

Report to the Cabinet

Report reference: C/132/2006-7.

Date of meeting: 16 April 2007.



**Epping Forest
District Council**

Portfolio: Housing.

Subject: Social Housing Grant - Annual Review of Capital Budget Provision.

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Recommendations/Decisions Required:

(1) That no additional budget provision be made available within the Capital Programme for further Local Authority Social Housing Grant (LA SHG) in 2007/8; and

(2) That, as part of next year's annual review of LA SHG, specific consideration be given to whether any budget provision should be made available in the Capital Programme to provide LA SHG for Phase 2 of the Council Housing Site Developments Project and/or any unsuccessful bids to the Housing Corporation in 2008/9 or beyond.

Introduction:

1. At its meeting held on 10 April 2006, the Cabinet received a detailed and wide-ranging report and recommendations from the Housing Scrutiny Panel on ways of increasing the amount of affordable housing within the District. The Cabinet agreed some of the recommendations and some were not. One of the agreed recommendations was that, around this time each year, the Cabinet would undertake a formal annual review of whether further budget provision should be included within the Capital Programme to fund social housing grants (SHGs) and, if so, how much should be included within the Capital Programme - and in which year.

2. SHG is provided to registered social landlords (RSLs – housing associations) by local authorities in order to assist with the funding required to develop affordable housing schemes (for rent or for shared ownership). Because of the relatively low rents that are charged, RSLs usually need to receive some level of SHG in order to make affordable housing developments viable.

3. RSLs can submit bids for SHG to the Housing Corporation (a Government agency that funds and regulates RSLs); indeed this is generally their main source of capital funding. However, this is a competitive process and not all bids are funded, especially those where the grant requirement is higher than the norm. Furthermore, the Housing Corporation currently only invites bids every two years (the next bidding round is expected to close around September/October 2007, for funding to be received in 2008/9 or 2009/10). The average grant allocated by the Housing Corporation in the last bidding round for affordable housing schemes within the London Commuter Belt Sub-Region (which includes Epping Forest) was around £35,000 per property.

4. To differentiate SHG provided by councils from SHG provided by the Housing Corporation, the former is commonly referred to as LA SHG.

Current Schemes Funded by LA SHG:

5. At the Cabinet meeting in April 2006, referred to above, it was also agreed that in order to increase the amount of affordable housing provision within the District, an additional one-off budget provision of £1m should be made within the Council's Capital Programme, funded as follows:

(a) £500,000 by reducing the budget(s) of one or more existing projects within the Capital Programme by an equivalent amount as determined by the Cabinet (either in 2006/7 or later years); and

(b) £500,000 as additional expenditure to the existing Capital Programme.

6. In the event, the Cabinet was unable to identify any budget reductions that could be made to existing projects, so this £1m budget provision was reduced during the year to just the £500,000 additional expenditure.

7. In addition, financial contributions totaling £235,000 (including interest) have been received from developers in recent years from residential housing developments, in accordance with Section 106 Planning Agreements, in lieu of the developers providing affordable housing on-site, where there have been good reasons accepted by the Council.

8. At the Cabinet meeting on 13 November 2006, it was agreed that this £735,000 should be provided to London & Quadrant (L&Q) Housing Trust, to enable the rents of most of their 24 properties at The Quarter, Chipping Ongar to be converted from market rents to affordable rents. It was also agreed that further LA SHG totaling £265,000 should be provided to L&Q when additional provision for LA SHG is made available within the Housing Capital Programme in the future, in order to convert the rents of the remaining properties from market rents to affordable rents. However, as to the subsequent Cabinet meeting, L&Q has agreed to convert the rents of all 24 properties to affordable levels in March/April 2007, in advance of them receiving the balance of £265,000, with L&Q funding the revenue shortfall themselves. This is subject to L&Q reserving the right - after a period of 2-3 years - to charge market rents again for the first six properties that become vacant (and re-let to Council nominees), if the Council has not provided the £265,000 balance of LA SHG funding by that time.

9. Separately, the Cabinet had already previously made budget provision of £1m LA SHG, in order to increase the amount of affordable housing that could be provided on seven Council-owned housing sites being developed by Estuary Housing Association. The first two of these sites (providing 13 affordable properties) are expected to be leased to Estuary imminently, so that works can start on site with £732,000 of the budget provision. The remaining £268,000 will be allocated to one of the other sites, when the planning application is determined for the one remaining site currently without planning permission.

10. It is estimated that the Council's current total LA SHG allocation of £1.735m will fund around 31 affordable properties (averaging around £56,000 per property).

Future SHG Provision:

11. As a result of the Cabinet's decision to undertake an annual review of future budget provision to fund additional SHG, the Council's Head of Finance has considered the Council's current ability to make additional provision within the Capital Programme. He advises that, in considering whether or not to make additional provision in the Council's Capital Programme, there are three options for members to examine. Firstly, members might feel that a five-year Capital Programme approaching £51m was already ambitious enough and that any additional scheme should only be accommodated at the expense of other schemes currently included. The programme currently includes £14.2m of non-housing schemes over the five-year period. Major schemes within this figure include Town Centre Enhancements (£3.9m) and Bobbingworth Tip (£1.7m). If members are so minded, some flexibility may come from a reduction in spending on Traffic and Parking Schemes (£1.2m). Members may also feel it

appropriate that if money is to be found for affordable housing, some of the £218,000 currently included for housing estate car parking could be re-allocated. However, it is clear that additional funding for affordable housing could only come from the existing programme if Members were prepared to sacrifice one of the major schemes currently included. As noted earlier in the report, a previous attempt to identify funds from the existing programme that could be switched to affordable housing was not successful.

