

**DISCUSSION PAPER - APPENDIX 2 to Agenda Item 15**

**Housing Revenue Account Plan Update**

**Policy Finance and Development Committee – 28 October 2014**

**Options for Social Housing New Development**

**1. Background**

1.1 The Self-financing reforms in April 2012, allowed all councils to keep rental income in exchange for taking on a national debt of £29 billion.

1.2 Against the set Government calculations, depending on regional and stock variances, the Government worked out that Oadby & Wigston's housing stock would be able to support £21.8m of the above mentioned national debt- known as the value of stock based on future rents and future costs.

1.3 For historical reasons this Council actually started the new system at a lower debt of £18.1m when the HRA self financing arrangements came in to force as the Council already had an assumed amount of Subsidy Capital Financing Requirement (SCFR) debt of £3.7m. This meant, in return for a one- off payment to the government of £18.1m, this Council is able to keep all of the rents locally and spend more on our homes and services.

1.4 This one off payment was made through a loan arrangement by the Public Works Loan Board (PWLb) and is a debt or often seen as a mortgage to this Council.

1.5 In terms of the debt strategy, this Council resolved that no repayments are made for the first 10 years of the Plan, to allow for sufficient funds for the stock investment in years 1 (2012) to year 5 (2017), along with funds being built up for potential use on new build housing between years 5 (2017) and 10 (2020).The strategy is then that repayments begin from year 10, leading to the debt being paid off by year 25 (2037)

**2. Information**

2.1 To date the Council is on course with the stock re-investment strategy and the Capital spend in the "whole house" approach has meant that the plan is on course and viable and meets with the debt strategy agreed at the time.

2.2 The housing markets within the Borough are robust in that there is a good mix of private, social and affordable housing provision, particularly given the limited land supply and relatively high property prices in certain parts of the Borough for owner occupation.

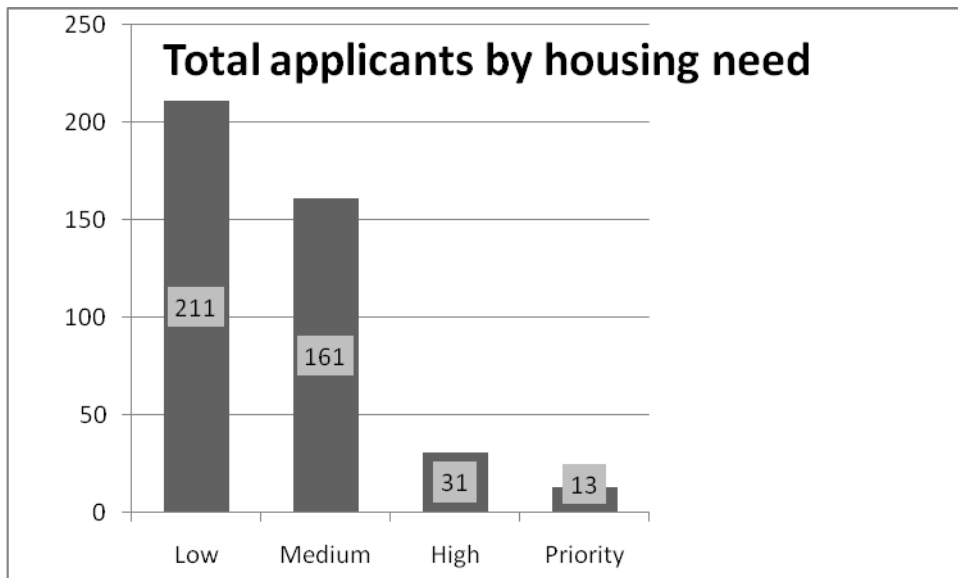
### 3. Social Housing Needs

3.1 To understand the social housing needs within the Borough the current Choice Based Lettings housing registered data has been drawn down which shows the varying needs of the households registered with the council.

3.2 The following charts and tables illustrate what the current trends and demand is for social/council housing. In addition, further tables set out the demand and need for types of property with specific references to 1 and 2 bedrooms which are showing as the most needed type of accommodation.

#### **Chart 1**

The below chart and table shows the total number of applicants by housing need. Members will know that housing need is assessed on the current allocation policy based on the 4 bandings. With the low band indicating no housing need and priority banding indicating an immediate housing need.



