvigoration of the Right to Buy beginning to generate resources for reinvestment locally
- A switch towards using the capability of the HRA and council housing asset base to make a contribution to regeneration initiatives and the delivery of new homes
- As well as opportunities for HRA direct delivery, in order to make a real difference in a relatively short time frame, it might be necessary to keep open opportunities for the delivery of new homes through different vehicles, particularly given some of the constraints that continue to operate for the HRA – constraints which include land availability as well borrowing restrictions.
- A growing sense of confidence around bringing forward plans to deliver new homes as well as to address some of the more long standing and intractable problems around regeneration that might remain within the HRA stock.

1.2 Brief

The brief is clear and sets out a series of specific objectives to deliver a project to:

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- Determine the most advantageous delivery options for new additional affordable housing whether this is to be either inside or outside of HRA regime.
- Outline the advantages and disadvantages of all delivery options and recommend a way forward.
- Determine how to select any potential RP / Developer partners and to recommend the preferred option for the delivery model.
- Determine the scope for the number of Affordable Homes to be provided.
- Consider mixed tenure on some of the more financially viable sites to cross subsidise the affordable housing.
- Consider the most appropriate Legal/Contractual procedures required.
- Consider the most cost effective delivery mechanism for both build costs and on-costs.
- Minimise VAT liabilities on consultant's fees and to ensure overall value for money.

1.3 Methodology

In order to progress the work, we have held a number of meetings with officers from across the Council to understand the key drivers and constraints. From this we have established the available resources, in terms of the financial parameters as well as land and other resources, on which our proposals are based. This has included a number of site visits to gauge the potential for development at a range of locations both in the ownership of the council and otherwise.

HRA business plan

- We have analysed the council's existing business plan model and compared it to the latest budget reports. The core assumptions within the plan have been confirmed.
- We have modelled the debt profile within the HRA so as to identify the potential resources generated within the plan over the long term.
- From the business plan we have produced a series of bespoke combined new build/business plan models developed specifically for SDDC.
- We have developed a series of scenarios which are able to be 'switched on and off' to test the capacity for the plan to deliver a series of new build schemes.

Scheme appraisals

- We have developed a series of generic scheme-based assumptions which represent an average set of market conditions for the district, including market values, build costs, rental levels and other costs and income associated with scheme development.
- These assumptions have been applied to a variety of tenure mixes in order to test the financial viability of scheme delivery for a given range of inputs – this

presents a core approach but all assumptions are able to be varied in order to test viability.

- For each scheme, the appraisal modelling enables analysis of the financial impact of running the scheme within the HRA, within a Special Purpose Vehicle (SPV) wholly owned by the council and established solely to deliver, own and manage housing, and within a traditional housing association/land transfer model.

The combination of modelling as set out above has enabled us to develop a reasonable sense of the options, opportunities and potential for the HRA to deliver new homes in the short, medium and long term.

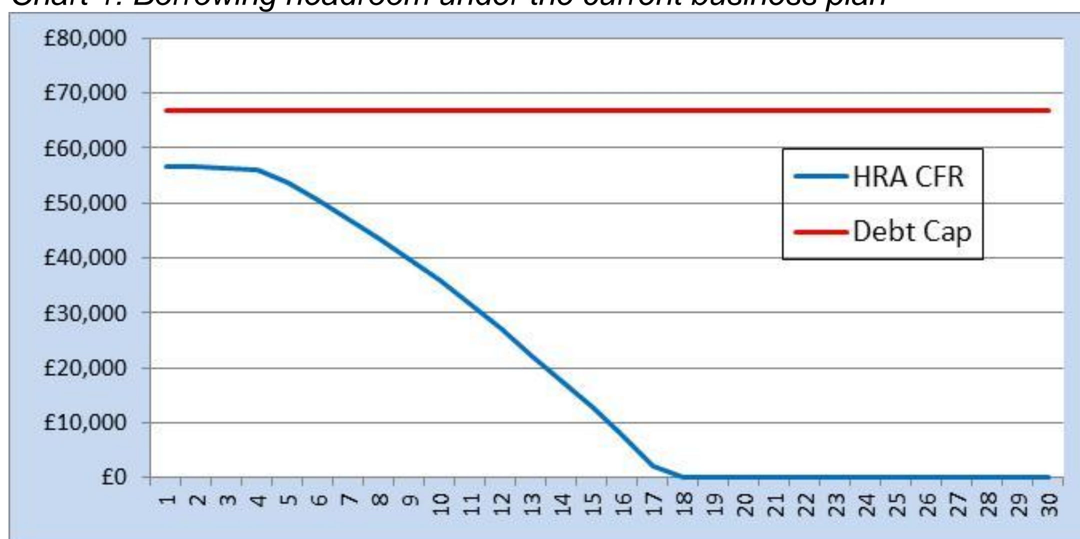
2 Available Resources

2.1 The Business Plan

The HRA business plan has been reviewed and compared to the latest budget reports for 2013/14 and for the medium term. The underlying assumptions for the plan are set out in appendix 1.

