

## Affordable Housing Delivery

<b>Council</b>	13 July 2023
<b>Report Author</b>	Bob Porter, Director of Place
<b>Portfolio Holder</b>	Cllr Helen Whitehead, Cabinet Member for Housing
<b>Status</b>	For Decision
<b>Classification:</b>	Unrestricted
<b>Key Decision</b>	Budget and Policy Framework
<b>Reasons for Key</b>	N/A
<b>Ward:</b>	All

### Executive Summary:

This report updates members on the approved affordable housing development programme and recommends that the council support a significantly accelerated programme.

The report sets out how an accelerated programme could be funded and delivered, and recommends that the council adopt a delivery target to acquire or construct at least 400 new affordable rented homes by 2027.

The report also identifies two new projects that can provide 51 new affordable homes quickly to kick start the 400 home programme, and recommends an additional HRA capital budget of £7.485m to fund these projects, subject to cabinet approving the project details at its meeting on 27 July 2023.

Further budget allocations will be recommended to council, as part of future budget setting and budget monitoring reports, to fund the remainder of the programme, as projects are identified.

### Recommendation(s):

It is recommended that Council:

1. Adopt the target to deliver at least 400 new affordable homes by 2027 and agree the proposed funding and delivery proposals set out in this report.
2. Replace the current phased approach to budgeting for the affordable housing programme with a single acquisitions and development budget.
3. Note that detailed projects will be presented to the Cabinet for approval as they are identified.
4. Approve an additional HRA capital budget of £7.485m to deliver 51 new affordable homes, as set out in 3.3 and 3.4 below, subject to Cabinet approving the details.

## **Corporate Implications**

### **Financial and Value for Money**

The financial impact of the new schemes proposed is laid out in the body of the report.

### **Legal**

Section 151 of the Local Government Act 1972 requires a suitably qualified named officer to keep control of the council's finances. For this council, this is the Director of Corporate Services and this report is helping to carry out this function.

The council's responsibilities in respect of the need to keep a Housing Revenue Account (HRA) are contained within Section 74 of the Local Government and Housing Act 1989 ('The Act') and its use is heavily prescribed through statute. The HRA records all of the revenue expenditure and income relating to land, dwellings and other buildings provided under Part II of the Housing Act 1985 and corresponding earlier legislation. It must be separate from the General Fund Revenue Account and therefore is to all intents and purposes ring-fenced.

Although the HRA for an individual year may result in a deficit, it is a requirement of 'The Act' that overall it must maintain a surplus, which means that expenditure must be carefully planned to remain within the limits of the anticipated income streams over the medium term.

### **Risk Management**

There are a number of key risks linked to the proposals set out in this report and the development and acquisition of new homes generally. The key risk areas are:

**Inflation and cost overruns:** Each individual construction project will be fully assessed for costs at each stage of the design process, and decisions about whether to proceed based upon an evaluation of the long term impact of the project. Part of the programme will include the purchase of newly constructed homes, this approach brings greater cost certainty.

**Rent Levels:** Assumptions have been made about future rent levels, and other variable factors within the Housing revenue Account Business Plan. These will be reviewed to take into account known factors when deciding whether to proceed with any specific project.

**Housing Demand Risk:** This is considered to be a very low risk, due to the level of housing need in the district, as set out in 1.3 of the report.

**Programme Delay:** This proposed programme does represent a significant step up in the construction and acquisition of new affordable homes for the council, and there is a risk of programme delay. The financial assumptions used within the report have included resources for additional project management and design team resources to mitigate this risk.

### **Corporate**

The provision of new affordable homes is a significant priority for the council.

## **Equality Act 2010 & Public Sector Equality Duty**

Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.

Protected characteristics: age, sex, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

This report relates to the following aim of the equality duty: -

- To advance equality of opportunity between people who share a protected characteristic and people who do not share it
- To foster good relations between people who share a protected characteristic and people who do not share it.

People with protected characteristics under the Public Sector Equality Duty are represented on the council's housing register and seek support from the council's homelessness services. The proposals set out within this report are considered to be beneficial to people with protected characteristics, as new homes will be allocated in accordance with the council's adopted allocations policy, which has been subject to a full Equalities Impact Assessment.

## **Corporate Priorities**

This report relates to the following corporate priorities:

- *Growth*
- *Environment*
- *Communities*

### **1.0 Introduction and Background**

1.1 The council is one of the main providers of new affordable housing in Thanet. In addition to its existing housing stock, the council has provided 144 new affordable rented homes through its new build and acquisition programmes since 2015. This represents 61% of the total of 313 new affordable homes provided by the council and its Housing Association partners over that period.

