

AFFORDABLE HOUSING EXPENDITURE UPDATE

Executive Summary

This report provides an update on the expenditure and activities undertaken in order to increase the supply of affordable housing in the Borough.

In recent decades the financial constraints on the Housing Revenue Account (HRA) have deterred local authorities from providing new build schemes. The Government has recently announced programmes which may help Woking deliver new affordable housing through the HRA. The paper updates the Executive on the Additional HRA Borrowing Programme and other programmes announced by the Government and the bids submitted by Woking.

At the Conservative Party Conference on 3 October 2018 the Prime Minister announced that the Government was scrapping the cap on how much Councils can borrow against their Housing Revenue Account assets. No details are available concerning when the cap will be scrapped or what the new arrangements will be. This report was prepared prior to this announcement.

Recommendations

The Executive is requested to:

RESOLVE That

- (i) the land at the eastern end of Monument Way West be appropriated from the General Fund to the HRA as detailed in the report;
- (ii) all Affordable Housing Section 106 contributions held by the Council are to be used on HRA or General Fund affordable housing developments;
- (iii) the Strategic Asset Manager be authorised to implement the Old Woking Sheltered Housing Development based on a budget of £15,000,000; and
- (iv) authority be given to the Strategic Asset Manager to implement the Monument Way Development, subject to the Additional Borrowing bid being successful, based on a budget of £14,871,000.

Reasons for Decision

Reason: To approve proposals to develop additional housing for the Housing Revenue Account.

The Executive has the authority to determine the recommendation(s) set out above.

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Background Papers: None.

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1.0 Introduction

- 1.1 This report provides an update on the expenditure and activities undertaken in order to increase the supply of affordable housing in the Borough. This includes detailing the new build development schemes identified by Council Officers. The report also updates the Executive on the bids submitted for the Additional Housing Revenue Account Borrowing Programme announced by the Government in June 2018.
- 1.2 Woking, along with the other local authorities in Surrey, demonstrates a significant need for affordable dwellings. Affordability is a major issue, with the ratio between entry level market housing at 11 times average incomes, making access to market homes beyond the financial reach of many local people. With regard to current housing needs, the Council's Housing Register of Applicants shows that there are 903 active applicants seeking affordable rented accommodation in the Borough.
- 1.3 Need is spread across all size and type of dwellings, with 44% of need for 1 bed dwellings, 33% for 2 bed dwellings, 17% for 3 bed dwellings and remainder for larger homes. The need for 1 bed dwellings is equally divided between those requiring sheltered/supported housing as well as for general needs, whereas need for 2 bed+ dwellings is predominantly for general needs. Accordingly, the portfolio of schemes discussed in this report will help to meet differing needs from single persons through to family accommodation. By providing these schemes through the HRA the new accommodation will be at social rent levels which will further assist those in housing need.
- 1.4 This report should be considered alongside the Housing Revenue Account (HRA) Medium Term Financial Strategy paper elsewhere on the agenda.

2.0 Government Schemes

- 2.1 In April 2012 Local Housing Authorities effectively bought themselves out of the former Housing Subsidy system. Under the former system there was little flexibility to implement new housing schemes. However the opportunities available under the new Self-financing arrangements were soon limited as constraints were placed on the Housing Revenue Account in the form of the HRA Borrowing Cap and a 4 year rent reduction period. For Woking the cap meant there could be no further borrowing in order to fund investment in the stock or to provide new housing. Moreover the rent reduction period meant the HRA surpluses were significantly less than those forecast under self-financing.
- 2.2 In recent years the Council has therefore used Thamesway Housing Ltd as a vehicle to achieve its affordable housing goals. However the Government have now introduced programmes which may provide additional flexibility and could potentially assist in implementing the development schemes discussed later in the report through the HRA.

