

**Report of Directors of and Environment & Housing and City Development**

**Report to Executive Board**

**Date: 17<sup>th</sup> July 2013**

**Subject: 16692/000/000 Council Housing Growth Programme**

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

**Summary of main issues**

Executive Board has previously approved a programme of investment to deliver a comprehensive programme of new build housing and bringing empty homes back into use which uses Housing Revenue Account funding, the New Homes Bonus and Right to Buy receipts. It has also recently approved the Brownfield Land Programme, and approved the Core Strategy Development Plan Document and associated draft Site Allocations Plan to establish housing requirements and support land supply. Elsewhere on this agenda, the Housing Investment Land Strategy identifies a number of council owned sites which can be used to support and accelerate the delivery of new homes for the benefit of the city.

The programme outlined in this report can be seen as a continuation of the Council's efforts by investing additional resources and land in social housing. It describes a substantial amount of resources which have been identified to deliver new homes, representing the most significant investment in new council housing for many years.

This report sets out a proposed programme for growing the supply of council housing. It follows a previous approval by Executive Board for a first phase of development and sets out the resources and delivery options for a second phase.

**Recommendations**

Executive Board is recommended to:

- i) approve the development of an investment programme as described in the report including the use of Right to Buy receipts.
- ii) approve the injection of £28.512m into the Capital Programme
- iii) authorise the authority to spend of £40.623m, a detailed programme will be reported at a subsequent meeting.
- iv) authorise further authority to spend of £2.015m subject to a successful bid to HCA.
- v) delegate the detailed development of the investment programme to the Directors of City Development (in respect of land use) and Environment & Neighbourhoods (in respect of programme and scheme details and cost).

## **1 Purpose of this report**

- 1.1 This report provides Executive Board with an approach to investing in new council housing funded through the Housing Revenue Account. The proposed programme contributes to the overall level of resources available to support housing priorities as well increasing the council tax base and increasing the level of New Homes Bonus receivable.

## **2 Background information**

- 2.1 Leeds' investment needs are determined by the City Priority Plan (CPP) and the Leeds Housing Investment Plan. The CPP priority is to maximise investment to increase housing choice and affordability.
- 2.2 Investment in housing growth supports one of the objectives of the Best Council Plan to promote sustainable and inclusive economic growth by providing housing as the city grows. It supports the objective of Sustainable and Inclusive Growth by increasing housing options and stimulating the construction industry.
- 2.3 The Core Strategy Development Plan Document estimates that 1,158 affordable homes a year are required in order to meet predicted need. The investment proposals in this report coupled with those in the Housing Investment Land Strategy, demonstrate the positive and proactive approach taken by the Council to meeting the city's requirements through land supply and direct investment in housing growth.
- 2.4 The approach outlined in this report supports the wider investment strategy for the council's housing stock. The HRA Business Plan outlines the priority to increase the supply of affordable housing, whilst continuing to maintain existing Council Housing to ensure that the Council Housing portfolio is sustainable in the long term.
- 2.5 The waiting list for social housing in Leeds currently stands at approximately 27,000 applications. Demand information will be supplemented by a comprehensive demand analysis via Housing Market Assessments to inform the types and locations of properties needed to meet demand. Work to determine demand will be

informed by continuing work with Adult Social Care to understand and meet the housing needs of older people and with Children's Services for example in determining the requirements of families with disabled members. This will in turn contribute to meeting wider objectives of reducing the demands on other Council budgets such as the cost of adaptations.

### **3 Main issues**

#### **3.1 Update on phase one**

3.2 Executive Board gave approval in September 2012 to a comprehensive approach to housing investment using a range of resources including the Housing Revenue Account (HRA), New Homes Bonus and the use of Right to Buy receipts.

3.3 Approval was given in January 2013 to a detailed phase 1 programme to develop new council housing using HRA resources. The report set out a programme which will deliver around 100 new units. This investment will provide smaller properties to address the issue of underoccupancy both to meet the challenge presented by Welfare Change and encourage older tenants to free up family homes.

3.4 The January report identified a shortlist of sites for development and the detailed design work is now on going. The first sites are now progressing through design and feasibility work with a view to a start on site in early 2014. A strong emphasis is being placed on good quality design which makes a positive contribution to sustainability and place making.

#### **3.5 Use of Right to Buy receipts**

3.6 An approach to using Right to Buy receipts was proposed in the September report in which the receipts are used to grant fund housing associations to deliver new affordable housing. The rules set down by central government are that the receipts can only fund 30% of construction costs and that the monies are spent within a three year timeframe.

3.7 This approach requires that the housing association provides the remaining 70% of funding in return for nomination rights. A simple exercise is proposed wherein housing associations are invited to bid for grant funding (in much the same way as they do to the Homes and Communities Agency) and set out what they could deliver for a specified amount of grant. It is initially intended that this process could be used to deliver bespoke properties for applicants for social housing who have particular needs such as a disabled family member.

