



Cabinet Report

Report of: Executive Directors (Place and Communities)

Report to: Cabinet

Date: 19 February 2014

Subject: Delivering More Council Housing

Author of Report: Christine Rose (27 34373)

Summary:

In February 2013, Council approved the update to the Housing Revenue Account (HRA) Business Plan 2012-17, which included a commitment to a new build programme of 75 new council homes. In June 2013, Cabinet approved the delivery of 30 of these new homes through purchase from Sheffield Housing Company, which is now going ahead, and stated that the delivery of the remaining 45 homes would be addressed in a further report.

This report sets out the strategic case for building and acquiring additional affordable homes, beyond the initial 75, and seeks authority to undertake the required planning and consultation work to do so. This follows the approval by Council on 5 February 2014 of the HRA Update for 2014/15, which outlined the potential within the Business Plan to deliver approximately 600 Council homes through a mixed programme of acquisitions and new build over the next six years.

Reasons for Recommendations:

Sheffield's Strategic Housing Market Assessment estimates that an additional 725 affordable homes would be required each year for the next five years to meet projected need in the City.

Delivering the proposed programme of additional Council housing would

maintain the authority's housing stock at a sustainable level in the light of continuing loss of stock through Right to Buy.

Delivering a significant element of new build Council housing within the programme would contribute towards overall housing and economic growth in the city whilst increasing the choice of housing locally.

Acquiring additional stock would have wider strategic benefits including bringing empty properties into use and increasing choice within the housing stock.

Recommendations:

- R1 That Cabinet approves the development of a mixed programme of acquisitions and new build to renew the Council's housing stock.
- R2 That the Director of Regeneration and Development Services in consultation with the Director of Commissioning and the Interim Director of Council Housing Services be authorised to identify properties for acquisition for council housing and prepare the necessary capital approval submission in line with Council's approval process.
- R3 That the Director of Capital and Major Projects in consultation with the Director of Regeneration and Development Services be authorised to negotiate and agree terms for the acquisition of the properties identified and the Director of Capital and Major Projects be authorised to instruct the Director of Legal Services to complete the necessary legal documentation.
- R4 That the Director of Regeneration and Development Services in consultation with the Director of Commissioning, the Interim Director of Housing Services and the Director of Capital and Major Projects be authorised to identify sites for new build Council Housing, specify the type and size of homes required and prepare the necessary property disposal and capital approval submission in line with Council's approval process.
- R5 That the Director of Commissioning in consultation with the Director of Finance be authorised to set such charges for the tenancy of each dwelling acquired or built under this programme as he deems reasonable.

Background Papers:

Category of Report: OPEN

Statutory and Council Policy Checklist

Financial Implications
YES Cleared by: Paul Schofield
Legal Implications
YES Cleared by: Andrea Simpson
Equality of Opportunity Implications
NO Cleared by: Ian Oldershaw
Tackling Health Inequalities Implications
NO
Human rights Implications
NO
Environmental and Sustainability implications
NO
Economic impact
NO
Community safety implications
NO
Human resources implications
YES
Property implications
YES
Area(s) affected
ALL
Relevant Cabinet Portfolio Leader
Cllr Harry Harpham
Relevant Scrutiny Committee if decision called in
Safer and Stronger Communities
Is the item a matter which is reserved for approval by the City Council?
NO
Press release
YES

Report to Cabinet

DELIVERING MORE COUNCIL HOUSING

1.0 SUMMARY

- 1.1 In February 2013, Council approved the update to the Housing Revenue Account (HRA) Business Plan 2012-17, which included a commitment to a new build programme of 75 new council homes. In June 2013, Cabinet approved the delivery of 30 of these new homes through purchase from Sheffield Housing Company, which is now going ahead, and stated that the delivery of the remaining 45 homes would be addressed in a further report.
- 1.2 This report sets out the strategic case for building and acquiring additional affordable homes, beyond the initial 75, and seeks authority to undertake the required planning and consultation work to do so. This follows the approval by Council on 5 February 2014 of the HRA Business Plan Update for 2014/15, which outlined the potential within the Business Plan to deliver approximately 600 Council homes through a mixed programme of acquisitions and new build over the next six years.

