Leeds
CITY COUNCIL

Report author: Maggie Gjessing
Tel: 39 50502

Report of Directors of City Development and Environment & Neighbourhoods

Report to Executive Board

Date: 5th September 2012

Subject: Stimulating growth in affordable housing

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☒ Yes	☒ No
Is the decision eligible for Call-In?	☒ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ No

Summary of main issues

To achieve Leeds' ambitions of growth and prosperity, the city needs a functioning housing market which meets the needs of its citizens and which underpins a thriving economy. These ambitions are set against a backdrop of change particularly within the public sector. The resources available to deliver new housing have severely reduced in recent years and commercial investment in new housing has slowed considerably. In light of this, the Council is responding with a new approach. There are opportunities, in the form of new financial freedoms, including the New Homes Bonus, Housing Revenue Account reform and the ability to utilise Right to Buy receipts. These provide a route for new investment through which the Council, with the support of its partners, can take a lead role in stimulating the supply of new housing. This report proposes an investment approach which provides new housing in the city in an innovative and cost effective way.

Recommendations

Executive Board is recommended to:

i) approve the development of an investment programme as illustrated in the report, through a contribution of £9.5m over three years from the HRA, a one year contribution of £1.5m from the New Homes Bonus and the ongoing use of Right To Buy receipts, currently estimated to be £1.9m over three years.

ii) approve an injection of £1.5m and £800k for 2012/13 into the capital programme from New Homes Bonus and Right To Buy receipts respectively.

iii) delegate the detailed development of the investment programme, in consultation with the Executive Member for Development and the Economy, to the Directors of City Development and Environment & Neighbourhoods.

1 Purpose of this report

1.1 This report provides Executive Board with a proposed approach to housing investment, combining a range of funding sources and investment models. It also demonstrates the extent to which investment in new housing supply through these models is one of the most innovative ways that new housing supply, including social housing, can be provided for the City that is very cost-effective for the Council.

2 Background information

2.1 The recent Commission on the Future of Local Government set out the challenge facing local councils and their partners in stimulating the delivery of homes, jobs and growth. It recognises the unique position held by local councils who, by being enterprising in the use of their own resources and by influencing others to invest, can help deliver growth. In Leeds, the Council's role in leading and developing ways of encouraging and enabling investment in the city is well recognised. There is a history of effective collaboration amongst partners who are committed to achieving the best for Leeds and this puts the city in a strong position to take advantage of new opportunities.

2.2 The approach proposed in this report to invest in new affordable housing shows how Leeds can develop innovative and creative solutions, maximise resources and the supply of the new homes which the city needs in partnership with housing associations, developers and voluntary sector organisations.

2.3 Leeds' investment needs are determined by the City Priority Plan (CPP) and the Leeds Housing Investment Plan (LHIP). The CPP priority is to maximise regeneration investment to increase housing choice and affordability within sustainable neighbourhoods demonstrated by the following headline indicators:-

- increase the number of homes built per year;
- increase the number of affordable homes built each year;
- increase the number of long term empty properties brought back into use.

The LHIP identifies the following categories of investment need:-

- new housing provision including mixed tenure and affordable housing;
- council stock decency;
- private sector renewal;
- housing for specific groups incl. housing for older people;
- empty properties;
- energy efficiency and sustainable construction.

2.4 Given the pressure of population growth and anticipated demographic changes (for example an increase in older people), coupled with unmet need for social and affordable housing, it is clear that Leeds needs more housing of appropriate quality and type to meet people's needs and aspirations. The draft Core Strategy estimates that 1,158 affordable homes a year are required in order to meet predicted need, whilst the target for returning empty homes to use is 3000 per annum.

2.5 The sources of investment the city has relied on in the past to meet housing needs have either significantly reduced or are funding streams which have come to an end. These include grant funding to housing associations through the Homes and Communities Agency (HCA) which continues at a much reduced rate and is predicated on the expectation that housing associations will charge higher rents and borrow to fund new build. The Decency programme for existing council stock is now largely completed, and housing renewal funding has also ceased. The delivery of affordable housing through the market (via s106) has reduced in line with the slow down in the housing market as a whole.

2.6 In order to meet the ambitions set out in the City Priority Plan and build up the city's resilience to economic forces it is important to take advantage of new opportunities in a creative and innovative way. Bringing together the resources of the Council and its partners, will be a catalyst to further investment and add momentum to further growth.

2.7 The recent housing strategy for England "Laying the Foundations" (published in December) sets out the Government's expectation that local councils will plan for growth and seek to align their resources and available funding to deliver growth and unlock the housing market across tenures. New flexibilities in respect of the Housing Revenue Account, plus new funding sources including the New Homes Bonus and the Reinvigorated Right to Buy, are seen as tools for growth available to local authorities. This report shows how we can maximise these resources along with those of our partners, not only to ensure that housing choice and quality meets residents' expectations but also to boost the confidence of residents and businesses and make Leeds a city of choice to live and work.

2.8 The Vision for Leeds established the Council's objective of being the Best Council in the country and a strong working relationship with people, businesses and organisations is at the heart of this objective. It also sets out the ambition of being the Best City in the country with a good quality of life for Leeds residents. Delivering new housing through working with others is one way in which the Council can start to reach this goal.

3 Main issues

3.1 Leeds has experience of developing innovative new models to support the housing market and help people access good quality housing .Working with developers, housing providers and lenders, the Council has developed schemes such as equity share and rent to mortgage and has used its land and assets to enable new housing to be built. Most recent is the Leeds Local Authority Mortgage Scheme approved by Executive Board earlier in the year and soon to be launched. Described below are models of new affordable housing provision (by building new properties or returning empty properties to use), which are either formulated to produce an income for the Council or to be funded on the basis of cash being recycled. Given budget pressures, models have been explored which have the facility to generate resources or allow investment to be recycled and therefore represent good value for money and an effective use of resources.

3.2 New Build Affordable Housing

3.3 *Build or purchase directly*
To increase housing supply the Council could decide to build new houses itself and has recent experience of delivering new build housing using HCA grant. An investment programme could fund the construction of either general needs housing or specialist elderly accommodation.

3.4 Alternatively, the Council could purchase properties off the shelf from developers; although numbers would need to be sufficient to negotiate a purchase price which represents value for money. In either case management would be via an ALMO in the normal way.

3.6 A third route would be to select a partner housing association to develop and deliver new homes. The Council can grant fund a housing association who would then use their borrowing abilities to add to the resources available. Properties would be owned by the housing association although the Council would be able to specify the type and location of properties. Properties would be let at an Affordable Rent (defined by government as up to 80% market rent level) and the Council would have nomination rights on the new units. Leeds has the benefit of a committed housing association sector who are well placed to use seedcorn funding from the Council, combining it with their own resources to maximise the production of affordable housing.

3.7 *Equity Loan*

Equity loan is a model which has been successfully used in Leeds through schemes developed in conjunction with housebuilders. Equity loan can both increase demand by making homes more affordable and support sales on sites where construction has stalled. Similar to the HCA's equity loan scheme ("Firstbuy"), it helps to bridge the gap between the cost of properties and the mortgages potential buyers could secure by providing a loan to the purchaser which is secured against the property.

It allows for the funding to be recycled since the loan is repayable when people sell their house as a charge against the property (or can be time limited), with an interest rate payable say after 5 years.

3.8 Bringing empty properties back into use

3.9 Leeds has a number of empty properties across the city, primarily in the private sector, which is a wasted resource at a time when the demand for housing is increasing. The Council has strong working relationships with housing associations and voluntary sector organisations and recently worked together with a range of partners as part of a "Call to Action" to look at practical solutions to bring properties back into use. The HCA have also supported a bid for resources from a consortia of organisations (Connect, LATCH and Canopy) to undertake works to empty properties in poor condition. The Council has an established approach and uses a range of measures, working with property owners.

3.10 *Repairing & returning empty properties to use*
The provision of an interest free loan facility to bring private sector empty homes back into use. The loan facility will be made available on the basis that repayment will be made over a specified timescale (say 10 years)

3.11 *Acquisition and resale*
Private sector empty properties can be acquired for refurbishment and rent or sale on the open market to an owner occupier. The Recycling Empties project has proved to be a successful initiative in bringing empty properties back into use.

3.12 *Providing additional staff resources*
The key to resolving many of the properties which remain empty in the city is effective enforcement and advice for owners (where for example a property has been inherited). The work is largely demand led but additional resources would enable proactive enforcement work on an area basis. It is proposed that increasing capacity within existing teams would be self funding in that it will accelerate the number of properties which can be brought back into use.

4 Funding Sources

There is a range of new funding sources which could be used to support investment in the supply of housing and these are described below. Together they provide a flexible resource which can be used to support a range of approaches. The programme described at section 5 illustrates how they can be combined to deliver a cost effective investment strategy.

New Homes Bonus

4.1 The NHB was introduced by government as an incentive to boost housing delivery and bring long term empty properties back into use. For each additional new unit built, the Government pays a sum equivalent to the national average for the council tax band over six years. For each affordable home provided, an enhancement of £350 per year per home will also be paid. For empty properties brought back into use NHB is calculated in a different way to the provision of new build units. It is payable on the basis of the level of long term empty properties recorded on the Council Tax Base Form, with more NHB being paid if the number decreases and less if the number increases.

4.2 The provisional allocation for Leeds for 2012/13 is £5.4m and this has been incorporated into the 2012/13 base budget.. As an unringfenced grant, the bonus could be spent on a wide range of measures and the use of the resources shown in the illustrative programme demonstrates that this could be an effective use of some of this resource.

HRA Reform and the Right to Buy

4.3 Housing Revenue Account reform gives local authorities control over rental income for new homes and other investment, The Leeds HRA Business Plan has identified three strategic priorities – the sustainability standard for council owned stock, the delivery of older people's housing and the supply of affordable housing.

4.4 The Government introduced what it has called the "Reinvigorated" Right to Buy (RTB) earlier this year which allows local authorities to retain an element of RTB receipts for the reprovision of social housing stock. There are a number of constraints associated with this funding (explained in detail in a May 2012 report to Executive Board), but in summary the receipts can only fund 30% scheme development costs and if spend is not committed may be required to be returned to government. A way of mitigating this risk and maximizing the resources could be to route this funding through a housing association who could use their normal borrowing to produce the 70% match funding required.

Commuted Sums

4.5 A parallel piece of work has been undertaken which allows for investment in additional affordable housing which utilises commuted sums. This has already included contributions towards bringing a number of empty properties back into use and some equity loans. There remains the potential to make a contribution to new build housing provided it is for additional affordable housing, available in perpetuity. Incorporating a contribution into a larger programme offers an effective way of delivering new homes, although for the purpose of the illustration in the appendix this has not been included.

4.6 The table below is a summary of the interventions described above to support housing investment and the ways in which they can generate resources back to the Council.

Priority	Tool	Recycle	Generates Income	Generates council tax	Generates NHB
Affordable Housing / Housing Growth	New build council houses		*	*	*
	New build via housing association			*	*
	Equity Loan	*		*	*
Empty Properties	Repayable loan	*		*	*
	Refurb and sell	*		*	*
	Enforcement			*	*

5 Proposed programme

5.1 An investment programme is proposed which could deliver around 325 new homes. The programme, which is for illustration, shows a three year investment programme showing the costs and income (such as rents) modelled over ten years. It is comprised of a contribution of £1.5m New Homes Bonus, the use of Right to Buy receipts over 3 years estimated at 1.9m and a contribution from the Housing Revenue Account over 3 years of £9.5m . It shows a gross cost of £12.9m which, when the income from rents, loan repayment and New Homes Bonus generated (approx £2.8m), is taken into account is a net cost of £5.9m over ten years.

5.2 Appendix 1 illustrates how an investment programme could work, showing how each of these resource streams could be utilised and the income each generates. The programme could result in new supply of around 325 units (this includes an estimated net 150 empty properties brought back into use).

5.3 The illustrative programme at Appendix 1 is based on the following assumptions:

a) a contribution of New Homes Bonus of £1.5m. This could be used to support the empty homes strategy by funding an additional enforcement team and by providing an amount of capital for addressing disrepair or complex cases such as those requiring CPO. It is also proposed that NHB could support a modest programme of equity loans targeted at new build properties. The illustrative financial model (Appendix 1) uses a NHB mix of models and it shows, assuming for the purpose of the model, that equity loans are repaid at the end of 10 years, that a net income stream of £1.1m is generated. The model shows a contribution for one year although the approach could be extended should additional resources become available and the approach prove to be cost effective.

b) the estimated level of RTB receipts for the years 2012 - 2015 is £1.9m based on a projected level of sales and net of the deductions required by Government.

   These resources could be maximised by grant funding a housing association enabling it to borrow additional development funds. If the grant is used to support 30% of the development programme (the maximum proscribed by central government), the remaining 70% which the housing association would fund represents an additional resource of around £3.8m levered in to the programme. Together this would be an investment of approximately £5.8m producing a programme of about 49 units.
   The legislation requires that receipts are used for replacement stock and this can be provided at either affordable or social rents. The properties would belong to the housing association who would collect the rental stream. The Council would have nomination rights over the properties and could incorporate requirements such as local labour and training into the scheme. The model shows the use of RTB receipts for three years by way of illustration. The actual receipts received will be used to support the construction of new homes although it is difficult to predict the level of sales and an estimate has been used in the model

   On the basis of estimated RTB receipts over the next 3 years shown in the model, the net cost of this proposal would be £1.3m as illustrated in Appendix 1.

   An alternative would be to use the RTB receipts to increase Council housing new build, which would maintain the Council's long term stake in the property and provide a way to replenish the Council's housing stock with new high quality council housing. This would provide approximately 25 units, and would be subject to the ability to find the remaining 70% cost of provision from the HRA.

The optimum delivery route will be drawn up in consultation with the Executive Board Members for Development and Economy and Neighbourhoods, Planning and Support Services.

c) a contribution from the Housing Revenue Account of £3m p.a.

The HRA is able to support an indicative three year programme at £3m per annum which could deliver 105 units in total (using an average construction cost of traditional family housing). There are currently sufficient uncommitted HRA capital resources available without impacting upon other housing investment priorities. Rent levels could be either social or affordable rent and for modelling purposes a split is proposed (however, a policy decision would be required if there is to be a split between social housing rent levels in this way). The programme could fund the construction of either general needs housing or specialist elderly. Delivery would be through procurement of a contractor which could include the requirement to incorporate a local labour and training programme. HRA funding could also be used to purchase off the shelf properties although unit costs would be higher.

The financial model (Appendix 1) shows that the net cost of this proposal is £5.9m after 10 years. The cost of management and maintenance has been included within the calculation.

5.4 The overall cost of the proposed investment programme over the 10 year period is £5.9m and the implications for both the General Fund and the HRA are set out in Table 1 below.

5.5 In addition consideration also needs to be given to the fact that 325 new properties would generate an additional £284k per annum in Council Tax.

5.6 The effectiveness of the investment approach will be evaluated and if proven to be effective, could present an ongoing opportunity to add to housing supply in a cost effective way.