Borrowing headroom at 1 April 2013 is around £8.13million with a debt cap of £66.85million. The financial potential exists within the plan to repay the opening self-financing debt of £58.72milion within 18 years. Alternatively, maintaining debt at opening levels allows the generation of around £78.43million of reserves across the 30 year life of the plan. This is shown in chart 1.

Chart 1: Borrowing headroom under the current business plan



* CFR: Capital finance requirement

Therefore, there is clearly capacity within the plan – both short-term borrowing capacity and growing revenue headroom to invest in new affordable housing over the medium term. However, this still remains constrained by the debt cap.

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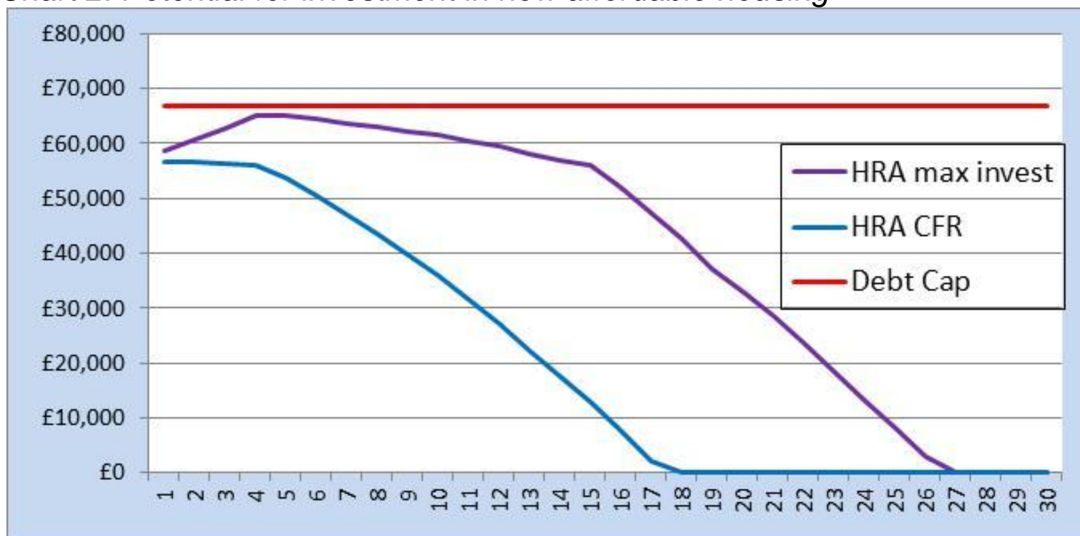
The maximum capacity to invest will depend on the type of scheme as each has different costs and timescales. This will be explored using the modelling approach in section four but to illustrate the overall capacity, if the council built 16 properties per year on HRA land over the next 15 years (240 properties) at an average mix (1 – 4 bed), at social rents this would be affordable within the plan as per chart 2.

Chart 2: Potential for investment in new affordable housing



2.2 Land availability

At the start of the project, we were provided with a list of potential development sites. The sites are set out in a separate report and consist of sites owned by the HRA, sites within General Fund ownership and sites in private ownership.

In discussion with officers it quickly became apparent that the sites owned within the HRA offer only limited opportunities. A number are located outside the settlement boundary and would need to be developed as exception sites. There are also other potential planning problems on a number of sites. All of the sites are also relatively small including a number of garages sites. That being said, there is potential for small scale development on some. However, in terms of a longer term programme, there is little potential beyond the initial phase.

The general fund sites offer a similar picture with many of the prime locations already having been developed. There may be opportunities for the HRA to contribute to larger schemes on some of these sites but this will be a medium term issue.

There is, however, more potential within the sites held in private ownership and it may be possible to purchase these to develop significant numbers of properties. With suitable council owned land being in short supply this will be necessary in

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order to continue to develop in the medium to long term. Having the plans and resources to do this is a key way to regenerate more difficult sites of importance to the district but with little outright development appeal.

In addition, there are a number of larger private development sites where planning permission has been granted included an element of affordable housing. These sites are at various stages of progression with some experiencing difficulties due to the economic conditions. As a result some are looking to renegotiate the amount of affordable housing on site as part of the s106 agreements. There may be a role for the HRA in acquiring some of the affordable housing on those sites.

To summarise, there is a limited amount of land owned by the HRA which is developable. There is some within the general fund but again a limited amount. In order to progress a programme into the medium to long term, land will need to be purchased.

3 Options for investment

3.1 Introduction

The section outlines the different options for new development and sets out the features, implications, advantages and disadvantages of each. For ease of discussion, we have set out these factors under three different 'generic' models below; there remain many local variants being adopted in different authorities and where these apply to South Derbyshire, we have highlighted this.

Further and more detailed information around the financial comparisons between models is included within section four by way of using exemplar schemes. This offers an easily understood way for members and other stakeholders to determine their policy thinking.

