

NFDC HOUSE BUILDING PROGRAMME PILOT

1. PURPOSE OF THE REPORT

- 1.1 The purpose of this report is to seek Cabinet approval;
- to bid for Local Authority Challenge Funding to build Council Houses;
 - to nominate an Investment Management System Security Administrator/s;
 - to approve, in principle, undertaking prudential borrowing to match fund the grant available;
 - to select a partner to take forward such bid.

2. BACKGROUND

- 2.1 Since the Budget announcement in April, Government has brought forward several initiatives and proposals to encourage the development of housing, particularly affordable housing. These have included the Kick Start programme of £400 million to unlock stalled sites, the opportunity for Local Authorities to bid for a ring fenced pot of Social Housing Grant, and the consultation on changes to the capital and revenue funding rules for the HRA, which create a much more favourable environment for Councils to develop their own stock.

3. GOVERNMENT PROPOSALS

- 3.1 Of particular interest to NFDC was the establishment of a challenge fund of £50 million Social Housing Grant, ring fenced for Local Authorities, to be matched with £50 million prudential borrowing, which aims to develop in the region of 900 new houses across the country in 09/10 and 10/11. More recently this sum has been considerably enhanced in Building Britain's Future.
- 3.2 This funding, coupled with the proposed changes to the HRA which anticipates that Councils be allowed to keep the rental income of any new build properties *or newly acquired* properties out with the HRA, and keep 100% of RTB receipts on new build (ring fenced for affordable housing) make building council houses a more attractive proposition.

4. DELIVERY OF AFFORDABLE HOUSING

- 4.1 The provision of affordable housing is a key corporate priority for NFDC and the Strategic Housing team is constantly looking for innovative ways to ensure delivery of our targets. To this end we have been exploring the possibility of bidding for Social Housing Grant which was made available to Councils in the 2009 budget announcements.

- 4.2 In the past year the Council has delivered, with its RSL partners, 171 completions against a target of 100 which is a significant achievement; however the current economic climate and the downturn in development presents a bleaker outlook for completions in 2009/10 and beyond, possibly reducing the projected number of completions in 2009/10 to 70 units. Therefore in order to boost delivery in the coming years the Council may wish to consider entering into development of new council houses.
- 4.3 With the assistance of the District Valuer we have identified that the Council currently owns pieces of land suitable for housing which are both garage sites and open space on existing estates - or pockets of potential housing land scattered throughout the district. A rough estimate is that the Council has 21 hectares of developable land across 299 sites. Should this all be developed (assuming positive topographical surveys) there is the potential of delivering 735 units across the district (calculated at 35 units per hectare density). These units could be delivered on small sites over the next 15 - 20 years through development of high quality housing (Code for Sustainable Homes level 4 and above). Currently these sites, when they arise, are passed on to RSLs at below market value and schemes are often topped up with Local Authority Social Housing Grant (LASHG), particularly in the current economic climate when viability is key to securing development.

5. BIDDING FOR LOCAL AUTHORITY CHALLENGE FUNDING

- 5.1 Over the past few months the Housing Strategy and Development Manager has undertaken a piece of work to establish the basis for a bid to the HCA for Social Housing Grant.
- 5.2 Discussions have been held with officers at the HCA to establish whether there is scope for NFDC to submit a bid for funding, as the widely held view was this fund will only be available for schemes of 50 plus units. However, initial discussion suggest that the Agency will be supportive of a small scheme from the New Forest, as a pilot for what could be a much larger programme as outlined above. The scheme would have to have a high level of sustainability and be of a quality which is synonymous with the New Forest and be able to achieve swift planning approval.
- 5.3 Through Hampshire County Council's framework agreement with IESE (Improvement and Efficiency South East), a partnership of Local Authorities, funded by Communities and Local Government to establish efficiencies in procurement across the South East, we have been able to undertake a process to identify a preferred partner to take our bid and development forward.
- 5.4 The bid must be made in accordance with the HCA procedures. These procedures require the Council to nominate a Investment Management System Security Administrator/s. The Security Administrator(s) is/are responsible for designating – by adding the appropriate security authorities to their User Ids – which members/officers are authorised to make electronic submissions to the HCA. The ICT Security Team has been nominated and will act as the HCA Investment Management System Security Administrator/s.

6. PRUDENTIAL BORROWING

- 6.1 Social Housing Grant will make up 50% of the costs of the development, should we be successful in our bid, leaving a shortfall of 50% to be made up by the Council. In order to raise these monies the Council would be required to enter Prudential Borrowing. It is estimated that the cost of the scheme would be in the region of £1.4 million requiring Council funding of £700,000.
- 6.2 The Council would fund the ongoing cost of borrowing based on the income stream raised from the new housing and therefore the rent receivable from the properties would dictate the repayment terms of the loan. Currently, Government requires rent levels to converge over time therefore we are limited in the actual rent which is rechargeable. For NFDC, based on national average statistics, this would mean that there would be an income stream of approx. 28% of rent (72% goes on management and maintenance costs) for each property out with the HRA. At an average rent of £90 per week, this would generate approx. £47,000 leaving approx. £13,000 available to service the debt.
- 6.3 Clearly with a new build property, the Council would not expect to have such a high level of commitment to maintain the properties in the earlier years and it is assumed that management could be contained within current resources. Therefore such a significant contribution would not be required and 50%, rather than 28% would be more realistic, providing £23,500 per annum to service the debt.

