

Lancaster City Council | Report Cover Sheet

Meeting	Cabinet	Date	14 July 2020		
Title	Developing a Homes Strategy for Lancaster district.				
Report of	Director for Communities and the Environment				
Purpose of Report					
To allow Cabinet to agree the key elements that will comprise the Homes Strategy.					
Key Decision (Y/N)	Y	Date of Notice	15 06 20	Exempt (Y/N)	N

Report Summary

A Homes Strategy for the Lancaster District is currently being drafted. This report provides evidence of need and seeks agreement for the four strategic housing projects that will meet those needs. It also seeks in principle agreement for the financial and borrowing mechanisms required in order to deliver against these priorities as well as proposing that the council moves forward with setting up a Local Housing Company (LATCo) as a means of generating the finance to support housing and regeneration activities outside of our current social housing provision.

Recommendations of Councillor Caroline Jackson

- (1) Cabinet endorse the four strategic housing projects identified in the report.
- (2) Approve Capital Strategy Group's recommendation to use up to £50K funding from reserves for the initial specialist legal and financial advice required to set up a Local Housing Company (LATCo).
- (3) Subject to a business case being made, purchase a Housing Stock Condition Module to provide a comprehensive dwelling stock and energy efficiency database at address level based on cost estimates of £67K.
- (4) A report on the findings and the preferred vehicle model will be reported back to Cabinet for further approval.
- (5) Provide in principle support to using the existing HRA headroom to generate the necessary development finance for schemes identified subject to detailed proposals being brought back to Cabinet.
- (6) Cabinet provide authority to consult residents on options to regenerate Mainway estate.

Relationship to Policy Framework

Council Priorities – Happy and Healthy Communities, a Sustainable District, an Inclusive and Prosperous Local Economy
Local Plan – contributes towards the provision of housing to meet a locally identified need and opportunities to increase the choice and supply of affordable housing.
Housing Strategy – will link directly to the emerging Homes Strategy for Lancaster district which is currently being prepared.

Conclusion of Impact Assessment(s) where applicable

Climate	Wellbeing & Social Value
Digital	Health & Safety
Equality	Community Safety

The proposals set out in the report should not have any adverse impacts and should have some positive impacts particularly on climate change, equality and wellbeing/social value.

Details of Consultation

In 2019, initial consultation was undertaken with the Communities Together group as a lead into preparation of the new Housing Strategy for Lancaster district. More comprehensive consultation is planned once the draft Homes Strategy is completed. A member group was established in September 2019 by the Portfolio Holder for Housing to identify the main housing and regeneration priorities which are referred to in this report. A report was also presented to Capital Strategy Group on 11 June 2020 which was well received by members recommending that further approval from Cabinet be sought.

Legal Implications

There are no legal implications at this stage. The Council Legal Services department will need to be involved in the process acquiring and reviewing legal advice in relation to setting up LATCO.

Financial Implications

As part of the 2020/21 budget process, on 26th February 2020 Council approved £107K from general fund reserves and subject to business case approval, a housing feasibility study to address the formation of a housing company and the purchase of a housing stock condition module (*minute 135(2) refers*).

The amount included for the feasibility study was £40K which based on estimates included in the report is insufficient. The officer preferred option of Option 1 includes costs estimated at £50K to obtain initial specialist legal and financial advice, including an options report. Therefore, this leaves a shortfall of £10K which would represent further growth funded by reserve should Cabinet endorse the recommendation.

Any further financial implications arising from the feasibility study will be reported back to Cabinet as appropriate prior to subsequent commencement.

