

CABINET

Housing Regeneration Priorities

4th October 2011

Joint Report of Head of Regeneration & Policy and Head of Health and Housing

PURPOSE OF REPORT			
This report seeks approval for the preferred direction for strategic housing and regeneration priorities in light of the current financial climate, existing housing regeneration commitments and the introduction of self financing for council housing.			
Key Decision	<input checked="" type="checkbox"/>	Non-Key Decision	<input type="checkbox"/>
			Referral from Cabinet Member
Date Included in Forward Plan	August 2011		
The report is public			

RECOMMENDATIONS OF COUNCILLORS JANICE HANSON AND KAREN LEYTHAM

1. That Members reaffirm that the strategic housing regeneration priorities for the foreseeable future are:
 - a) To increase the supply and delivery of affordable housing schemes.
 - b) To complete existing unfinished schemes in the West End.
 - c) To bring empty properties back into use.
2. If Members reaffirm the above priorities further reports be prepared for Cabinet to consider examining the potential of affordable housing provision for each of the above categories through:
 - a) Allocating land in the Local Development Framework and securing contributions from Section 106 agreement and eventually through Community Infrastructure Levy.
 - b) The self financed Housing Revenue Account coming into effect from April 2012.
 - c) Options for the completion of outstanding housing regeneration projects at Chatsworth Gardens and Marlborough Road/Bold Street
 - d) The provision of a Lend a Hand mortgage support scheme

1 Introduction

- 1.1 Cabinet, at its meeting on 15th February 2011, considered its 2011/12 budget proposals and Council's wish to include housing regeneration as a priority, alongside other priorities in the Corporate Plan. In particular, it resolved to:
- make no changes to its budget proposals for 2011/12 but draw on existing housing related activity to inform development of the draft Corporate Plan; and
 - requested the regeneration and housing Portfolio Holders to work jointly on proposals for consideration as part of the 2012/13 budget exercise, taking into account affordability and the Council's financial prospects.
- 1.2 This decision was informed by a briefing from the Head of Regeneration and Policy which provided information to help Members consider and define the scope of their aspirations. Furthermore, it took account of the financial challenges facing the Council.
- 1.3 More recently, Cabinet agreed that some areas of activity be fed into the corporate planning and budget process and the ones that relate to housing are :
- Increased provision for social housing (including the possibility of council housing new build)
Housing Regeneration
Council housing opportunities – new regulations
- 1.4 If Members are also to pursue their aspirations for housing regeneration in the same form that they agreed in February 2011 and more recently at Cabinet in September this year they will have to find the means to fund capital schemes to potentially acquire and refurbish empty homes, or direct officers to concentrate on using enforcement powers against owners of empty properties and to help fund the delivery of affordable housing either by subsidising housing associations to provide them or to build social housing schemes themselves. There will also continue to be opportunities available through the emerging Land Allocations and Development Management documents under the Local Development Framework to secure affordable housing from the private sector either by requiring on site provision through planning permissions or securing contributions to off site provision under Section 106 Agreement or eventually Community Infrastructure Levy.
- 1.5 Although traditionally the term “affordable housing” has been used to describe housing delivered by either registered social landlords for rent or discounted housing for sale provided by developers, usually under a section 106 agreement, it is important to acknowledge the role of the council's own housing stock in providing affordable housing for rent for our citizens. The council housing stock of approximately 3,800 properties provides a range of good quality, very affordable homes for rent for our residents, many of whom could not afford any other property in the district and many are reliant on housing benefit to assist with their housing costs.
- 1.6 The welfare reforms around housing benefit restrictions and the move to universal credit may mean that some households may be unable to access private rented accommodation in the district thus increasing the pressure on social housing and potentially leading to an increase in homelessness. The council may be able to look at some of the flexibilities proposed in the Localism Bill to ensure that social housing is provided to those in greatest need. The Council could consider implementing a

'Lend a Hand' mortgage support scheme. Such a scheme is intended to help first time buyers by reducing the deposit required by most mortgage lenders, with the difference being guaranteed by the local authority; thereby making the housing market more accessible to more people in the area. It may also free up social housing for the more vulnerable and reduce slightly the payments to private landlords for more expensive short-term accommodation.