3.8 The level of receipts currently available is £0.486m which mean that the housing association(s) would be required to contribute £1.12m, equating to a construction programme of around £1.6m (approx. 12 properties)

3.9 As properties are sold through the Right to Buy, receipts will come into the council intermittently. The level of resources will be assessed every six months with a view to either inviting bids from housing associations for subsequent rounds of investment or determining an alternative investment approach which meets identified needs and can commit resources within the required timeframe.

- 3.10 Executive Board is asked to approve this approach.
- 3.11 Phase two
- 3.12 The second phase of development provides a further opportunity to add to the stock of council housing and meet a wider range of needs.
- 3.13 Funding
- 3.14 The resources shown below at 3.17 have been identified as available to be used to support a council housing development programme.
- 3.15 The funding for phase one was previously approved by Executive Board and this report includes a request for the authority to spend this amount. The resources required to match fund bids to the Homes and Communities Agency are in respect of the successful bid for Empty Homes funding and a bid to deliver Extra Care Housing the outcome of which will be known shortly, though the resources would remain available if the bid is unsuccessful.
- 3.16 It is assumed that the overall programme could deliver around 400 properties. Delivery will take place over a four year programme at a rate of around 100 units per annum.
- 3.17 The table summarises the level of resources available to support the new build programme. Currently £10.8m has been identified for new build in the approved Capital Programed and the intention is to use a further £3.246m of resources that are in the Capital Programme but have not been identified to specific schemes. The 2013/14 HRA outturn contributed a further £6.011m to the capital reserve and the intention is to use this as well. There is also a contribution of £0.486m of usable capital receipts and the HRA will undertake £20m of unsupported borrowing.

<b>Resources available to support New Build</b>				
	<b>Approx No. of units</b>	<b>Currently in the Cap Prog</b>	<b>To be injected</b>	<b>Total</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Phase 1 of New Build Programme</b>	<b>100</b>	10,880		
<b>Phase 2 of New Build Programme:</b>	<b>295</b>			
Unallocated receipts for affordable housing		1,120		
HRA self financing future needs		2,126		
HRA Capital reserve			6,011	
HRA Right to Buy receipts			486	
HCA/DoH grant (awaiting outcome of bid)			2,015	

HRA additional unsupported borrowing			20,000	
<b>Total:</b>	<b>395</b>	14,126	28,512	<b>42,638</b>

3.18 Delivery options

3.19 The level of resources indicated above can support a significant programme of new supply. There are a number of options for delivery which will be assessed against a range of criteria: value for money, deliverability and the ability to attract match funding.

3.20 In determining the balance of the programme, a mixture of the following can be considered:

3.21 New Build – continuing the programme of developing new council housing built to good space and energy efficiency standards, delivered with the benefit of local employment and training opportunities. Whilst the first phase concentrates on adding smaller property types to the stock base, the second can deliver a broader mix of stock types, informed by housing needs information as set out previously. If successful, the bid to the HCA to build new Extra Care housing will form part of this programme. As part of the investment in new homes, a strong emphasis would be placed on the quality of design and the contribution of new properties to placemaking and sustainable communities.

3.22 Off the shelf acquisitions – the opportunity to purchase properties, either built properties or purchasing from plan can be an effective way of delivering quickly and cost effectively, particularly where there is the opportunity to negotiate the price on the basis of bulk purchases. This has previously taken place as part of the East Leeds regeneration programme and current options will be identified in terms of what is on site, how it might meet needs for social housing and whether standards are adequate and represent value for money.

3.23 Repurchase of Right To Buy properties – the policy for the Repurchase of Right to Buy properties has been reviewed and requests to buy back former Council properties will be assessed against a range of criteria including the size, type of property and value for money. Repurchase can be an effective way of adding to social housing supply where properties meet the Council’s strategic objectives for growth in affordable housing.

3.24 Empty property acquisitions – acquiring empty properties can be cost effective and enable units to be quickly acquired and entered into management. The choice of locations will need to fit strategic requirements in terms of demand and complementary investment. The successful bid to the HCA for grant support I will support an initial programme of empty property acquisitions.

3.25 The mix and balance of delivery routes will be an iterative process and each option will be assessed against the criteria set out above.

3.26 Potential Locations

- 3.27 Investment decisions will be influenced by the pattern of demand for social housing and suitable land availability.
- 3.28 The Housing Initiatives Land Strategy, which is elsewhere on this agenda, pulls together Council owned sites (including the Brownfield Land Programme) suitable for residential development. The strategy fulfils a wider requirement to optimize the use of land across all delivery routes (housing associations, self build etc) and will identify the sites which could lend themselves to new council housing. The analysis will indicate whether there is sufficient Council owned land in appropriate locations for substantial new build or whether the purchase of sites might be advantageous in certain areas.
- 3.29 A report on the Derelict and Nuisance Properties Programme is also to be considered by Executive Board on this agenda and the extent to which this programme can use some of these whilst also addressing a problem site will be explored and co-ordinated. Some of the sites held within the programme are located within residential areas and could lend themselves to small infill developments, complimenting existing housing supply in those neighbourhoods.
- 3.30 Opportunities to work in partnership with developers and housing associations will be considered to maximise investment and value for money. Routes to develop mixed tenure solutions will be prioritized and opportunities to achieve cost savings through economies of scale with other developers, public or private, will form part of the evaluation.
- 3.31 Proposed Programme
- 3.32 The overall investment programme could deliver around 400 new homes. Phase one will deliver approximately 100 units over 3 years and is underway following Executive Board approvals in September 2012 and February 2013 and an additional circa 80 units will result from bids to the HCA if successful.
- 3.33 The approach for phase two is a four year investment programme delivering around 300 new units.
- 3.34 Members will recall that from 1<sup>st</sup> April 2012 the Housing Subsidy was dismantled and replaced with a devolved system of funding and responsibility subject to a one off allocation of debt. Whilst the Housing Revenue Account can undertake further borrowing, over and above the amount allocated in the debt settlement, the total amount of additional borrowing is subject to a debt cap determined by Government.
- 3.35 The capital financing costs associated with the proposed additional borrowing (£20m) will be funded through the additional rental stream generated through the new properties. These financial implications detailed in Appendix 1. This is an illustrative programme based on an assumed mix of units and estimated development / acquisition costs. Utilising the mix of capital resources, detailed in table 3.17, the impact on the HRA of the rental income streams (net of the financing costs associated with the borrowing undertaken) is that by Year 3 there is an excess of rental income of £187k per annum. By Year 10 this has increased

to £1.1m and over a 30 year period a £45m cumulative surplus is projected. For the purpose of modelling, the projection assumes that the tenure mix is 75% social rent and 25% affordable rent and that of the 300 phase two properties, 30% are one bedroom, 35% are two bedroom and 35 % are three bedroom.

3.36 As a result of the programme the income generated for the authority's General Fund, from Council Tax will be £368k per annum by Year 10 whilst the amount received through New Homes Bonus will be £3. 1m over a ten year period.

3.37 As referenced in 3.34 the amount of borrowing that can be undertaken through the Housing Revenue Account is constrained by the debt cap. If the Government were to relax the imposition of debt ceiling then the Council would be able to undertake more borrowing to build more council houses with the cost of borrowing being funded through the rental income stream associated with the new properties.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

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

### **4.2 Equality and Diversity / Cohesion and Integration**

4.2.1 Due regard has been given to equality through the analysis of the potential impacts of the programme and the completion of a screening form (provided as an appendix). 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.

### **4.3 Council policies and City Priorities**

4.3.1 The project seeks to address priorities in the City Priority Plan by providing affordable housing. It supports the objective of Good Economic Growth set out within the Best Council Plan by providing housing as the city grows.

### **4.4 Resources and value for money**

4.4.2 The net rental streams from the new build programme provide additional resources to support the delivery of housing priorities and generate additional Council Tax and New Homes Bonus.

4.4.3 Resources to support programme management can be provided through the HRA funding. The precise level of resources required will be determined by the programme mix i.e. the balance of new build, purchase of existing new build

properties directly from developers, the repurchase of RTB properties or empty properties, will determine the exact nature of project management resources needed.

4.4.4 Modelling has been undertaken to provide an indicative estimate of capital expenditure and the profile of spend over time

<b>Financial Impact</b>	<b>Total</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
<b>Expenditure</b>	£m	£m	£m	£m	£m	£m
Fees	0.1	0.1				
Construction	42.5	0	11.5	11.6	11.6	7.8
<b>Total Costs</b>	<b>42.6</b>	<b>0.1</b>	<b>11.5</b>	<b>11.6</b>	<b>11.6</b>	<b>7.8</b>
HCA Grant	2.0		2.0			
RTB Receipts	0.5		0.5			
HRA Resources	40.1	0.1	9.0	11.6	11.6	7.8
<b>Total Income</b>	<b>42.6</b>	<b>0.1</b>	<b>11.5</b>	<b>11.6</b>	<b>11.6</b>	<b>7.8</b>
<b>Net pa</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

## 4.5 Legal Implications, Access to Information and Call In

4.5.5 There are no specific legal implications associated with this report.

## 4.6 Risk Management

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

## 5 Conclusions

5.7 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.

5.1 The proposals in this report add to this by accelerating growth in the provision of council housing to meet identified needs.

## 6 Recommendations

Executive Board is recommended to :

- i) approve the development of an investment programme as described in the report including the use of Right to Buy receipts.



- ii) approve the injection of £28.512m into the Capital Programme
- iii) authorise the authority to spend of £40.623m, a detailed programme will be reported at a subsequent meeting.
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- v) delegate the detailed development of the investment programme to the Directors of City Development (in respect of land use) and Environment & Neighbourhoods (in respect of programme and scheme details and cost).

## **7 Background documents<sup>1</sup>**

7.1 none

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.