

13 March 2019		ITEM: 10
Decision: 110507		
Cabinet		
New Council Home Building Programme		
Wards and communities affected:	Key Decision:	
All	Key	
Report of: Councillor Barry Johnson, Cabinet Member for Housing		
Accountable Assistant Directors: Detlev Munster, Assistant Director of Property and Development; and Jonathan Wilson, Assistant Director of Finance		
Accountable Directors: Sean Clark, Director of Finance and IT, Roger Harris, Corporate Director of Adults, Housing and Health; and Steve Cox, Corporate Director of Place.		
This report is Public		

Executive Summary

The following report outlines the Council's aspirations to develop 500 new Council homes over the next five to ten years (within the Housing Revenue Account (HRA)). This follows the Government's announcement in October 2018 to abolish the HRA debt cap.

The debt cap has been a significant prohibiting factor in the ability to deliver more Council housing through the HRA. However, there are other factors which also impact on the ability to deliver additional housing within the overall financial constraints of the HRA.

A high-level assessment of the Council's ability to deliver 500 new Council homes within the overall HRA business plan was undertaken. The financial model prepared indicates that, subject to various assumptions outlined in this report, developments could effectively be self-financing.

The Council has a wholly owned development company - Thurrock Regeneration Limited (TRL) - which is supporting the delivery of housing in the borough.

The report is based on legislation at it currently stands. There may be subsequent outcomes from the recent consultation on use of receipts from right to buy sales. While these may bring greater financial flexibility they will only be considered once confirmed.

1. Recommendations:

- 1.1 Cabinet approves that a housing development pipeline be prepared to seek to deliver up to 500 new Council homes for Thurrock residents over the next 5 to 10 years to be funded within the Housing Revenue Account;**
- 1.2 Cabinet delegates authority to the Corporate Director of Place in consultation with the Corporate Director of Adults, Health and Housing and the Director of Finance and IT as well as the Cabinet Member for Housing to ensure the Council Homes Delivery Programme is adequately resourced in accordance with the Council's Procurement Regulations and to enter into appropriate agreements as may be necessary and to seek to secure the necessary statutory consents to deliver 500 new Council homes.**
- 1.3 Cabinet agrees to refer this decision to Housing Scrutiny for its consideration and advice on ensuring the successful delivery of a New Council Homes Programme through the HRA.**

2. Introduction and Background

- 2.1 According to the South Essex Strategic Housing Market Assessment (May, 2017), the objectively assessed need (OAN) for housing in Thurrock between 2014 and 2037 is between 1,074 – 1,381 dwellings per annum of which the net annual affordable housing need is circa 472 dwellings per annum. This report also suggests that there will be a demand for housing of all sizes, with the greatest additional demand generated by households who would typically occupy housing with three bedrooms.
- 2.2 The Council's housing register, as of 22 February 2019, is summarised in Table 1 below

Table 1: Current Housing Waiting Register

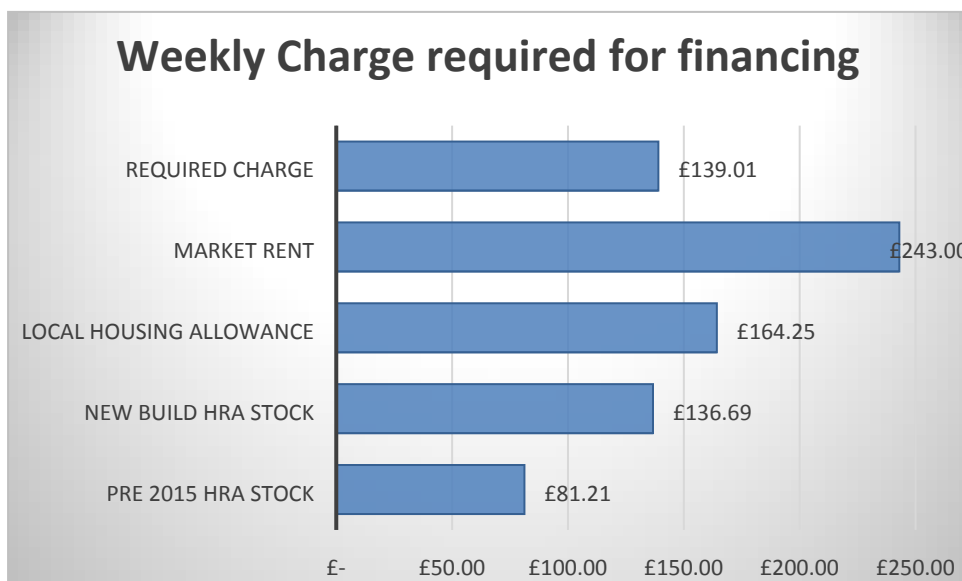
	Band 1	Band 2	Band 3	Band 4	Total
Housing Waiting List	3	142	527	4423	<u>5095</u>
Transfer List	0	0	0	0	<u>0</u>
Transfer List Other Social Provider	0	0	0	0	<u>0</u>
Total List	<u>3</u>	<u>142</u>	<u>527</u>	<u>4423</u>	<u>5095</u>

- 2.3 Thurrock Council is committed to providing low cost housing, allocated through the Council's housing allocations scheme, for Thurrock's residents. The Council accepts the local need to provide between 6,000-10,000 council homes and will work with social landlords and Thurrock Regeneration Limited to build further low-cost housing. The Council will also ensure that any eligible private developments include affordable housing.
- 2.4 The removal of the HRA Debt Cap in October 2018 has provided local authorities in England and Wales with new found freedoms to provide new

Council homes. However, the ability to fund these new homes still needs to ensure the HRA business plan is viable, and can be sustained. The Council therefore wishes to use this opportunity to provide and speed up the delivery of Council houses in the borough in a manner that does not detrimentally impact the HRA business plan.

3. Proposed New Council Homes Programme

- 3.1 A financial modelling exercise was undertaken to establish the level of new Council homes that could be delivered without impacting negatively on the HRA business plan. Additionally, a key requirement of the modelling exercise was to ensure that the delivery programme could be self-financing, given current Government rules and regulations.
- 3.2 Numerous high-level assumptions were made to develop the model ranging from estimated build cost, unit typology, use of RTB receipts, interest rate costs, management and maintenance costs, and rent levels to mention a few.
- 3.3 Based on these financial assumptions, the financial model suggests that it is possible for the Council to deliver 500 new council homes in a self-financing manner.
- 3.4 Three different income scenarios were considered, viz.: pre-2015 rents, affordable rents, and income derived using the Local Housing Allowance rates. In order to make the Home Building Programme breakeven under current assumptions, the required average weekly rent charge would need to be c. £139. This equates to 57% of the current average market rent level. Were pre-2015 social rent levels be charged, a subsidy from the HRA would be required to meet the borrowing cost.
- 3.5 To illustrate the level of required rent in order to meet the envisaged costs of financing and the ongoing revenue implications, the comparison is shown in the graph below.



- 3.6 The financial model notes that careful consideration needs to be given with regards to the additional costs from the ongoing management and maintenance associated with each additional dwelling added to the HRA. Whilst prudent estimates have been made, the on-going financial sustainability of the HRA relies on rent levels set at sufficient levels to at least meet the ongoing costs associated with any additional property.
- 3.7 Resource requirements for a new housing delivery programme were also considered. Given the current commitment to deliver 1,000 new homes through TRL, it was considered prudent to seek synergistic benefits between the TRL delivery programme and a new Council homes programme, and jointly use resources where possible. While there is a need to provide additional skills and capacity within the Housing Development Team, there is also a need to provide added capacity in the Legal, Finance, Community Development and Procurement teams.

4. Issues and Options

- 4.1 This report outlines high-level assumptions that supports a strategic business case for the delivery of new Council homes. Further detailed financial assessments are required, and these will be undertaken as schemes are identified.
- 4.2 Development sites and schemes are yet to be identified, but it is envisaged that they will primarily take place on land currently within the HRA. However, General Fund land may also be used if deemed appropriate, and subject to the appropriate consents.
- 4.3 One of the exercises in the *Your Place Your Voice* borough-wide consultation event was to identify the type of homes needed and where they are needed

according to community groups. The responses are currently being collated and will be used as a baseline to inform scheme development.

- 4.4 Local communities and interested and affected parties will be consulted as sites are identified and viable schemes are progressed.
- 4.5 As each scheme is progressed, appropriate statutory consents (including planning permission) will be sought.
- 4.6 The financial model considers three financing scenarios and suggest that a self-funding option is possible provided rent levels are set at an appropriate level to cover development and annual maintenance and management costs. If costs are not met, then the HRA will require further subsidy which is not possible given the HRA's financial position.
- 4.7 An alternative option for the Council is to rely on the private sector to deliver affordable housing. While it is current planning policy to ensure privately developed schemes provide 35% of the housing stock as affordable housing, the amount of affordable housing finally delivered is dependent on financial viability. Additionally, the Council has no control over the delivery and quality of these homes.

5. Reasons for Recommendation

- 5.1 The SHMA identifies the housing challenge that the Borough faces, and this is further supported by the number of applicants on the Council's Housing List. The Council is committed to providing suitable housing for its residents, and while it has sought to increase its social housing stock, it has been constrained in doing so due to the HRA "Borrowing Cap".
- 5.2 The removal of the HRA "Borrowing Cap" has provided the Council with the ability to increase social housing stock, and directly deliver a new homes programme.
- 5.3 A high-level financial model suggests that the Council can directly deliver 500 new Council homes through the HRA and that this can be self-financing, by using RTB receipts and by charging social rents at circa 57% of market rents.

6. Consultation

- 6.1 It is proposed that the decision to commence a New Council Homes Programme is brought to Housing Overview and Scrutiny Committee for consultation.
- 6.2 The identification of sites will be informed by the engagement already carried out through the Your Place Your Voice exercise in support of the *Local Plan Issues and Options Two*. Local communities and interested and affected parties will be consulted as appropriate development sites are identified and

viable schemes are progressed. Consultation will also inform the Community Equality Impact Assessment for the scheme.

7. Impact on Corporate Policies, Priorities, Performance and Community Impact

- 7.1 The proposed New Council Homes Programme closely aligns with the Council's Vision and Priorities, which was adopted in 2018. In particular it resonates with the "Place" theme which focuses on houses, places and environments that residents can take pride of.
- 7.2 The ability to directly provide New Council homes at an appropriate social rent will significantly assist in ensuring more affordable housing is available to Thurrock residents. In particular it will assist in reducing the Housing Waiting List.

8. Implications

8.1 Financial

Implications verified by: **Mike Jones**
Strategic Resources Accountant

The model suggests that the delivery of 500 new homes through the HRA can be financed through a combination of prudential borrowing and the application of retained RTB receipts. However, the model is predicated on a breakeven scenario where rents are charged at circa 57% of market rents on average.

It is imperative to note that these are high level assumptions and detailed modelling would be required to fully clarify the financial implications. In particular, the full financial effect would really only be known as each housing scheme is planned.

The wider financial implications of any development will be incorporated into the overall HRA business plan in due course. This will ensure that the long term financial sustainability is monitored accordingly.

Additional resources will be required in Property, Housing, Legal, Finance and the Procurement teams to support the delivery of these 500 homes. Resourcing plans are currently being prepared, the costs of which are to be capitalised and are included in the proposed financial model.

8.2 Legal

Implications verified by: **Tim Hallam**
Deputy Head of Law and Governance

The removal of the HRA borrowing cap by the Secretary of State on 25 October 2018 was made by The Limits on Indebtedness (Revocation) Determination 2018. This Determination, which revoked previous determinations specifying local authority limits on indebtedness, was made under Secretary of State's powers in the Local Government and Housing Act 1989 and the Localism Act 2011.

However, local authorities are still required to 'have regard' to the CIPFA Prudential Code when developing their capital investment plans including the degree of indebtedness they incur. The Finance Procedure Rules, under Chapter 9, Part 3 of the Thurrock Council Constitution, regulate the Council's financial administration and control processes. These Rules set out the main relevant statutory duties on the Council, including those under the Local Government Act 1972 and the Local Government Finance Act 1988.

Individual proposals to deliver new Council homes would need to obtain planning permission under the Town and Country Planning Act 1990 and any other necessary consents.

8.3 Diversity and Equality

Implications verified by: **Natalie Warren**
Strategic Lead of Community Development

The proposal to deliver 500 new Council homes is expected to have a positive effect on borough residents. In particular it is recognised that affordable housing tends to be dis-proportionately accessed by persons sharing certain protected characteristics. Providing additional affordable homes would be likely to have a beneficial effect on these persons as compared to persons who do not share those characteristics. Conversely, not approving the recommendations in this report would potentially have a negative impact on those persons because no additional affordable homes would be provided.

The location of these new homes should be carefully planned to not only ensure they integrate within existing communities, but also that the designs promote community cohesion.

EqIAs will be undertaken as part of the development process to ensure housing schemes are appropriately designed and that the allocation of new homes is fair and equitable and is compliant with the Council's Housing Allocation Policy.

9. Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Turley Economics (May, 2017): Addendum to the South Essex Strategic Housing Market Assessment.

- Thurrock Council (Feb, 2019): HRA New Homes Programme High Level Financial Model.

10. Appendices to the report:

None.

Report Author:

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