- 1.7 The council currently spends approximately £7 million every year on maintaining and improving its own stock. Officers are investigating the opportunities available under self financing to use the capital monies more creatively to help promote and manage sustainable communities through environmental and community focussed regeneration alongside the traditional investment in the building fabric. This may involve street warden type schemes, housing related support or handyperson schemes and gives opportunities to improve the look and feel of a whole area instead of solely concentrating on improving individual properties.
- 1.8 In addition, there is the need to determine the way forward for housing regeneration projects in the West End of Morecambe, which had been commenced under previous funding schemes supported by the Homes and Communities Agency.
- 1.9 There are principally two schemes in which the Council has already invested significant Officer and Member time, where properties have already been acquired and in some cases refurbished. These are the Chatsworth Gardens Exemplar scheme and the Bold Street/Marlborough Road regeneration projects. Background to these projects contained in Cabinet reports August 2010 and February 2011 briefing note.
- 1.10 Sources of external finance to assist in the delivery of projects have now dried up following the Comprehensive spending review. If the Council wants to engage in proactive housing regeneration alongside that which takes place through private sector delivery, it will have to find its own sources of finance to do this, and those means will have to be affordable.

2 Potential Sources of Finance for Housing Regeneration

The traditional means by which new housing is provided is through private house builders constructing new homes facilitated by planning permissions. Homes are also constructed by Housing Associations or other private bodies, or occasionally (in recent years) new homes constructed by local authorities. With emerging problems nationally about affordability, the supply of regulated affordable homes has generally been achieved through planning restrictions on private developments such as requiring equity share, social housing, or a market subsidy on sale costs for a proportion of the new homes approved. Alternatively off site contributions have been made to enable councils to assist in making their own provision by helping to fund housing associations. Provision of new homes by Housing Associations and in rare cases by councils have also been within the affordable category.

- 2.1 With the recent collapse of the private sector housing market the overall level of new homes being constructed has reduced drastically and alongside this there has been a subsequent reduction in new affordable homes. In the same climate the demand for new homes has coincided with one of the most radical changes in tenure aspirations in the post war period. It is clear that new households in the generations now requiring housing will see renting as their most accessible option rather than home ownership. In response to these conditions the council could simply let the

recovering private sector respond to the challenge of new homes provision. It could also be appropriate however to consider taking whatever steps it can to engage in proactive housing provision itself. This section of the report considers ways in which it could do this.

New Homes Bonus

- 2.2 The Government has introduced a direct grant to local authorities to encourage them to support the provision of new homes. The grant is called New Homes Bonus and matches the council tax raised by new homes and those returned into use with an extra sum for affordable homes for six years. It is not ring fenced and treasury guidance makes it clear that it can be used to assist with general service delivery. The lack of ring fencing of this grant is not uniformly acknowledged in Government circles as the Home and Communities Agency tend to refer to it as if it were a usable pot of funding for local authorities to use housing schemes instead of external regeneration monies. This is not the actual position.
- 2.3 **Assessment:** New Homes Bonus has been introduced by taking money out of the formula grant settlement, and therefore rather than being new funding, it may be regarded as an adjustment to the way in which grant support is distributed across authorities. It is also designed to be flexible, in that “local authorities can decide how to spend the funding in line with local community wishes.” As such, in setting the 2011/12 budget and future years’ projections, the New Homes Bonus has been built in to support the delivery of Council services generally. In line with this approach, the Council’s Medium Term Financial Strategy (MTFS) states that the use of any such general grants will be considered as part of the budget process. This ensures that such funds are considered in context of all the Council’s priorities and spending needs. There is therefore no flexibility available to Cabinet, to consider earmarking the New Homes Bonus directly for housing investment. Instead, and in line with the resolution of Cabinet at its February meeting, any funding bids for progressing housing regeneration proposals will need to be considered as growth, as part of the 2012/13 budget process.
- 2.4 As well as there being no prospect of HCA funding, other capital funding sources have also been withdrawn since Cabinet approved a 3 year spending plan using Regional Housing Pot funds, in June 2010, which assumed funding projections relating to prioritised projects in the West End, Bold Street and Marlborough Road, whilst also addressing the liabilities expected from the councils involvement in Adactus led schemes. Following the Comprehensive Spending Review and abolition of regional agencies, however, it is apparent there will be no further funding via RHP beyond the 2010/11 allocation.
- 2.5 Essentially, the points above mean that the Council needs to re-appraise what its affordable and deliverable housing regeneration priorities actually are, to determine the way forward for stalled schemes and future projects. Furthermore it will need to allocate funds to deal with any existing unavoidable liabilities.