Table 1

Funding Source:	**No. of Units**	**Impact on General Fund £000**	**Impact on the HRA £000**	**Net Cost of Proposals over 10 years £000**
New Homes Bonus	171	(1,109)	0	(1,109)
Right to Buy (RTB) receipts	49	(528)	1,900	1,372
HRA Capital Resources	105	(921)	6,569	5,648
Total	**325**	**(2,558)**	**8,469**	**5,911**

5.7 If approved, the next steps would be:

a) to identify sites for the new build programme, agree the type of new housing to be built, secure planning permission and let a construction contract. It will also be necessary to establish a procurement approach to finding a housing association partner to deliver that element of the programme. If a start on site for the new build projects could be achieved in Autumn 2013. With an approximate construction period of about a year, following lettings, the Council will begin to see income from this investment from 2014;

b) Establish the additional empty properties team. The empty property strand could begin generate income from NHB from 2014;

c) Establish how and where to target the equity loan scheme. Interest would be paid to the Council on each loan from year six as shown in the model.

6 Corporate Considerations

6.1 Consultation and Engagement

6.1.1 As the investment approach is still being formulated consultation with individual Ward Members or communities is not yet appropriate. As the programme moves into implementation phase and specific sites are identified, local consultation will take place and a consultation plan will be prepared..

6.2 Equality and Diversity / Cohesion and Integration

6.2.1 Due regard has been given to equality through the analysis of the potential impacts of the programme and the completion of a screening form. The main outcomes of the screening were that the delivery of affordable housing through this programme could have positive implications for equality groups who are economically disadvantaged. The potential impact of the Programme for a range of equality groups and the number of separate elements it contains, suggest that there is a need for project specific screening and assessment to ensure that equality issues can be addressed for each element.

6.3 Council Policies and City Priorities

6.3.1 The project seeks to address priorities in the City Priority Plan by providing affordable housing.

6.2 Resources and Value for Money

6.2.1 The programme could be funded through the resources described above and the income associated with each model are set out in the illustrative model in Appendix 1.

6.3 Legal Implications, Access to Information and Call In

6.3.1 There are no specific legal implications associated with this report. Section 1 of the Localism Act 2011 grants councils a general power of competence whereby a local authority has power to do anything that individuals generally may do and this power covers most of the activities described in this report. However Section 25 of the Local Government Act 1988 is a pre-commencement statute that imposes certain limitations on the council's general power to provide financial assistance to a Registered Provider without the consent of the Secretary of State.

6.3.2 The Secretary of State has issued a number general consents under the Local Government Act 1988 (Local Authority Assistance for privately let housing) Order. Consent A of this Order permits a local authority to provide a Registered Provider (housing association) with any financial assistance or gratuitous benefit of land for development as housing accommodation.

6.3.3 This consent is given subject to the aggregate value of the financial assistance or gratuitous benefit provided by the disposal or grant and any financial assistance or gratuitous benefit provided previously by the local authority under this consent in the same financial year shall not exceed £10 million.

7 Risk Management

7.1 A risk log will be included in the project mandate which will be drawn up subject to Executive Board approval.

8 Conclusion

8.1 Housing investment is central to the prosperity of the city and new financial opportunities exist for the Council and its partners to drive housing growth and to shape the future of the city. Committing the resources and expertise of the housing sector is one of the ways the Council and its partners can meet its ambitions towards being the Best City and the Best Council in the UK.

8.2 The new resources provided through the New Homes Bonus, HRA Reform and the Reinvigorated Right To Buy are a significant opportunity to increase the supply of affordable housing by funding the construction of new homes and providing the resources to bring empty properties back into use.

9 Recommendations

Executive Board is recommended to:

i) approve the development of an investment programme as illustrated in the report, through a contribution of £9.4m over three years from the HRA, a contribution of £1.5m from the New Homes Bonus and the use of Right To Buy receipts, currently estimated to be £1.9m over three years .

ii) approve an injection of £1.5m and £800k into the capital programme from New Homes Bonus and Right To Buy receipts respectively.

iii) delegate the development of the investment programme, in consultation with the Executive Member for Development and the Economy, to the Directors of City Development and Environment & Neighbourhoods.

10 Background Papers[1]

10.1 Equality Impact Assessment Screening Form

Appendix 1 – Housing Investment Programme for illustration

[1] The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.