

CABINET

Delivering New Council Housing in the District 5 November 2013

Report of Chief Officer (Health and Housing)

PURPOSE OF REPORT			
To set out the options for increasing the availability of council housing within the district and to seek approval to procure a preferred partner to deliver a new build housing programme, and to approve the establishment of an acquisition programme.			
Key Decision	X	Non-Key Decision	Referral from Cabinet Member
Date of notice of forthcoming key decision		7 October 2013	
This report is public.			

RECOMMENDATIONS OF COUNCILLOR LEYTHAM

- (1) That a programme of new build council housing is established as set out in the report.
- (2) That the council works with the Lancashire Regeneration Property Partnership to develop a scheme to deliver a programme of new build council housing as set out in the report and that detailed proposals be brought back to Cabinet for approval prior to entering into any contractual commitment.
- (3) That a scheme for acquiring ex-council housing properties is also established as set out in the report, and that detailed proposals are brought back to Cabinet for approval.

1.0 Introduction

- 1.1 At the February meeting Cabinet approved in principle to invest in new one-bedroom accommodation within the district using funding from the Business Support Reserve, and that detailed proposals be brought back to Cabinet following input from the Housing Regeneration Cabinet Liaison Group. It was proposed that officers report back to the Housing Regeneration Cabinet Liaison Group with a range of options for potential schemes in the district, providing potential costs, locations and timescales and addressing any other relevant issues.
- 1.2 The original report to Cabinet highlighted that there were numerous issues to be addressed before embarking on any investment:

- How many units are needed?
- Where would they be built, on existing council estates or elsewhere?
- Ensuring suitable expertise to manage a new build programme.
- Planning issues and considerations.
- Would conversion of existing empty properties be more or less cost effective and viable than new build?
- Is it affordable, given decisions on rent policy?
- What are the likely timescales?

1.3 The list was by no means exhaustive but demonstrates the considerations to be addressed in developing detailed proposals for decision, and implementation. Officers have been investigating these issues and looking at how a programme could be delivered.

2.0 Background

2.1 **Housing need and supply** - The council's "Meeting Housing Needs Supplementary Planning Document" formally adopted in February 2013 sets out the district housing requirements and this has been taken into in developing proposals.

2.2 The council's own housing register also confirms the need for additional council housing particularly 1 bedroom accommodation; as is shown in the table below:

Housing waiting list by bed need						
Bed Requirement	Number on Housing waiting list by need					Total all bands
	Band A	Band B	Band C	Band D	Band E	Number on waiting list
One bed	30	103	465	645	399	1642
Two bed	14	46	288	285	126	759
Three bed	4	12	126	77	59	278
Four bed	3	3	12	24	6	48
Five bed	0	2	3	1	6	12
Six bed		1		0		1
						2740

2.3 Analysis has also been undertaken of the bedroom needs of council housing tenants who have been subjected to reductions in their housing benefit entitlement due to having bedrooms surplus to the requirement set down in the housing benefit regulations.

Size Criteria Surplus - one extra bedroom	
Number of tenants	Bedroom Requirement
199	1
179	2
10	3

1	4
1	5
Total 387	

Size Criteria Surplus - two (or more) extra bedrooms	
Number of tenants	Bedroom Requirement
89	1
7	2
Total 96	

- 2.4 This further highlights the need for smaller bedroom accommodation.
- 2.5 The council has 3784 council housing properties. The number of properties coming available for relet fluctuates each year.
- 2.6 In 2012/2013 the council relet just over 400 council housing properties of which 190 were 1 bedroom relets. The following table give an indication of the overall annual supply of council housing.

Council housing lettings 2012/2013

Lets by property type	bedsit/ studio	1 bed	2 bed	3 bed	4 bed	5 bed	Total
Bedsit/studio	15	6	0	0	0	0	20
Bungalow	0	79	10	0	0	0	89
Flat	0	94	89	0	0	0	184
House	0	11	25	62	7	0	105
Maisonette	0	0	6	0	0	0	6
ALL	15	190	130	62	7	0	404

- 2.7 The evidence of demand and supply supports the original Cabinet view that the council should invest in new one-bedroom accommodation within the district.
- 2.8 **Meeting housing need** – The council can deliver homes directly, and has options to deliver its ambition to increasing the availability of council housing in the district including new build housing programme and acquisition. It is proposed that a new build housing programme is established alongside a scheme to acquire ex-council housing properties.
- 2.9 **New build housing programme** – Embarking on a new build council housing programme will be a new venture for the council. The last time any council housing was built within the district was in 1994/1995 when two bungalows were built at Heysham.

