B O R O U G H   O F   K E T T E R I N G

Committee	**EXECUTIVE**	Item 12	Page 1
Report Originator	Strategic Management Team	*Fwd Plan Ref No:* A15/017	
Wards Affected	All	9th September 2015	
Title	**HOUSING FINANCE**		

Portfolio Holders: Cllr Jan Smith & Cllr Steve Bellamy

1. PURPOSE OF REPORT

a. To provide members with an update following the announcement made in the Government's Summer Budget regarding future levels of social rent, and the possible implications thereof;

b. To remind Members of the current policy position regarding the proposed use of Right to Buy capital receipts and provide an update of the current position;

c. To update Members on the preliminary work that has been undertaken to assess the feasibility of building new council homes.

2. BACKGROUND INFORMATION

2.1 At its meeting on 25 February 2015, the Council approved the Housing Strategy 2015-2020. This document sets out a new approach for increasing the supply of new affordable homes in response to a changing housing market and the realisation that traditional methods are no longer working as well as they once did. Accordingly, the new Housing Strategy placed more emphasis on the Council having a direct role in delivering new homes through acquisitions and the possible development of new council housing.

2.2 At the heart of the Housing Strategy is the Council Medium Term Business Plan for the Housing Revenue Account.

2.3 This report attempts to consider what implications the recent Government housing policy changes might have for the future financing of the Housing Revenue Account – both investment in existing housing stock and aspirations to develop new council housing.

3. NATIONAL POLICY CHANGES

3.1 Members will recall that the Government introduced a new national system of housing finance in April 2012. The new system was developed in recognition that the pre-2012 system was financially unfair for many local authorities and therefore needed replacing.

3.2 The new system was commonly referred to as ‘self-financing’. In short, local authorities who had housing stock were required to take on a share of the national housing debt, in return for a number of freedoms and flexibilities that would (in theory) allow them to be run on a more commercial footing. Key to the new system was the future income stream from housing rents – it was argued that greater certainty over the rental income stream over the medium term would allow local authorities to finance their new housing debt as well as make provision over time for greater investment into their housing stock.

3.3 Since the system was introduced, the actual freedoms and flexibilities that have been available have not been as local authorities would have expected. Significantly, rent levels have effectively been controlled nationally (via formula) and receipts from the sale of council housing have been heavily restricted – both in terms of quantum and potential use. Appendix 1 shows a high level summary of how the ‘new’ system now operates – compared to how local authorities expected the system to work prior to its introduction.

3.4 Despite the changes in national policy that have taken place since the system was introduced in 2012, up until recently the Council’s HRA Business Plan (which has a 30 year time horizon in accordance with the requirements of Regulations) did provide the Council with some potentially exciting choices about future capital spending. In line with the Council’s Housing Strategy, there was some scope in the medium term to consider new schemes – including the potential of some new build council housing.

3.5 The Government announced in its Summer Budget on 8th July that it intended to reduce social housing rents by 1% a year (for a period of 4 years) to be effective from April 2016. This will cover council housing as well as other registered social housing providers (eg, housing associations). This has the potential to be a very significant change in national policy – in terms of the possible impact on future investment programmes and the delivery of local growth. This change came quickly on the heels of a national 10-year agreement for setting council house rents – this became live in April 2015 but was effectively repealed by the Summer Budget announcement.

3.6 It is worth explaining a little more about the significance of the numbers (£’s) associated with this change in government policy. Rather than having a rent formula that would have seen rents increase by CPI + 1% (for a ten year period 2015 to 2025), the government has said that rent will decrease in cash terms by 1% a year (for 4 years). Initial calculations indicate that this will see the council lose £500,000 of rental income in 2016/17, £5m in cash over the four year period, <u>and most significantly of all it equates to the Council losing approximately £67m in cash income over the 30 year period of the business plan.</u>

3.7 It has been suggested in the trade press that the core reason for this particular change in national policy is the control (and reduction) in the national welfare bill. The Government have indicated that the national welfare bill needs to reduce by around £12bn. Initial calculations indicate that by introducing this change, it will contribute to the £12bn but it may also cost local authorities around £43bn in lost rental income over the medium term.

3.8 As a result of the recent announcement, the Council's HRA Business Plan is being re-modelled so that the implications can be better understood. When that process is complete, the Council will be in a position to better understand the financial and practical implications and can start to re-assess key housing priorities. As a result, a cautious approach should be taken in the meantime.

3.9 There are a number of other changes in national policy that also require further thought and consideration – these include;

- The obligation to sell high-value void council housing on the open market in order to fund the Right to Buy for housing association tenants.
- The payment of Universal Credit directly to tenants rather than making Housing Benefit payments directly to the landlord.

4. CAPITAL RECEIPTS (Right to Buy)

4.1 Shortly after the introduction of the new self-financing system for council housing in 2012, the Government introduced new regulations to govern the use of any capital receipts that were generated from the sale of council houses.

