

Strategic approach to the Housing Revenue Account and future Council Housing Growth

Council housing became self-financing in 2012, and since then, a number of changes have been introduced that have had a significant impact upon the Council's Housing Revenue Account (HRA). This document sets out the changes, and the Council's strategic response to them and projects that will be undertaken to alleviate the impact.

The key changes since 2012 and their impact on the HRA

- Investment and borrowing caps – the Council's ability to invest in housing through borrowing is capped
- Right to buy/other sales and receipts – higher discounts lead to increased stock loss without matching levels of stock replacement
- Sale of Higher Value properties – reducing the stock at a higher rate than previously envisaged and requiring the payment of a levy to the Government to reimburse Registered Providers for their right to buy.
- Rent formula change – move from RPI to CPI leads to lower projected rental incomes
- End of rent convergence – CPI +1% and end of convergence with housing association rents
- Rent reduction – 2016-17 onwards 1% reduction per year over next four years. From 2020/21 it is assumed that the rent policy will revert to CPI plus 1% but there is a risk that this is changed.
- Welfare reform – potential for higher rent arrears across stock over time

In summary, as the table overleaf demonstrates, the changes combine to create a downward financial pressure on the HRA that was neither predicted nor evident when the Council first became self-financing in 2012. As a result, the Council needs to respond to the changes and minimise downward financial pressure by growing its housing stock in order to maintain financial stability inside the HRA.

2016 to 2026 – Updated HRA Business Plan following changes

| £m | Base Budget | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 |
|---------------------------------|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Base Surplus | 3.00 | 2.85 | 3.05 | 3.25 | 3.45 | 3.67 | 3.88 | 4.11 | 4.34 | 4.57 | 4.81 |
| National Insurance | 0.00 | -0.13 | -0.13 | -0.14 | -0.14 | -0.14 | -0.15 | -0.15 | -0.16 | -0.16 | -0.16 |
| Increased RTB | 0.00 | -0.24 | -0.51 | -0.77 | -1.02 | -1.27 | -1.50 | -1.72 | -1.93 | -2.12 | -2.29 |
| Component Deprec | 0.00 | 0.00 | -0.64 | -0.58 | -0.53 | -0.47 | -0.42 | -0.38 | -0.33 | -0.29 | -0.25 |
| 1% Rent Reduction | 0.00 | -0.45 | -1.26 | -2.07 | -2.87 | -2.92 | -2.97 | -3.03 | -3.09 | -3.15 | -3.22 |
| Levy – High Value Stock | 0.00 | 0.00 | 0.00 | -0.12 | -0.12 | -0.12 | -0.13 | -0.13 | -0.13 | -0.14 | -0.14 |
| Budget Savings (mainly JE prov) | 0.00 | 0.32 | 0.27 | 0.19 | 0.12 | 0.12 | 0.12 | 0.12 | 0.12 | 0.12 | 0.12 |
| Revised HRA Position | 3.00 | 2.35 | 0.78 | -0.24 | -1.11 | -1.13 | -1.17 | -1.18 | -1.18 | -1.17 | -1.13 |

Taking a strategic response to these changes

One of the council's key strategic purposes is 'help me to find somewhere to live in my locality' and it aims to protect local housing stock through good financial management, and to support people through times of change. The Council also aims to put tenants first, involve them, and protect their interests, raising housing standards across the borough, and maximising the delivery of affordable housing to build mixed, sustainable communities.

The revised HRA Business Plan identifies the need to increase the Council's housing stock by 109 properties in the next three years and thereafter 13 units per year to mitigate against the financial effects of these changes..

Currently the Council only has the 'Buy Back' and Mortgage Rescue scheme to acquire new units of accommodation and this does not provide the numbers that have been identified.

The Council has identified a number of opportunities that can be utilised in order to increase the HRA stock and minimise the risks posed by the HRA-related changes.