Additional Housing Revenue Account (HRA) Borrowing Programme

- 2.3 In June 2018 the Ministry Of Housing, Communities and Local Government announced details on how to bid for the £1 billion Additional HRA Borrowing Programme. Under this programme local authorities in 'high affordability pressure areas' can bid to increase their borrowing cap in order to fund new build development schemes. The funding is aimed at projects commencing in 2019/20 onwards and bids will be assessed against value for money, affordability, and deliverability criteria.
- 2.4 It should be noted that, although WBC will need to bid for this headroom, the cost of the additional headroom is still to be met by the HRA. The Government would be giving the HRA authority to use its own resources – it is not awarding any additional funding through this programme. There are further limitations on the scheme in that only £500m of the programme is available to authorities outside of London. Whilst the Government has

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encouraged ambitious bids this £500m is to be divided between 162 authorities equating to £3.1m per authority.

- 2.5 Woking has submitted bids for an increase to the borrowing cap primarily for the Monument Way, Bonsey Lane, and Rydens Way\Sundridge Road developments. These projects are due to commence in 2019/20 and are a best fit for the funding criteria. If successful the projects will be funded by HRA Borrowing (70%) and retained one for one receipts (30%).
- 2.6 The Old Woking Sheltered Housing scheme detailed later in the report was originally intended to be funded by Section 106 Affordable Housing contributions. Although this project is due to commence in 2018/19, Officers still intend to submit an additional borrowing bid for this development. The bid has been made on the basis that if additional borrowing could be used to fund the project instead of section 106, the section 106 contributions saved could instead be used to provide additional affordable housing under the York Road and Your Sanctuary Schemes.
- 2.7 Bids will also be made for the other developments due to commence in 2018/19 on the basis that any additional borrowing granted for these projects would mean the Council would have more flexibility to pursue the small site developments identified by NVH (these are listed under the relevant section in appendix A and are discussed later in the report).

Shared Ownership and Affordable Homes Programme (SOAHP)

- 2.8 In June 2018 the Government confirmed that local authorities will be able to bid for a grant under the above programme to provide new build social rent properties. The grant can be combined with retained one for one replacement receipts or additional borrowing headroom but not both.
- 2.9 As discussed later in the report, the HRA's existing resources are already earmarked on committed development schemes. As this is grant funding the programme provides an opportunity to bid for uncommitted schemes which are not yet budgeted. A key element of the criteria for assessing bids is value for money. WBC would need to fund any additional development through 30% retained receipts and 70% social housing grant. This may not satisfy Homes England's Value For Money criteria as there is no contribution from WBC's own resources.

Rent Reductions

- 2.10 The Government also announced that rent increases would return to CPI + 1% for five years from 2020/21 following the end of the 1% rent reduction period. This provides greater confidence around future rental income and provides more security and certainty when planning investment.

3.0 Development Sites

- 3.1 As detailed below the Council has retained one for one receipts in order to provide replacement affordable housing. Officers have reviewed the land assets held by the authority, and other potential development sites around the Borough, to identify suitable new build affordable housing sites. This review has been carried out in consultation with New Vision Homes (NVH). Appendix A lists the development schemes identified and further details are provided below.

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Rydens Way 2 and Hawthorne Road Developments

- 3.2 These schemes, comprising of 7 x 3 bedroom houses at Rydens Way and 5 x 4 bedroom houses at Hawthorne Road, are committed schemes under way in 2018/19 and due to complete in 2019/20.

The Old Woking Sheltered Housing Development (63 – 65 High Street Old Woking)

- 3.3 In 2017/18 the Council purchased the former Ian Allen Motors site for £4m. Planning permission has been submitted for a 57 unit Sheltered Scheme to be built on the site. This scheme was originally earmarked to be financed from retained one for one receipts (30%) and Section 106 Affordable Housing Contributions (70%). However, as detailed above, a bid has now been submitted to increase Woking's HRA debt cap in order to fund the 70% element of the project from borrowing instead.
- 3.4 Following a mini competition through the Southern Construction Framework Kier have been selected as the main contractor for the project. The estimated price will be subject to change until the project is fully detailed and the cost agreed. The estimated construction cost is £14,506,000 at this stage but may increase to £15,000,000 when the contract is finalised. The Executive is requested to resolve that authority be given to the Strategic Asset Manager to implement this development based on a budget of £15,000,000. If the Additional HRA Borrowing Programme bid is not successful it is proposed to still implement the project using section 106 contributions and one for one receipts to finance the scheme.