LA new build: three overall routes

The three models/vehicles set out in the discussion below are:

1. HRA development: building (or acquiring) and ownership within the HRA.
2. Development in a wholly owned council company: generally termed a Special Purpose Vehicle (SPV) in which the general finances and accounting sit in the General Fund rather than the HRA
3. Development in a Joint Venture with the private sector: generally termed a Joint Venture Company (JVC) established to bring in private finance from banks or institutional investors.

The 'traditional' model of land transfer to Housing Associations (Registered Providers or RPs) for the privately financed development of affordable housing in

return for nomination rights continues to feature as a model for some local authorities, and as the council will be familiar with this we have not described this within the generic options below. However, there is though a huge decrease in the number of these types of schemes; the reasons for this decrease are principally:

- The desire of councils to retain a financial interest in the development, and therefore share in future financial returns. Prior to self-financing this was not a viable option for local authorities as the subsidy system took away the resources required to finance the new development.
- The opportunities for local authorities to own new affordable housing and replenish stock lost through right to buy. This enables the council to retain a critical mass of stock through which to defray its cost base.
- The constraints that are operating on many RPs in the raising of finance – in particular the higher cost and short term nature of bank lending in the current economic climate.
- The reductions in grant from the Homes and Communities Agency under the affordable homes programme, and moreover the scarcity of grant within the region, make the transfer of land to an RP less attractive as the scheme economics are no longer as advantageous.

3.2 Development in the HRA

This might be described as the 'traditional council housing' route. The main features are set out below and apply equally to the building of new properties and acquisition of properties.

Land and sites

If building on HRA land, the route might be described as the 'path of least resistance' in the sense that there is no requirement to effect any land appropriation, disposal or other form of transfer prior to development. If land is sitting in the General Fund (GF), development within the HRA would require the appropriation from GF to HRA and a valuation undertaken in which the Capital Financing Requirements for each account would be adjusted; this would increase the level of debt in the HRA therefore eating in to borrowing headroom. In both cases, there would be no taxation (Stamp Duty Land Tax) implications.

Tenure mix and type

Development in the HRA could be for rented, shared ownership or other forms of affordable housing tenures. Development of housing for sale, from which profit is generated to subsidise affordable housing is also deliverable within the HRA, generally via a development agreement in which market sales are top sliced from developers and recycled back into the scheme, although it is possible for market properties to be developed directly in the HRA for sale.

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Properties for rent in the HRA are let on 'secure' tenancies which carry the Right to Buy. They are also potentially affected by the any council move to implement flexible tenancies under the Localism Act.

The recently updated rules on the RTB mean that discounts potentially available to tenants of new properties are large over time. However, the 'cost floor' mechanism was also changed to extend to 15 years – effectively meaning that a new property cannot be sold for less than its build-plus-maintenance-cost for 15 years.

Application for S80B exemption from the pooling of RTB receipts on any new HRA property built since April 2012 should be able to be secured (application to HCA).

Other tenure types are able to be let in the HRA, including non-secure tenancies generally for temporary accommodation and for shared ownership.

Rental levels

Statutorily, HRA rents can be set at whatever level the council decides, the only general legal constraint being that the properties are being held for affordable purposes, so that rents should be set at less than market levels.

Rents on existing HRA properties are at Social Rent levels and are approaching convergence with targets/formulae for 2015/16 or as soon thereafter as achievable. The abolition of the HRA subsidy system means that there is no national way to control individual rent increases but the overall control over average rent levels remain with the Rebate Subsidy Limitation mechanism. Charging average HRA rents above the Limit Rent leads to claw-back of some HB subsidy.

Exemptions to new properties being included in the Limit Rent mechanism arise from development via HCA grant funded schemes for Affordable Rented properties (both new properties and conversions from social to Affordable). Affordable rents are agreed with HCA and are up to 80% of market rents in any particular area). Without grant funding, it is possible to apply for S80B exemption to inclusion of new homes both within the Limit Rent mechanism and Right to Buy receipts pooling mechanism.

However, in general terms, the development of new homes without grant at 'higher than social' rents, risks average rents moving above Limit Rent levels in the run up to 2016. In South Derbyshire's case the risk is minimal on the scale of development proposed.

Conversely, it is by no means clear how the implementation of Universal Credit (UC) will impact on the Rebate Limitation mechanism. There will continue to be a

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'housing element' within UC and it is likely that government will want to control that in some way – at this stage, the current mechanism appears inconsistent with UC and DWP need to address the issue.

In summary therefore, most authorities would set rents on new properties between Social and Affordable levels taking into account the financial position with regard to average and Limit rents.

Governance, management and maintenance

As properties built in the HRA are managed and maintained by the council's housing landlord services, this offers economies of scales, especially in management. Maintenance budgets would generally need to be set aside for day to day and future major repairs. There would be no additional governance requirements although many authorities have responded to self-financing by establishing new focused governance arrangements.

Funding and borrowing

HRA properties are able to be financed by all usual LA/HRA routes:

- Borrowing is via PWLB at very low current interest rates but subject to the debt cap imposed under self-financing.
- RTB receipts from both non-pooled and RTB-agreement sources
- Other receipts from disposal of HRA and other sites
- Section 106 commuted sums
- Revenue and reserves (many are placing surplus revenue into a specific new build reserve for future release)
- HCA grant – which requires a separate contract.