1.2 However, the Strategic Housing Market Assessment completed in 2020 identified a need for 548 affordable homes per year. New initiatives to increase the supply of new affordable homes are needed and this is recognised in the council's Housing, Homelessness and Rough Sleeper strategy, adopted by the Council in March 2020.

1.3 In addition, the council is facing a rapid growth in the number of homeless households. This has led to an increase in the number of households in temporary accommodation; currently 233 households are living in temporary accommodation provided by the council. Our first temporary accommodation development, at Foy

House in Margate is now completed and occupied. Furthermore, there are currently 1604 households in housing need on the council's housing register, waiting for a new home.

- 1.4 In addition to the 144 homes already delivered, the council has already approved the funding and delivery of a further 47 homes on identified sites as part of the on-going new build programme, with construction due to start early in 2024. There are further capital resources available within the existing approved HRA capital programme, and a site identified with capacity for around 20 homes, however it is important to note that this is dependent upon external funding for 40% of the cost, which is yet to be secured.
- 1.5 The currently approved Housing Revenue Account Business plan assumptions include further tranches of funding for new build; £8.1m in 25/26 and £8.1m in 26/27, which could deliver around 50-60 homes. The funds will also require 40% match funding (see section 2 below). The overall idea is to establish a long term rolling programme of development sites, with individual projects approved by Cabinet as they are identified and evaluated.
- 1.6 In addition to these new build projections, the council has purchased a large property in Edgar Road, with the final tranche of funding from the Cliftonville intervention programme (Live Margate) with the intention of converting to a further 16 homes. The property is to be used by the RISE service until March 2025, whilst the project is developed, with a planned start on site for the conversion works of April 2025. A detailed report will be presented to the Cabinet once detailed designs and costs are developed.
- 1.7 There is a further £2.2m in the general fund capital programme for a second Temporary Accommodation (TA) project following the success of Foy House, with potential for up to 10 homes. The council has also been allocated grant funding from the government's Local Authority Housing Fund for 9 homes for Ukrainian and Afghan refugees, and been offered access to a further round of funding for these needs.
- 1.8 In total, these approved projects/business plan assumptions will see the delivery of approximately 160 homes by 2026/27, bringing the total homes delivered to 300. The table in annex 1 shows a summary of these homes.
- 1.9 In addition to providing council with a summary of the affordable housing delivery plans already set out within the assumptions included within the approved Housing Revenue Account Business Plan, this report sets out proposals for accelerating this programme and delivering further homes, beyond the 157 - 172 summarised above.
- 1.10 There are a number of key assumptions included within these figures, as follows:
  - Rents within the programme are set at an affordable rent level, pegged to the LHA rate.

- In general, to acquire/build homes for affordable rent and charge an affordable rent, in a sustainable way, subsidy is needed at around 40% of the cost.
- Inflation in build/acquisition costs are generally in line with inflation in rents over the long term.
- Scheme costs include an allowance for professional fees and project management, including in-house services where appropriate.
- Each scheme is subject to a detailed affordability check to ensure that it covers its costs from rental income, over a 30-50 year period.
- The council's contribution to scheme costs is funded from borrowing, although internal borrowing will be utilised whilst the Council's cash balances are sufficient.
- Cash flow constraints in the early years of this modelling is a limiting factor in the HRA Business Plan.

## **2.0 Funding an Expanded Delivery Programme**

- 2.1 Work has been completed to explore whether the council's Housing Revenue Account could fund further homes, using a combination of capital borrowing and external subsidy. This work has been based on the same set of assumptions, as set out in 1.10 above.

### **Sources of Subsidy (Raising the 40%)**

- 2.2 There are a number of potential sources for the subsidy:

#### **Section 106 Contributions**

- 2.3 The preference is for section 106 agreements to secure homes on site. In this scenario, the developer effectively provides the necessary subsidy, and other forms of subsidy are generally prohibited. The subsidy is secured by negotiating a discounted purchase price/transfer value.
- 2.4 Commuted sums can be secured in exceptional circumstances. The council currently has uncommitted section 106 monies of £295k for affordable housing.

#### **Homes England Grant:**

- 2.5 TDC is a recognised delivery partner with Homes England and is able to bid for grant funding. Grant funding at 40% is a reasonable expectation. It is dependent on the availability of match funding and subject to the resources available to Homes England. Homes England operates an on-going grant bidding process and bids can be submitted as schemes are identified. A link to the Homes England 5 year Strategic Plan, 2023 to 2028 is annexed to this report. More detail on the funding conditions for Affordable Housing Grant is set out in Homes England's Capital Funding Guide, and a link is provided at the end of this report.