4.2 The new scheme was referred to as the 'one-for-one' replacement scheme – the aim of the scheme nationally was to try and secure a replacement property for each one that was sold.

4.3 The scheme is a very technically complicated one, however in short it permitted local authorities to retain some of the capital receipt from the sale of a council house. A small proportion could be used to offset some of the debt and then some of the remainder could be used to fund up to 30% of the cost of a replacement dwelling. The rest of the proceeds (ie, the majority of it) are paid to the Treasury.

4.4 The Executive Committee considered a report on this issue in Sept 2012. It agreed to participate in the national scheme, the main elements of the scheme being;

- The Council would have three years to invest the receipts in replacement housing.
- The receipts from the Right to Buy sales would account for no more than 30% of the total expenditure on the replacement housing stock.
- The replacement housing would be newly built or acquired council homes, new social housing built by a housing association or the acquisition of existing properties for conversion into affordable rent.

- If the receipts were not used, they would have to be returned to the Homes and Communities Agency with a punitive interest penalty.

4.5 The ‘one-for-one’ scheme is still in operation. The Council is in discussions with a housing association about how the funds that have been built up under this scheme could potentially be used to help fund new homes at Laburnum Crescent. Currently, the Council has approximately £860,000 in one-for-one capital receipts that it needs to utilise or pay back to the Government. The attraction of working with a housing association is that new homes can be built with the Council only having to fund 30% of the cost and the association finding the funding for the remaining 70%.

4.6 As well as assessing the technical feasibility of spending ‘one for one’ capital receipts through a housing association, there are also some fundamental questions to address about whether using housing associations exclusively to deliver new affordable housing supply represents the best way forward in the current environment. Significant reductions in funding mean that housing associations are building fewer homes and are being increasingly selective about what, where and when to build. As they are more reliant on private finance, housing associations are proving to be more risk averse and increasingly responsive to their lenders’ demands. Consequently, nominations from the Council are being refused much more frequently and a number of associations are actively looking to reduce local authority nomination rights. In the light of this, a more balanced programme of investment in new homes might be a better approach.

4.7 Given that the Council would have to re-pay the Government any balance of the ‘one-for-one’ receipts (with interest) if it were not used, the merits and limitations of alternatives options for developing new affordable homes need to be urgently considered. If the Council’s current policy position of passing-on up to 30% of the cost of new build to a Housing Association is no longer a financially viable option for a Housing Association, one of the other options that the Council may wish to consider is using the ‘one-for-one’ monies itself and paying the other 70% to facilitate the building of new council properties – this would be dependent upon the review of the HRA Business Plan and the overall business case for doing so.

5. BUILDING NEW COUNCIL HOUSING - FEASIBILITY STUDIES

5.1 Following the approval of the new Housing Strategy at the beginning of 2015, preliminary work was commissioned to assess the feasibility of developing council housing on several sites across the Borough.

5.2 A total of 11 sites were initially looked at with four sites being identified as potential locations for new council housing:

- Former garage site at Scott Road, Kettering (possibly 22 homes);
- Cobden Street, Kettering garages - north and south sites (possibly 7 homes);
- Albert Street, Kettering garages - south site (possibly 6 homes);

- Carter Avenue, Broughton garages (possibly 6 homes).

5.3 Initial work indicates that these sites have the potential to deliver up to 41 new homes at a cost of approximately £5,720,000.

5.4 Work that has already been commissioned in relation to these sites will continue so that that the Council can understand the options that it may have available to it over the medium term.

5.5 Clearly, the changes in national policy and the resultant need to re-model the HRA Business Plan effectively mean that any aspirations for building new homes need to be considered carefully once the financial projections are properly understood. This includes exploring and understanding the provisions that may be available to protect the Council where tenants of new properties choose to exercise the Right to Buy (of which we understand there are some legal mechanisms that may be of use). Once these are understood, Members will be able to determine an appropriate policy position.

6. CONSULTATION AND CUSTOMER IMPACT

6.1 It will be necessary to consult on the re-modelling of the HRA Business Plan with ward members, local residents and the Tenants Forum.

7. FINANCIAL RESOURCE IMPLICATIONS

7.1 As outlined in the report, there are significant financial implications as a result of recent changes in national policy.

8 HR IMPLICATIONS

8.1 None at this stage

9 LEGAL IMPLICATIONS

9.1 None at this stage.

10. RECOMMENDATIONS

That the Executive Committee:

a) Note the changes to national housing policy (as outlined in this report) and acknowledge their significance;

b) Receive a further report once the HRA Business Plan re-modelled exercise has been completed (and evaluated) so that the implications can be fully understood and priorities can be re-assessed;

c) Receive a further report about the options that are now available in relation to the use of 'one-for-one' capital receipts.

Background Papers:
Date: N/A

Previous Reports/Minutes:
Executive Committee: Housing Strategy 2015-20 – Increasing Housing Supply
Date:15th October 2014
Ref: Forward Plan: A14/006

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