Most authorities with available borrowing and revenue headroom will be developing some form of HRA build programme. There are financing reasons for this:

- HRA borrowing can only be used for HRA assets
- Generally speaking, revenue surpluses generated within the HRA can only be used for HRA purposes
- If a council wished to reinvest additional RTB receipts (under the local agreement arising from the extension of discounts), the only properties with a local authority financial interest are HRA properties.

Experiences vary in detail around the country but our sense is that authorities will almost always aim to build or acquire in the HRA in the following cases:

- In fill and garage sites which sit next to existing housing
- Repurchase of former RTB properties, especially if empty and causing housing management issues
- Reinvestment of additional RTB receipts in LA properties

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- Small scale regeneration or redevelopment of defective or challenging properties
- Where headroom allows a larger programme on vacant or larger regeneration/development sites.

3.3 Development in a Special Purpose Vehicle

The term SPV is used to describe a 100% owned council company. Under the Local Government and Housing Act 1989, local authorities are able to establish or invest in companies in order to deliver their objectives.

For the purposes of new build, an Arms' Length Management Organisation is a 100% owned SPV managing the existing HRA stock under management agreement.

A SPV can straightforwardly be established at Companies House. It would most likely be a company limited by guarantee and would require a board. There are several models of board in place but, at its simplest, the board could comprise senior council members and directors. Separate staffing is not necessarily required as services can be provided to the company by the council.

The company's accounts would be consolidated into the General Fund of the authority and all future surpluses/reserves, upon wind up, would revert to the GF. As a general point, government has moved to address some issues around this kind of model if they are seen to be 'getting round' the HRA debt cap. The establishment of such a vehicle should be seen in this context though the rules as set out apply as of today.

Land and sites

If building on HRA land, the land would need to be transferred out to the SPV. If transferred at full market value, there would be no requirement for separate consent, though this might challenge financial viability for the scheme.

If transferring land or other assets at less than market value, specific Secretary of State consent would be required. General consents could be relied upon using the powers to transfer land to Registered Providers up to £10m value per year. Put simply, the SPV would need to apply to become a RP with the HCA in order to avoid the need for individual consents being required. Our sense is that individual consents might not be forthcoming if government sees proposed schemes as circumventing the HRA debt cap. Application to become an RP takes around 6 months and around 20 authorities are already registered with a number seeking registration at this time. This is undoubtedly a route attracting considerable attention at the present time.

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Transferring land from the GF to an SPV would also require consent if at less than market value although there are general powers that can be relied upon up to £2m value annually (1972 Local Government Act).

There may be taxation (i.e. Stamp Duty Land Tax) implications of land transfer if the SPV is not an RP and/or the SPV is not charitable. Setting up a charitable SPV is possible (and is in place at two ALMO authorities as subsidiaries of the ALMO) but has its own application process and constraints around future use of profits/surpluses.

Tenure mix and type

Development in an SPV could also be for rented, shared ownership, other forms of affordable housing tenures and marketing renting. Development of housing for sale, from which profit is generated to subsidise affordable housing is also deliverable within the SPV.

Properties for rent in the SPV (whether registered or not) would be let on 'assured' tenancies in line with housing associations. These do not carry the Right to Buy but do have the Right to Acquire if they are part-financed by HCA grant. The council has a little more flexibility around tenancy conditions in an SPV but they would all need to be considered within the authority's Tenancy Strategy

Rental levels

There is theoretically more flexibility around the setting of rents in a SPV. The Limit Rent mechanism does not apply.

A potentially bigger constraint might be the Welfare Reform agenda which could affect affordability if properties are let at market or 'close-to-market' rent levels.

Councils should consider rent levels carefully as additional rent income can act to substantially improve the financial prospects for new homes – for example £10 higher rents allows £10k+ more borrowing without any additional costs.

Most authorities that have built in their ALMOs have opted for a mix of Social and Affordable rents. This continues to be an evolving picture nationally and there are ALMOs and SPVs letting some or all of their properties at market levels.

Governance, management and maintenance

Properties built in an SPV in a non-ALMO authority could be managed by the council's landlord services. This offers economies of scale but there would be a need for a 'management cost' to a non-ALMO SPV. Maintenance budgets would generally need to be set aside for day to day and future major repairs.

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A SPV requires separate governance and therefore both costs to set up as well as to maintain. Though the board could be small (e.g. at Northumberland it comprises the Chief Executive and Finance Director of the council), the company would be separate to the council and need separate reporting and accounts as any other company.

Funding and borrowing

SPV properties are able to be financed by many of the usual LA routes:

- Borrowing could be via PWLB at very low current interest rates undertaken within the Prudential Borrowing framework of the council, lent on to the SPV with or without a risk premium; a formal loan agreement would be established – this is in place at up to a dozen ALMO authorities so practice is well established.
- RTB receipts from the non-pooled element could be used but not from the additional RTB-agreement sources
- Other receipts from disposal of HRA and other council sites
- Section 106 commuted sums
- Revenue and reserves – though it is difficult to access HRA reserves as these are ring-fenced
- HCA grant – which also requires a separate contract, likely to be through the local authority.