The below table illustrates the above in numbers.

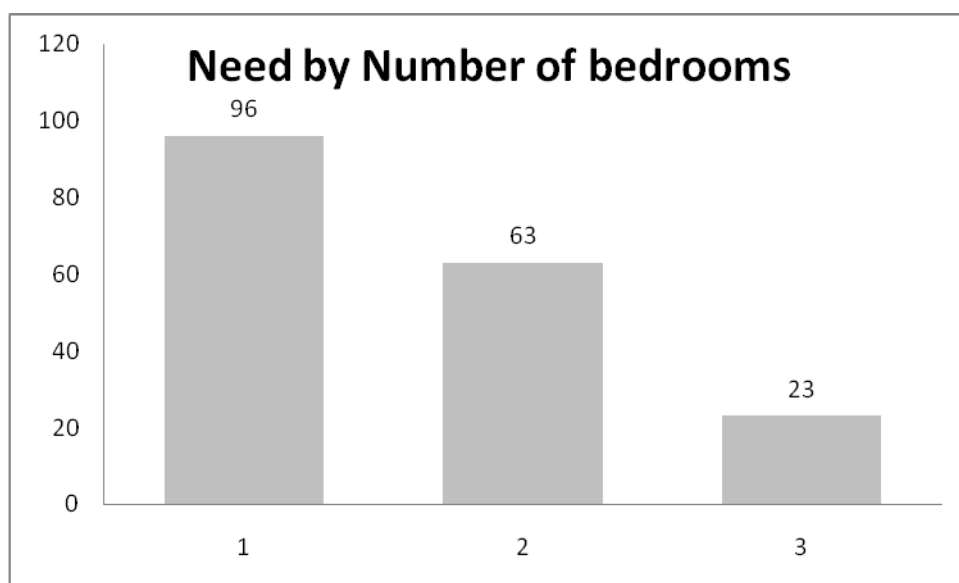
Overall bands	
Priority need assessed at	Numbers in each banding
Low	211
Medium	161
High	31
Priority	13
Total Numbers on Housing Register	416

Commentary: There are currently 416 registered applicants on the current housing register shows that just over 50% (211 out of 416) of the applicants on the Housing

Register have no housing need as defined by the current eligibility criteria set out in this Council’s allocation policy.

## Chart 2

The below chart shows that of those with a **housing need** ie that is those in the medium, high and priority band) of working age people (18 to 60 year olds) the greatest demand is for 1 bedroom type of accommodation followed by 2 bedrooms.



Commentary: Of 182 working age people on the current housing register 96 applicants are waiting for 1 bedroom accommodation. This equates to 52% for 1 bedroom, 35% for 2 bedrooms, and 13% for 3 bedrooms.

To further illustrate the minimum need for accommodation Table A (1 bedroom) and Table B (2 bedrooms) sets out the breakdown of demand by priority need across all bands, so in addition to the chart above includes those in the low band (no housing need on the eligibility criteria) and those in the 61+ age range applicants’

Table A- 1 Bedroom need in all priority bands

1 bedroom minimum need					
	Age	Age	Age	Age	Total
Band	18-34	35-50	51-60	61+	
Low	11	26	22	32	91
Medium	43	22	17	11	93
High	0	7	5	8	20
Priority	1	1	0	1	3
<b>Total</b>	<b>55</b>	<b>56</b>	<b>44</b>	<b>52</b>	<b>207</b>

Commentary:

- 1 priority need applicant in the age group 18-34 is waiting for 1 bedroom accommodation out of a total of 55 applicants
- 1 priority need applicant in the age group 61+ for 1 bedroom accommodation out of a total of 52 applicants
- The 35 to 50 age group are the highest in need for 1 bedroom accommodation within in all bands
- The age group 61+ are the highest number of applicants with low banding on the register and this group tend to express a desire to live in a bungalow

Table B- 2 Bed room need in all priority bands

2 bedroom minimum need					
	Age	Age	Age	Age	Total
Band	18-34	35-50	51-60	61+	
Low	43	31	9	4	87
Medium	35	9	3	3	50
High	1	3	4	0	8
Priority	5	2	1	0	8
Total	84	45	17	7	153

Commentary:

- 1 priority need applicant in the age group 51 to 60 waiting for 2 bedroom accommodation out of total of 17
- 5 applicants in the age group 18 to 34 out of a total of 84 applicants in that age group.
- 35 applicants are registered in the medium band in the 18 to 34 age group compared to a higher number of applicants (43) in low need in the same group.
- 87 applicants in total are in low need
- 0 applicants in either high or priority need in the age group 61+.

