
Housing Revenue Account New Build Programme

To: **Cabinet – 3rd March 2016**

Main Portfolio Area: **Communities**

By: **Councillor Lin Fairbrass, Portfolio Holder for Community Services**

Classification: **Unrestricted**

Ward: **Beacon Road, Eastcliff, Newington, Northwood, Salmestone and Thanet Villages**

Summary: To approve the Housing Revenue Account New Build Project plan, financial spend and revised programme as part of the Homes and Communities Agency Affordable Homes Programme 2015-18.

For Decision

1.0 Introduction and Background

- 1.1 From the 1 April 2012 as part of the Localism Act the authority's Housing Revenue Account became self-financing. This means that the authority no longer pays over any notional surplus of income over expenditure to the Treasury. Instead, for a one off debt settlement, it is able to retain the rental income within the Housing Revenue Account.
- 1.2 This self financing system allows local authorities who received a healthy settlement to build new housing to add to their stock. This has been actively encouraged since the Localism Act. Thanet has a high need for affordable housing and a budget was agreed for a new build programme within the Full Council report of 6th February 2014.
- 1.3 In addition to the powers under the self financing Housing Revenue Account, a successful bid was made to the Homes and Communities Agency (HCA) for grant funding as part of the Affordable Homes Programme 2015-18. This was made to support a new build programme of 58 new homes across 12 sites. The bid secured £1.4 million of HCA grant funding.
- 1.4 Additional borrowing capacity of the HRA has also been achieved through a successful LA Growth Fund bid to the HCA Borrowing Programme team, for a further 20 new homes on 3 additional sites. This has resulted in a potential new build programme with a total of 78 new homes to be delivered.
- 1.5 The 78 new homes need to be completed by the end of March 2018. This is in accordance with the HCA grant funding conditions.
- 1.6 The 12 sites are all former and existing garage sites within the Housing Revenue Account portfolio. The sites were selected as a result of a garage audit which was undertaken in 2013/14 of all the garages within the Housing Revenue Account. The

findings demonstrated that there was a total vacancy rate of 50%, highlighting that the best use of these assets was not being achieved. The audit helped to inform the selection process of sites suitable for redevelopment as housing, taking the vacancy rates and demand for garages at each site into consideration. Planning consents were achieved for 10 of the garage sites in the spring of 2014 and planning applications are being prepared for the remaining 2 sites. An additional site at King Street was purchased at auction to combine with the Brights Place garage site in order to unlock the full potential for development.

2.0 The Current Situation

- 2.1 The new build programme was originally budgeted for in the Budget Report taken to Full Council in February 2014. The original cost analysis undertaken for the sites to initially inform the bid to the HCA has been revisited as there had been a time lapse of 18 months. Due to general inflation and a more detailed analysis of the conditions of each site being undertaken by a consultant, the costs have risen overall by £924,161.49 across the 12 sites.
- 2.2 This has impacted on the overall HRA Business Plan and budget plans for the new build programme. It means that delivering the 78 units as originally planned is not going to be possible before the March 2018 HCA deadline as there is not sufficient budget within the HRA. It is proposed in this report that we continue to deliver the 58 units which have funding secured from the HCA, that we withdraw from the HRA Borrowing Programme and we postpone the delivery of the additional 20 units until the HRA balances have been replenished. This would not result in TDC returning any funding to the HCA because the borrowing programme was not funded through grant but through a permitted increase in the HRA borrowing cap. The 1% rent reduction over the next 4 years will result in a loss of £4.56million to the HRA. Welfare reform and the Housing Association Right to Buy proposals have also added pressure to the Housing Revenue Account.
- 2.3 The Council has already successfully delivered 5 new affordable homes on two garage sites through a previous Affordable Homes Programme in 2011. The 58 units is a significant increase from the previous delivery programme and requires a dedicated delivery team and the procurement of external contractors. The delivery programme is detailed below:
- 2.4 **Delivery Programme** - Annex 1 outlines the proposed delivery programme of the 58 units. It details the unit types to be delivered, planning status of the sites and proposed timescales for delivery. These 58 new homes are a mixture of flats, bungalows and houses and will provide for a range of housing need. Upon completion they will be allocated to eligible households on the Council's Housing Register in accordance with the Allocations Policy and Tenancy Strategy. This project allows the council to add to the overall provision of affordable housing in the district to help address the high level of need. The delivery of affordable housing by Housing Associations is becoming increasingly difficult due to funding cuts at central government level.
- 2.5 A Steering Group has been set up to manage the project with input from Strategic Housing, Finance and East Kent Housing. The group meet monthly to progress the project, manage the risk register and issues log. TDC are required to report back to the HCA on the progress of the project, with quarterly meetings. All grant funding is claimed through the HCA's Investment Management System (IMS) for which officers will be receiving training.

- 2.6 **Procurement plan** – The proposals for the procurement of the project are set out in Annex 2. In summary, the sites have been grouped into two geographical packages. There will be two separate project teams working to deliver the two packages. This is considered to be the most cost effective way to procure the project and to ensure we meet the HCA funding deadlines. This method of procurement will allow design, project management and construction to be undertaken simultaneously and at the required pace, permits contributions by locally based, smaller companies and also invites cost efficiencies such as combined site offices and management within each package. The Client's Project Managers will manage the professional teams including the contractors on behalf of the council.
- 2.7 **Design Guide and Space Standards** - A Design Guide has been produced for all new housing projects to ensure consistency across the new stock being added to the council's housing portfolio. The content has been developed within the Steering Group, having been derived from existing standards, specifications and lessons learned and continues to evolve in response to queries raised within the Group. This helps to allow for better management of the maintenance and repair programme of the housing stock for the future, as well as providing both design and construction contractors with our expected standards and requirements. All properties will be fully compliant with the HCA scheme Design Standards and built to Lifetime Homes Standards. Lifetime Homes Standard help to ensure that homes are future proof and adaptable as the resident's needs change over time, for example, it is much more cost effective to build in drainage for a potential downstairs flush floor shower at the outset, than to have to install this post construction.
- 2.8 We are required to comply with the HCA Level 1 Space Standards which dictate overall unit sizes and ensure that the units provided are fit for purpose, allowing and allows enough space for a good quality of life and a practical space for tenants.
- 2.9 **Risk Register** - A risk register has been created for each site to ensure there are processes in place to tackle any risks which could affect the delivery of the new homes. There are generic 'high level' risks for all of the sites which are highlighted in Annex 3. This risk register is managed within the Steering Group for the project and reported to the HCA.
- 2.10 We need to include a budget amount for potential compensation issues which could arise on the sites as detailed in the risk register. These will be based on professional advice from a valuer and will be a revenue cost.
- 2.11 **Rent Levels** - As we are utilising HCA funding for the programme we are required to set rent levels at an affordable rent in line with the Rent Standard Guidance. Affordable rents are calculated at up to 80% of market rents and are inclusive of service charges. As part of the Summer Budget 2015 the Government announced that Affordable Rents would be reduced by 1% a year for four years until 2020/21. The rent baseline for the reductions is the rent payable on 8th July 2015. The affordable rent on these properties would therefore decrease by 1% the year following completion and then each year until 2020/21.
- 2.12 **HRA Business Plan** - The rental income from affordable rent properties is re-invested to deliver further affordable housing. Therefore the decrease in rental income will have an impact on any future development plans and the business plan has been updated accordingly. The average payback period for these development sites is 30 years. The HRA reserves and balances have been fully utilised to fund this development and balances will remain low for the next four years.

2.13 **Consultation** - We will be liaising with neighbours and local residents in conjunction with East Kent Housing and ward councillors on the progress of the project. This will take place following the appointment of the contractors and when we are nearer to commencing construction works in the summer.

2.14 Some of the garage sites due to be redeveloped are in poor condition. A number of complaints have been received by East Kent Housing from local residents about antisocial behaviour, particularly in Beacon Road ward. The ward councillor has also expressed concern in relation to the condition of these garages and the anti social behaviour. We will be erecting hoarding at some of the sites in the next couple of months, although works will not be commencing until the autumn. We will be liaising with neighbours and local residents in conjunction with East Kent Housing and ward councillors on the progress of the project.

3.0 Options

3.1 To continue to deliver 58 new affordable homes utilising HCA grant funding and HRA balances. Withdraw from the HRA Borrowing Programme and look to deliver additional units at a later date.

3.2 To withdraw from the new build programmes completely, which will result in the loss of £1.4 million of HCA funding. This option is not recommended.

4.0 Next Steps

4.1 To progress with the new build programme as outlined in the agreed option. Members will be updated on the progress of the programme following the first full year of works. Ward councillors will be made aware of any changes to start on site dates to ensure they can update their constituents. We will be undertaking some public consultation in conjunction with East Kent Housing to ensure residents are aware of the proposals as the planning applications were submitted in 2014, it is important to provide residents with up to date information.

5.0 Corporate Implications

5.1 Financial and VAT

5.1.1 The development project will be funded by HCA Grant, Prudential Borrowing, HRA Reserves and Revenue Contributions in 2015/16 and 2016/17.

5.1.2 Officers from the finance department form a key part of the Steering Group.

5.2 Legal

5.2.1 Prior to the planning applications being submitted in 2014, legal title searches were undertaken for each site to ensure we were not encroaching on any rights of way or breaching any legal covenants. These searches informed the layouts and designs of the housing.

5.2.2 Fresh title searches have now been undertaken as the previous ones were nearly two years old, to make sure there were no new issues to consider. The latest title searches have raised a few issues which we have incorporated into the new cost appraisals.

- 5.2.3 The relevant searches such as services and contamination are also being undertaken for each site to ensure we know as much information as possible before sites are passed over to the selected contractor. Developments must accord with Planning Permission and Building Regulation consent.
- 5.2.4 The legal searches have concluded there are some generic risks to the project. These have been accounted for within the project risk register. These mainly relate to rights of access which could be claimed on sites which are not registered with the land registry. People are entitled to submit claims to land registry at any time. We have aimed to mitigate against such risks where possible through the design process and layout of the sites.
- 5.2.5 In order to develop 5 of the sites, we need to purchase back up to 6 garage leaseholds and freeholds previously sold through the right to buy. A report was taken to Cabinet in September 2014 and Cabinet approved that the Director of Community Services has delegated authority to acquire leaseholds and freeholds on Housing Revenue Account land.

5.3 Corporate

- 5.3.1 Building new affordable homes has strong links with the ethos and priorities of the Corporate Plan. In particular, Priority 2 Supporting neighbourhoods – ‘We will work with partner agencies through the Thanet Health and Well Being board to support people to make better lifestyle choices and operationally through our range of services provided directly to residents –specifically ensuring local residents have access to good quality housing, which meets peoples changing needs and aspirations that is safe and affordable.’
- 5.3.2 To date there are 1790 households on the housing register (January 2016). The Strategic Housing Market Assessment indicates that there is a need for 397 new affordable homes per annum up to 2031. Last year, (2014-15 financial year) only 38 new affordable homes were completed in Thanet. Demand continues to outweigh supply and by delivering local authority homes, we are adding to the affordable housing stock available to households in housing need.

5.4 Equity and Equalities

- 5.4.1 The new build programme aims to improve housing opportunities in Thanet and make better use of our Housing Revenue Account assets to benefit residents. Garage sites were included in housing developments from the 1960’s to the 1980’s and in most cases have a lack of natural surveillance that attracts ASB and fly tipping. By redeveloping these sites we are removing these problem areas and making best use of council owned land. The housing will be allocated to households on the housing register in accordance with the Allocations Policy, for which an Equalities Impact Assessment has been undertaken.
- 5.4.2 The new build programme includes a number of bungalows, flats and houses. This creates a mixture of new homes providing for a range of households on the housing register. All homes will be built to Lifetime Home standards, which ensures the housing stock will meet households changing needs and be more adaptable. For example, installing the plumbing to enable a flush floor shower to be installed downstairs, should this be required in the future. It is much more cost efficient to install at the new build stage to reduce the cost of any future adaptations. Some of the units will be built to wheelchair standards, which helps to meet a more specific need for households on the housing register, as the supply is low from housing associations and private developers.

6.0 Recommendation(s)

- 6.1 Approve the revised new build programme as set out in Annex 1 and capital programme spend of £10,082,372.01;
- 6.2 Approve the Council's withdrawal from the CLG approved HRA Borrowing Programme as resources are no longer available within the HRA Business Plan to support this additional borrowing as a consequence of the national 1% reductions in affordable and social rents over the coming 4 years;
- 6.2 Approve the provision of 58 affordable rented homes to be added to the Council's Housing Revenue Account portfolio and let to eligible households on the Housing Register.

7.0 Decision Making Process

This is a key decision for Cabinet, setting out the details of the new affordable homes programme within the Housing Revenue Account. The funding of the programme is already set out in the approved budget framework of the Council.

Contact Officer:	Lauren Hemsley – Strategic Housing Manager
Reporting to:	Bob Porter – Interim Head of Housing

Annex List

Annex 1	New Build Target Programme Summary
Annex 2	Procurement Plan
Annex 3	Risk Register

Background Papers

Title	Details of where to access copy
The Housing Revenue Account Self Financing Determinations, DCLG	https://www.gov.uk/government/publications/the-housing-revenue-account-self-financing-determinations--2
HCA Affordable Homes Programme Prospectus 2015-2018	https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/343896/affordable-homes-15-18-framework.pdf

Corporate Consultation Undertaken

Finance	Sarah Hills, Strategic Housing Accountant
Legal	Ciara Feeney, Head of Legal Services and Deputy Monitoring Officer
Communications	Hannah Thorpe, Interim Head of Communications