2.0 WHAT DOES THIS MEAN FOR SHEFFIELD PEOPLE

- 2.1 The Council's Corporate Plan, "Standing Up for Sheffield", identifies the strategic outcome of making Sheffield a Great Place to Live. Within that, the Council aims to create Desirable Homes and Neighbourhoods, including a well-managed supply of affordable, decent homes.
- 2.2 Sheffield's Strategic Housing Market Assessment estimates that an additional 725 affordable homes would be required each year for the next five years to meet projected need. Alongside the ongoing development programmes of local housing association partners, additional Council homes would contribute towards addressing the continuing shortfall of affordable accommodation.
- 2.3 Another strategic outcome of the Corporate Plan is Better Health and Wellbeing, and there are opportunities to address needs in this area through the proposed programme of new build and acquisitions. For example, there are opportunities to accommodate people with learning disabilities, some of whom are currently housed outside the city at considerable expense and in contravention of the recommendations of the Winterbourne View report.

3.0 OUTCOME AND SUSTAINABILITY

- 3.1 Over time, the Council's housing stock is being eroded by the sale of properties under Right to Buy. In order to sustain the self-financing HRA Business Plan and continue to meet affordable housing need in the city, it is necessary to replenish the Council's housing stock.

4.0 BALANCING ACQUISITIONS AND NEW BUILD

- 4.1 In order to deliver significant numbers of additional Council homes to offset the reductions through Right to Buy, the majority of additional homes would be acquisitions of existing properties. Many of these acquisitions would be former council homes on or near council estates where properties tend to be cheaper. However, in order to diversify the options for affordable homes, we also intend to build new council homes.
- 4.2 There are a number of benefits to building new Council homes:
- Increased numbers of homes in the City
 - Vacant sites regenerated
 - Increased economic activity
 - Different types of social housing
 - Better quality social housing
- 4.3 Therefore, new build would form a significant proportion of the additional stock, focussing on sites where new Council housing would have a regenerative impact and where the provision of different housing types would help meet identified local housing need.

5.0 BALANCING SOCIAL AND AFFORDABLE RENT

- 5.1 This programme would be funded by HRA resources with other funding brought in where possible. In order to make the borrowing affordable and the schemes viable, all new units must be self-financing over the long term. Most new units would be let at Affordable Rent, where consistent with government guidance. However in some circumstances (e.g. for cheaper acquisitions), a Social Rent could and would be charged.
- 5.2 Where Affordable Rent (80% of market rent) would be more than Local Housing Allowance for an equivalent property in the private sector, the rent would be capped at the LHA level (as suggested in the 2011-15 Affordable Homes Programme Framework that accompanied the introduction of the Affordable Rent tenure). This would ensure parity between social and private tenants.

6.0 DELIVERING ACQUISITIONS: CURRENT ACTIVITY

- 6.1 The Council's existing Purchase and Repair Scheme (funded by grant from the Homes and Communities Agency (HCA)) was approved by Cabinet on 10 April 2013. Cabinet approved £2,260,000 of prudential borrowing against the HRA. This is being used to purchase 31 long term empty homes and bring them back into use as Affordable Rent, in line with the terms of the funding agreement.
- 6.2 The scheme has primarily, but not exclusively, targeted family houses in areas where the Council already manages significant numbers of properties. When owners of long term empty properties express interest in

selling to the Council, officers from the Council Housing Service assess the likely demand for the property and how practical it would be to manage.