12. If members are prepared to increase the five-year capital programme further beyond £51m, then LA SHG could be funded from capital receipts. It is currently predicted that the balance of usable capital receipts will have fallen from £23.6m to £15.7m over the life of the current programme. The Council is currently benefiting from the revenue income generated by the investment of these balances. The full year effect of funding £1m of additional expenditure from receipts would be to reduce investment income by approximately £55,000. This would clearly have to impact on either the level of the Council Tax or the level of other services being provided. Given that the Council's Medium Term Financial Forecast identified a need for revenue savings, a further depletion of capital balances will only make this position worse.

13. Members attention is also drawn to the Capital Strategy approved by Council on 19 December 2006. The Capital Strategy identified 8 key capital priorities and meeting housing needs was only ranked seventh. The Council has also adopted a policy of actively seeking the investment of capital resources in revenue-generating assets, in order to minimise the detrimental effect of capital receipt usage on the Council's General Fund. Capital housing grants to housing associations will not generate revenue and the allocation of funds to them may prohibit any subsequent scheme for generating revenue.

14. Having considered the impact of any additional provision, Members also need to judge whether, in fact, they wish to fund additional capital housing grants at all. Within the five-year programme of £50.9m, around £36.6m is already allocated to housing expenditure, which represents over 70% of the programme.

15. In any event, it is suggested that the most prudent use of any LA SHG would be to use it for an affordable housing development which, for some reason, does not receive funding from the Housing Corporation; clearly it would be better for the District to attract as much SHG funding from the Housing Corporation as possible, rather than use its own resources. With one exception, there are currently no potential affordable housing schemes that are felt unlikely to receive Housing Corporation SHG.

16. The possible exception is Phase 2 of the Council Housing Site Developments. The Cabinet has previously selected Home Housing as the Preferred RSL Partner to investigate the development potential and, where possible, to undertake the development of a further ten small Council-owned housing sites across the District. The Cabinet has agreed that the general approach to be adopted for these developments is to maximise the amount of affordable housing provided across the sites, cross-subsidised with the net sales income free from the open market sale of some properties on the sites. The Housing Portfolio Holder was authorised to consider and agree the development proposals for each of the sites, the proposed tenures, the numbers of properties to be sold to provide the cross subsidy, and to approve the submission of planning applications where appropriate.

17. The Housing Portfolio Holder was also asked to consider the overall effects that different levels of LA SHG would have on the viability of the development proposals and, if considered appropriate, report to the Cabinet to seek approval to use some, or all, of any unallocated LA SHG, in order to maximise the amount of affordable housing that could be provided.

18. Home Housing has now completed its investigations into the development potential of each of these sites and will shortly submit a report on its findings to the Council, which will be considered by the Housing Portfolio Holder in due course. Although this report will explain how additional affordable housing could be provided on the sites if unallocated LA SHG was made available, as explained earlier, there is currently no unallocated LA SHG. Indeed, the

Council has committed itself to allocate the first additional £265,000 LA SHG that it makes available to L&Q Housing Trust, in order to convert the rents of the remaining properties at The Quarter from market rents to affordable rents.

19. Added to the current difficulty of making additional budget provision for LA SHG within the Capital Programme, it is suggested that no additional budget provision be made for the allocation of LA SHG to an RSL in 2007/8 for this or any other potential development. In any event, it is unlikely that the Phase 2 project will have been sufficiently progressed to a point where LA SHG funding could actually be provided in 2007/8.

20. However, it is suggested that next year's annual review of LA SHG considers whether any budget provision could be made available in the Capital Programme to provide LA SHG to the Phase 2 project in 2008/9. This has two benefits. Firstly, the development potential of each of the sites should have been determined by this time, since they should have completed the planning process. Secondly, in the meantime, Home Housing could submit a bid for SHG to the Housing Corporation in the forthcoming bidding round, the outcome of which should be known just prior to next year's annual review; it is possible that, if a bid to provide 100% affordable housing across the Phase 2 sites is successful, the project may need less or no LA SHG as a result.

21. Since next year's annual review of SHG will be undertaken shortly after the outcome of RSL's bids to the Housing Corporation is known, the review can also consider the merit and the ability to fund any unsuccessful bids at that time.

Statement in Support of Recommended Action:

22. It would be difficult to make additional budget provision within the Capital Programme for further LA SHG at present. For the time being, the only potential project that may benefit from LA SHG is Phase 2 of the Council Housing Site Developments, but it may be better in any event to wait until next year's review of LA SHG funding to consider whether budget provision should be made in 2008/9 for this project

Options for action:

23. Apart from the recommended option, the Cabinet could decide to make further budget provision available for LA SHG in 2007/8.

Consultation undertaken:

24. The Portfolio Holder for Finance and Support Services has been consulted on the contents of this report and supports the recommendations.

Resource implications:

Budget provision: As set out in the report.

Personnel: Nil.

Land: Nil.

Council Plan/BVPP reference: Meeting Housing Need.

Relevant statutory powers: Housing Act 1985.

Background papers: None.

Environmental/Human Rights Act/Crime and Disorder Act Implications: None.

Key Decision Reference (if required): N/A.