- 2.10 It is proposed any new build council housing will be designed to meet the code for sustainable homes Level 4, meaning a lower carbon footprint, and reduced energy bill for tenants. All properties should also meet the Homes and Communities Agency's (HCA) quality standards for internal size. Consideration will also be given to building to meet "lifetime home standards".
- 2.11 It is also proposed that individual developments comprise no more than 16 to 20 homes on any one site. Part of the brief for flats will include a requirement for each flat having direct access to the "street"; not through internal communal corridors, and that the overall design minimises any service charges.
- 2.12 The aim is to produce well designed and attractive homes where tenants can afford to live. A detailed design brief would be drawn up for each site to achieve this.
- 2.13 **Establishing a "development team"** - The delivery of a new house building programme has to be properly resourced, and will require a "development team". There are a number of key activities that require resourcing:
- Site finding.
 - Feasibility appraisal of sites
 - Project management – from inception to completion e.g. full project management service inclusive of programme management, contract administration services, supply chain management, customer relations and contract management
 - Cost management services – full cost management ranging from initial cost planning, cost monitoring and management through the design phase, adherence to budgets and post contract cost control
 - Design services – conceptual designs, all survey work (topographical, ecological etc), detail design, provision of construction information for build purposes
 - Delivery of projects – construction
- 2.14 The council does not currently have the internal organisational experience to comprehensively and directly deliver a new build housing programme. Officers have explored a number of options to establish a "development team" including the use of national design and construction companies, and existing partnerships.
- 2.15 The council is already a party to the Lancashire Regeneration Property Partnership (LRPP), a framework agreement that has been subject to the OJEU procurement rules, which can be directly accessed to provide the services and delivery required.
- 2.16 This strategic partnering agreement came into existence in December 2012 with Carillion being appointed as the successful partner for the north of the County; including this district. Carillion are a multi-national company and have a strong Northwest/Lancashire presence.
- 2.17 The anticipated benefits of the LRPP are that it would bring both capability and capacity in key areas in terms of resources to deliver the proposed

programme. The partnership would provide the vehicle to deliver the programme without the need to undertake a separate procurement process. In addition the partnership should bring new ways of working, thinking and models of delivery.

- 2.18 The LRPP would also work with the council to develop the strategy for development; it would act as a single point of contact for the procurement and delivery of the programme, and provide the overall management of the programme.
- 2.19 There are other similar frameworks the council could apply to be a party to, for example, Scape, which is a partnership established in the East Midlands. The council could also look to procure services from an individual housing association or housing association consortium that have a development team.
- 2.20 The officers preferred route, subject to proper due diligence enquiries, would be to utilise the LRPP. Due diligence enquiries would include taking a detailed look at each of the elements of the services being offered clarifying the scope, professional liabilities, financial liabilities, and charges. Officers have had initial discussions with LRPP, and it would appear that this route may present a viable way forward. Following a meeting with the Lancashire County Council Head of Estates and the Partnership Director, the LRPP has come forward with initial proposals for the council to consider. These are outline proposals and do not identify the fee rates, and as mentioned previously, full due diligence checks need to be undertaken before entering into any agreement.
- 2.21 The advantage of utilising the LRPP framework is that the overall procurement will be very much simplified, and the council will gain full access to the capacity and comprehensive skills set it needs to deliver a new build programme.
- 2.22 **Search for sites** – A prerequisite on a new build housing programme is that the council needs to identify sites. Ideally these would come from the council's existing land ownership. It cannot be assumed that the council has sites ready for development, and detailed negotiations will be required to bring sites forward.
- 2.23 A number of small potential sites have been identified and these are being looked at by the Development Management Team within the Regeneration and Planning Service. Initial feedback has identified issues with each site that would need to be overcome if they were to be developed as housing sites.
- 2.24 Site finding, navigating planning considerations, and potentially negotiating site acquisition will need to be undertaken and resourced as part of the establishment of a "development team".
- 2.25 The council may also have to consider purchasing sites outside its existing land ownership to develop a land bank to deliver its new build council housing programme. The search for sites has been extended to other public bodies including the County and NHS. This approach is supported by the

Government however each body will have their own financial constraints and it still may prove difficult to identify and make available this land. Consideration is also being given whether there is any opportunity within existing regeneration programmes such as Luneside East. Again discussions and negotiations will need to take place on any sites identified through this process.

