

Report to the Finance and Performance Management Cabinet Committee



**Epping Forest
District Council**

Report reference: FPM-027-2016/17

Date of meeting: 6 March 2017

Portfolio: Housing

Subject: Stage 1 Housing Revenue Account (HRA) Financial Options Review

Responsible Officer: Alan Hall (01992 564004)

Democratic Services: S Tautz (01992 564180)

Recommendations

- 1) That the Stage 1 HRA Financial Options Review Report, produced by Simon Smith of SD Smith Consultancy Ltd and attached as Appendix 1, be considered;
- 2) That, having regard to the views of the Tenants and Leaseholders Federation (to be reported orally) and members of the Communities Select Committee at the meeting, one of the four options set out in the Review Report be recommended to the Cabinet as the Preferred Option;
- 3) That, dependent on the Preferred Option to be recommended, the relevant additional recommendations set out in Appendix 2 be recommended to the Cabinet;
- 4) That, irrespective of the Preferred Option recommended to the Cabinet, and whether or not the Council's Housebuilding Programme continues, the following further recommendations be made to the Cabinet in respect of the Council's development site at Pyrles Lane Nursery, Loughton:
 - (a) That the proposed sale of the site be subject to a requirement that the purchaser must enter into a separate Development Agreement with the Council requiring the affordable housing element of the development to be sold to the Council on practical completion;
 - (b) That the tenderers for the purchase of the site be required to submit their tenders on the basis of the Council paying a specified sum, through the separate Development Agreement, to purchase all of the completed affordable homes, with the amount specified in the Invitation to Tender; and
 - (c) That the affordable homes purchased by the Council be provided as affordable rented housing, with the purchase sum specified in the Invitation to Tender and Development Agreement being calculated on the basis of the same standard assumptions that would be used by the Council's Development Agent, East Thames, for offers to purchase affordable rented homes on Section 106 sites in Loughton (currently estimated at around £1.7million), based on the property mix approved for the Outline Planning Permission; and

- 5) **That SD Smith Consultancy Ltd be asked to undertake the Stage 2 HRA Financial Options Review when a decision is made by the Government on the proposed introduction of the High Value Voids Levy, and that the Review Report be considered by the Finance and Performance Management Cabinet Committee at that time to consider the issues, implications and required actions to mitigate the assessed financial impact.**

Executive Summary

The Cabinet has previously agreed the recommendations of the Council Housebuilding Cabinet Committee to expand and accelerate the Housebuilding Programme in a number of ways.

Subsequently, in September 2015, the Finance and Performance Management Cabinet Committee undertook a review of the options available to ensure that the Council's HRA does not fall into deficit, as a result of the Government's requirement that all social landlords must reduce their rents by 1% per annum for four years from April 2016. The Cabinet Committee concluded that no major decisions should be taken at that time, until further information was available on the effect of the proposed requirement that local authorities must sell higher value void properties, but that the options should be reviewed again once the financial implications of this Government proposal were known.

The Housing Portfolio Holder has decided to split the further HRA Financial Options Review into two stages, with Stage 1 based on the information that the Council knows now, to enable decisions to be made on the future of the Council Housebuilding Programme (Phases 4 to 6) and whether or not the Council wishes to reduce investment in the existing stock from the Council's Modern Homes Standard back to the Decent Homes Standard.

The Stage 1 HRA Financial Options Review Report, produced by the Council's HRA Business Planning Consultant, Simon Smith, is attached as Appendix 1, which considers four main options.

In addition to the recommendations set out above, further suggested recommendations are provided at Appendix 2a - 2d, dependent on the Cabinet Committee's Preferred Option following consideration of the Options Review Report.

Irrespective of the Preferred Option, it is proposed that the Council Housebuilding Cabinet Committee's previous recommendation that the completed affordable homes at the Pylles Lane Nursery site, Loughton be purchased by the Council from the developer (after the Council has sold the development site) be agreed since, whichever option is chosen, there will be sufficient financial resources available within the HRA, and the detailed report below sets out a proposed way to do this.