3.3 Within the Council stock there are no concerns of being able to let any type of property in terms of areas particularly since the stock investment work has commenced. Some sheltered housing is slightly less popular (bed-sits) and such properties are likely to need investment in the future, in order to ensure that property type reflects the demands of the people on the waiting list.

3.4 This Council has around 320 properties designated as supported housing for older and for people with disabilities. The funding for providing support by Leicestershire County Council through Supporting People, to the residents is coming to end in September 2015. This could potentially have an impact in terms of the Council no longer being required to provide support services. This would mean that the costs for any additional support services provided by the Council would have to be borne by individual residents who may not be eligible for benefits relating to support and therefore this type of accommodation provision could become unaffordable for the individuals.

3.5 The Strategic Housing Market Needs Assessment (SHMA) has to be taken in to consideration when Council's are considering provision of both affordable and social housing.

3.6 The objectively assessed need for this Borough is between 80 and 100 dwellings per annum to 2031 and 75-95 dwellings per annum to 2036.

#### Options for the Council for the provision of new build social/council housing

#### 4. Finance Available

4.1 The guidance from Department of Communities and Local Government (DCLG) says there are two ways a Council can spend the receipts on the provision of affordable housing.

1. Use the money itself as a direct provider whereby the Council finds 70% of the cost of provision eg the Council building new properties to rent
2. Transfer the receipts to another provider, with that provider putting the remaining 70% funding into the provision eg working with partners such as Registered Providers/Housing Associations

4.2 In July 2013 the DCLG wrote to all Local Authorities to advise that Right To Buy (RTB) receipts cannot be used at any development where any Homes and Communities Agency (HCA) funding is used. This meant that plans to use the RTB funding at the Bennett Way development could not proceed. This meant that the Council has to find other opportunities to increase affordable housing through use of RTB receipts.

4.3 With the reinvigoration of the RTB policy this Council like others, has seen sales from its current housing stock in 2012/13 and 2013/14 exceed those witnessed in the 3 years prior to 1 April 2012 (and those assumed within the self-financing settlement).

4.4 Currently, the Council after all eligible deductions forecast the estimated net receipts from sales by 31 March 2015 to be £107,000. Under the current regulations (often referred to as 1-4-1) RTB receipts cannot constitute more that 30%

of the total cost of affordable housing. Which is why points 1 and 2 above sets out that either the Council or another provider would have to find the remaining 70%.

4.5 This would mean that if the Council were to use the estimated net RTB receipts of approximately £107,000 (as a maximum 30% contribution) a further £250,000 (70%) must be found from elsewhere, making a total spend required of £358,000 to deliver affordable housing. The spend would have to be between September 2016 and March 2018 on the basis of the date that the Council first received RTB receipts under the new regime as RTB receipts need to be spent within 3 years of the receipts arising. If receipts are not spent within 3 years they have to be paid back to the government with interest.

4.6 The Council could spend all the money on new council homes. However, due to Government borrowing restrictions, the Council would also need to make significant reductions in the HRA Capital Programme with a consequent deterioration in the standard of the existing housing stock and already planned programme.

4.7 Members will know from past discussions that the Council built homes for rent exposes the investment to the government policy on RTB whereby a Council tenant can apply to exercise their RTB providing they can prove they have lived in any social or council home in England for more than 5 years. This residency does not have to be continuous and that a maximum discount of £77,000 could apply depending on residency times.

4.8 It is worth noting that new build properties whilst would be subject to RTB the full discount is unlikely to be applied immediately as the cost floor (cost of building) would need to be taken in to account in the valuation of the property.