- Commissioning the construction of new HRA stock
- Purchasing from developers through s.106 bidding
- Purchase properties 'off plan' on developments
- Purchasing properties from the open market
- Purchasing stock from other Registered Provider
- Buy backs and Mortgage Rescue Scheme
- Regenerating existing stock

Importantly, there is no 'one-size fits all' answer to the pressures on the HRA. For example, there are fluctuations in terms of the supply of new housing becoming available for purchase in the local market, and timescales can also change with developers.

As a result, strategically, the Council will take a blended approach to housing growth, which makes the most of all the different opportunities available to it, rather than concentrating solely on one model. This includes utilising the Council's housing capital programme to make the most of opportunities to enhance existing stock.

The revised HRA Business Plan identifies the need to increase the Council's housing stock by a minimum of 109 properties over the next three years and thereafter 13 units per year. The costing in the table below relates the estimated cost of building new houses to meet this number.

| £m | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 | 22/23 | 23/24 | 24/25 |
|--------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| New Stock Numbers | 15 | 47 | 47 | 13 | 13 | 13 | 13 | 13 | 13 |
| Funding (£m) | | | | | | | | | |
| Capital Reserve | 1.2 | 3.7 | 3.8 | 1.0 | 1.1 | 1.1 | 1.1 | 1.1 | 1.2 |
| Capital Receipts | 0.5 | 1.6 | 1.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Total | 1.7 | 5.3 | 5.4 | 1.5 | 1.6 | 1.6 | 1.6 | 1.6 | 1.7 |

The table below shows the current maintained RTB receipts and the date these must be used by or returned to central government to include interest payments. These receipts must be used to replace the sales with either new build, buy back of properties or purchase on the open market (new stock).

| RTB retained receipt | Capital Reserve | Total | Date by | Cumulative Spend |
|----------------------|-----------------|------------|------------|------------------|
| £245,300 | £572,367 | £817,667 | 31/03/2017 | |
| £137,202 | £320,137 | £457,339 | 30/06/2017 | £1,275,006 |
| £162,406 | £378,948 | £541,354 | 30/09/2017 | £1,816,360 |
| £23,022 | £53,719 | £76,741 | 31/03/2018 | £1,893,101 |
| £64,083 | £149,526 | £213,609 | 30/09/2018 | £2,106,710 |
| £267,418 | £623,974 | £891,392 | 31/12/2018 | £2,998,102 |
| £374,761 | £874,442 | £1,249,203 | 31/03/2019 | £4,247,304 |
| £390,270 | £910,631 | £1,300,901 | 30/06/2019 | £5,548,205 |
| £425,628 | £993,132 | £1,418,760 | 30/09/2019 | £6,966,965 |

Strategic Summary

- Changes made since 2012 have impacted on the Council's Housing Revenue Account
- Strategically, the council aims to minimise the financial risks created by these changes, for which there is no 'one-size fits all' solution.
- As a result the Council will promote housing growth, adopting a blended acquisition approach to growing its own stock
- This approach should allow the council to address the current and future financial pressures within the HRA

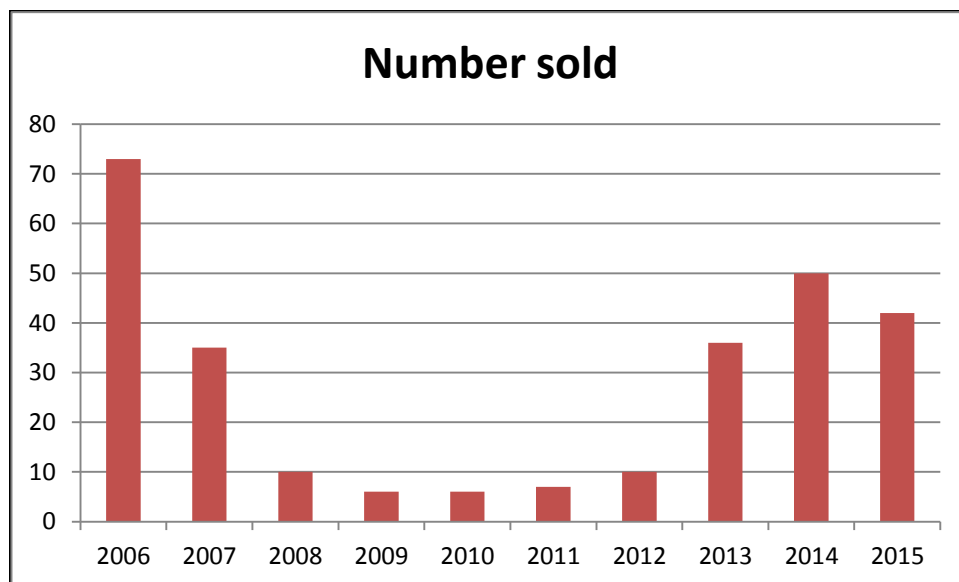
DELIVERING HRA STOCK GROWTH

To deliver the necessary growth in the HRA stock the Council will undertake the following programmes. These programmes range in complexity and deliverable timeframes and they will run concurrently.

To deliver the programmes the capital budget agreed for 'Buy back' and Mortgage Rescue Scheme will be named the Council Housing Growth Programme and increased to £12.5m for a 3 year period and used for all costs associated with the programmes below.

Purchase Properties off the open market

The Council currently has an approved scheme known as the 'Buy Back' scheme which is properties that were sold through the Right to Buy scheme by the Council within the last ten years which have a legal requirement that the Council have first refusal on buying the property. Over the last ten years the Council has sold 275 properties.



During the last two years the Council has bought 11 properties through the 'Buy Back' and Mortgage Rescue Scheme. Given the limited number of properties sold during the five years from 2007 to 2012 this is likely to limit the number of properties being offered to the Council as first refusal.

The Council will seek suitable properties available on the open market. The properties will be ex-Council stock and a mix of all types of properties will be sought with regular monitoring of the immediate pressures on the Council's waiting list for those types of property in most need.

To ensure that this does not have a negative impact on the availability of the lower quartile housing market for first time buyers this programme will be used limitedly and for only properties naturally coming to the market.

Commission the Construction of New Properties

Previously councils have been discouraged from building new social housing themselves, and encouraged to act as "enablers". Previously established financial rules that penalised Councils that built new homes have now been removed

The Council will commission a house building programme for the following reasons:

- HRA land developed increasing affordable housing.
- The land and buildings would be retained as a Council asset.
- The Council will receive increased New Homes Bonus.
- The Council will benefit from the rental income having a positive financial impact on the Council's HRA Business Plan.
- The Council will have greater control over the design and layout of properties.
- It will enable the Council to increase its housing stock and reduce unit costs of management and maintenance.
- Utilise the capital receipt from RTB sales to replace lost stock.
- The Council will have greater control over the future use of homes.
- The cost of construction could be cheaper as the Council can recover the cost of VAT for fees.
- Possible for the Council to receive the benefit of capital grant funding from the Homes and Communities Agency.
- Meeting waiting list applicants wishes for Council housing rather than RSL housing.
- Positive increase in the Council's reputation.
- Lower rent levels compared to RSL's.
- Local housing management and maintenance.

The Council has not delivered new build homes for a number of years but it does have land which would be suitable for the delivery of social housing. The Council currently does not have the skills, capacity and experience in house to deliver a house building programme.

In order to implement this programme the Council will appoint through a procurement process a Development Agent, similar to that other local authorities and smaller Registered Providers use. The Development Agent will provide all the required development and project management services. The Development Agent role will include the provision of all professional building services including: architectural, quantity surveying, cost consulting, planning supervision, engineering and surveying. The Development Agent will also undertake the planning and tendering of the works contract. Officers propose that part of the Development Agents role will be to upskill Council officers to take on elements for future developments.

In order to have the expertise in completing the below requirements for the selection of a Development Agent the Council may also need to appoint a suitably experienced Housing Development Consultant to undertake the appointment process

- The formulation of the technical housing elements of the PQQ and the associated evaluation criteria for shortlisting;
- Responding to enquiries from applicants about the technical housing criteria during the PQQ process;
- Evaluation of the submitted PQQs (in liaison with others);
- Fundamentally, the drafting of the detailed Specification, Invitation to Tender (ITT) and Evaluation Criteria;
- Management of the ITT process, and dealing with queries raised during the tender period;
- Evaluation of tenders in accordance with the Evaluation Criteria; and
- Arrangement of the interviews/presentations.

The Council has sites at Auxerre Avenue, Clifton Close, Loxley Close and Fladbury that have been declared surplus.

The Development Agent will undertake detailed Development Appraisals for each of the identified sites, which would assess whether or not an identified site has development potential, the expected costs and the anticipated income. For each site (or package of sites) with development potential a report would be presented to the Executive Committee to approve whether or not it wishes to proceed and approve financial and development appraisals.

The undertaking of a design & build approach to the development of these sites would be the appropriate delivery method and ensure the Council achieves value for money and a suitable product.

As funding is available from the HRA, officers do not consider that a separate housing company needs be formed at this stage but officers should explore the merits of a housing company and be report back to Committee.

The aforementioned sites are small and likely to achieve only approx. 25 units and to ensure a suitable Housing Growth programme officers will need to assess all Council owned land (brownfield/greenfield) including small infill/garage sites for suitability to develop housing to provide a longer term programme. This will include HRA and General Fund land and where required appropriation of land from General Fund to HRA will be undertaken.

A shortlist of suitable sites will be reported to the Executive Committee to approve, to create further phases of house building.

Purchasing from developers through s.106 bidding

Qualifying developments are required to provide affordable housing on site in accordance with the Council's local plan. This housing is secured through section 106 of the Town and Country Planning Act 1990.

The Strategic Housing Team negotiates with developers for the numbers, house type and tenure on these sites to meet need. Usually the tenures are split between social rented and shared ownership as the intermediate product.

A developer will then undertake a competitive tender process with Registered Providers for these affordable housing units. The Council has not previously competed against Registered Providers for this stock. As this is a competitive tendering process there is no guarantee that the Council will be successful in this process.

Affordable housing obtained through this process may include shared ownership properties which are sold leasehold on the open market to qualifying purchasers who pay rent on a proportion of the outstanding percentage which would be owned by the Council. The Council will consider prior to bidding if a partnership bid with another provider would be beneficial that would take the shared ownership units.

Purchase 'Off Plan' on developments

On suitable developments the Council will consider the purchase of properties 'off plan' thereby obtaining properties at a discount to the open market value.

On developments that are required to provide affordable housing through a s.106 agreements these properties would be in addition to the affordable housing already being provided.

Officers will need to ensure that buying 'off plan' provides value for money but it will give the Council the opportunity to make alterations to meet our own building requirements.

Regeneration of existing stock

The Council currently owns approx. 5900 properties. The stock mainly falls into two elements of pre-New Town or New Town development.

The Council in conjunction with the Development Agent will complete a study of the Council's existing stock to explore the possibility of any areas which would provide an opportunity to undertake a regeneration of the area to improve and increase the housing stock. As part of this an asset management review should be undertaken to ascertain the financial viability of properties over the business plan period and consider the future use of assets that are unviable.

Purchase stock from other Registered Providers

The Council is the largest social housing provider in the Borough with approx. 70%. The remaining stock is owned by Registered Providers with some Registered Providers only holding a small amount in Redditch.

The Council will contact Registered Providers with stock in Redditch to ascertain if any would consider undertaking a stock rationalisation programme with the Council purchasing their Redditch stock.

Buy backs and Mortgage Rescue Scheme

The Council will continue with this existing scheme in it's current format.