



CABINET

23 September 2015

Subject Heading:

Housing Development Plan – Strategic Overview

Cabinet Member:

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Councillor Roger Ramsey

CMT Lead:

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Policy context:

Addressing the imbalance between
affordable housing supply and demand

Financial summary:

This report provides a costed and funded
plan to expand council housing provision
directly provided by LB Havering, within
the Housing Revenue Account.

Is this a Key Decision?

No

When should this matter be reviewed?

February 2016

Reviewing OSC:

Towns and Communities

The subject matter of this report deals with the following Council Objectives

Havering will be clean and its environment will be cared for	<input type="checkbox"/>
People will be safe, in their homes and in the community	<input type="checkbox"/>
Residents will be proud to live in Havering	<input checked="" type="checkbox"/>

SUMMARY

This report seeks members' agreement to a direction of travel that increases the number of units of council houses built within LB Havering to c544 over the next three years. The longer term plan is to deliver over 1,000 units over the next 10 years .

RECOMMENDATIONS

Cabinet agrees:-

1. To the principle of a target of homes as outlined in Appendix 2, and agree to the expansion of the capital budget for the three years as follows:-
 - 15/16 Increase of £3.000m to £13.509m
 - 16/17 Increase of £26.675m to £39.999m
 - 17/18 increase of £19.767m to £28.714m
2. To refer the increase in the Capital Budget to full Council for final ratification.

REPORT DETAIL

1 INTRODUCTION

- 1.1 The Council needs to continue to build new affordable homes for local people. The recent uncertain economy has had an impact on people's ability to buy and rent homes. The current Affordable Development Programme budget approved by Cabinet 11 February 2015 is set to deliver new homes through phase 1, phase 2 and Taplow House. This is projected to deliver a total of 213 units.
- 1.2 This report produces a strategy to increase the amount of units built over the next three years to c544. Within 10 years the plan is to deliver over 1,000 units. All units would be funded from the Housing Revenue Account and would benefit local residents.

2 VISION STATEMENT

- 2.1 A vision for the type of place the borough should be in ten years' time is essential to lead the implementation of the new build programme for affordable housing development. This vision is focused on and informed by the borough's characteristics and the key opportunities and constraints.

'To build new, good quality homes in Havering that we know local people need and can afford'

3 DRIVERS FOR CHANGE

- 3.1 Our plans have been developed to provide a range of affordable housing options to meet the growing and diversifying requirements of local people. Our approach to dealing with the supply and demand for new affordable homes was set out in The Housing Strategy 2014-2017. The plans are also driven by a range of factors including;

- Ability to use HRA funds to finance new-build development
- Projected future population growth in Havering
- Increasing expense of all tenures in London's Housing Market, the 'affordability crisis'
- Growing public demand for affordable housing in Havering, as identified by the Housing Needs Study
- Commitments to increasing numbers of social housing set by the GLA
- Current pressures from the Council's housing waiting list
- Underutilised development sites

4 REGIONAL CONTEXT

- 4.1 The introduction of this proposal that intends to increase funding for more affordable, new build programmes for affordable housing provision will be complimentary to ambitious objectives set by different London wide and local strategies including;

The London Plan 2011 & the London Housing Strategy 2012

- 4.2 The plan outlines a special development strategy for Greater London; and its revised early minor alterations (2013), sets ambitious housing targets for each borough region over a 10 year period with specific emphasis on using planning to deliver more affordable accommodation.
- 4.3 The Mayor recognises the pressing need for more homes in London in order to promote opportunity and provide a real choice for all Londoners in ways that meet their needs at a price they can afford. Its overarching

vision for London stipulates new build development must be sustainable, lead to regeneration, challenge the economic and population growth, ensure environmental improvement alongside the delivery of safe, diverse, strong and secure communities.

4.4 The Mayor's core vision as detailed in the London Housing Strategy published in 2012 is for the delivery of an increase in affordable homes and better quality housing with the aims to 'empower people' and 'transform places', supporting the detail within this proposal. It sets out for Havering that;

- The overall general supply of new build developments across all tenures should increase by 1170 units on an annual basis, every year for ten years
- Across a ten year period a minimum of 11,701 new homes are required to be built over the period of 2015-2025
- In order to give impetus to a strong and diverse intermediate housing sector, 60% of the affordable housing provision should be for social and affordable rent and 40% for intermediate rent or sale

5 LOCAL CONTEXT

Housing Needs and Assessment Survey 2012

5.1 Our Housing Needs and Demand Assessment concluded that we would have to build 1288 affordable homes each year over the next five years to meet the borough's total demand. The Council accepts that this is an unrealistic theoretical requirement but also recognises that, with increasing demand, we have to set ourselves an ambitious target for affordable houses development.