- 6.3 If the property is deemed suitable for the Council to own and manage, a financial assessment is undertaken to determine whether the purchase and repair costs represent a viable investment within the context of the HRA Business Plan. The scheme is based on average purchase and repair costs of £90k per unit and funded from a mix of borrowing (81%) and grant from the HCA (19%).
- 6.4 Since April 2013, the original financial modelling for the purchase and repair scheme has been continually refined to inform the prospective wider programme of acquisitions. Thus, the financial assumptions and the priority housetypes have changed slightly and will continue to do so over time.
- 6.5 For delivery purposes, the Purchase and Repair scheme would be absorbed into the wider acquisitions programme, hence purchases made under the scheme would become subject to the same criteria as those in the wider programme, excepting that they would still need to be long term empty properties meeting the HCA's standards. (N.B. The HCA no longer requires the properties acquired to have been empty for two years. This has reduced to six months, which is the accepted definition of 'long term empty').

7.0 DELIVERING ACQUISITIONS: FUTURE PROGRAMME

- 7.1 Acquisitions represent the most economical approach to replenishing the Council's stock, particularly where properties to be acquired are ex-Council stock on estates where they can be easily absorbed into housing management. However, there are various circumstances where acquiring properties can achieve wider strategic aims as well.
- 7.2 Assuming that the properties are suitable and the purchases are viable within the HRA Business Plan, acquiring properties could be of strategic benefit in the following circumstances:
- Bringing Long Term Empties back into use and accessing additional funding from the HCA.
 - Adding choice to areas with limited affordable housing
 - The provision of accommodation which is in short supply in the social sector, such as larger family houses
 - Adapted properties suitable for disabled people
 - Properties suitable for people with learning disabilities

This is not an exhaustive list of the potential strategic benefits of acquisitions, but it demonstrates how renewing the Council's housing stock would have wider impacts beyond the health of the business plan. Each potential acquisition would be assessed in terms of demand, financial viability and ease of management.

- 7.3 The acquisition process would be managed by the Housing and Neighbourhood Regeneration Team, which already manages acquisitions under the Purchase and Repair scheme. This report seeks authority for officers to proceed with acquisitions where they would be at self-financing over the 30 year planning horizon of the business plan. However, there will be occasions when the acquisition is not self-financing over 30 years, but is still appropriate because of other strategic benefits. In those circumstances the acquisition could still proceed following consultation with the Cabinet Member for Homes and Regeneration.
- 7.4 The introduction of Welfare Reform will have an effect on demand for social housing, particularly in relation to the size of properties needed. However, at this early stage, it is difficult to assess the effect. It is also difficult to predict what further changes and effects there may be in coming years. For these reasons, this report does not set out the types of properties that the Council would seek to acquire through the acquisitions programme, as this is likely to change as demand patterns change.
- 7.5 An acquisition strategy would be developed for each housing management area of the city, working with operational teams on the ground and in consultation with local housing forums. This would identify the gaps in the current provision, and assess the likely demand for various types of property. The strategies would be living documents, updated on a regular basis to reflect changes in local need and demand.

8.0 DELIVERING NEW BUILD

- 8.1 The capacity for delivering new build is determined largely by the availability of suitable Housing land for development, as well as the affordability levels over 30 years and the borrowing constraints of the HRA. Much of the supply of developable Housing land is now earmarked for the Sheffield Housing Company, but a number of potential sites have been identified, subject to further site investigations. These are, in the main, where the Council has previously demolished unsustainable stock. A recent review of garage sites has identified a number of other potential development opportunities although these require further discussion with planners.
- 8.2 When delivering new build, it will be important to consider how the schemes could add value to the existing stock. This might be by providing different house types in high demand local to the site. A similar process to the development of the acquisition strategies will inform the development of new build schemes, assessing current and likely future demand.
- 8.3 It will also be necessary to consider the alternative options for the sites. For example, if a site would be attractive to private developers, then it may be better to sell the site, invest the receipt, and concentrate Council development on land where the private sector is unlikely to deliver. Each site would be subject to an options appraisal as part of the capital

approval process.

- 8.4 The procurement strategy for new build would be developed as part of the capital approval process, once sites are firmly identified and property mixes are agreed.
- 8.5 For the first sites in the programme, it is planned to achieve starts on site in 2015 with completions in 2016. Sites identified through the garages review are likely to prove more complicated to develop and would follow in a later phase. The New Build programme as a whole would be managed by the Council's Housing and Neighbourhood Regeneration Team, which currently facilitates housing association development in the city. The individual construction projects would be managed by the Council's Capital Delivery Service.