4.9 In recent sales in our Borough a 3 bedroom property in South Wigston valued at £110,000 the buyer was entitled to £49,500 discount with a net sale of £60,500

4.10 The highest discount applied in recent sales has been at £57,400 and the net sale of the property in that case was £24,000 as the property was valued at £82,000

4.11 The Council could decide not to spend the RTB receipts, but as advised this would result in having to pay the money to the DCLG with an interest of 4% above base rate (calculated from the date of receipt)

## The Options

### 5. Direct Build by the Council

5.1 Whilst the Council could consider if it wished to do so, running its own build programme to utilise the RTB receipts, it is generally recognised by local authorities that there is not the in-house skills and experience to manage a build programme having not built homes in the last 30 years. A further frustration for a Borough this size and its needs for social housing would expose the council to unknown risks in building costs due to the low numbers.

5.2 Despite the government plan to allow councils to borrow £300m above their housing revenue account debt limits this is not attractive due to the rigid conditions attached.

5.3 The government's reinvigorated policy on Right to Buy, offering up to £77,000 discounts for sale and allowing 30% of capital receipts from sales on replacement properties means that homes cannot be replaced as fast as they are being sold.

5.4 The other 70% has to be found from elsewhere with the government having imposed a cap of £300m above their housing revenue account debt limits.

5.5 Due to rigid conditions attached councils are reluctant to borrow to build and if receipts are not spent they have to be returned with interest as advised above.

5.6 Data obtained through FOI from 118 local authorities reveals:

- 1 in 4 Councils has no plans to use any borrowing power
- 6 out of 10 have plans to borrow just half of their borrowing potential
- Some £1.4bn of the £2.9bn loan capacity remains unallocated

Another option of how to deliver new build is by setting up a Council owned company as set out below:-

## 6. Setting up of a Council owned company

6.1 The self financing regime has opened up a number of options for Local Authorities to become a provider of housing rather than the enabler. The role of the Council as an enabler continues to remain under the same pressure as the government wish to see Local authorities ensuring there is sufficient delivery of affordable housing within the Borough.

6.2 The Localism Act introduced a new "Power of Competence" which allows councils to act innovatively, including setting up housing companies.

6.3 Several authorities, particularly the large London Boroughs, were judged to be in credit by the settlement and some of these have announced plans to use the new freedom to build homes and plan to subsidise properties from the Homes and Communities Agency (HCA) through a housing association company set up by the councils and through prudential borrowing.

6.4 Setting up a company means the Council can set the tenure and rent, build homes which are free from Right to Buy and crucially, borrow money to finance the schemes without borrowing.

6.5 Some council's have set up the companies from their own reserves or borrow from the PWLB.

6.6 Many councils have however steered away from this idea, stating that it would require “significant legal and financial due diligence to ensure that it would not fall foul of treasury rules or be open to challenge”.

6.7 Other councils are holding back until there is further clarity with the potential risk that the government could direct local authorities to account for the income and expenditure within these separately owned vehicles within the HRA.

6.8 For councils looking to build large scale (2,000 – 3,000 homes) the setting up of special vehicles is attractive.

## 7. Purchasing on the open market

7.1 This Council has already considered purchasing property on the open market for a specific purpose through the Regulatory and Reform Order 2002 having given powers to local authorities to acquire properties for an identified need within the Borough. This does give the Council an opportunity to use its Capital receipts by way of purchasing from the open market and also consider a possibility of buying back any ex-Council property that comes up for sale

7.2 The Council does not currently have a Policy in buying back ex-Council homes which come up on the open Market and it may be worth considering this option to enable the Council to both add stock back and offer a consistent housing management of the tenants.

7.3 Under this option if the property is bought to fulfil a specific need and was deemed to be supported type housing with adaptations it would then not be subject to RTB.

## 8. Partnering with Registered Providers (RP/Housing Association)

8.1 There is an option of spending some of the receipts to provide grant funding to a RP partner to help provide new affordable housing in the Borough.

8.2 The benefit is that for every £3 provided by the Council, the RP would contribute a further £7, from their own financial resources, as they too would also not be able to use any HCA funding if they received RTB funding for a particular scheme.

8.3 With this in mind the Council may want to consider that an RP's who participate in the choice based lettings scheme are invited to bid for a grant to provide affordable housing.