Reasons for Proposed Decision

It is not possible to fund the Council's current policy to both undertake a Council Housebuilding Programme and maintain its existing Council properties to its Modern Homes Standard, without reviewing the Council's borrowing requirements and/or reducing capital expenditure, so it is necessary to review the options available and to make long-term decisions for the future.

Other Options for Action:

The main options are set out in the Stage 1 HRA Financial Options Review Report, attached as Appendix 1, and in the optional further recommendations set out in Appendix 2(a) – (d).

Background

1. In April 2014, the Council Housebuilding Cabinet Committee reviewed the resources available to the Council's Housebuilding Programme and considered a report on the options available for expanding and accelerating the Housebuilding Programme. One of the drivers for the review was

the increasing amount of “one-for-one replacement” Right to Buy (RTB) capital receipts (“141 Receipts”) that were accumulating, which needed to be spent if the Council was to avoid paying over 141 Receipts to the Government.

2. This review resulted in the Cabinet subsequently making a number of decisions including, in summary, to:

- Increase the number of affordable homes developed in Phases 3-6 of the Programme from 20 to 30 homes per year – This is now the basis of the current Programme;
- In principle, extend the Programme by a further 4 years to 10 years, after the original Years 3-6, with an additional 30 new affordable homes provided each year;
- Make no decisions at that time on the most appropriate way of funding an extended Housebuilding Programme, but that consideration be given at an appropriate time in the future, and before any commitments are made or expenditure incurred;
- Seek grant funding from the Homes and Communities Agency (HCA), initially, for Phase 2 of the Housebuilding Programme at Burton Road, Loughton - The subsequent bid was successful and HCA grant of £450,000 was secured for Phase 2, but the allocation was not taken up due to the effect on the Council’s 141 Receipts spend;
- Re-profile the Council’s HRA Self-Financing Reserve (which is a fund to which HRA contributions are made to build up sufficient money to be able to repay loans from the Public Works Loan Board (PWLB)), in order to release funds for the Housebuilding Programme in earlier years of the HRA Business Plan, by increasing contributions to the Reserve in later years (closer to the HRA’s first PWLB loan maturing in 2022), whilst ensuring that sufficient resources have been accumulated within the Reserve to repay this first loan on maturity – However, although some re-profiling was undertaken, it has not been possible for the HRA to make contributions to the Reserve for the past two years, due to insufficient rental income to fund capital expenditure requirements; and
- Have a contingency plan to purchase properties from the open market, should the amount of 141 Receipts still be in excess of the maximum amount that can be spent on the Housebuilding Programme, in order to avoid having to pass any 141 Receipts to the Government, with interest – This contingency was actioned, with 6 market properties purchased to date.

3. Subsequently, in September 2015, the Finance and Performance Management Cabinet Committee considered a report on the options available to ensure that the Council’s HRA does not fall into deficit, as a result of the Government’s requirement that all social landlords must reduce their rents by 1% per annum for four years from April 2016, instead of increasing their rents by CPI + 1% in accordance with previous Government guidance. The estimated loss in rental income to the Council’s HRA was assessed at that time at around £14million over the following four years and around £228million over the following 30 years (compared to the Council’s previous HRA Financial Plan expectations). The report identified a number of options available to recast the HRA Financial Plan for the future, including:

- Ceasing all or some of the funding currently available within the Financial Plan for future housing improvements and service enhancements for HRA services;
- Reducing investment in improvements to the Council’s housing stock (and reducing the Council’s Modern Home Standard accordingly);
- Reducing/ceasing the Council’s own Housebuilding Programme;
- Further borrowing for the HRA, repaid by the end of the Financial Plan period; and

- Combinations of the above.

4. The Cabinet Committee concluded that, since no immediate corrective action was required at that time, no major decisions should be made to re-cast the HRA Financial Plan until further information became available on the effect of the Government's separate proposal to require local authorities to sell higher value void properties. The Cabinet Committee also agreed that the HRA Financial Plan and the options available should be reviewed again, once the financial implications for the Council of the requirement to sell higher value void properties were known, and that decisions for the future should be made at that time.