- 2.26 **Acquisition of ex-council housing** – It is proposed that the council, in addition to establishing a new build council housing programme, also establishes an acquisition programme for ex-council housing. The council has the power re-acquire former council housing previously sold under the Right to Buy (RTB). At any one time there are ex-council homes being sold on the open market. It is proposed that the council establishes a scheme to purchase selected properties and to bring them back into its housing stock in line with the council's current ambition to increase the supply of one bedroom accommodation, or indeed to support other council housing demands or future ambitions.
- 2.27 The council can also exercise its Right of First Refusal for property that was sold under the RTB to acquire additional stock. Any RTB owner who purchased after the 10 August 2005 and wishes to sell within 10 years of their RTB purchase must offer to their former landlord, the right of first refusal on purchasing the property.
- 2.28 It is proposed that a scheme is brought forward for approval by Cabinet.
- 2.29 **Section 106 affordable housing requirements** - A further area being explored is whether or not the council could look to acquire/negotiate within existing/future private sector developments within the S106 affordable housing provisions to provide more affordable homes for rent itself rather than through another registered provider; affordable housing includes social rented. This will require more detailed exploration, and consideration before making any proposals.
- 2.30 **Impact of Right to Buy** – Any homes built by the council under current legislation would be subject to the Right to Buy (RTB).
- 2.31 However, any discount entitlement relating to a sale under the RTB would be reduced by a special rule called the cost floor. Under the cost floor, the discount a tenant receives must not reduce the price the tenant pays below what has been spent on building, buying, repairing or maintaining it.
- 2.32 Specifically, if the cost of works carried out over the 10 year period prior to the sale is greater than the market value of the tenant's home, the tenant will not receive any discount. This period is 15 years if the tenant's home was built or acquired by the landlord after 2 April 2012.
- 2.33 The Government in 2012 as part of its revised policy on RTB discounts also made some provision for the retention of receipts to fund replacement stock on a “one-for-one” basis.

- 2.34 It is current Government policy that any new council homes built since July 2008 are eligible for exclusion from the provisions in the pooling regulations relating to Right to Buy sales, this includes any new homes built or acquired using receipts covered by these agreements. This means that, if replacement homes were subsequently sold under the Right to Buy, the authority would be able to retain the whole receipt (provided it is spent on affordable housing, regeneration or paying down housing debt).
- 2.35 The rules are complex on how the receipts should be spent but key elements are:
- Net receipts from Right to Buy sales (after allowable costs, repayment of housing debt and currently forecast receipts for councils and central government) can be used to replace the additional homes sold as a result of the higher discount levels. The amount available will depend on the level of sales during the year.
 - Councils have three years to spend the right to buy receipts on new homes, after this period unspent receipts would need to be repaid to the government with interest.
 - The right to buy funding can only cover a maximum of 30% of the cost of building a new home, in line with the grant offered through the Affordable Homes Programme.
 - The remaining 70% is to be found from local authorities' own resources, borrowing or other monies. Land cannot be included as part of the 70% contribution.
 - The Council must demonstrate that it has spent the additional amount on affordable housing.
 - The money can be transferred to another provider – e.g. a housing association - as long as they bring 70% to the table.
 - Councils also have the power to buyback former council properties using the net capital receipts from RTB sales. The Council is allowed to fund up to 50% of the cost of re-purchasing a former council home, up to a maximum of 6.5% of the net capital receipts (i.e. the receipts available for replacement homes).
- 2.36 **Financing the programme** – The costs on the programme both new build and acquisition will be financed from the Housing Revenue Account (HRA) and would be included in a revised capital programme.
- 2.37 The opportunities to utilise capital receipts from RTB sales to fund a new build council housing programme is limited, however within the council's HRA a Business Support Reserve was established in 2013/2014 to provide the financial support to additional business plan commitments and planned investment opportunities; including the building of new council housing.
- 2.38 There is currently £8.527M in the HRA Business Support Reserve, with the following additional annual budgeted contributions assumed as part of the 2013/14 budget process - £550K in 2013/14, £1,148.4K in 2014/15 and £1,533.1K in 2015/16 giving a total of £11,758.5M by 31st March 2016.
- 2.39 The use of this reserve has to be approved by Cabinet, and contributions to the reserve within the HRA are approved annually as part of the budget process.

2.40 At this stage it is proposed that an initial 3 year programme is developed spending an estimated £2 million per year starting from 2014/2015. It is worth noting here that this is indicative only and that the actual spend profile and timing of the programme will be informed by the detailed proposals developed in conjunction with LRPP.

3.0 Details of Consultation

3.1 The Housing Regeneration Cabinet Liaison Group met on the 19 September 2013 to look at the proposals for the building of new council housing and the possible acquisition of ex-council housing. The meeting was attended by councillors and a tenant representative, and the proposals were welcomed.