9.0 FINANCIAL IMPLICATIONS

- 9.1 The financial implications for individual new build schemes and property acquisitions will vary considerably according to the costs and rents generated. This section examines a likely scenario with a funding gap, outlines the available sources of match funding to address that gap and sets out criteria that would need to be met in order for schemes or acquisitions to represent viable investments within the context of the HRA Business Plan.
- 9.2 The majority of the funding for building or acquiring Council homes would come from the HRA. The annual HRA Business Plan Update for 2014/15 forecasted some capacity in the coming years for invest-to-save schemes such as self-financing (viable) schemes for new/additional housing. When this capacity is considered alongside the £40m borrowing capacity within the HRA a sizeable investment fund becomes available for such stock increase schemes.
- 9.3 In order to deliver a viable stock increase programme, match funding is required to supplement HRA resources. Currently, approximately £19m of match funding is projected to be available over the proposed six year programme – this is purely an estimate at this stage and any of the potential funding streams could produce significantly more or less funding than currently forecast. This is broken down and set out in more detail below. The majority is ring-fenced Right to Buy receipts forecast to become available to the HRA over the next 6 years. This can be matched with the HRA 'investment fund' to deliver a stock increase programme of around 600 new homes and this was factored into the business plan.
- 9.4 The current forecast indicates that there is likely to be borrowing headroom for additional development. The emphasis of the plan in the coming months and years will be to source other funding which unlocks this borrowing capacity so that even more homes can be delivered, in addition to the 600 already factored in.

- 9.5 Any additional properties built or acquired would be subject to the Right to Buy (RTB). The Council is protected for 15 years by the cost floor rule, which prevents the sale of Council homes for less than they cost to build or acquire, but after 15 years the properties would be subject to the full discount available to the tenant. However, the risk of financial loss to the council through RTB can be mitigated through the initial viability assessment, which can take account of this risk (by assessing the likelihood of RTB sale and average level of debt at the point of sale). Losses through RTB are built into the financial assumptions ensuring risk is factored into and balanced across the programme. Officers will continue to explore ways in which the risk of Right to Buy can be mitigated.
- 9.6 The starting point for assessing viability for acquisition or new build is the money that can be borrowed against future rental income, assuming a 30 year break even period and no additional management costs (given that the additional stock will be offset by losses through Right to Buy).
- 9.7 The following example is a likely scenario for an acquisition or new build on a typical Council estate in the city. It shows the amount of rent generated by an affordable rent and the amount of HRA borrowing that rent supports. There is then a funding gap which needs to be filled by alternative funding resources. In this example the funding gap would be £5k for an acquisition or £35k for a new build property.

Property type	3 bedroom house
Affordable Rent (50 weeks)	£95 per week
Maximum HRA contribution	£85k

Acquisition

Estimated capital costs for acquisition and works	£90k
Funding gap for acquisition	£5k

New Build

Estimated cost for new build	£120k
Funding gap for new build	£35k

Match Funding

- 9.8 There are a number of potential sources of match funding, outlined below. The figures are current estimates and will change. There are specific criteria which apply to the use of these funds (e.g. HCA grant or commuted sums) and the application of these funds will need to flex with the circumstances of the individual property.

Additional Right to Buy Receipts

- 9.9 The Government's 'reinvigoration' of the Right to Buy policy is forecast to create additional receipts as more households exercise their option to buy their Council home. These receipts are subject to different rules regarding their use compared to the basic receipts originally forecast as part of self-financing. These receipts can be used to cover up to 30% of the cost of building or acquiring a property. In the example above, RTB receipts would cover the funding gap for acquisition and new build. For more expensive new build schemes the funding gap may rise above 30%, in which case RTB receipts would not be sufficient, on their own, to fund a scheme. The current estimated forecast is for £15.5m of receipts becoming available over the next 6 years, although this is subject to change.