The Housing Strategy 2014-2017

5.2 Havering's Affordable Housing Sub-Strategy of its Housing Strategy 2014-2017 outlines the Council's strategic aspirations for ensuring an ambitious increase in social housing delivery to meet housing pressures, expand its housing options and improve property standards. The Council aims to meet its visionary statement through a fulfilment of the following strategic objectives. The recommended proposal will enable these core strategic aims to be met.

Grow the supply of new build affordable housing for rent and low cost home ownership for Havering residents

- Working in partnership with the best Registered Providers to build new affordable housing in the borough

- Affordable housing to be built to standards set by the HCA and GLA, where possible exceeding these expectations
- Work with the planning team to adopt targets proposed by the Housing Needs Survey
- Build 125 units in year 3 of the Housing Strategy, 50% being affordable rented development, 50% being for intermediate housing primarily shared ownership, with a recommended split of 40:40:20 for one, two and three bedroom properties

Maximise inward investment in new affordable housing development, through grant and the use of commuted sums on S106 sites by:

- Continuing to act as a GLA investment partner to actively bid for funds to support Council led development
- Continuing to evaluate the potential of using resources within the HRA to fund new housing development without compromising investment requirements to improve existing council stock
- Encouraging housing associations to invest in the borough to support our affordable housing development priorities
- Looking at alternative funding models for affordable housing.

Provide the right size and type of new housing to tackle under-occupation across all tenures and meet the aspiration of tenants by:

- Ensuring affordable housing products available in Havering are affordable for local people and in line with income levels across the borough
- Using the Affordable Housing Development Programme to build smaller high quality affordable homes that meet the aspirations of people under occupying their rented accommodation

Enhance Havering residents' access to affordable home ownership within the borough through shared ownership accommodation targeted at eligible first time buyers in Havering and existing tenants by:

- Using the New Build Programme to develop housing for shared ownership and actively prioritise local first time buyers

Develop new supported housing to meet the needs of Havering residents by:

- Promoting partnership working with existing housing providers in the borough

- Working in collaboration across Council services to develop supported housing that increases independence for residents whilst contributing to meeting corporate expenditure reduction targets

Identify redundant HRA land and/or assets which can be better used to provide new homes and support estate regeneration

- Undertake a full review of HRA land and/or assets to identify opportunities to build new homes
- Continue to find opportunities to regenerate our estates and housing stock through asset reviews and estate based renewal
- Review our sheltered housing holdings to identify those schemes no longer in demand or fit for purpose and consider whether redevelopment would make best use of the asset.

5.3 Our Housing Strategy sets out target proportions of unit size and types which reflect housing need and priorities to achieve greater mobility with the sector to better match housing need to property size. It sets local targets that demonstrate the need to accelerate affordable housing supply that means that we must take advantage of opportunities to secure funding grants wherever possible. The development of a pipeline of new sites sourced through land or asset management reviews will see us well placed to make attractive, fundable, bids to the GLA and achieve set targets.

- The Council planned the build of 750 new affordable housing units (Council and RSL) over a three year period from 2013-2016, equating to an annual number of 250 housing units.
- By tenure, we planned to have built 125 units for social or affordable rent and in 2015 – 2016 and a total of 450 out of the 750 development target to 2016. The balance of the units are to be low cost or shared ownership. This is shown in the table below.

	Rented products*	Shared ownership products	Total
2013/14 target	175	75	250
2014/15 target	150	100	250
2015/16 target	125	125	250

- These targets have been exceeded – 366 delivered in 2013/14, and 422 in 2014/15.

6 DEVELOPMENT PRINCIPLES

6.1 Alongside using all the opportunities available to us to build new homes we also want to ensure that we deliver high quality attractive homes that local people want and delivered in a cost effective fashion. Key principles in meeting these goals are to:

- Achieve good standards of design that have a positive impact on the locality and community.
- Deliver financial efficiency through careful use of the resources we bring to bear This includes use of the HRA, RTB, CIL commuted sums as well as land.
- Tender contracts in the most economically efficient way whilst still meeting corporate compliance – this should include batching sites together to achieve best value for money from house builders
- Pursue wherever practical modular build or other off site manufacturing methods of construction to increase construction speed and potentially reduce costs. This could include the use of standardised unit types.
- Continue to procure consultants competitively to ensure value for money and performance.
- Seek opportunities for our contracts to create opportunities for local job or creation or apprenticeships.
- Set rents at 80% of market rent acknowledging the need to stretch our resources as far as we can, whilst ensuring affordability.
- Monitor sales of the shared ownership we build to better understand the customers for our products, and modify our products as necessary to ensure local people who aspire to it can access shared ownership.
- Acknowledge the impact of development on existing communities by establishing a fund within the HRA capital programme for minor amenity improvements that mitigate the negative impacts of development activity for existing residents.