City Council General Fund/Capital Programme

- 2.6 The mechanism for financing priority housing schemes, as with any major capital regeneration scheme, would ordinarily be via the council’s capital programme. Members will be aware of the current pressure on capital programme funds and the difficulty of financing its current project portfolio while balancing the council’s budget. For example, if the council were to borrow to help progress capital

investment, it needs to be able to afford the borrowing costs, which would impact on the revenue budget. Until certain matters are resolved or developed further, however, it is not possible to present to Members a full picture of the money that could be available via the capital programme to fund council priorities, including Chatsworth Gardens and Bold Street. Matters which need to be addressed include (amongst others):

- Outcome of anticipated capital receipts (including South Lancaster "Booths" site)
- Outcome of Luneside East lands tribunal and proposed site transfer
- More generally, reassessment of what is affordable in terms of capital investment taking account of council tax targets, next year's grant settlement and updated revenue budget forecasts, including progress made against current savings targets.

The available resources must then be considered in the light of the funding officers suggest would be required to bring forward viable housing regeneration schemes as against the financing of other council priorities.

- 2.7 **Assessment:** For schemes like Chatsworth Gardens and Bold Street/Marlborough Road for example this option would mean that Members would examine a range of worked up options for bringing properties back into use on a phased basis, probably undertaking renovation of short phases of properties then selling them on before commencing restoration of the next block. Initial funding for building works and gap funding for the difference between regeneration cost and sale income would have to come from the Capital Programme and would inevitably involve a medium to long term commitment. For more ambitious schemes such as building new homes on council land there would be an equally long ongoing commitment to phased development over the years. The council would be seen to be having a continuing commitment to housing regeneration and would begin to make a gradual change to the condition of properties in the West End of Morecambe. There is a degree of uncertainty about the financing available for capital investment and inevitably a scheme such as this might have to be funded at the expense of a variety of other worthy projects or essential maintenance schemes not being undertaken, or indeed it may ultimately prove to be simply unaffordable. It is also inevitable that a programme of this length would have to be carried out as a set of medium to long term projects. This would mean that its funding would be a long term commitment for the capital programme.

Affordable Rented Housing

- 2.8 The council was asked by HCA if Affordable Rented Housing (ARH) could assist in realising a successful outcome for Chatsworth Gardens and Bold Street. Launched in February 2011, HCA's Affordable Homes Programme framework sets out its model for achieving 150,000 new affordable homes between 2011 and 2015. At present HCA grant for new build ARH is circa £60k per dwelling, but will be reduced in future to £25-30K. However, RSLs will be able to set rents at up to 80% of the market rent in each district, bridging the gap created by the reduced grant levels.
- 2.9 **Assessment:** Officers held discussions with Adactus who subsequently submitted a bid to deliver four ARH schemes in Lancaster district, two of which related to new build on Bold Street and Chatsworth Gardens. It was recently announced that Adactus were successful in receiving 70% of their bid funding and, therefore, only one scheme in the West End is likely to be affordable. Adactus's preference is to

progress plans for an ARH scheme on Bold Street, given its close proximity to their existing new development at Marlborough Road. However, a potential ARH scheme is only one option for Bold Street.

Housing Revenue Account - Self-Financing

- 2.10 The Government is implementing reform of council housing finance and Local authorities are currently planning the transition from the long standing, outdated, subsidy system to the new arrangements under which the HRA will become self financing. The Localism Bill contains provisions that will bring in the new self-financing system from April 2012 and abolish the current annual subsidy system.
- 2.11 The Government are basing the debt reallocation on a 30-year notional business plan of income and expenditure for each landlord. A payment to or from each council will then be made to reflect the difference between the value of the business and the housing debt currently supported under the HRA. The income assumptions built into the valuation will be based on the existing social rent policy for councils that their rents should 'converge' with standard housing association rents in 2015/16.
- 2.12 The indicative additional debt settlement figure for Lancaster is £30M, plus the existing HRA debt of £15M, a total £45M actual HRA debt. Councils will be capped on overall housing borrowing and further work will still remain to be done once the final debt allocations are published.
- 2.13 The benefits that can potentially be offered by self-financing are the opportunity for business planning to be guided by local priorities, rather than central government rules and the long term rewards of control, flexibility and planning to enable more spend on council housing.
- 2.14 **Assessment:** Early indications are that investment opportunities may be available under the new self financed HRA, which can be utilised to deliver some of the Councils strategic housing priorities. However, the final self-financing determination is due to be published in January 2012 and until then uncertainty will remain as to the level of opportunity the self-financed HRA will afford.