Commuted Sums from Section 106 Planning Agreements

- 9.10 These are sums agreed with private housing developers through the Planning process in lieu of providing affordable housing on-site. The Council's Interim Planning Guidance on Affordable Housing states that where a commuted payment is made it will be used to finance new affordable housing by new building or the purchase, refurbishment or conversion of existing private housing elsewhere within the city. There are no restrictions on the amount that can be spent per unit, so these sums are a flexible source of match funding and would be useful for more expensive new build schemes where RTB receipts cannot bridge the gap. There are normally geographical restrictions on where the sums can be spent and the sums would, where possible, be spent on housing projects that further general Council aims and objectives. Projected commuted sums already identified could amount to £3m. The spending of commuted sums is clearly audited so that it can be demonstrated how many affordable homes have been delivered with each commuted payment.

HCA Grant

- 9.11 This is a less flexible source of funding because there are restrictions on the amount that can be spent per unit (e.g. for the existing Purchase and Repair Scheme the limit is £17k, although this may rise to £20k in the second round of funding). There is also a range of standards that properties must meet, although these may be relaxed in future. This restricts the range of properties that can be acquired and means that new build schemes funded exclusively by HRA borrowing and HCA grant are unlikely to be viable. However, as part of a mix of funding, it can still play a role, particularly for acquisitions. £570k has already been secured for acquisitions.
- 9.12 Other sources of funding may emerge during the course of the programme. The terms and availability of potential funding streams would be continually reviewed to achieve the greatest number of homes and best value for money, taking into account other potential uses of the funding. Based on current modelling, it would be possible to deliver 600 additional homes utilising the existing funding options.

- 9.13 The table below summarises the potential funding streams and the borrowing assumptions that inform the current financial modelling:

Source of Match Funding	Forecast Match Funding (£m)	Assumed HRA Contribution (£m)	Total (£m)
Additional RTB Receipts	15.5	36.2	51.7
Commuted Sums	3.0	7.0	10.0
HCA Grant	0.6	2.3	2.9
TOTAL	19.1	45.5	64.6

The number of homes delivered through each funding stream will be dependent on the actual amounts of match funding that become available and the eventual balance of acquisitions and new build. There may also be occasions where it is necessary to combine funding streams to deliver a particular scheme.

10.0 PROGRAMME MANAGEMENT

- 10.1 In order to ensure value for money for the HRA, each individual scheme must be at least self-financing over the 30 year planning horizon of the business plan before it is approved to proceed. The assessment of financial viability would take into account the risk of eventual loss through Right to Buy and seek to balance this risk across the programme.
- 10.2 The key constraints in maximising delivery of additional homes are the availability of match funding, the viability of each individual scheme and the debt cap. These factors are subject to significant change due to shifts in government policy, the housing market, costs of construction and various other matters outside the Council's control. The programme would, therefore, be the subject of careful ongoing management under the direction of the Council Housing HRA Business Plan Board to ensure a balanced programme that would maximise the number of homes delivered. Any additional borrowing would be subject to Cabinet approval.
- 10.3 Officers would assess the projected delivery of acquisitions in 2014/15 and bring forward a more detailed submission in line with the Council's capital approval process.

11.0 LEGAL IMPLICATIONS

- 11.1 The Council has powers under Part II of the Housing Act 1985 to provide housing accommodation by building dwellings on land acquired for the purposes of that Part (referred to in this report as "Housing land") and by acquiring dwellings. These dwellings are accounted for within HRA by virtue of Part VI of the Local Government and Housing Act 1989.