Other Resource or Risk Implications
To be identified in future reports.
Section 151 Officer's Comments
<p>The successful development of the new Homes Strategy incorporating a Local Authority Trading Company should provide a suitable overarching vehicle and flexibilities to help to deliver significant outcomes against several the Council's priorities and objectives, particularly Happy and Healthy Communities.</p> <p>As part of the 2020/21 Budget £40K of reserve funding was approved for feasibility work into the establishment of the LATCO. This fund is subject to business case approval. Officers now estimate that the cost of establishing a suitable LATCO which will deliver all the Council's requirements could be c£100K. Members will note that this is to be one in a series of reports which will allow Members to consider costs and significant items such as structure of the LATCO model, its governance and any future financial plans including any associated borrowing incrementally.</p> <p><u>Approval Requirements</u></p> <p>Under the terms of COVID-19 Pandemic – Policy for decision making and spending delegations within the Budget & Policy Framework as enacted by the Leader</p> <p><i>“All decisions on the use of reserves.....will require approval of Cabinet irrespective of the financial level.”</i></p> <p><u>Staffing Capacity & Expertise</u></p> <p>Members will be aware that the Council wishes to embark on a number of key projects in the upcoming months which include Canal Quarter, Morecambe Future High Streets, Lancaster Heritage Action Zone, Zero Based Budgeting, in addition to this and other potential LATCo's. All of these will require considerable input from the Council's support services with many requiring a high degree of specialist knowledge. Whilst these may be a priority, it must be recognised that the level of required involvement could place additional strain on resources particularly when balanced with the Council's existing, inescapable statutory obligations.</p> <p>In order to maintain the same high standards, it may be necessary to undertake some temporary recruitment and/or engage external consultants to assist at peak times, or where knowledge gaps exist. It is not possible to quantify these costs at this time.</p>
Monitoring Officer's Comments
The Monitoring Officer has been consulted and has no further comments at this stage. The business case will set out the various options to enable Cabinet to make

a decision on whether or not to establish a LATCO within the powers available to the local authority.

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Links to Background Papers	
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1.0 Introduction

1.1 A new Homes Strategy for Lancaster district is currently being prepared which once finalised and consulted upon, will be presented to members for approval. This is expected by the end of this calendar year. The Homes Strategy identifies a number of key housing and regeneration priorities which link directly to the council's revised priorities, specifically the Healthy and Happy communities priority which seeks to redevelop housing to ensure that people of all incomes are comfortable, warm and are able to maintain their independence.

2.0 Background

2.1 As a lead into the preparation of the new Strategy, a Housing Strategy Working Group was established in September 2019 which is chaired by the Portfolio Holder for Housing. This cross-party group supported by officers has considered new ways of working and options for the council to implement a programme of new housing projects which include: -

2.1.1 Setting up a housing company and/or a development company in order to pursue other tenures outside those traditionally operated within the Housing Revenue Account.

2.1.2 Consider the use of borrowing in order undertake projects which may make a positive financial return as well as deliver positive housing outcomes. In many cases, it might be that a site is capable of providing multiple tenures by using profits from one form of housing to subsidise another.

2.1.3 Control over environmental standards in houses developed by the Council to improve the quality and choice of the local housing offer.

2.1.4 Involvement in sectors such as private sector rental and extra care housing in order to provide good quality and fairly priced housing options in these sectors.

2.2 The group shortlisted a number of potential schemes, and although not intended to be an exhaustive list, these are the most significant priorities identified within the draft Homes Strategy: -

2.2.1 Development at Canal Quarter – potential to develop between 100 and 200 units which might be mixed in nature including designated housing for older people, outright sale units, PRS scheme and affordable units in the form of shared ownership and affordable rented units.

- 2.2.2 Acquisitions of existing houses – in order to provide good quality housing in the private rental sector. Particular emphasis has been placed on Morecambe where it is felt that the Council can become a good and responsible landlord to ensure that good quality housing options remain for Morecambe residents.
- 2.2.3 Extra care housing – working with the County Council to develop schemes for extra care which address housing needs of an ageing population.
- 2.2.4 The regeneration of Mainway estate. Options are still to be considered and consulted upon but could potentially include comprehensive programme of development.