### **Right to Buy Receipts:**

- 2.6 The council can utilise a portion of right-to-buy receipts for new build and acquisition programmes. The funds can pay up to 40% of scheme costs. The receipts currently held by the council are already allocated to existing projects, and the rate of sales has reduced over the past year due to current economic circumstances.

### **Affordable Rents**

- 2.7 The capacity of the business plan to provide sufficient funding for investment in new homes is dependent upon rent policy. The Council currently has a policy of setting affordable rents at the lower of 80% of market rent or the Local Housing Allowance (LHA) rate.
- 2.8 LHA rates have not been increased since 1st April 2020 and will remain fixed until at least 2024/25.
- 2.9 A potential risk with this policy is that if the government does not vary the LHA rate then future year income streams would not increase at the same rate as revenue costs would within the HRA, impacting on long term viability.
- 2.10 In assessing the capacity of the council's HRA to fund further development, it has been assumed that, after year 1 (2023/24) where the government has already confirmed a freeze in LHA rates, rental levels will increase by at least a CPI +1% annually.
- 2.11 The Council can choose to set affordable rents at up to 80% of market rent and move away from setting a maximum of LHA rates should it wish to develop out more units and achieve more income for the HRA business plan. A decision to set rents at a lower level would reduce the capacity of the business plan to provide match funding. Where schemes are supported with Affordable Housing Grant from Homes England, rent levels will need to be agreed as part of the funding agreement.

### **Scheme Viability**

- 2.12 Officers have developed a detailed viability assessment tool to assess the viability of individual schemes, which is used to inform a go/no-go decision for individual proposals. It is essential for the viability of the overall programme that only schemes that have a positive impact on the HRA Business Plan or General Fund are delivered.
- 2.13 To be viable, schemes need to show an overall surplus over a 30 or 50 year timescale, depending on the duration of any borrowing. The assessment tool operates like a mini business plan and takes into account all relevant costs and income, including rent income, capital costs, professional fees and project

management, the costs of borrowing and management, maintenance costs and depreciation over the lifetime of the homes.

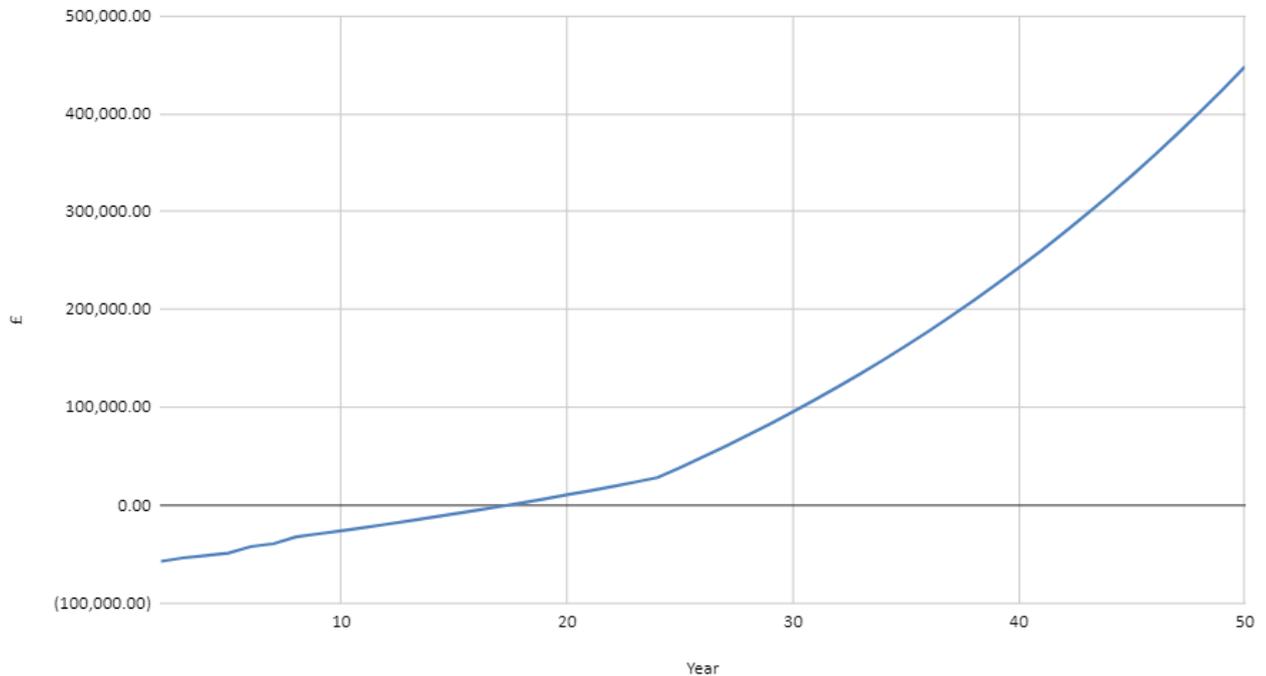
2.14 Although viable schemes show a surplus over their lifetime, cash flow in the initial years is always in deficit. It is this cash flow deficit that acts as a limiting factor in the scale of the programme, especially as the HRA is currently running a deficit budget (current annual expenditure exceeds annual income streams) and is therefore reliant on contributions from revenue reserves. Pressures on General Fund revenue budgets also act as a limiting factor, and any temporary accommodation projects proposed as part of this programme will need to be able to cover any revenue pressures from existing budgets.

