

BOROUGH OF KETTERING

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Report Originator	John Conway – Head of Housing	<i>Fwd Plan Ref No:</i>	
Wards Affected	All	26 th September 2017	
Title	BUILDING NEW COUNCIL HOUSING		

1. PURPOSE OF REPORT

This report sets out the Council's plans for developing new council housing and describes the main challenges for local authorities who wish to build new homes directly.

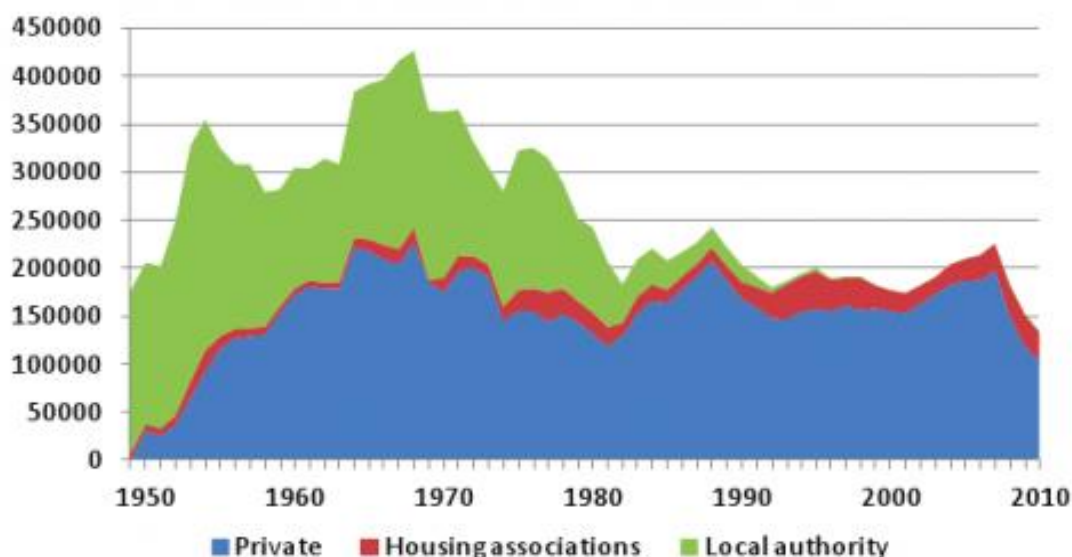
2. INFORMATION

2.1 National Context

To meet the housing needs of the nation, it is estimated that around 250,000 to 300,000 new homes need to be built every year. As Figure 1 shows, the only time when this was achieved was between the early 1950s and the late 1970s when local authorities were major builders of new homes.

Figure 1 **Housing Completions 1950-2010**

Figure 4.2 Housing Completions, UK, 1950-2010



Source: Housing Completions, 1950-2010, CLG.

2.2 Local authority building programmes were wound down in the early 1980's, as successive governments looked increasingly towards housing associations as the main providers of affordable rented housing. However, the shortfall in

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housing construction in recent years has resulted in calls for local authorities to resume their role as major developers of high-quality, affordable homes.

- 2.3 In 2012, the Housing Revenue Account (HRA) subsidy system, which had been in place since 1989, was replaced by the HRA self-financing regime. The old system was unpredictable, volatile and characterised by significant fluctuations in the level of resources that was available to councils from year to year. This made planning extremely problematic and frustrated those local authorities who wanted to take a strategic view of their housing assets over the longer term. In such an environment, building at scale was impossible.
- 2.4 A primary objective of the new system was for local authorities to manage their housing in a more business-like manner than had previously been the case. The self-financing regime aimed to provide certainty and stability over the long term so that local authorities could consider the strategic needs of their housing, and plan and manage accordingly. Although, in practice, the new system was still subject to government intervention at short notice, HRA self-financing has at least theoretically made it possible for local authorities to consider building new homes again.
- 2.5 The Government's housing white paper, 'Fixing our Broken Housing Market', which was published in February 2017, envisages local authorities once again having a major role in building new homes. In the white paper, the Government said it was "backing local authorities to build" and would address the issues that hold councils back.
- 2.6 **Building New Council Housing in the Borough of Kettering**
Kettering Borough Council owns 3,700 council homes which were built predominantly between the 1920's and early 1980's. A breakdown by property type and bedroom size is provided in Table 1 below. Around one third of the housing stock was built before the Second World War with another third built between 1945 and 1965 and the remainder built after 1965.

Table 1 Council Housing in Kettering

Type of Property	1 bed	2 bed	3 bed	4+ bed	Total
Flats - Low Rise	726	461	3	0	1,190
Flats – Medium Rise	213	115	33	0	361
Houses	19	501	1,123	32	1,675
Bungalows	196	280	2	0	478
Total	1,154	1,357	1,161	32	3,704

- 2.7 Over the last 35 years or so, the Council has worked with housing associations to build new affordable housing and there are now a total of 2,174 general needs housing association properties across the Borough which are managed by 19 different organisations.