3.0 Prudential Borrowing

- 3.1 Members should note that borrowing headroom exists within the Housing Revenue Account (HRA). The HRA is a landlord account, recording expenditure and income arising from the provision of social housing accommodation by local housing authorities. It is not a separate fund but a ring-fenced account of certain defined transactions, relating to local authority housing. The main items of expenditure included in the account are management and maintenance costs, major repairs, loan charges, and depreciation costs and the main sources of income are from tenants in the form of rents and service charges. Some analysis of borrowing headroom has previously been undertaken by Savills in 2019, which suggests that the council could comfortably borrow £25M through the Housing Revenue Account.
- 3.2 Prudential borrowing through the General Fund provides some freedoms and flexibilities for local authorities who have an ambition to grow their housing portfolio. To create this opportunity, the council would need to set up a wholly owned Local Authority Housing Company (LATCo) as an arms-length vehicle which provides the clear distinction and separation between council properties held within the HRA. The council would borrow from the PWLB and then “on-lend” to the LATCo to create the development finance. This offers potential for the LATCo to deliver mixed tenure schemes, create some surpluses and increase the supply of affordable housing available locally which would not be governed by housing legislation such as rent setting controls, allocations and the statutory Right to Buy scheme. This report seeks authority from Cabinet to develop specialist legal and financial advice on the most suitable type of vehicle that will allow Lancaster City Council to achieve its housing and regeneration priorities.
- 3.3 The level of borrowing is for the local authority to manage and decide for itself based on its ability to repay the debt, supported through capital investment plans which are affordable, prudent and sustainable
- 3.4 This report seeks authority from Cabinet to seek specialist legal and financial advice on the most suitable type of vehicle that will allow Lancaster City Council to achieve its housing and regeneration priorities. Cost estimates are broken down as follows:-

Table 1 – Specialist Legal and Finance Cost Estimates

Provider	Description	Cost estimate
Savills	Business Case/Business Plan	£20K
	HRA Decision Making Framework	£10K
Trowers	Housing Delivery Vehicles Options Report	£20K

- 3.5 When the 20/21 budget was set, in anticipation of costs associated with setting up the LATCo, members approved a total of £107K to be taken from revenue reserves (£40K consultancy costs for feasibility and £67K for the council to purchase a Housing Stock Condition Module to provide wide ranging datasets for housing across the whole district). The initial cost of obtaining specialist legal and financial advice has been estimated at £50K as set out above. Further costs would be incurred and detailed in future reports for Trowers to set up the LATCo and prepare the necessary legal documentation. A sufficient business case is still to be made to commission the Housing Stock Condition Module. Members should note a comprehensive Housing Stock Condition Survey has not been carried out since 2004.
- 3.6 Reflecting on the key schemes identified to date, officers recommend that a blended approach is taken to prudential borrowing which sees some schemes relying on prudential borrowing through the HRA and others sitting within the LATCo through General Fund borrowing set out on Table 2: -

Table 2 – Borrowing options

Scheme	Expected Tenure	Expected costs	Borrowing Source	Justification
Canal Quarter	Mixed tenure	Still to be determined	General Fund/LATCo & HRA	The scheme is expected to provide a mix of tenures and it is envisaged that most of the borrowing would be generated through the LATCo. However, it also provides a good opportunity to increase the supply of social housing on the council's own land with an element of borrowing through the HRA.

Property Acquisitions	Affordable	£3M initially	General Fund/LATCo	Although technically possible to borrow from the HRA the management of the properties would be controlled through housing legislation. Affordable rather than social housing is likely to be a better fit for the area.
Mainway	Affordable	£20-25M depending upon scale and type of development undertaken	HRA	Existing council housing already managed and controlled through the HRA. The scheme could qualify for Homes England Affordable Homes Grant which will reduce the cost of the contribution made by the council with the prospect of enhanced grant rates to keep rents for existing tenants at social rent levels.
Extra Care Housing	Affordable	£10-12M	HRA	The scheme would only be viable through the provision of Affordable Homes Programme grant at the highest possible level (circa £65K per unit) Extra care schemes are exempt from the Right to Buy.