6.4 Example

- 6.4.1 For a loan of £700,000 over a 50-year period with equal annual repayments of the principal amount we would be required to repay £14,000 per annum plus interest. The interest payable at current long-term rates of 4.26% would be £29,820 per annum, reducing by £596 per annum. The total amount repayable would be £1.46million. This is illustrated below.

The repayment requirements would be:

	Principal	Interest	Total
Year One	£14,000	£29,820	£43,820
Year Two	£14,000	£29,224	£43,224
Year Three	£14,000	£28,628	£42,628
Year Fifty	£14,000	£596	£14,596

- 6.4.2 Based on the assumption that 28% of rental income would be available to service the debt, the average rent would need to increase annually by 3.2%. At the 50% level proposed the rent increase would only be 1.2% annually.
- 6.4.3 As can be seen from the table the £43,820 required exceeds the funding available, even at a 50% contribution. Therefore the Council would have to make arrangements to cover the excess for approximately half of the duration of the loan.
- 6.4.4 An alternative borrowing arrangement would be to take out an annuity that is broadly similar to an interest-only mortgage.

- 6.4.5 On this basis we could fund borrowing of £700,000 over a fifty-year term and would require average rent increases of 1.9% per annum. The benefit would be that no additional funding would be required to cover the annual interest repayment, although there would be a need to start with a 64% contribution from rents, which would decrease by approximately 1% annually for the first 14 years of the loan. Thereafter the 50% contribution would be sufficient to ensure that at least £700,000 is available at the end of the loan to fully repay the original amount borrowed.
- 6.4.6 It can therefore be assumed that the loan is repayable from the expected rental income stream. However the actual type and duration of the loan would need to be determined when the funding is required based upon the interest rates and loan options available at that time. Under this model we would be required to repay £2.2million, this is however dependent on our investment portfolio which may lead to a lesser sum being repaid.
- 6.5 It should also be noted that as part of the rules governing the new Social Housing Grant allocations, should the property be subject to an RTB application, 100% of RTB receipts would stay with the Council (ring fenced for affordable housing).

7. APPOINTMENT OF CONSULTANTS

- 7.1 Through the IESE framework NFDC has selected a partner with substantial social housing experience to take forward design and build of the scheme, this is Mace. Mace is aware that confirmation of appointment is subject to Cabinet approval and that should the grant application be unsuccessful then the Council would not pursue the works further. The initial costs of the preparation of the scheme to bid level is in the region of £10,000.

8. CONCLUSION

- 8.1 The opportunity to return to building Council houses is an exciting one for the Council and has many positive aspects such as owning the assets, building on our own land and adding to our housing stock. The opportunity to start with a small scheme of 10 units should identify any issues which would need to be addressed when moving to a larger programme.

9. CRIME AND DISORDER IMPLICATIONS

- 9.1 Well designed housing can significantly improve an area and every effort will be made to design out crime through the Secured by Design process.

10. ENVIRONMENTAL IMPLICATIONS

- 10.1 The development will be built to a high environmental standard, enhancing the current built environment significantly.

11. EQUALITY AND DIVERSITY IMPLICATIONS

- 11.1 All new build properties will fully comply with all requirements of the legislation with regard to disability. Tenants will be selected on the basis of the Council's agreed Choice Based Lettings Scheme.

12. PORTFOLIO HOLDER COMMENTS

- 12.1 This is an exciting opportunity for the Council, the chance to bid for funding to build Council houses for the first time in almost 20 years. Although at this stage we do not know whether our bid will be successful I feel it is appropriate for us to prepare for this opportunity by selecting a partner to work with the Council to deliver this project. Although supporting this does mean that the Council will have to agree to enter into prudential borrowing, should the bid be successful, we would be borrowing in order to meet one of our key Corporate Priorities and making tangible investment in our communities. I therefore support these proposals.

13. TENANTS COMMENTS

- 13.1 The Tenants Group have been consulted on this and are supportive of the Council's proposal to bid for HCA funding.

14. HOUSING REVIEW PANEL COMMENTS

- 14.1 The Housing Review Panel strongly supported the Pilot scheme and felt that the opportunity to return to building Council houses was an exciting one. The Panel felt that the key priorities of any building project should reflect the need for houses to be built to code 4 or above and that family sized properties should be predominant.

15. RECOMMENDATION

- 15.1 The Cabinet is requested:
- (a) to agree to make a bid for Local Authority Challenge Funding to build Council Houses;
 - (b) to nominate the Council's ICT Security team as the Investment Management System Security Administrator/s;
 - (c) to agree in principle, to undertake prudential borrowing to match fund the grant available; and
 - (d) to agree to the appointment Mace, Management and Construction, as the partner to take forward a successful bid.

For Further Information Please Contact:

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Background Papers: