

18 June 2019		ITEM: 8
Housing Overview & Scrutiny Committee		
New Council HRA Home Building Programme		
Wards and communities affected: All	Key Decision: Non-key	
Report of: Detlev Munster, Assistant Director of Property and Development		
Accountable Assistant Director: Detlev Munster, Assistant Director of Property and Development		
Accountable Director: Andy Millard, Director of Place (Interim)		
This report is public		

Executive Summary

On the 13th March 2019, Cabinet approved the preparation for the delivery of up to 500 new Council homes for Thurrock residents over the next 5 to 10 years through the Housing Revenue Account (HRA). Cabinet also agreed to refer this decision to the Housing Overview and Scrutiny Committee for its consideration and advice on ensuring the successful delivery of the new Homes Delivery Programme.

This report outlines the aims of the Programme, the governance and project management arrangements for the new Council HRA Home Building Programme.

1. Recommendation(s)

That Housing Overview and Scrutiny Committee:

- 1.1 Endorse the delivery of a New Homes Delivery Programme.**
- 1.2 Endorse the delivery arrangements in place to ensure the successful delivery of a new Council Homes Programme through the HRA.**
- 1.3 Update the work programme to receive regular updates on the new Council Homes Programme to assist in its successful delivery.**

2. Introduction and Background

- 2.1 The South Essex Strategic Housing Market Assessment (May, 2017), identifies the objectively assessed need (OAN) for housing in Thurrock between 2014 and 2037 between 1,074 – 1,381 dwellings per annum of which the net annual affordable housing need is circa 472 dwellings per annum. This**

study also identifies that there will be 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 list, as of 22 February 2019, is summarised in Table 1 below.

Table 1: Current Housing Waiting list

	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 The 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 affordable homes over the Local Plan period of 20 years 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 greater financial flexibility to build new Council homes. However, the ability to fund these new homes still needs to be within the context of a viable and sustainable HRA business plan. The Council therefore wishes to use this opportunity to increase the supply and delivery of affordable housing in the borough within a sustainable HRA business plan.
- 2.5 In response to the Government's announcement in October 2018 to abolish the HRA borrowing cap, the Council set an aspiration to develop 500 new Council homes over the next five to ten years within the Housing Revenue Account (HRA).
- 2.6 Consequently work has been undertaken to review the Council's ability to deliver new Council homes within this context. The financial model prepared demonstrates that, subject to various assumptions, developments could be delivered and managed in a financially sustainable way within the context of the HRA business plan.
- 2.7 On 13 March 2019 Cabinet approved the establishment of a new Council Home Building Programme and agreed to refer its decision to Housing Overview and Scrutiny for its consideration and advice on ensuring the successful delivery of a New Council Homes Programme through the HRA.

3. Issues, Options and Analysis of Options

Aims and Objectives

- 3.1 The principal outcome of the New Council Homes Programme is the delivery of new affordable housing for Thurrock residents. In this regard a target was set of 500 homes to be completed in the period 2019 – 2029 by Cabinet.
- 3.2 The Council envisages this target will primarily be achieved through new supply rather than change of tenure of existing housing stock. However, the Council is not ruling out the purchase of existing privately owned stock and subsequent conversion to Council rented properties.
- 3.3 It is also envisaged the new homes to be delivered will be well designed internally and externally to an appropriate housing hallmark standard to ensure the delivery of the best possible housing for its residents. This is because the Council wishes to use its assets and projects to set a high standard of design to influence the quality of private house builder's development in Thurrock.
- 3.4 However, the Council recognises there is a fine balance to be struck between quality and cost and as such, the delivery of new homes must be affordable to build, deliver value for money and recognise the impact of design decisions on ongoing maintenance budgets.
- 3.5 The Council also aspires to optimise and rationalise the use of its current estate to ensure new homes are truly affordable by reducing development costs and eliminating land costs from the development equation. The Council has undertaken a significant review of its estate, through the 3Rs (Retain, Release, Reuse) Programme, and has identified various parcels of land that could be used for housing development, subject to obtaining any necessary statutory permissions/consents. Utilising the existing property portfolio has the added benefit for the Council in reducing holding costs and ensuring the remaining property portfolio is fit-for-purpose, appropriately located and of a higher quality.

A Range of Housing Delivery Mechanisms

- 3.6 Direct delivery is likely to form the bulk of the Programme and has clear benefits, viz.:
 - Control over the design, construction and location of these proposed new homes subject to obtaining any necessary statutory permissions/consents;
 - Setting design and quality standards not only for a particular development, but in relation to all these proposed new homes, and acting as an exemplar to other housing developers across the Borough;
 - Linking new house building to the wider Council regeneration agenda;
 - Visibly acting in the community as a house builder for its residents and dictating the pace of delivery of these proposed new homes.

- 3.7 However, the programme has the scope to accommodate a range of other delivery methods in addition to direct delivery, subject to appropriate governance arrangements and approvals, including:
- Purchasing affordable housing units developed as a requirement under S106 planning obligations on Thurrock Regeneration Limited developments;
 - Purchasing S106 dwellings on private sector developments;
 - Joint Venture arrangements with private sector developers or Housing Associations;
 - Purchase of newly completed private developments, in whole or part;
 - Purchase and repair of existing private sector stock to let as affordable housing.
- 3.8 There will be different reasons for each approach, some opportunity led, some as a consequence of prevailing market conditions, whilst others will naturally fall into the approach the Council has adopted to date where it can make best use of existing land holdings. For some projects the driver behind development may be greater than housing need alone and may include, for example, the need to regenerate a location or remove a hot spot of anti-social behaviour. Each approach and certainly each project will require different governance and approval arrangements whilst following similar project management disciplines.

The Council's Housing Development Pipeline

- 3.9 Work is currently underway to develop a pipeline of sites in order to meet the Council's aim to deliver up to 500 new homes over the next 5 to 10 years.
- 3.10 A first phase of 200 homes is proposed and sites will need to be quickly identified and assessed so that the programme can commence.
- 3.11 Following the completion of the Council's assets review in 2018, further investigation is being carried out to identify sites suitable for housing development. This work will include production of capacity studies, cost plans and financial appraisals.

HRA High Level Financial Modelling

- 3.12 A financial modelling exercise was undertaken to establish the level of new Council homes that could be delivered within the context of a financially sustainable 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.
- 3.13 The following high-level assumptions were made to support the development of the model:
- Subject to procurement, an average development cost per dwelling of £251k was calculated. This was based on a comprehensive analysis of

build costs in Thurrock undertaken by independent cost and property consultants. This development cost is inclusive of all costs of works, professional fees, contingencies, other developer costs, and a risk factor.

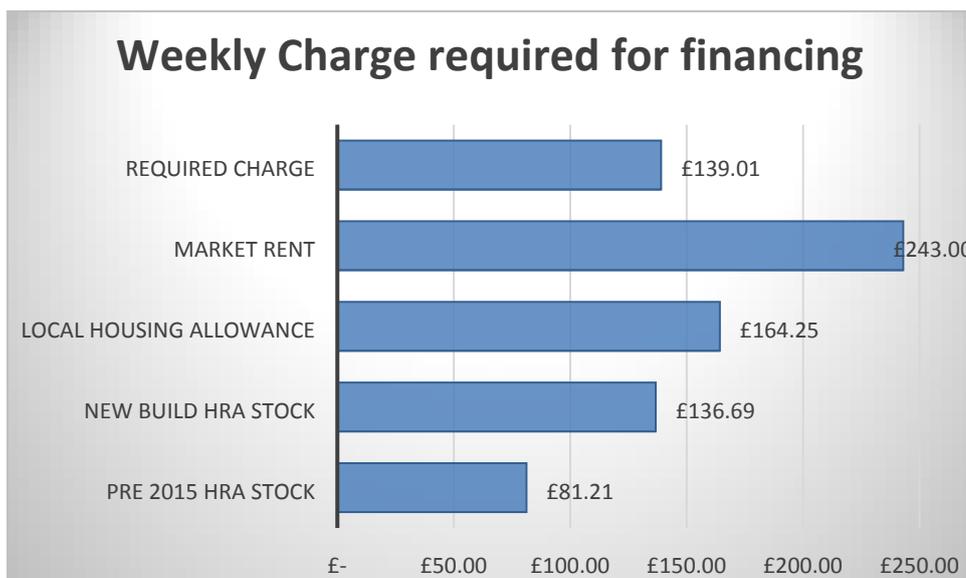
- The 500 units would consist of 30% one bedroom, 40% two bedroom, and 30% three bedroom dwellings which is based on current demand.
- The costs for the scheme assumes the dwellings are developed on existing HRA land (or where appropriate General Fund land) and hence there is no land cost assumption.
- Right to Buy (RTB) receipts as set out are currently available and based on current projections for RTB sales and subject to change.
- Interest costs at 2.78% are based on latest rates available from the Public Works Loan Board as advised by Treasury.
- The management and maintenance costs are averaged and agree with current HRA costs.
- There are three different rent levels that have been considered within the modelling:
 - 1) The pre-2015 HRA stock rent level is applicable to the properties that were part of the HRA historically. This level of rent is also referred to as the social rent and is arrived at by using the HRA rent setting formula. This takes into account property values, the number of bedrooms and geographical indexation weightings. (Note post-2015 HRA stock rent levels are further considered below which were originally set at 70% of market rent at the time).
 - 2) The local housing allowance is the maximum amount of rent that can be claimed through housing benefit, or the housing costs element of Universal Credit.
 - 3) The market rent is the average rent level which would be charged for a property if it was privately let. This can alter at a local geographical level, but as an average, it is a useful comparator for affordable rent considerations.
- The model assumes the use of RTB receipts. The financial advantage is that this reduces the overall borrowing requirement and subsequent interest charges by 30%. This has a significantly favourable financial impact and creates greater flexibility over the level of rent that would need to be applied to cover the ongoing revenue cost of borrowing. It is assumed there is an average retained RTB receipt of £75,300 per property and for 5 years RTB sales total 100 per annum.

3.14 Based on the key financial assumptions noted above, the results of the financial modelling are summarised in Table 2 below.

Table 2: Financial Model Summary

	£	£			
Total Construction cost	125,500,000				
Less application of RTB receipts on Capital cost	(37,650,000)				
Revised borrowing	87,850,000				
Total annual interest - After application of RTB receipts			2,442,230		
Overhead costs per dwelling, per annum	2,000				
Overhead Cost - Total			1,000,000		
Total annual revenue expenditure			3,442,230		
Income	Average Weekly Rent	Gross income (after 5% Void and Bad debt reduction)	Expenditure (Interest + Overheads)	Expenditure Shortfall / (Surplus)	Expenditure cover percentage
	£	£	£	£	%
Pre 2015 HRA Stock (approx 35% of market rent)	81.21	(2,005,788)	3,442,230	1,436,442	58.30%
Affordable Rent (approx 58% of market rent)	136.69	(3,376,218)	3,442,230	66,012	98.10%
Local Housing Allowance (approx 70% of market rent)	164.25	(4,056,876)	3,442,230	(614,646)	117.90%

- 3.15 Three different rental income scenarios were considered as noted above: pre-2015 HRA rents, affordable rents, and rental income derived using the Local Housing Allowance rates.
- 3.16 Table 2 highlights that in order to make the Home Building Programme breakeven under current assumptions, the required average weekly rent charge would need to be circa £139. This equates to 57% of the current average market rent level. Table 2 also highlights that if pre-2015 social rents were to be charged, a subsidy from the HRA would be required to meet the borrowing cost. This would not be sustainable for the HRA and would undermine the current business plan.
- 3.17 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.



- 3.18 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.

Governance

- 3.19 Cross service oversight of the development programme is provided through a Board comprising senior officers from Housing Management, Finance, Legal Services, Property Services and Communications with scope to escalate to Directors Board as appropriate.
- 3.20 The day-to-day management of the Programme's delivery as well as the project management of each scheme will be undertaken by the Housing Development Team.
- 3.21 To assist the housing Development Team, a Housing Delivery Reference Group (Clearing House) has been established. The purpose of this multi-disciplinary group is to assist the Housing Development Team with the assessment of sites and projects and provide advice on highways, planning, environmental planning, housing management, property, legal and design matters.
- 3.22 Summary monthly progress reports will be submitted to the Lead Member for Housing.

