

WELWYN HATFIELD BOROUGH COUNCIL
CABINET– 14 JUNE 2016
REPORT OF THE DIRECTOR (FINANCE AND OPERATIONS)

STRATEGIC REVIEW OF THE AFFORDABLE HOUSING PROGRAMME

EXECUTIVE SUMMARY

- 1.1 On 4 December 2012 Cabinet agreed a range of methods to deliver the Council's Affordable Housing Programme (AHP) with the use of the allowed amounts of Right to Buy Receipts and where appropriate surpluses from the Housing Revenue Account.
- 1.2 A Strategic Review Task and Finish Group, chaired by the Executive Member for Housing, Planning and Community, was set up in November 2015 to review the current AHP, its benefits and limitations. The group considered the potential to expand the delivery of affordable housing in the borough via the programme, while ensuring this was in line with the Council's priorities and objectives.
- 1.3 The Task and Finish Group established a draft Vision Statement and a set of key aims for the programme, which are set out in Paragraph 3.11 of this report.
- 1.4 In order to meet these aims, a draft Affordable Housing Programme Delivery Plan (2016 to 2021) is attached at Appendix A for consideration. The delivery plan sets out in more detail the plans for development and acquisition of homes over the next five years.

2 Recommendation(s)

- 2.1 Cabinet agrees the Vision Statement and key aims for the Affordable Housing Programme, as set out in Paragraph 3.10
- 2.2 Cabinet agrees the Delivery Plan for the Affordable Housing Programme 2016 to 2021 (Appendix A) which sets out the proposed delivery methods and funding principles.
- 2.3 Subject to agreement of 2.2, Cabinet agree that progress of the Delivery Plan is monitored by Cabinet Housing and Planning Panel as part of the regular reporting on the programme.
- 2.4 Cabinet agrees that officers investigate in more detail the introduction of a Cash Incentive Scheme for council tenants – with the intention that officers present a future report to Cabinet setting out the proposal in more detail.
- 2.5 Cabinet agrees that officers investigate the introduction of a purchase and re - housing scheme for older owner occupiers – with the intention that officers present a future report to Cabinet setting out the proposal in more detail.

3 Explanation

- 3.1 Current government policy favours a growth in owner occupation over traditional affordable housing.
- 3.2 The increased discount available to tenants who wish to exercise the Right to Buy has led to an increase in council house sales over the last four years.
- 3.3 Government grant funding for affordable rented homes has reduced significantly and new policies proposed favour starter homes for owner occupation over affordable rented homes
- 3.4 However the Council has a high demand for affordable housing and wants to ensure that it can continue to meet its general housing duties and in particular to meet its obligations under the homeless legislation to provide suitable accommodation.
- 3.5 A range of methods are currently in place to provide affordable homes as part of the council's Affordable Housing Programme. These include direct construction by the council, purchase of properties on the open market (both by the council and Registered Providers), disposal of vacant and underused council sites, funding to Registered Providers and purchase/funding of additional units on S106 sites.
- 3.6 The programme is overseen by a Steering Group and progress is reported on a regular basis to the Cabinet Housing and Planning Panel.
- 3.7 The terms of the use of Right to Buy receipts is set out in an agreement with government. The council is allowed to use the receipts to fund up to 30% of development or acquisition costs. However if the receipts are not used within three years of receipt, there is a financial penalty imposed.
- 3.8 To date a total of 72 new homes have been provided. These have been funded with a combination of the allowed amounts of retained Right to Buy receipts, use of the Attributable Debt Fund, and surpluses from the Housing Revenue Account and investment by Registered Providers (RPs). There are already plans in place to deliver a further 167 properties, with a number of other schemes being investigated.
- 3.9 A Task and Finish Group was established to carry out a strategic review of the programme. The review focused on the current benefits and limitations of the programme, options for extending the programme and implications of current government policy in relation to the provision of affordable housing.
- 3.10 A draft Vision Statement and key aims proposed by the group are set out below. This sets out the proposal to extend the programme to deliver 600 affordable homes by 2021:

Vision Statement

To provide a range of high quality affordable homes which meet the housing needs of our residents

Key Aims:

- To provide 600 affordable homes by 2021

- To provide a proportion of these homes for council ownership in order to sustain stock of 9000
 - To meet the Borough's homeless obligations without the use of B&B
 - To increase the supply of affordable homes for those with a local connection
 - To be flexible in the affordable housing products we provide
 - To provide a flexible framework from which to respond to Government policy direction.
- 3.11 A revised financial approach was considered by the group, with particular emphasis placed on how to mitigate any current risks, particularly in relation to the use of the Right to Buy receipts and the financial penalties linked to the time limits set by the government scheme.
- 3.12 A key proposal of the group is to increase delivery via the programme. The proposed Delivery Plan, attached at Appendix A, sets out plans to deliver 600 affordable homes by 2021.
- 3.13 The group also considered the council's role as a landlord and the council's aspiration for the level of housing stock to be retained. It is proposed that the aim is for 50% of the 600 homes delivered via the programme will be Council owned homes, thus retaining the council's rented housing stock (allowing for future Right to Buy sales) at 9000 properties. This is desirable because it provides economies of scale for cost effective management and maintenance of the housing stock and it provides direct control over properties that are used to meet the Council's statutory duties, particularly in terms of meeting its homelessness obligations.

Implications

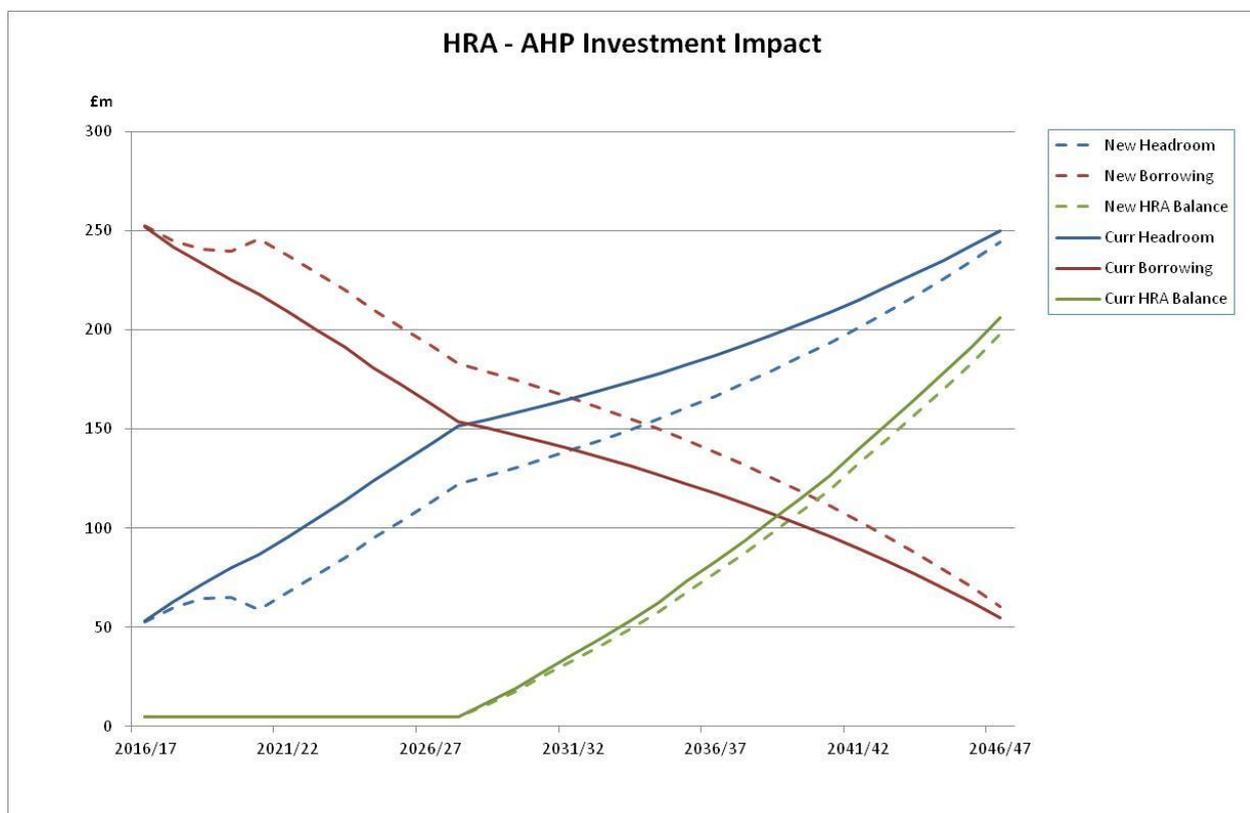
4 Legal Implication(s)

- 4.1 Cabinet agreed on 7 August 2012 for the council to enter into agreement, as proposed by the Secretary of State for Communities and Local Government, to allow the council to retain receipts from the reinvigorated Right to Buy (RTB) sales and to reinvest the allowed receipts in delivery of new affordable homes.

5 Financial Implication(s)

- 5.1 Currently funding of the AHP involves the use of RTB receipts to fund 30% of new affordable homes. The remaining 70% investment is found from the HRA, the attributable debt fund and investment from the RPs. Any receipts that are under spent after 3 years are returned to government and would receive a financial penalty of 4% above the base rate. So far the Council has not been subject to any penalties, as the receipts have been used within the prescribed timescale.
- 5.2 In order to facilitate the extended delivery plan and ensure that all of the retained receipts from RTB sales are reinvested locally, it will be necessary to utilise additional funding sources, outside of sales receipts and balances. Some of this investment can be met by internal borrowing from the General Fund, but in the long term it will be necessary to use HRA borrowing headroom that has accumulated since the Council took out the initial self financing loan.

- 5.3 As RTB receipts make up a significant proportion of the investment needed to deliver the plan and the number of sales can vary from year to year, decisions on investment levels and funding will be annually reviewed and will form part of the normal budget process for the Council. The decision making around when is the right time to take out additional borrowing will be a treasury management decision.
- 5.4 The current affordable housing programme, which is incorporated into the Council's capital programme, has a 5 year projection. With an opening Balance as at 1 April 2016 of RTB receipts of around £13m and an estimated further £17m of receipts over the next 5 years, it is assumed £3.1m of these will be returned to government. The receipts will go towards funding the £11.1m planned spend with Registered Providers and £29.8m planned spend on own stock (£8.9m from RtB receipts). The remaining sources of funding are assumed as follows: HRA Reserves £3.7m, attributable debt £7.2m, and new borrowing £10m.
- 5.5 The proposed delivery plan is an increase on the current plan of a further 300 affordable units. Of these 50%, or 150, are assumed to be delivered by Registered Providers with the other 50% for Council ownership. The estimated cost for the 150 units is £34.5million. RTB receipts of £4.3million and voluntary high value sales of £3million is assumed to be available to help fund this cost, but the bulk of the funding of around £27.2million is estimated to need to come from additional borrowing.
- 5.6 The graph below demonstrates the financial modelling completed to show the impact of the additional investment of 150 units in the affordable programme using a number of assumptions and based on data available in the final quarter of 2015/16. The year-end outturn position will provide an update to the assumptions. The estimates are based on:
- retaining a £5m contingency balance in the HRA,
 - savings of £2m to meet rent decreases are achieved in the HRA
 - slow rent growth after 4 year rent reductions
 - RTB sales reducing over medium term
 - a generally prudent approach to assumptions
 - based on current government policy - Impact of any future policy changes unknown
 - Does not include any assumed receipts from forced sale of high value properties



5.7 Investment in a further 150 properties is reflected in an increase in the amount of borrowing outstanding over the period and is shown by the dotted red line. Taking into account the current loan repayment schedule the revised programme will see total outstanding borrowing peak at around £246million in 2020/21. At this level there is still borrowing headroom of around £59million. The financial model predicts interest payments would peak in 2027/28 at around £9million per annum.

5.8 The purpose of the financial modelling was to demonstrate that the proposed strategy and delivery plan is affordable for the Housing Revenue Account, all other things being equal. The model will need to continue to be monitored and reviewed over the course of the delivery plan and action taken accordingly as part of the annual budget setting process.

6 Risk Management Implications

6.1 The Affordable Housing Programme has a risk management strategy in place which is regularly monitored by the project group and Steering Group.

6.2 Regular reports on the programme are presented to Cabinet Housing and Planning Panel.

6.3 The programme is highlighted on the Council's Corporate Risk Register.

7 Security and Terrorism Implication(s)

7.1 There are no direct implications in relation to security and terrorism.

8 Procurement Implication(s)

8.1 There are no direct procurement implications in relation the review and recommendations.

8.2 Any specific projects being taken forward will be subject to a further more detailed report.

9 Climate Change Implication(s)

9.1 The delivery of new affordable homes provides mechanisms for a range of products and initiatives that help reduce carbon emissions and tackle fuel poverty. The new homes will be built to high standards that help address climate change concerns including CO2 and water, waste reductions, local labour and transport, and modern methods of construction.

10 Link to Corporate Priorities

10.1 The subject of this report is linked to the Council's Corporate Priority to 'Meet the borough's housing needs' and in particular to 'increase the delivery of affordable homes'

11 Equality and Diversity

11.1 An Equality Impact Assessment (EIA) has not been carried out in connection with the proposals that are set out in this report. An EIA is in place for the AHP and EIAs are carried for specific initiatives that are part of the AHP.

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| Date | 11 May 2016 |

Background papers :

Cabinet 7th August 2012 Agreement to use the right to buy receipts for the Affordable Housing Programme

Cabinet 4th December 2012 Methods to deliver the Affordable Housing Programme

Appendices:

Appendix A AHP Delivery Plan