Most authorities considering building in a SPV are doing so with the following drivers:

- HRA borrowing headroom is limited
- Even if there is HRA borrowing headroom, large schemes and sites might need more headroom, investment or be on a different scale
- To deliver new and different tenure types outside the HRA (a principle in many authorities is: 'HRA for social rent, SPV for other tenures').

Experiences tend to vary widely around the country but our sense is that authorities actively considering these types of schemes have ambitions to:

- Build on large sites
- De-risk the future through not having the Right to Buy
- Develop a vehicle which can be used and developed in new and different ways in the future
- 'Isolate' riskier activities around development, sales and shared ownership in a company one step removed from the council's mainstream GF
- Develop a vehicle which has a value which might in the future be realised through transfer or sale
- Develop housing despite the fact the council has transferred its housing stock.

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3.4 Development in a Joint Venture Company

The term JVC is used to describe a joint venture with partners (typically the private sector: developers, institutional investors, and potentially the HCA) in which the local authority has a stake, generally through the input of land.

If the stake is greater than 50%, the financing for the JVC would be 'public sector' and 'on balance sheet'.

If the stake is 49% or less, the financing would be 'off balance sheet', or could even be a mix of public/private funding.

This consideration is important in determining the treatment of any borrowing undertaken by the JVC. Put simply, if the borrowing is public sector, it would score against the LA's General Fund Prudential Borrowing framework.

There are as many different formats as there are actual vehicles – this is because the financing and precise structures are all very much rooted in the actual scheme locally.

We have set out below the main considerations in thinking through options and rationale for setting up such a venture.

JVC – key considerations

The nature and role of the partners is critical – including what they are 'bringing to the table'. For example:

- Local authority inputs land – may manage any affordable housing developed in the scheme but also through 'sale and leaseback' may actually receive the properties into ownership after a set period
- HCA – may have land to input as well as grant – the input of grant affects tenure and requirement around RP registration for the affordable properties in the company
- Developer inputs expertise and takes degree of profit from development and on-going sales, has contracts for on-going maintenance
- Institutional investor inputs equity/other funding and receives a return over the short, medium or long term – typically higher for private equity, lower for pension funds (see below)
- Bank – may provide funding alongside the equity investment – this might be borrowing or a bond issue.

Each partner could receive a return – it is essential that the LA is clear on what its returns would be: new housing, nominations, but also perhaps a share in any future profits, if for example the JVC was aimed at market housing.

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Though challenging, it is clear that institutions are interested in investing significant potential amounts and are looking for 'scaleable' schemes – the market tends to feel it is around finding 'the next big thing'. Our view is that there are a range of models involving short and long term equity investment and that these do vary considerably and are dependent on the requirements for housing locally.

There is no single model of rents and tenure, though many are looking at models which have a combination of different affordable rents, shared ownership, rent-to-buy, market renting and homes for sale. Some models include a requirement for sale of properties in order to generate additional returns (i.e. from capital growth). Affordable rented properties would however generally be on the 'assured' tenancy model from housing associations.

Land and site availability issues are also a consideration: principally the consent issues apply as above. Where privately financed, there is less of a consideration in terms of gaining Secretary of State consent as there would not be a future public expenditure implication (consent for land-transfer at less than market value to a privately financed JVC is no longer required in some cases).

Funding and borrowing

The main rationale for an authority investing land into a JVC is to bring in finance from the private sector/institutions. The market is evolving quickly but as yet there are only a few, limited, examples in place.

In general, the costs of finance are critical to the potential viability of the venture:

- The shorter time period, the higher the likely requirement for return (returns of above 10% are sought by investors over period up to 10 years)
- Conversely, the longer the period, the more likely steadier and lower returns might be acceptable (pension fund and insurance companies – typically 5-6% over 30+ years)
- The balance between equity and borrowing is also critical to understand total costs of funds.

Conversely, there is the potential for large scale investment. The recent Barking and Dagenham scheme sale and leaseback is for 477 rented properties at varying rental levels. The availability of funds for investment in UK residential property is extremely high as a means of securing relatively low, relatively steady returns for a proportion of the portfolios that investors have under management.

For an authority considering such a scheme, the need for clarity around objectives, and legal/financial advice from the outset would be important. However, practice is evolving and more options are being developed all the time.

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3.5 Other considerations

Consideration needs to be given to the powers being utilised to develop new housing. These might be different depending on the different models/vehicles and different tenures.

For HRA development, the powers are under Part 2 of the 1985 Housing Act. For other developments, there may be an opportunity to rely on the new General Power of Competence (from the Localism Act).

Legal advice might be commissioned to ensure that the activities the council is proposing to do rely on an appropriate power.

3.6 Summary

This section has set out the main factors at play in developing or acquiring new homes in the HRA or a SPV in the General Fund together with a précis of some of the considerations of establishing a privately-financed JVC.