4.0 Scheme Proposals

4.1 Within Section 2 of this report, four key housing priorities have already been identified through the preparation of the new Homes Strategy for Lancaster district setting out the most suitable forms of borrowing to support those schemes, with each project briefly being summarised below:-

4.1.1 The Canal Quarter is a key regeneration priority for Lancaster City Council to redevelop the area to create significant and wide-ranging economic benefits to the city and the wider district. With the council taking a fresh approach to developing the site through a Strategic Regeneration Framework, the new scheme will focus less on retail and an expectation that a new mix of uses could include housing development, particularly in view of the fact that the council is a major land owner. Ahead of the detailed master planning process, early thinking suggests that the Canal Quarter could generate 100-200

residential units of mixed tenure which could include outright sale units, PRS units as well as affordable and social housing with the outright sales potentially generating an early return through sales and PRS generating a longer-term revenue stream. This offers the greatest potential to create generate some surpluses and cross subsidise other elements of the scheme such as the affordable housing once further feasibility and development appraisals have been undertaken. In order for the council to create the development finance to bring this opportunity into fruition, the LATCo needs to be established as a vehicle for generating the necessary finance, but it is likely that in order to deliver an element of social housing, borrowing through the HRA would also be necessary.

- 4.1.2 A programme of property acquisitions has also been identified as another potential housing project that could be delivered through the LATCo. The area of initial focus is envisaged to be Morecambe's West End. There is significant need for affordable housing in Morecambe which was identified when the council undertook the last district wide Housing Needs Survey in 2018, which identified over 6000 households in need of affordable housing and Table 3 below sets out where that need is likely to exist: -

Sub-area	No. Households in need	% Households in need	Total no. households
Carnforth & Millhead	275	10.4	2632
Ellel	213	11.3	1888
Heysham	454	9.0	5028
Kellet and Upper Lune Valley	140	7.1	1967
Lancaster Fringes	516	8.3	6232
Lancaster North	1056	17.2	6155
Lancaster South	1603	9.6	16631
Morecambe	906	7.9	11478
Morecambe West	785	13.5	5836
Overton	123	11.5	1073
Silverdale and Warton	114	6.3	1815
Total	6185	10.2	60735

Source: 2017 Household Survey

- 4.1.3 Morecambe's West End has been an area of significant focus for Lancaster City Council for many years with a range of external funding being levered into the delivery of regeneration activities. Going forward, the availability of substantial regeneration funding through government is unlikely. Nevertheless, it is an area of Lancaster district which continues to face some of the greatest challenges in terms of the

housing market and quality of housing available to local people. As part of increasing its portfolio of housing across the district, the city council could implement a programme of housing acquisitions that would give the local authority a direct role towards increasing the choice and supply of good quality housing in that area. The LATCo would generate the capital funding required to both acquire and refurbish the properties and whilst creating affordable housing capped at Local Housing Allowance rates, the properties would not be let and managed as conventional social housing. In order for the council to develop a strategic approach to this proposal, a policy will need to be developed to set out a more clearly defined project and development appraisals to understand the cost implications through a Phase 1 Business Case. The cost of undertaking the Phase 1 Business Case is £5K.

- 4.1.4 The Mainway estate is 1960's Wimpey no-fines concrete construction which was overclad in the 1990's with Struthern insulated render. The estate is predominantly council owned with 259 dwellings in the form of apartments and maisonettes and 19 units privately owned through previous Right to Buy sales.
- 4.1.5 In 2019 the council commissioned a series of structural survey work on Mainway estate to robustly test the structural integrity of the existing apartment blocks. Although the surveys confirm that the blocks are currently structurally sound, the council will need to take preventative steps to improve and maintain the existing apartment blocks in their current form. The council could undertake a programme of external refurbishments across the estate which would meet the immediate need to ensure properties continue to be safe secure and fit for purpose for a further 25 years. However, the council would like to consider whether a more comprehensive regeneration programme could be undertaken on Mainway which could potentially deliver some dramatic improvements to the whole area and by providing homes in a surrounding environment that are likely to meet the aspirational needs of our existing tenants as well as positively contributing to climate change. The council is fully committed to extensively consulting existing tenants and leaseholders and understanding their experience of living in the area, residents wishes, views and expectations, and this will then formulate the regeneration programme undertaken for Mainway.
- 4.1.6 The final opportunity being outlined in this report is for the council to consider bringing forward a new extra care facility in Lancaster district. Extra care housing is provided for older people above the age of 55 years, provided in the form of self-contained homes (normally apartments) with the provision of an on-site care team who provide varying levels of support and care services to residents and typically with a range of other on-site services and facilities. The model of care includes background support and an emergency response to residents with additional planned care as the resident requires. These elements

are funded by the upper tier authority if the resident meets the threshold for eligible assessed care needs or residents who are able to self-fund their planned care from benefits such as attendance allowance.

4.1.7 The delivery of purpose built extra care schemes is a key priority for Lancashire County Council (as the upper tier authority) because in recent years there has been an over-reliance of residential care placements which whilst a significant financial burden to them, is often a very poor outcome for our ageing population. Extra care housing settings offer greater potential to reduce social care costs and allow residents to live in an independent setting for a much longer period of time. Lancashire County Council has undertaken analysis of need in the county using the Housing Learning and Improvement Network (LIN) methodology, which estimates the need in Lancaster district as 238 units.

4.1.8 An opportunity to deliver a new build extra care scheme is currently being investigated on a site in North Lancaster at the present time, which could allow Lancaster City Council to deliver the scheme as part of its emerging portfolio of housing projects, and as the largest provider of social housing for older people in Lancaster district, to enhance its existing offer. A fully costed and detailed business case will be presented in due course should the opportunity present itself and as previously set out, given the grant subsidy required to provide an extra care scheme in the form of affordable housing let as rented accommodation, there is a clear requirement to draw down affordable homes programme grant through Homes England along with borrowing through the HRA to generate the necessary capital funding required. Extra care schemes currently fall outside of the scope of the Right to Buy scheme.

4.2 Finally, it is envisaged that the operational management of all the affordable units will be undertaken by the Council Housing Services Teams, whether the new housing sits within the existing HRA or through a Service Level Agreement for properties held by the LATCo.

5.0 Options and Options Analysis (including risk assessment)

Option 1: Cabinet endorse the four strategic projects identified in the report, approve the initial feasibility costs associated with setting up the LATCo and agree to using the existing HRA headroom to generate the necessary development finance.

Advantages: Will be instrumental in delivering against the council's re-affirmed priorities. Maximises the borrowing opportunities available to the council. Could generate some surpluses. Diversifies the council's existing housing portfolios. The council is more able to meet a growing local housing need.

Disadvantages: Some initial set up costs will be required.

Risks: New area of business for the council particularly if new forms of tenure are being created. Different governance arrangements for the LATCo. Lack of development experience/skills/capacity within the council's existing structure.

Option 2: Do not proceed with the strategic priorities identified or utilise the borrowing options.

Advantages: No risk or exposure to the council. The council could continue to work in an existing enabling capacity through partnerships to achieve some but not all of the desired outcomes.

Disadvantages: No specialist legal and financial advice will be obtained therefore the council cannot fully consider its options.

The council is not delivering against its own key priorities or positively contributing to the provision of good quality housing locally to meet a wide range of need or proactively contributing towards climate change. No opportunities to generate surpluses as part of the council's investment strategy.

Risks: Could give rise to significant problems if the required investment into the council's existing stock is not carried out in a timely way. Reputational damage. Loss of opportunity.

6. Officer Preferred Option (and comments)

- 6.1 The officer preferred option is Option 1. Setting up the LATCo and utilising prudential borrowing provides a number of potential benefits and opportunities for the council in relation to diversification of its existing role, increasing its landlord capacity, offers greater opportunities to cross subsidise mixed tenure schemes which will meet a local need, creates more potential to provide new build residential development that contribute positively towards climate change and improving the thermal efficiency of existing dwellings within areas of significant need. Borrowing through the HRA provides the opportunity to increase and improve the council's existing social housing portfolio and diversify its local housing offer. Should this report be approved, the consultants reports will be brought back to Cabinet for authority to set up the LATCo and fully costed development proposals for each of the four housing priorities will also be reported in due course.