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- 2.8 The Council has now commenced a small house building programme with the development of five new homes at **Laburnum Crescent**, The new properties which were completed in March comprise three one-bedroom bungalows, a three-bedroom bungalow and a three-bedroom house. The project cost £650,000.
- 2.9 Pre-contract work is now well underway on two other projects which are planned to start on site during 2018/19, subject to Executive Committee approval. At **Scott Road**, Kettering, It is planned to build 21 properties comprising ten one-bedroom flats, seven two-bedroom houses, two two-bedroom bungalows, one three-bedroom house and one four-bedroom house at an estimated total scheme cost of £2.8m. At the **Albert Street** garage site in Kettering, it is proposed to build six one-bedroom bungalows at a total scheme cost of approximately £753,000.

3. FUNDING NEW COUNCIL HOUSING

- 3.1 Although the Government is now encouraging local authorities to build new council housing and the HRA self-financing regime provides a framework for doing this, several other features of national housing policy make it problematic for local authorities who wish to develop new homes. These are discussed below:
- 3.2 **Rent Policy**
HRA Business Plans and the HRA self-financing settlement in 2012 had been based on a rent policy with assumed annual rental increases. However changes to national policy since then and an annual 1% rent reduction for a four year period from April 2016 have had a significant material impact on HRA business plans. In the case of Kettering, the estimated impact of the four year 1% rent reduction is around £5 million over the four year period and this increases up to around £65 million over the duration of the 30-year business plan. There is also no certainty that further rent reductions will not be imposed after 2020.
- 3.3 **Competing Priorities within the HRA**
As the HRA is ring-fenced, expenditure in new council homes will always be at the expense of spending on improvements to the existing housing stock or investment in better services. With a third of our housing stock more than 75 years old, there is a continuing need to refurbish and upgrade existing council housing so that it continues to be fit for purpose over the long term. This inevitably reduces the resources available for building new homes.
- 3.4 **Right to Buy**
Changes to the Right to Buy (RTB) regime introduced by the Coalition Government included giving local authorities the right to retain receipts from additional sales in order to replace homes lost through the RTB on a one-for-

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one basis. However there are restrictions in place which again act as a barrier to delivering more council homes. Specifically:

- The requirement that RTB receipts can only account for a maximum of 30% of the cost of building replacement homes,
- The inability to combine RTB receipts with other forms of grant funding
- The time limit of 3 years within which to spend receipts.

3.5 The ability of tenants of new build council housing to exercise their RTB is also problematic due to the risk that local authorities might build new council homes, especially desperately-needed family homes, only to see them sold off at a discount a few years later. Under the RTB cost floor, new council homes should not be sold for less than they cost to build for the first 15 years but after this time period there is no further protection. Any outstanding debt after a sale would then have to be covered by rental income from council tenants.

3.6 **HRA Debt Cap**

The HRA debt cap imposed by the Treasury is a significant barrier to delivering more council homes. The amount that authorities are able to borrow to build new homes or invest in their existing housing stock is capped by HM Treasury as borrowing for housing investment contributes to the Public Sector Net Cash Requirement (formerly known as the Public Sector Borrowing Requirement). This severely constrains the ability of local authorities to borrow in order to build new council housing as they are not permitted to exceed the debt cap which in Kettering Borough Council's case is £79.146 million. Although there is currently headroom within the Council's debt cap, this would quickly disappear if the Council were to embark on a major housebuilding programme.

3.7 The financial constraints, discussed above, are inter-connected and all require action if the blockages to building council homes at scale are to be removed.

4 **ALTERNATIVE WAYS FORWARD**

4.1 In view of the financial constraints, some local authorities are establishing local housing companies to develop housing outside the confines of the HRA. These companies can have different aims depending on local circumstances and ambitions such as reducing homelessness, urban regeneration, influencing the private rented sector, or generating an income stream. In some cases, there is a suspicion that councils have set up local housing companies in order to circumvent RTB regulations but the Department for Communities and Local Government (DCLG) has indicated that it will take steps to prohibit this. Although a considerable number of local housing companies have been set up by councils, only a relatively small number have proceeded to actually build any new homes. This would indicate that local authorities need to be clear about their objectives and the business case for setting up a company.

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4.2 In the housing white paper, ministers have indicated that they are open to negotiating bespoke deals with individual local authorities so that councils can build new homes in return for concessions from central government. A small number of councils have been in negotiations with DCLG over several months but, to date, no agreements have been concluded.

5 CONCLUSION

5.1 There is a dichotomy between the Government's clearly-expressed view that local authorities should have a significant role as developers of affordable housing and the financial obstacles that councils have to overcome in actually building new homes. There are some signs that the Government recognises this as the white paper says that beyond 2020, rent policy will be changed to enable social landlords to borrow against future income streams. However, further measures will be needed if local authorities are to build new council housing at any appreciable scale in the future.

6 RECOMMENDATION

6.1 The Research and Development Committee is asked to note the contents of this report.

Background Papers:

None

Previous Reports/Minutes:

None