2.15 This is best illustrated by a worked example. The worked example is based upon the purchase of 42 new affordable homes, at Spitfire Green, Westwood, as part of a section 106 agreement. Section 106 agreements require developers to transfer completed homes to an affordable housing provider at a value that makes an affordable rent viable. This means that the developer effectively provides the necessary subsidy in the form of a discounted purchase price below market value. In this example the capital cost for the 42 homes is £5m. The example would have the following impact on the HRA business plan:

<b>Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>18</b>
<b>Revenue Income</b>					
Rental income	(259,536.37)	(259,536.37)	(270,696.43)	(277,355.56)	(419,525.17)
<b>Revenue Costs</b>					
Management Contribution	6,720.00	7,056.00	7,408.80	7,779.24	10,264.54
Revenue Repairs	3,192.00	3,351.60	7,038.36	7,390.28	68,259.20
Major Repairs (Capital contrib)	58,380.00	61,299.00	64,363.95	67,582.15	89,173.21
Insurance	8,400.00	8,820.00	9,261.00	9,724.05	12,830.68
<b>Saving before MRP and interest</b>	<b>(182,844.37)</b>	<b>(179,009.77)</b>	<b>(182,624.32)</b>	<b>(184,879.85)</b>	<b>(238,997.54)</b>
Interest on debt	236,845.00	236,845.00	236,845.00	236,845.00	236,845.00
<b>Net cost/(saving)</b>	<b>54,000.63</b>	<b>57,835.23</b>	<b>54,220.68</b>	<b>51,965.15</b>	<b>(2,152.54)</b>

2.16 The cash flow for this scheme is shown over 50 years, in the chart below:

### Spitfire Green - Business Plan Impact



- 2.17 This example shows a cash flow deficit in year 1 of £54k and a break even point in year 18, with surpluses accumulating between year 18 and year 50. To be deliverable, projects will need to show a surplus over a 30 to 50 year period.

#### **New Properties Reserve**

- 2.18 To unlock the accelerated delivery of additional affordable homes, it is essential that there is revenue support available during the initial years of each project, to cover the initial cash flow deficit.
- 2.19 The Council currently budgets an annual £300k capital contribution to the New Properties Reserve to fund future acquisitions or construction. This £300k is funded by a revenue contribution to capital from the rents of the 144 affordable rented homes already completed (see paragraph 1.1).
- 2.20 If this budget is used to support the revenue deficit in the initial years of future schemes, rather than contributing to the capital cost, an increased number of projects could be supported and more new homes constructed or acquired. It should be noted that this change in approach will result in a marginal increase in the overall cost of the programme, as more borrowing is undertaken in place of the £300k contribution, however it will not have a material impact on the viability of individual schemes and as such it will ultimately aid achieving the goal of increased delivery.

- 2.21 A similar approach is also possible within the General Fund for future temporary accommodation projects, with the revenue deficits in the initial years of any projects funded from existing temporary accommodation budgets.