3 Options and Options Analysis (including risk assessment)

- 3.2 The council potentially has two main options to consider in the current circumstances, although should new funding become available in the future it could revise its options.
- 3.3 **Option 1: To do nothing and rely on the private sector to engage in housing supply. As a result to dispose of the properties already bought (within Chatsworth Gardens and Bold Street/Marlborough Road) and undertake no regeneration.**

This option would mean that the council would seek to minimise its risk by avoiding engaging in further regeneration work. It has acquired 56 properties using external funding and would seek to dispose of them on the open market to remove liabilities amounting to just over £100,000 per annum which arise from securing and maintaining the properties. It would be highly unlikely that any element of profits from sales would be achieved, and more likely that sales would result in a notional financial loss. The only level of affordable housing provision the council would then influence would be through restrictions on planning decisions requiring private sector provision.

Advantages: Removal of liabilities from continuing to own the properties, and avoiding the need to spend further monies to undertake refurbishment as part of a regeneration programme.

Disadvantages: The council would not be engaging in housing regeneration. It would be placing a further burden on the local housing stock by adding a significant number of unfit properties onto the market and it would fail to add value to the money already spent by public funding to make greater use of the existing housing stock to provide good quality new homes.

3.4 Option 2: To work up a means of engaging in housing provision targeted towards affordable housing using a variety of methods.

This will consist of a variety of means including: a) allocating land in the Local Development Framework and securing contributions from Section 106 agreements and eventually through Community Infrastructure levy, b) opportunities arising from the self financed Housing Revenue Account coming into effect from April 2012, c) examining options for the completion of outstanding housing regeneration projects at Chatsworth Gardens and Marlborough Road/ Bold Street and d) the provision of the Lend a Hand mortgage support scheme. If as indicative figures show, the HRA business plan can viably support and contribute to the regeneration and provision of additional council homes, it may also be worth considering it as an alternative solution to finance the refurbishment of the empty properties in current regeneration schemes, bringing other empty properties back into use, and to construct new homes on council land.

Advantages: Such a move would introduce greater certainty into the outcome of housing regeneration projects as there is likely to be a more assured rental income from rents. It would also provide the council as a landlord with a much wider variety of properties to offer for rent to address the changing demands from society for affordable housing.

Disadvantages: There may be resistance within communities to the provision of council housing in this manner as it could be perceived that the council will be concentrating social rented properties in areas which already experience high levels of deprivation.

4 Officer Preferred Option

- 4.1 The officer recommendation is to pursue option 2. It affords the council the opportunity in these very difficult economic times to engage proactively in housing regeneration whilst balancing its exposure to financial risk from investing high levels of capital in housing which may not be capable of achieving adequate returns for that investment through sales on the open market. It also allows the council to rise to the new challenge by the government for councils to demonstrate that they are worthy providers of social and affordable housing, in a market where the private sector is currently stifled.

5 Conclusions

- 5.1 The council clearly wants to engage in housing regeneration even in what is unarguably the toughest economic conditions for decades. To do so maintains its credibility as a forward looking authority but it has to try and do this in an affordable manner. There can be no safer method available at the present time than to do this with a guaranteed end user available. If Members choose Option 2 Officers will prepare further reports for cabinet on the opportunities to create affordable homes through the LDF and planning decisions, options arising from the revised rules

governing the HRA, and a comprehensive options appraisal for the Chatsworth Gardens scheme, to give Members the choice of how to match their aspirations to the budget which could be available to them.

RELATIONSHIP TO POLICY FRAMEWORK

In January 2011 council resolved that housing regeneration be included in its corporate priorities noting that these projects required significant funding. The Chatsworth Gardens Project is a key element of the West End Masterplan and was ranked as a high priority by Cabinet as part of review and refresh exercise carried out on the Masterplan in 2009. The Council has been working with the Homes and Communities Agency (HCA), formerly known (prior to December 2008) as English Partnerships, to deliver the Chatsworth Gardens Housing Exemplar scheme. The objectives of the proposal are as follows:

- Attract families and long-term residents to live and work in and near the town
- Create a more balanced community
- Reverse the negative perception of Morecambe's West End as a place to live
- Reduce the number of HMOs (Houses in Multiple Occupation)
- Kick-starting public/private investment in the area;
- Creating confidence in the market – to show that family housing is possible and have a catalytic effect (along with the other interventions)
- Deliver quality housing stock to Code for Sustainable Homes Level 3
- Address crime and social conditions in the area
- Act as a demonstration to the market in terms of the standard and quality of housing that should be delivered in the Masterplan area

Bold Street is identified in the Masterplan as an area for high intervention. The progressed schemes for Marlborough Road and the odd numbered side of Bold Street are a partial solution for this area. The remainder of Bold Street (even numbered side) exhibits some of the poorest property conditions in the district. The Masterplan recommends a housing remodelling and improvement project to acquire and demolish the even numbered side of Bold Street and back Winterdyne Terrace to develop new private housing.

As 40% of the districts homelessness derives from failed private sector tenancies in the West End, these schemes would help reduce homelessness as the housing supply imbalances are corrected and the transient nature of the community is stabilised.

On the other hand, the Council has a target to raise its council tax by no more than 2% year on year, and in order to achieve this it is expected that significant savings will need to be made. Furthermore, the Council's capital funding streams are much lower from the current year onwards. Whilst there may be opportunities that arise in future, the overall reductions in public spending have a major bearing on what may be affordable.

The council housing services business plan sets out the council's purposes:

- To provide decent homes within decent neighbourhoods, and to deliver an efficient and effective repair and maintenance service.

There are no current aims and objectives which promote an intention to build new council homes. However, given the latest analysis of housing needs, it is clear that an increased stock of suitable type would contribute to the key service aim and objective of:

- To maximise the use of existing Council Housing stock and to ensure that any imbalances between supply and demand are addressed

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)The West End Masterplan has carefully considered issues of sustainability and is based drafted on sustainable principles. The scheme will be designed and built in accordance with specifications/standards which ensure high quality urban design, including safer by design and life time homes standards as well as high environmental standards. Human rights and diversity issues are given special consideration as owner interests are acquired.

LEGAL IMPLICATIONS

Legal Services have been consulted and their general comments inserted within the body of the report where appropriate. If Option2 is pursued, specific legal advice will be provided as and when the further reports are presented to Cabinet.

FINANCIAL IMPLICATIONS

Option 1 is effectively the do nothing/minimum option. Currently costs of approximately £100K p.a. are incurred on property management, although these are currently being met from recycled receipts from the sale of properties within Chatsworth Gardens and Bold Street/Marlborough Street, and so they do not impact directly on the Council's budget. This is not a long term position as property is deteriorating and the external grant funding situation is not likely to improve in the short and medium term.

In purely financial terms, the least risk comes from withdrawal from the scheme and disposal of all properties, which would also mean that the £100K p.a. property management costs would cease to be a liability. Further sale receipts from properties would be taken as clawback by HCA against funds already invested although the council's eligible disposal costs would be covered.

Option 2, will require further reports to be prepared for Cabinet with detailed financial appraisals on each of the potential sources of funding available for affordable housing provision.

OTHER RESOURCE IMPLICATIONS

Human Resources:

Internal human resources will be needed to deliver any projects in future and although these are principally from Regeneration and Policy other services support is required, including Financial, Property and Legal.

Information Services:

No Information Service implications.

Property:

Some projects may involve the acquisition, disposal and management of residential and some commercial property. They may also involve the sale of refurbished property and marketing of development plots. The progression of projects would require significant input from the council's property services staff resource in conjunction with Regeneration & Policy staff leading the project.

Open Spaces:

No Open Space implications.

SECTION 151 OFFICER'S COMMENTS

Depending on Cabinet's views regarding its proposed priorities, any potential growth areas identified would be considered as part of the budget process for the relevant year. This is in line with the Council's current Medium Term Financial Strategy. It ensures that all such growth bids can be considered alongside each other in context of the Council's proposed priorities and other spending needs or requests, and what is affordable. At present the Council's financial outlook shows that it needs to make financial savings, however, and this need would increase in order to provide any scope for growth (including the financing costs attached to capital growth). There is always the risk therefore that even if growth proposals are to be considered further, they will ultimately prove unaffordable given other spending pressures. Expectations of stakeholders therefore require careful management.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

ARUP Housing Exemplar Options Feasibility Study (exempt under paragraph 3 of Schedule 12A to the Local Government Act 1972.

Winning Back Morecambe's West End Masterplan

Morecambe Action Plan 2002

Lancaster District Housing Strategy 2004/08

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