Project Management

- 3.23 The Housing Development Team uses appropriate project management methodologies and tools to assist with project delivery.

- 3.24 A Gateway Process has been established requiring a project to undergo appropriate assessments and approvals before funds are fully committed and a project is allowed to proceed.
- 3.25 The overarching budget for HRA development is subject to agreement by Cabinet, both annually through the HRA Business Plan with additional budget approvals as required as new projects come forward in year. Financial monitoring of projects is reviewed on at least a monthly basis.

Key Risks and Issues

- 3.26 The Housing Development Team will need to be enlarged to bring in more housing development and project management expertise. Additional housing development project managers and project officers are currently being sought. Resources will also need to be augmented as appropriate to provide additional capacity in the Legal, Finance, Property, Community Development and Procurement teams.
- 3.27 The use of the Council's existing property portfolio presents numerous challenges such as planning and community engagement. Many sites may not fully align with current planning policies and local communities may not wish to have developments nearby. While the advantages and disadvantages for each site will need to be assessed and considered as part of the planning process, it is important to note that the *Your Place Your Voice* series of community consultation exercises revealed that most communities welcomed housing for local residents. However, local communities will be consulted as schemes are progressed to ensure their views assist in identifying issues and in shaping the proposed developments.
- 3.28 Given Thurrock's complex land and construction economy, i.e. high development costs and low housing and rent values, achieving financial viability is challenging. Financial viability or appropriateness will therefore need to be assessed on a scheme by scheme basis. However, it is also imperative that the Council: ensures accountability and delegation is unambiguous; acts decisively; invests in developing good relationships; fosters a culture of benefits led decision making; uses "control gates"; and invests in contingency plans for significant risks.

4. Reasons for Recommendation

- 4.1 The Council has a housing need and the potential to develop the existing asset base. The Council is able to directly intervene in the delivery of new homes for Thurrock residents by utilising its asset base and its borrowing capacity.
- 4.2 A high-level financial assessment suggests that the Council can undertake new development within the context of a sustainable HRA business plan and any new development can be self-financing. The report demonstrates that 500 new homes can be delivered subject to the assumptions made.

4.3 To embark on a new Council housing programme, the Council needs to establish a base set of principles that can be scrutinised to ensure the delivery of housing while safeguarding public expenditure.

5. Consultation (including Overview and Scrutiny, if applicable)

5.1 The identification of sites will be informed by the engagement already carried out through the 3Rs Programme and the Your Place Your Voice exercise in support of the *Local Plan Issues and Options Two*.

5.2 Each site identified as suitable for development will be the subject of a further internal consultation exercise with relevant Council departments as outlined in the Governance section above.

5.3 Local communities and interested and affected parties will be consulted as appropriate development sites are identified and viable schemes are progressed. This will be through a range of media including public exhibition of proposals as part of the development process and separately, in a form required by the planning application process.

6. Impact on corporate policies, priorities, performance and community impact

6.1 The proposed New Council Homes Programme closely aligns with the Council's Vision and Priorities adopted in 2018. In particular it resonates with the "Place" theme which focuses on houses, places and environments that residents can take pride in.

6.2 The ability to provide New Council homes at an affordable 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.

7. Implications

7.1 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 based on a breakeven scenario where rents are charged at circa 57% of market rents on average.

It is imperative to note these are high level assumptions and detailed modelling would be required to clarify the financial implications of each scheme.

The wider financial implications of any agreed development will be incorporated into the overall HRA business plan. 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.

7.2 Legal

Implications verified by: **Tim Hallam**
Deputy Head of Law - Regeneration

'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.

7.3 Diversity and Equality

Implications verified by: **Natalie Warren**
Strategic Lead, Community Development and Equalities

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 disproportionately 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.

EqlAs 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.

8. Background Papers

- 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.

9. Appendices

- None

Report Author

Detlev Munster

Assistant Director of Property and Development