

Funding New Affordable Homes

Meeting	12th October 2023
Report Author	Ashley Jackson, Head of Housing and Planning
Portfolio Holder	Cllr Helen Whitehead, Portfolio Holder for Housing
Status	For Decision
Classification:	Unrestricted
Key Decision	No
Reasons for Key	No - Policy and Budget Framework
Ward:	All wards

Executive Summary:

This report updates members on the approved accelerated affordable housing development programme and recommends that the council allocate funding appropriately as part of the capital budget. This report asks that an additional £12m is allocated to the single acquisition and development of further projects as part of the programme previously approved by Council in July 2023.

Further allocations of funding to the single acquisition and development budget will be included in the 2024/25 budget report in February 2024.

The report sets out how the accelerated programme could be funded and delivered.

Individual site updates will be presented to cabinet, and an update on the accelerated housing programme and delivery will be presented to council annually, as part of the budget setting process.

Recommendation(s):

It is recommended that Council:

1. Approve an additional interim budget of £12m to the single acquisitions and development budget to continue delivering the accelerated affordable housing delivery pledge.
2. Note that detailed projects will continue to be presented to the Cabinet for approval as they are identified.

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

The Council has power under Section 9 of the Housing Act 1985 to erect or acquire houses for the purpose of providing housing accommodation. The houses so acquired must then be dealt with in accordance with the provisions of the Act, and any relevant subsequent legislation and may become subject to Right to Buy.

RTB receipts must be applied in accordance with relevant legislation and guidance and particularly Section 11(6) of the Local Government Act 2003 (LGA 2003) and the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 (as amended) and the terms of any agreement reached under the Local Government Act 2003 modifying the applicability of the regulations. In finalising the Plan, the Authority must comply with the public sector equality duty as set out in S149 of the Equality Act.

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:

Interest Rates: The key assumption in accelerating delivery is interest rates on required borrowing. The current affordability model assumes current interest rates, however if these were to unexpectedly increase at the time of borrowing then there would be an adverse impact on the HRA business plan. This can be mitigated largely by continuing to monitor inflation and following external advice from our treasury advisors on forecast rates.

Rent Levels: Assumptions have been made about future rent levels within the affordability model and an assumption that affordable rent can be charged. The annual rental increase is linked to CPI inflation and current Bank of England forecasts for CPI have been used when costing up affordability. As it's forecast that rates are to reduce, only a faster reduction in rates would have an impact on the current assumptions and even then the impact isn't likely to be significant.

Housing Demand Risk: This is considered to be a very low risk, due to the level of housing need in the district.

Programme Delay: This proposed programme does represent a significant step up in the acquisition of new affordable homes for the council, and there is a risk of programme delay. The financial assumptions used within the modelling 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 Council agreed at its meeting on 13 July 2023 to deliver an accelerated affordable housing programme of at least 400 homes over a 4 year period. The report informed members about elements of this programme that had already been agreed, with allocated budgets totalling £28.315m over 3 years and approved a further budget for the first two projects of the accelerated programme of £7.485m. Housing Revenue Account Business plan assumptions include further tranches of funding for new build; £8.1m in 2025/26 and £8.1m in 2026/27.
- 1.2 The previous report projected that the total cost of the accelerated programme would be between £90m and £100m, with £54m to £60m funded from council borrowing and £36m to £40m funded from external sources. Details about the potential sources of external funding were also provided in the July report.
- 1.3 The currently approved budget of £36.816m over 4 years is allocated to existing projects, already agreed by cabinet, which will deliver between 123 and 128 homes. Of this amount, £12.516m is in the 2023/24 approved capital budget and is already committed to existing projects. Further resources over the four financial years from 2023/24 to 2026/27 will be required to complete the programme. The exact costs will depend upon a range of factors, including the size and type of new homes, inflation

over this and the next 3 years and the level of subsidy secured to support the programme. At this stage, the additional resources required are estimated to be around £65m over this period.

- 1.4 This report recommends that the council commit to including these additional resources within the capital programme in tranches for each financial year, with an additional £12m for the current financial year. The subsequent tranches will be reported annually to council as part of the budget setting process each February. The use of this funding is dependent upon the council securing the required level of subsidy or discount to make schemes viable, estimated at around 40% of the total cost.

2.0 Scheme Viability

- 2.1 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.
- 2.2 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.
- 2.3 Although viable schemes show a surplus over their lifetime, cash flow in the initial years is often in deficit. It is this cash flow deficit that acts as a limiting factor in the scale of the programme. The Council has established a new property reserve of an annual £300k to cover these initial cash flow deficits.
- 2.4 Each new project will be reported to Cabinet with details of its impact on the Housing Revenue Account, and the cash flow position over its lifetime and only schemes that are financially viable will be recommended for approval.

3.0 Opportunities to Delivery

- 3.1 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.
- 3.2 In addition, following the approval of the accelerated programme by council in July 2023, the council is in negotiation for the acquisition of a further 51 homes, committing £7.485m.

- 3.3 Since July, opportunities have arisen to acquire a further tranche of new homes. In total, 73 homes across 5 sites. The details of these sites will be presented to Cabinet for approval, setting out details of the costs and financial viability. This report recommends an interim budget of £12m to fund these purchases. Details of the match funding, in the form of discounted purchase values or grant funding, will be considered by Cabinet when considering each individual project..
- 3.2 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. It is anticipated that further opportunities will arise during the coming period.
- 3.3 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. Subject to approval and contract negotiations have been held with the several developers.
- 3.5 As sites 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.

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