8.4 The Council currently does not have any such partnerships and may want to consider this in conjunction with the Oadby and Wigston Affordable Housing Partnership.



8.5 If this option is to be considered officers can bring back proposals on how and what criteria grant bids can be made and how they will be assessed based on value for money and costs per units.

8.6 In principle this would work on the basis that Council could provide a grant up to a maximum of 30% of the total cost. In this way the RP would be responsible for the remaining 70% funding required.

8.7 The grant criteria would stipulate that the Council will have determined the design of any scheme which would be based on sustainability of both the scheme and tenancies, as well as minimising any impact on the neighbouring community.

8.8 Currently, a high proportion of people on the housing waiting list are looking for 1 and 2 bed accommodation and this demand is increasing due to those looking to downsize in response to the spare room subsidy within the welfare reforms.

8.9 There is a significant need for small homes for single person households who may benefit from intensive housing management in place and where care and floating support could be provided as needed by individuals.

8.10 In addition, schemes that include converting offices to residential use or the purchase of off the shelf properties for conversions to flats or bringing empty properties in the Borough back in to use will be favoured, as this helps to signal the

8.11 Council's desire to see creative options for existing properties, providing such schemes can provide value for money and can be delivered in time.

8.12 Existing properties can however be very complicated, time consuming and costly to convert or bring back in to use, so may not offer the best value for money to the Council. For this reason, new build options should also be actively considered under such partnerships.

8.13 This approach has the benefit of signalling the Council's desires around existing properties, but keeps the use of the grant open for RP's to submit solutions that offer the best value for money, the greatest number of units and certainty of delivery.

8.14 The Council already has made a grant available to a local Registered Partner who are not only working in a regeneration area by bringing back into use a long standing property but will also deliver much needed 1 and 2 bedroom accommodation.

## 9. Local Scene

9.1 Neighbouring authorities are working with and seeking support from HCA and other Registered Partners to deliver affordable housing in their Districts and various options are being considered.

9.2 Councils recognise that having not built any homes for the last 30 years there is a lack of skills in development and are working closely to see if development partnerships can be a feasible way forward to share the enormous development costs involved in provision of new build properties.

9.3 The majority of local authorities have opted to work with their Registered Partners to deliver affordable homes by providing land transfers or considering selling of Council owned land to private developers to work with Registered Partners (Housing Associations) to deliver homes.

9.4 Some authorities have transferred garage sites to their partners to develop affordable housing.

9.5 HCA will be presenting to the Place Shaping working Group at 6.00pm on Tuesday 28 October 2014 in the Council Chamber, options for this Council and establishing whether there is a potential to work with developers who have received HCA grant at the Bennett Way (Kirkdale Road) development.

## 10. Summary

- The new self financing reforms are working well to the benefit of the Borough and our plans and finances are sustainable and on track particularly with the success of the investment in the "whole house" approach.
- Of those on the housing register 211 ( just over 50%) are in the "low" band so do not meet the social housing needs criteria. There are 44 (just over 10%) who are in the "high" and "priority" bands.
- The type of property most in demand is 1 bedroom (56% of people from table A) and 2 beds (32% from the Table B)
- That for the Borough there is a need for 80-100 new houses per year until 2031
- That the Council can build houses, however there are significant risks associated with that approach and careful consideration needs to be given
- With the national reinvigoration of Right To Buy (RTB) with increased discounts there is a significant risk that any new builds will be very attractive for future RTBs and will therefore not provide a good return on investment or increase the Council's housing stock in a sustainable way
- That there is specific funding available from the RTB receipts to provide 30% of the total costs of providing affordable housing that needs to be spent and that can be topped up by the Council from its business plan for any identified suitable schemes
- That the Council has the ability to increase its housing stock by purchasing existing properties. It could have a policy to buy cheaper houses that need

renovation or former Council houses that have previously been sold or look at ways of bringing empty properties back in to use by offering grants

- That the Council can continue to increase the amount of affordable housing in the Borough by working with partners

## 11. Conclusion

11.1 Members are asked to consider the options set out in this discussion paper and give guidance to officers on the direction the Council should take to develop a policy and identify the resources required.

**APM**  
**October 2014**