Housebuilding Programme – Current position

5. The current position with the Housebuilding Programme is that:

- Phases 1 and 2 are on site, with the first properties at Phase 1 due to be handed-over in March 2017;
- The Section 106 affordable properties at Roydon are on site, with development agreements signed with the developer;
- Following competitive tender exercises, contractors have been appointed for the 7 separate contracts for the 34 homes in Phase 3 (Epping, Coopersale and North Weald);
- Planning permission has now been received for all the development sites in Loughton planned for Phase 4;
- Planning applications are currently being determined for the sites planned for Phase 5 (Buckhurst Hill); and
- Planning applications are being submitted and determined for sites planned for Phase 6 (at various locations).

Required sale of “higher value” void Council properties

6. Under the Housing and Planning Act 1996, the Government has said that it intends to charge councils an annual levy, which will be calculated individually for each local authority, based on:

- An expectation by the Government that councils will sell their “higher value” empty properties (still yet to be defined); and
- A Government estimate of the number of higher value empty properties voids that will arise each year and their open market value for each local authority.

7. The details of how this arrangement will operate continue to be delayed and are still awaited. The latest information available is that the Secretary of State for Communities announced towards the end of 2016 that the earliest the proposed levy will be introduced is in 2018/19. The Government's recently published Housing White Paper provides very little additional detail, other than to say that the Government intends to fund an expanded regional pilot of the proposal to extend the Right to Buy to housing association tenants. When presenting the White Paper in Parliament, the Secretary of State confirmed that decisions on the further roll-out of the scheme and funding arrangements, including the introduction of the Higher Value Voids Levy funded from the sale of higher value void council properties, will be taken once the pilot has been evaluated.

Stage 1 HRA Financial Options Review

8. In order to progress with investment decisions for the HRA moving forward, the Housing Portfolio Holder has therefore taken the decision to split the further HRA Financial Options Review into two stages, as follows:

Stage 1: Based on what the Council knows now – to enable the Cabinet to make decisions on the future of the Council Housebuilding Programme (Phases 4 to 6) and whether or not it wishes to reduce investment in the existing stock from the Council's Modern Homes Standard back to the Decent Homes Standard.

Stage 2: If and when a decision is made by the Government on the proposed introduction of the High Value Voids Levy, the implications will be modelled at that time to identify the required actions to mitigate the assessed financial impact.

9. The Council's HRA Business Planning Consultant, Simon Smith, has therefore been commissioned to undertake the Stage 1 HRA Financial Options Review - and his Report is attached as Appendix 1.

10. The Financial Options Review Report analyses the HRA projections and impact of the following four main options, with some having further sub-options:

Option 1: Continuing with the full Housing Building Programme (at least until the completion of Phase 6) and maintaining the Modern Homes Standard for existing Council homes (the Council's current policy);

Option 2: Continuing with the full Housing Building Programme and reverting to the Decent Homes Standard for existing Council homes;

Option 3: Ceasing the current Housing Building Programme and maintaining a Modern Homes Standard for existing Council homes; and

Option 4: Ceasing the current Housing Building Programme and reverting to the Decent Homes Standard for existing Council homes.

11. Members are therefore asked to read the Financial Options Review Report on this important issue at Appendix 1 in advance of the meeting. Simon Smith will be in attendance at the Cabinet Committee to present the key points from his report and to answer members' questions.

Recommendations to Cabinet on the Preferred Option

12. Once members have discussed the issues and the Cabinet Committee has decided upon its preferred option to recommend to the Cabinet, it will be necessary for the Cabinet Committee to formulate its detailed recommendations to take its Preferred Option forward. In order to assist the Cabinet Committee with this task, suggested recommendations for **each** of the options are provided at Appendix 2a - 2d attached and it is suggested that the Committee considers the proposed recommendations for the Preferred Option at the end of the meeting.

Purchase of affordable homes at the Pyrles Lane Nursery Development, Loughton

13. As members will be aware, Outline Planning Permission was granted in March 2016 for the development of 36 new homes, including 40% (14) affordable homes, at the site of the Council's Nursery in Pyrles Lane, Loughton.