In overall terms, our advice to authorities is that these models are by no means mutually exclusive (save for the fact that the same land cannot be used twice) and for many, moving forward with a number of models may well suit local circumstances in order to:

- Maximise the use of HRA surpluses and headroom
- Consider options for larger contributions to new homes via LA sponsored companies.

4 A plan for South Derbyshire

4.1 A proposed approach

As discussed in the previous section, there are a number of options available to South Derbyshire to progress new affordable housing. While there is a significant amount of financial resource available, it is not limitless so a strategy needs to be devised that maximises the impact it can have. If we also consider that there is limited land availability within both the HRA and the council generally, we also need to look at how the council can input into providing new affordable housing after those limited resources have been expended.

In proposing a potential strategy, we are looking to achieve the best balance of the following objectives:

- Increase the amount of new affordable housing in the short, medium and long term
- Contribute to the regeneration of the district and the resolution of 'problem' sites

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- Assist in unlocking larger development sites through acquisition of affordable housing, acting as a catalyst to bring them forward for development

There is also a timing element to be considered as both opportunity (particularly to acquire) and finance becomes available at different times. We are therefore proposing a phased approach to new affordable housing using the available resources to meet different objectives over different timescales. Table 1 sets out the how the different phases could run.

Table 1: A phased approach to new development

Activity	Phase 1 (2013/14 – 2014/15)	Phase 2 (2015/16 – 2017/18)	Phase 3 (2018/19 onwards)
Build within the HRA on HRA land (include garage sites)	Yes	Yes	
Repurchase of previous RTB properties	Yes	Yes	Yes
Build within the HRA on GF land	Yes	Yes	
Build within HRA on purchased land	Yes	Yes	Yes
Acquisition of S106 properties on private sites	Yes	Yes	Yes
Regeneration of HRA sites		Yes	Yes
Develop outside the HRA in SPV		Consideration	Yes
JV with other partners			Consideration

Phase 1

The availability of good, developable land within the HRA and General Fund is limited. So while this is the most straightforward method of adding additional units, there is limited land capacity to do so. There are a number of available sites, including garage sites and these should feature early in the proposed programme. In addition, there is also the opportunity to address some ‘regeneration targets’ in this phase through the purchase of smaller private sites that would otherwise not be developed.

At the same time, phase one can also be used to repurchase previously sold RTB properties. While this does not add to the overall stock in the district, these

properties are within areas of other social housing and are cheaper to purchase (in most cases) than to build new. There may also be the opportunity to purchase s106 properties direct from developers where other Registered Providers are unable to take the units and hence the development is stalled. All of the elements in phase 1 should be pursued together but within an overall financial envelope.

This phase of the programme is very much about building knowledge and skills to deliver new housing while not over committing. The balance of activity between new build and acquisition will be decided by a number of factors including the planning opportunities. The financial impact of undertaking this work has been modelled in section 4.2.

Phase 2

Within phase 2, it is anticipated that the number of sites available in both the HRA and the GF will have diminished although there may be some remaining. The amount of headroom will have also diminished during phase 1 and into this phase. There may be some opportunities to redevelop existing stock on a knockdown and rebuild basis particularly where there are issues around long term sustainability of stock.

The Council may want to start to look for alternative vehicles to deliver new affordable housing at this point. The programme will still consist of some RTB buy backs and potential S106 acquisitions with a possible SPV to ensure finance is available (to facilitate mixed tenure schemes and GF borrowing) for any larger schemes. This will take the programme to 2018/19.

Phase 3

By phase 3, the majority (if not all) of the HRA and GF land will have been used and in order to progress any new build council housing, there will need to be a different approach. This could either be through a partnership arrangement in a joint venture or through a council owned SPV. The acquisition of land will be a key element within this. Joint venture vehicles are bespoke in nature and the commentary in section 3 sets out the current thinking in this area. Post 2018, the business plan also starts to generate resources to start to repay debt. It is at this point that decisions will be made regarding either the repayment or refinancing of this borrowing in light of those investment opportunities.

Development services

Within each of the phases and the options set out above, we do not see the council having a direct role in providing the development expertise. There are two main reasons for this. Firstly, the size of the programme does not warrant the investment in the resources required. Secondly, and perhaps more importantly, there are a number of development partners in the market place that can offer a full development service. The downturn in the market has left a considerable

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amount of spare capacity in the sector allowing services to be bought at competitive rates. The modelling below assumes this within the costs.

4.2 Financial implications of Phase one

Phase one consists of adding to the council stock in the following ways:

- New build on HRA land
- New build on GF/Purchased land
- Repurchase of previous RTB properties
- Acquisition of S106 properties on private developments

A financial model has been produced that shows the potential impact of such a programme on the HRA business plan. In order to develop a plan a set of assumptions around a generic HRA development have been made. These core economic assumptions around scheme development are provided for illustrative purposes and set out in the table 2 below. The total build costs are intended to ensure that additional overheads and site specific costs are covered as we would normally expect actual building costs to be considerably lower.