4.0 Options and Options Analysis (including risk assessment)

	Option 1: The council establishes a new build council housing programme utilising a framework agreement to increase the council housing stock in the district	Option 2: The council establishes a new build council housing programme utilising a framework agreement together with a scheme to acquire ex-council housing stock to increase the council housing stock in the district	Option 3: The council establishes a new build council housing programme utilising an alternative procurement route together with a scheme to acquire ex-council housing stock to increase the council housing stock in the district
Advantages	Addresses the specific housing needs identified with in the district Delivers new homes at affordable rents (social rent) Community leadership acting as an exemplar in building socially, environmentally, and economically sustainable homes Provide local employment opportunities Will contribute to the economic growth of the district Will generate further rental income for future housing investment	Addresses the specific housing needs identified with in the district Delivers new homes at affordable rents (social rent) Community leadership acting as an exemplar in building socially, environmentally, and economically sustainable homes Provide local employment opportunities Will contribute to the economic growth of the district Will generate further rental income for future housing investment Maximises the	Addresses the specific housing needs identified with in the district Delivers new homes at affordable rents (social rent) Community leadership acting as an exemplar in building socially, environmentally, and economically sustainable homes Provide local employment opportunities Will contribute to the economic growth of the district Will generate further rental income for future housing investment

		opportunities and be easier to manage	
Disadvantages	Increases future revenue costs associated with property management, however will be partly mitigated by the rental policy adopted for the new builds	Increases future revenue costs associated with property management, however will be partly mitigated by the rental policy adopted for the new builds Ex-council properties may require additional capital investment to meet the 'Lancaster Decent Homes Standard', however will be partly mitigated by being cheaper than the cost of new build	The council would need to fully assess any other framework that it is currently not a party to and also apply to access the framework. There would be increased resource requirements in terms of expertise, time and money. To secure provision of new homes through a traditional procurement route the council would need to undertake the full OJEU process itself which would result in increase resource requirements in terms of expertise, time and money.
Risks	Unable to efficiently deliver the programme due to organisational capacity, however can be partly mitigated by entering into a service and delivery agreement with LRPP	Unable to efficiently deliver the programme due to organisational capacity, however can be partly mitigated by entering into a service and delivery agreement with LRPP	Unable to efficiently deliver the programme due to organisational capacity

5.0 Officer Preferred Option (and comments)

5.1 The officers preferred option is option 2 as it maximises the opportunities to increase the council housing stock in the district, and addresses the in-principle decision taken by Cabinet in February to invest in new one-bedroom accommodation within the district using funding from the Business Support Reserve.

6.0 Conclusion

6.1 The proposals set out in the report form a sound basis for the council to deliver much needed new affordable council homes in the district and also provide added value in meeting the wider social, environmental and economic objectives of the council.

RELATIONSHIP TO POLICY FRAMEWORK

This report supports the council's core purpose, values and vision and will contribute to the realisation of the council's stated four priorities of: economic growth, health and wellbeing, clean, green & safer places, and community leadership.

Housing Strategy and Action Plan 2012 – 2017 seeks to maximise opportunities to increase the existing portfolio of affordable housing in Lancaster district.

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)

None directly arising out of this report.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no observations to make on the proposals outlined in this report.

FINANCIAL IMPLICATIONS

As set out in the report there is currently £8.527M available in the HRA Business Support Reserve, which in principle can be allocated to cover the cost of creating new 1 bed accommodation as well as acquisition of ex-council housing stock within the district. This is currently budgeted to increase to a total of £11,758M by 31st March 2016. There is also the potential to utilise Right to Buy capital receipts, although more investigation is required to fully understand the specific implications for Lancaster.

It should be noted however, that for both option 1 and the officer preferred option 2, that prior to entering into any contractual commitment with LRPP or acquiring ex-council properties, that there is a need for HRA officers in conjunction with Resources (Financial Services) to review the current HRA 30-year Business Plan and Rent Policy regarding ongoing affordability associated with the increased housing stock, and that detailed proposals for new build (including identified sites, numbers of properties to be accommodated within each site, and accommodation typologies) and identification of ex-council properties deemed appropriate be brought back to Cabinet for approval.

OTHER RESOURCE IMPLICATIONS

Human Resources:

None directly arising out of this report.

Information Services:

None directly arising out of this report.

Property:

As detailed proposals are brought forward Property Group will need to be engaged and consulted.

Open Spaces:

None directly arising out of this report.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been consulted and has no further comments.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

None

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