14. When the Council Housebuilding Cabinet Committee considered the acceleration and expansion of the Council's Housebuilding Programme, it considered the potential benefits of the Council securing the affordable housing provision built on the site itself, rather than the developer selling the affordable homes to a housing association, at a subsidised price, which would otherwise be the case.

15. The Council Housebuilding Cabinet Committee therefore agreed, at that time, to recommend to the Cabinet that if/when the Cabinet decides to sell the Pyrles Lane Nursery site on the open market, the sale should be subject to a requirement that the completed affordable homes must be sold by the developer to the Council on practical completion, on agreed terms to be set out in a separate Development Agreement.

16. The Council's Development Agent, East Thames, has estimated that, based on the property mix within the Outline Planning Application and all of the standard assumptions that East Thames would use for an affordable housing development in Loughton, a housing association would offer to purchase the 14 affordable rented homes at Pyrles Lane for around £1.7m.

17. Irrespective of the Preferred Option recommended to the Cabinet, and whether or not the Council's Housebuilding Programme continues, it is suggested that the Council Housebuilding Cabinet Committee's recommendation that the completed affordable homes be purchased by the Council is put forward to the Cabinet. This is because, as demonstrated within the Financial Options Review Report, whichever option is chosen, there will be sufficient financial resources available within the HRA to do this.

18. Based on the property numbers and mix for which the development has received Outline Planning Permission, 30% of the Council's purchase costs (£510,000) could be funded from 141 Receipts, which would otherwise be paid to the Government. As explained at Paragraph 8.2 of the Financial Options Report, there is also a potential £3.5million of financial contributions that will be received through signed S106 Agreements over the next couple of years, when the relevant developments reach specified trigger points. This includes two developments currently on site (Grange Farm and Alderton Hill), with required S106 contributions totalling around £1.14million, which is about the amount required to fund the remaining 70% of the acquisition costs. Any remaining required funding should then be easily resourced.

19. It is therefore suggested that the tenderers for the purchase of the site be required to submit their tenders on the basis of the Council paying a specified sum, through the separate Development Agreement, to purchase all of the completed affordable homes, with the amount specified in the Invitation to Tender, and that the affordable homes purchased by the Council be provided as affordable rented housing, with the purchase sum specified in the Invitation to Tender and Development Agreement being calculated on the basis of the same standard assumptions that would be used by East Thames for offers to purchase affordable rented homes on Section 106 sites in Loughton, based on the property mix approved for the Outline Planning Permission.

20. It should be noted that, through this proposed approach, the Council (General Fund) will receive around the same monetary amount for the sale of the land as it would if the purchaser was allowed to sell the completed affordable housing to a housing association instead.

Resource Implications:

There are a number of major financial implications, which are set out in the Financial Options Review Report, attached as Appendix 1.

Legal and Governance Implications:

Housing Act 1985.

Safer, Cleaner and Greener Implications

None – all of the options would involve the resultant development of the sites with planning permission.

Consultation Undertaken

As previously requested by the Cabinet, and agreed with the Chairmen of the Cabinet Committee and the Communities Select Committee:

- All members of the Communities Select Committee have been invited to attend the Cabinet Committee meeting, to take part in the discussions and to put forward their views to the Cabinet Committee before it makes its recommendations to the Cabinet; and
- The Tenants and Leaseholders Federation is being consulted separately on the Financial Options Review Report, prior to the Cabinet Committee's meeting, and their views will be reported orally at the meeting.

Background Papers:

None

Risk Management:

The main identified risk is that the assumptions used within the modelling for the four options (e.g. rental income, rent increases, RTB sales, inflation, build costs) prove to be badly wrong, and that the actual resultant position is significantly worse than forecast.

However, Paragraph 7.9 of the Financial Options Review Report shows that, based on the assumptions used (listed in the Appendix of the Review Report), and dependent on the option chosen, by the end of the 30-year Financial Plan period, HRA balances of between £130million - £150million will have been accumulated. Therefore, even if the assumptions prove to be wrong, these forecast levels of HRA balances are, effectively, available as a contingency.

Equality Analysis

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided at Appendix 3 to the report (to follow).