7 CURRENTLY PLANNED DELIVERY

7.1 Our plans for building more affordable homes for local people need to be set against future funding opportunities. Our Housing Strategy emphasises the need for the Council to use the resources of its Housing Revenue account to develop and finance its own Council housing under the New Build programme. Our current New Build programme will be achieving a number of planned successes over the next three years however an increase in funding is required to sustain future

development for affordable housing. Some of the progress to date and future requirements are set out below:

- We have two main development programmes that have enabled the Council to work as a GLA investment partner to attract grant support for Council funded schemes, use HRA resources and utilise Right to Buy receipts to fund new-build development
- Our Building the Pipeline programme including the Care and Support programme will deliver 69 units across a range of bed sizes, 1 bedroom bungalows to 3 bedroom house, to be completed by March 2016 that will enable strategic affordable housing needs to be met
- Our 15/18 New Build Development programme will lead to a delivery of new flats and houses , with 144 units due to completion by March 18
- In total, the Council has planned the delivery of 213 units of new build affordable development over a three year period
- The Council needs to build on this success by increasing its funding to support ambitious future targets which will enable housing needs for affordable housing development in the borough to be met.

8 OPTIONS FOR DELIVERY OF FURTHER NEW UNITS

8.1 Envisaged is a mixture of developments at a range of locations, including infill. A concentration in a specific area is not planned. Options for delivery include:-

- **Development of Council Sites** At this point a number of prospective sites have been identified for future new build development. Further work is required to identify new sites within the Council's ownership with the potential to develop or renew failing existing assets where identified. A report will be coming back to Cabinet with details of proposed sites. In addition, there is an on-going asset management review of HRA holdings, which will inform this process.
- **Regeneration of existing council stock** There may be benefits in regenerating existing holdings.
- **Buy Backs** This is buy back of ex LBH stock, There is a separate report on this, elsewhere on the agenda.
- **New Build on other land** (memo note – not explicit on in/out of borough)
- **Direct Purchases** (memo note – not explicit on in/out of borough)

8.2 As the programme develops and opportunities are generated, we would seek to allocate funds to these options. Additionally, investment in the

existing stock could be deferred, to increase the rate of new build, though the impact on current tenants would need to be minimised, as well as rental collection.

- 8.3 The current strategy is 50% of properties affordable rents, 50% Low Cost Home Ownership/shared equity. Shared equity may be offered to the Council's current tenants, as well as being offered for new allocations.

Reviews

- 8.4 There are several on-going reviews of provision which will inform strategy in regard to new build:-

- **Sheltered and other forms of supported housing** It is anticipated that a proportion of housing will be targeted at vulnerable residents, for example supported housing. An aim will be to support those who would otherwise incur residential or nursing costs, those with Learning Disability or Mental Health need, those who want to foster but need a bigger home, or are placed out of borough. Cabinet is scheduled to receive a further report on support for older people and other target groups.
- **Asset management review** A renewed Asset Management strategy will be presented to a later Cabinet.
- **Land Review**

9 WHAT IS UNIT COST OF INCREASED PROVISION?

- 9.1 Current costs are coming in at c£175k build, £220k with land. This paper uses the average cost of £175k; it assumes, for the moment, nil land cost, for which c26% would be added (45k). This £175k figure is an average, and there is expected to be a range of costs depending on solution and configuration; moreover, some sites are potentially difficult to develop. This unit cost will be reviewed on an on-going basis. The Council will also be looking at buy backs (a paper asking Cabinet to agree to this proposal is included elsewhere on this agenda), and procurement of units on the open market; the cost of these may be in excess of the currently assumed £175k average.
- 9.2 The £175k figure will need constant review. It is affected by build cost inflation (none currently assumed) and property type/size; 3 bed houses would certainly cost in excess of these estimates.

Appendix 2 gives a summary of the projected delivery of new units.

10 FINANCING STRAND 1 – WITHIN HRA – USE BORROWING HEADROOM

- 10.1 There is currently headroom of £34.3m and it is not possible to borrow beyond the cap due to the rules associated with HRA reform.

How many homes?

10.2 At £175k per unit, £34.3m would deliver 196 homes. An ambitious programme over 2 years could complete this programme by the end of 2017/18.

Revenue effect on the HRA?

10.3 The annual revenue interest cost of this debt would be c£1.210m, at 20 year borrowing of 3.53%. (This excludes principal, which can be funded from future surpluses). Rents at affordable levels are estimated at £155pw, less 2%, gives £152pw; Repairs and management are assumed at £1k per unit. This gives a unit net income of £6,900 pa, and for 196 units a total of £1,352,400. At 50 % of units affordable, 50% shared ownership, this would give net income of c£1.014m, with an annual cost to the HRA of £196k.