Table 2: generic non-scheme specific assumptions for HRA development

	%age of type within HRA	All-in development cost	Starting social rent	Voids/ bad debts	Mgmt costs	Repairs 1-5	Repairs 6-30	Deprecia tion
		£/unit	£/wk		£/unit pa	£/unit pa	£/unit pa	£/unit pa
1 Bed Flat	30%	115,000	75.00	1.39%	100	400	750	1,000
2 Bed House/Flat	30%	125,000	85.00	1.39%	100	400	750	1,000
3 Bed House	10%	135,000	95.00	1.39%	100	400	750	1,000
4 Bed House	30%	145,000	105.00	1.39%	100	400	750	1,000

The property mix reflects input of intelligence around the potential shortages of homes within the affordable stock, i.e. smaller flats and larger family homes.

In modelling HRA development, no grant income is assumed and investment is financed within the plan as a whole taking into account Right to Buy receipts.

For repurchase of previously held RTB properties, an average price of £65,000 has been used within the modelling. The cost of purchasing s106 properties on private development has been modelled at an average of £80,000. The phase 1 programme is set out in table 3.

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Table 3: Phase one development programme (2013/14 prices)

Phase 1 (2013/14 – 2014/15)	Investment (£000's)	Number of new HRA properties
Build within the HRA on HRA land (include garage sites)	2,580	20
Repurchase of previous RTB properties	1,300	20
Build within the HRA on GF land	1,490	10
Build within HRA on purchased land		
Acquisition of S106 properties on private sites	Dependent on opportunities. This could replace activity on new build on acquired land above.	
Total	**5,370**	**50**

The option to acquire s106 properties has been included but this will depend on opportunities that arise. There do appear to be some such options but if they do not materialise, the new build on acquired land should proceed. Similarly, the balance between building on HRA land and GF/purchased land will need to be flexed on the basis of the individual sites coming forward.

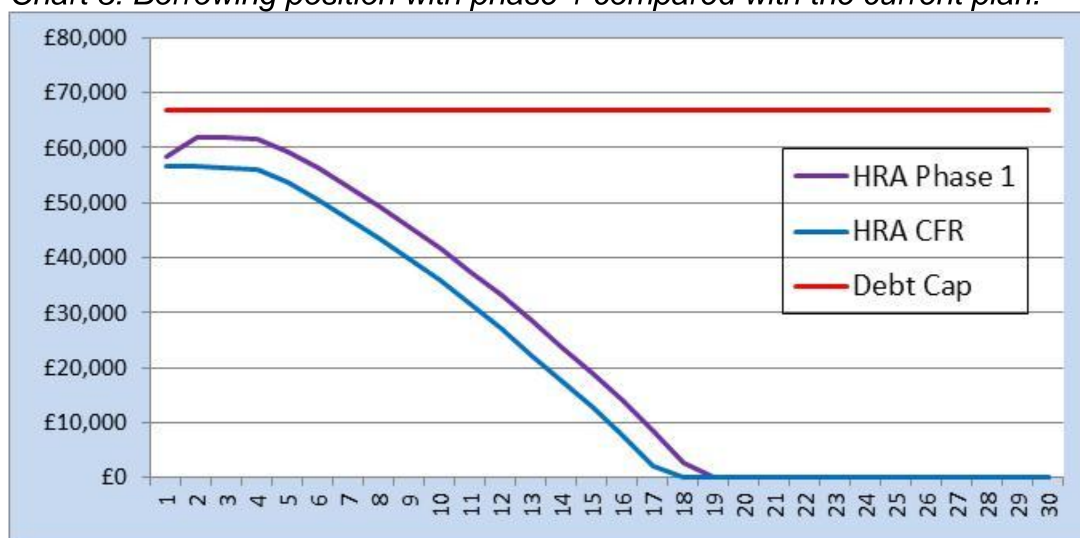
Based on the above, we estimate that proceeding with the above programme would constitute an investment of £5.4m (at today's prices) for 50 new homes. In terms of the impact on the business plan, this could be financed by a mixture of resources as shown in table 4.

Table 4: Financing of phase 1 (2013/14 prices)

Phase 1 (2013/14 – 2014/15)	Amount £000's
RTB receipts (Including 1-1 replacement)	1,012
Revenue balances	1,434
Borrowing	2,924
Total	**5,370**

Under this phase, borrowing would peak at £62.0million leaving £4.8 of remaining headroom. This is shown in chart 3. RTB receipts of £740k have been received in 2012/13 and are available to finance capital expenditure. The remaining £272k is assumed to arise in future years.

Chart 3: Borrowing position with phase 1 compared with the current plan.



4.3 Financial implications of Phase two

The proposed phase two programme builds on phase one. However, we have assumed there will be little HRA land remaining with the majority of the programme switching to development on private sites with regeneration potential. There may also be the opportunity to redevelop HRA sites to remove housing with a high medium term investment cost. However, in reviewing the current stock profile, there appear to be only limited opportunities of this kind.

The potential phase two programme is set out in table 5.