## **Setting an Increased Delivery Target**

- 2.21 It is difficult to determine the exact number of homes that can be funded and delivered in this way as it depends on a range of variables, including:
- the mix of property sizes within any proposed project,
  - the interest rate on long term borrowing rate at the time,
  - Inflation, particular in build or acquisition costs,
  - The Local Housing Allowance rates and rent policy.
- 2.22 The worked example, set out at 2.15 above, consisting of 42 units, would generate a £54k cash flow deficit in year 1. Therefore, if we apply the same assumptions to future schemes the HRA could fund an additional 230 homes (including these 42) with borrowing, provided the necessary external subsidy could also be secured, from one of the sources set out in sections 2.2 to 2.6. A number of factors could enable more than 230 additional homes to be delivered, such as:
- Increases in the LHA rate by government which allow the Council to increase rents by CPI +1%,
  - Lower interest rates on new borrowing.
- 2.23 In summary approved budgets and existing business plan assumptions will enable the delivery of approximately 160 homes. An additional 230 homes could potentially be delivered within the HRA by using the New Properties Reserve to support revenue costs. Future temporary accommodation projects within the General Fund could increase this number further.
- 2.24 Across these programmes and funding opportunities, a new target to construct or acquire at least 400 homes by 2027 is affordable, subject to the necessary external funding. It is not possible to project the precise cost of a programme of this scale. Costs will significantly depend on the size and cost of homes provided. However, based on the average cost of the homes provided to date, it is likely the total cost would be between £90m and £100m, with £54m to £60m funded from council borrowing and £36m to £40m funded from external sources, as set out in paragraphs 2.2 to 2.6. It should be noted all the financing of this additional borrowing will be ring fenced within the HRA and therefore it has no impact on the General Fund or the setting of Council Tax.

## **3.0 Opportunities to Deliver a Programme of this Scale**

- 3.1 The council has already identified opportunities to deliver around 83 new homes, across the projects set out in section 1 of this report, all of which have previously been considered by the Cabinet.

- 3.2 In addition, the council monitors all housing sites that have section 106 sites requiring the delivery of affordable homes, and works with registered providers (housing associations) and developers to ensure that these homes are constructed and transferred to a suitable registered provider. Housing Associations are increasingly looking for large scale sites providing 100 or more affordable homes, and the developers of smaller sites find it more difficult to secure a delivery partner. Of the 743 affordable homes, specified in existing section 106 agreements, around 135 homes do not currently have an identified delivery partner. These are a potential source of future projects for the council, assuming that suitable terms could be agreed. Further agreements are expected in the future.
- 3.3 The worked example, set out in 2.15 and 2.16 above, at Spitfire Green, Westwood, is an example of this type of project. Subject to approval and contract negotiations have been held with the developer, Barrett Homes, and a provisional agreement has been reached to purchase the 42 affordable homes for £5m. The report therefore recommends that council approve a capital budget of £5.05m to complete this acquisition and fund the necessary expenses.
- 3.4 The council has been allocated £1.19m funding from the Local Authority Housing Fund (LAHF) to support the acquisition of nine homes, initially for Afghan and Ukrainian refugee households and subsequently to form part of the council's general housing stock. Discussions have taken place with a local developer currently developing the Westwood Cross site to purchase 6 x 3 bed units and 3 x 4 bed units. They are nearing completion and will be ready by the end of June 2023. The LAHF allocation requires match funding from the council's HRA of £1.245m. The proposed purchases and all associated expenses and costs will be contained within this overall budget. Cabinet considered a report about this project at its meeting on 15 June 2023 and recommended that council agree to the necessary budget.
- 3.5 There are also a number of landowners approaching the council to explore whether the council would be interested in purchasing land for the delivery of new homes, or in working in partnership, or as part of a joint venture to deliver homes. We are currently aware of sites like this with capacity for around 90 homes, but it is likely that further opportunities will arise.
- 3.6 These options clearly demonstrate that opportunities do exist to deliver a programme of at least 400 homes by 2027. As projects are identified and evaluated, proposals will be presented to Cabinet for approval, where they are affordable and sustainable. Capital budgets will be reviewed as part of routine budget setting and monitoring as these programmes progress, so that council can approve the necessary funding at the appropriate time.
- 3.7 In the meantime, this report recommends that council approve additional capital budgets of £7.485m to progress the projects set out in 3.3 and 3.4 above. If approved, both projects will be considered by the cabinet at its meeting on 27 July 2023, with a recommendation to proceed with the purchases.

Contact Officer: *Bob Porter (Director of Place)*  
Reporting to: *Colin Carmichael (Chief Executive)*

## **Annex List**

*Annex 1: Existing Proposals for Affordable Housing Delivery [Link](#)*

## **Background Papers**

*Title: [Link](#) to Strategic Housing Market Assessment, 2021*

*Title: [Link](#) to the Housing, Homelessness and Rough Sleeping Strategy, 2020*

*Title: [Link](#) to Homes England 5 Year Strategic Plan 2023 -2028.*

*Title: [Link](#) Homes England Capital funding Guide*

## **Corporate Consultation**

**Finance:** [Chris Blundell \(Director of Corporate Services - Section 151\)](#)

**Legal:** [Sameera Khan \(Interim Head of Legal & Monitoring Officer\)](#)