11 FINANCING STRAND 2 – WITHIN HRA – MAXIMISE USE OF CURRENT RESOURCES

a. Current capital budget

There are currently funds earmarked within the current 3 year programme for further phases of new build - £5.3m (£7.6m with RTB receipts) in 2016/17, and £5.7m (£8.2m) in 2017/18. £3m is proposed to be allocated to Phases 1 and 2; the remaining resources would deliver an estimated 26 and 47 units.

b. Use surpluses as they are generated

Appendix 1 provides the estimated financial position of the HRA over the next 3v years. It takes the currently approved Business Plan (February 2015), and then makes certain adjustments for known and planned changes. The most significant of these are the effects of the announced 1% reduction in rents over the next 4 years, and a planned savings programme.

Over the 3 year period, surpluses of £8.657m are estimated to be generated, sufficient for 49 units at £175k per unit.

c. Use new units rental

Affordable units give an estimated surplus of £5,900 pa. Thus the programme would start to increase balances/spending power in later years. In the initial period, 3 further units could be delivered.

d. For information, the sheltered review may deliver opportunities, eg conversions.

General Comment on Strand 1 and 2

11.1 For prudence, no GLA grant is currently assumed. However, Havering will take every opportunity to bid for funding, where land is identified; the only downside to GLA funding is that projects need to be delivered to a strict timescale, though this aspect can be managed. No CIL is assumed, though it is expected that receipts will be generated. Therefore, it is anticipated that the programme can be expanded, and authority will be sought to add new schemes to the programme at the relevant time.

11.2 Staffing levels in the Development Team would need review; this has provisionally been estimated at £32k pa.

12 General Fund Special Purpose Vehicle

12.1 For information, members will be aware of a proposal that was agreed by the May Cabinet to develop homes for private/market rent.

13 Next Steps

13.1 The programme will continue to be developed in phases, with each phase of specific developments coming to Cabinet for approval.

14 Conclusions

14.1 A summary of the amount of units that could be provided is on the attached appendix 2. The proposals, with caveats (eg build cost, land), produce an estimated 544 units over a 3 year period. They involve ploughing back all HRA surpluses, as they become due, into new build. The medium term plan is to deliver over 1,000 units in the next 10 years.

REASONS AND OPTIONS

Reasons for the decision:

The increased provision of housing, especially social and affordable, is required to meet well documented need/shortfall in supply.

Other options considered:

The option of not increasing provision was considered, but rejected, as it would not begin to deal with lack of housing supply.

IMPLICATIONS AND RISKS

Financial implications and risks:

The report seeks to maximise the additional units that can be provided through resources within the Housing Revenue Account (HRA). Funding has been identified to support the proposals. Appendix 1 provides an up-dated estimated financial position for the HRA over the next 3 years. Appendix 2 provides a summary of additional resources that is estimated to be generated, and an indication of when those sums and units could be provided. Sites will be reviewed within the borough to deliver the programme, as resources become available; other delivery options are also being considered, including Regeneration, direct purchases and buy back (a policy for which is also on this Cabinet agenda).

The proposals will increase the size of the HRA Capital Budget, and therefore require the approval, in addition to Cabinet, of full Council. The report does not seek individual scheme approvals and estimates; this will be the subject of later reports.

Build cost is a specific risk, and will need to be monitored; any excess over CPI will affect the number of units to be delivered. Additionally, a level of savings is assumed that will require full evaluation and monitoring; these proposals are at an early stage – further work is required to develop these, and to ensure that critical areas such as income collection are not compromised, and to ensure they are real savings to the HRA.

No GLA grant is assumed as it is not certain, but in reality a level of grant is expected, and thus will provide a contingency to the programme. The programme will be monitored on an on-going basis.

There will be a need to increase the Development team; the cost of this can be absorbed into current budget levels.

It is anticipated that a proportion of housing will be targeted at vulnerable residents, for example supported housing. This may mean cost savings to the Council's General Fund.

As regards HRA revenue impact:-

- Strand 1, use of borrowing headroom, will mean a small cost (£196k pa)
- Strand 2, use of capital resources, will produce a net rental return to the HRA.

Legal implications and risks:

There are no specific legal issues raised. (tbc).

Human Resources implications and risks:

There will be a need to increase the Development team; it is proposed to deal with this by use of fixed term/permanent contracts, managed in accordance with Havering HR policies....(tbc)

Equalities implications and risks:

In terms of equalities and social implications, the proposals will increase the supply of social and affordable units, which will be of benefit to disadvantaged groups. The Equality Assessment is listed as a background paper (tbc).

BACKGROUND PAPERS

None