Table 5: Phase 2 development programme (at 2013/14 prices)

Phase 2 (2015/16 – 2017/18)	Investment (£000’s)	Number of new HRA properties
Build within the HRA on HRA land (include garage sites)	1,290	10
Repurchase of previous RTB properties	975	15
Build within the HRA on GF land	2,980	20
Build within HRA on purchased land		
Acquisition of S106 properties on private sites	Dependent on opportunities. This could replace activity on new build on acquired land above.	
Total	**5,245**	**45**

At this stage, there would be very little financial capacity under the borrowing cap. Borrowing peaks at £65.2m leaving headroom of £1.6m. This is shown in chart 4.

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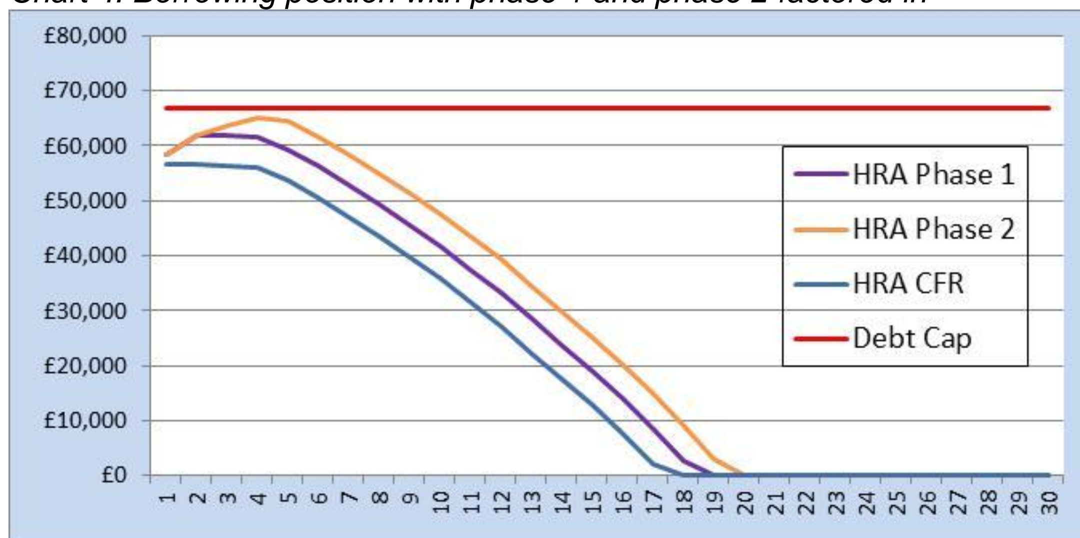
Chart 4: Borrowing position with phase 1 and phase 2 factored in



In order to continue to develop at this point, an alternative investment vehicle would need to be found. It would be possible to continue to develop using a council owned SPV or in partnership through a joint venture.

5 Conclusions & Recommendations

It is clear that there is investment capacity within the HRA and that the Council has the opportunity to put together a programme to invest these resources for the benefit of the South Derbyshire's housing offer.
While there are resources, these are limited in terms of both finance constrained by the debt cap and the very limited supply of HRA land.

In order to make best use of the available resource, a phased programme should be adopted, with Phase 1 being developed and agreed in the first instance. This will allow the authority to build the confidence to progress into other delivery vehicles as resources and opportunities allow.

All of the sites identified require some upfront development work in order to get them to a position to build out but we think progress can be made quite quickly with some sites for Inclusion within a Phase 1 programme.

In order to manage the programme, delegated authority should be given to the Head of Housing and Environmental services in conjunction with the Chair of the Housing Committee to use the resources outlined in phase one. A designated development reserve should be set aside within the business plan, made up of revenue reserves and permissions to borrow, for this purpose. A six monthly report should then be made to the housing committee outlining progress in meeting the programme along with any proposed diversions from the plan.

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Our recommendation would be for the development initiative to be reviewed and refreshed at the end of phase one so the forward opportunities and delivery options can be re-evaluated at that time.

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Area	Assumption
Property numbers	Model assumes 2013/14 opening property numbers of 3,031 based on 18 RTBs in 2012/13
RTB levels	Following 18 sales in 2012/13 assumed RTBs of 9 the following year and 8 for subsequent years.
Void levels	0.85% all years of the plan
Rent levels	Average rent of £74.48 in 2013/14 converging to formula rent by 2016/17.
Provision for bad debts	Included as a % of rent 0.36% in 13/14 and 0.54% thereafter. This equals £42k in 13/14, 66k in 14/15 thereafter rising with rent inflation.
Depreciation charge	£2,851k included in the budget for 13/14 and the next 10 years. Charge rises in line with general inflation.
Capital programme	First 5 years agreed to capital budget report. After that agreed to stock condition survey.
Interest charges	Based on the debt taken out for the settlement value plus a small amount of debt attributable to the HRA at the start of self-financing.
Cost Inflation	Included at 2.5% per annum for the duration of the plan.
Rent Inflation	2.25% following convergence

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