- 11.2 Section 24 of the 1985 Act provides that the Council may make such reasonable charges as it may determine for the tenancies of its houses. This power is constrained by government policy on rents for social housing which effectively limits the rent that may be set by restricting the amount of housing benefit subsidy that may be claimed by local housing authorities. Recently issued draft guidance describes when properties may be let on affordable, rather than social, rent terms.
- 11.3 The Council has entered into an agreement with the Secretary of State for Communities and Local Government pursuant to section 11(6) of the Local Government Act 2003 enabling it to retain the additional RTB receipts (as described in paragraph 9.9 of this report) for the provision of social housing, subject to certain conditions including that the amount of retained receipt spent must not exceed 30% of the cost of building or acquiring a new dwelling.
- 11.4 Where additional external funding is secured it will be necessary to enter into an agreement with the funder and there may be additional contractual requirements imposed, such as those described at paragraph 9.11 of this report in respect of HCA grant. In particular, properties acquired or built using any element of HCA funding must be let at an affordable rent.
- 11.5 For any property acquired or built under the programme set out in this report the Council must determine what rent constitutes a reasonable charge for the tenancy, taking into account its own priorities, government guidance and any contractual restrictions.

12.0 HUMAN RESOURCES IMPLICATIONS

- 12.1 The work to deliver the acquisitions programme may require additional staff resources to handle the volume of property surveys required. If so, additional staff would be paid for from the same resources as the acquisitions themselves. This would be part of the submission for capital approval.

13.0 EQUALITY IMPLICATIONS

- 13.1 An Equality Impact Assessment has been conducted and concludes that fundamentally this proposal is equality neutral, affecting all local people the same regardless of age, sex, race, faith, disability, sexuality, etc. However, it should prove particularly positive for people who are less well off or financially excluded. It should also prove positive for community cohesion and for disabled and older people. No negative equality impacts have been identified.

14.0 ALTERNATIVE OPTIONS CONSIDERED

- 14.1 The alternative to delivering this programme is for the Council's housing stock to continue to both age and reduce. This would leave the HRA with less debt but it would leave the city with less affordable housing when more is needed.
- 14.2 Officers considered the possibility of extending the role of the Sheffield Housing Company (SHC) to provide new Council homes. However, building of council houses on Council land was not part of the SHC's procurement and would be a new public works contract that must be tendered for under public sector procurement rules. The 30 new council homes to date were acquired from the SHC, not built for the Council by the SHC. If the SHC wanted to build houses for the Council they would need to respond to the tender along with any other interested parties.
- 14.3 The alternative option for the potential new build sites would be disposal on the open market. A specific option appraisal would be undertaken for each site within the Strategic Business Case required for the Council's capital approval process.

15.0 REASONS FOR RECOMMENDATIONS

- 15.1 Sheffield's Strategic Housing Market Assessment estimates that an additional 725 affordable homes would be required each year for the next five years to meet projected need in the City.
- 15.2 Delivering the proposed programme of additional Council housing would maintain the authority's housing stock at a sustainable level in the light of continuing loss of stock through Right to Buy.
- 15.3 Delivering a significant element of new build Council housing within the programme would contribute towards overall housing and economic growth in the city whilst increasing the choice of housing locally.
- 15.4 Acquiring additional stock would have wider strategic benefits including bringing empty properties into use and increasing choice within the housing stock.

16.0 RECOMMENDATIONS

- R1 That Cabinet approves the development of a mixed programme of acquisitions and new build to renew the Council's housing stock.
- R2 That the Director of Regeneration and Development Services in consultation with the Director of Commissioning and the Interim Director of Council Housing Services be authorised to identify properties for acquisition for council housing and prepare the necessary capital approval submission in line with Council's approval process.
- R3 That the Director of Capital and Major Projects in consultation with the Director of Regeneration and Development Services be authorised to

negotiate and agree terms for the acquisition of the properties identified and the Director of Capital and Major Projects be authorised to instruct the Director of Legal Services to complete the necessary legal documentation.

- R4 That the Director of Regeneration and Development Services in consultation with the Director of Commissioning, the Interim Director of Housing Services and the Director of Capital and Major Projects be authorised to identify sites for new build Council Housing, specify the type and size of homes required and prepare the necessary property disposal and capital approval submission in line with Council's approval process.
- R5 That the Director of Commissioning in consultation with the Director of Finance be authorised to set such charges for the tenancy of each dwelling acquired or built under this programme as he deems reasonable.