Monument Way Development

- 3.5 A site on the eastern end of Monument Way West has been identified to provide a 5 storey block of flats providing 54 x 1 bedroom units. The lease on the existing commercial property on the site has been taken back by the Council in preparation for the project.
- 3.6 Under the project a new road will be built providing a fourth arm to the west side of the Monument Road/Sheerwater Link Road junction, providing direct access to the Boundary Business Centre and closing access to the Business Park from Boundary Road and Walton Road. The cost of the road will be met by General Fund resources as the road will serve the wider public rather than just HRA tenants.
- 3.7 In order to carry out this project through the HRA, the land asset will need to be appropriated from the General Fund to the HRA. This report requests that this land is appropriated with effect from 2018/19 at market value as determined by the Strategic Asset Manager. Appendix B details the location of the land to be appropriated.
- 3.8 The estimated cost of this development is £14,871,000. There are not sufficient resources within the HRA in order to fund this scheme without increasing the borrowing cap. Therefore the Additional HRA Borrowing Programme bid would need to be successful in order to deliver this scheme through the HRA. The Executive is requested to resolve that authority be given to the Strategic Asset Manager to implement this development, subject to the Additional Borrowing bid being successful, based on a budget of £14,871,000.

Eden Grove Road, Lockwood Path, Bonsey Lane, and the Corner Of Rydens Way\Sundridge Road Developments

- 3.9 A total of 20 units will be provided under the Eden Grove Road, Lockwood Path, and Bonsey Lane developments consisting of the following:

Eden Grove Road: 2 x 3 bedroom houses

Lockwood Path: 4 x 3 bedroom houses

Bonsey Lane: 7 x 1 bedroom and 7 x 2 bedroom apartments

Plans for a new build scheme at the Corner Of Rydens Way and Sundridge are being drawn up by external consultants William Lacey. The final number of units has not yet been determined.

Knaphill Former Ambulance Station Development (Thames Valley Housing Association)

- 3.10 Local Authorities can retain an element of Right To Buy receipts locally to be used on one for one replacement housing. These receipts can be used to fund up to 30% of the cost of the replacement housing and must be used within 3 years or passed to the Government. These receipts can also be passed to a Registered Provider (RP) for them to use on affordable housing with the RP funding the remaining 70% of the project cost.
- 3.11 Officers have been working with Thames Valley Housing Association (TVHA) to help fund a 15 unit development at the former ambulance site in Knaphill. WBC will pass approximately £1.1m in retained receipts to TVHA which will generate additional local affordable housing to the value of 3.7m.

Barnsbury Development

- 3.12 HRA Land in Barnsbury has been identified as a potential development site. To date no design work has been undertaken in bringing this project forward due to the size of the project and the constraints on HRA resources discussed earlier in the report.
- 3.13 As referred to under section 2 of this report, the Government have extended the Shared Ownership and Affordable Homes Programme to include grant funding for social rent. This new funding provides a potential resource to finance major new developments within the HRA. Through the Autumn Officers will be working on a bid under this Grant for a potential development in Barnsbury.

Small Site Developments

- 3.14 Under the Asset Management aspect of the Housing Services contract New Vision Homes have identified a number of potential small site developments on existing HRA land. As discussed in section 4 of this report no additional resource has been identified to fund these schemes.
- 3.15 A strategic objective of the NVH Asset Management Programme (AMP) is to provide new additional housing where possible. For instance the current AMP includes a project which demolishes a dwelling at Oak Tree Road in order to provide 4 additional new build units on the same site. Officers will work with New Vision Homes to continue to attempt to identify small site developments and fund them from existing Asset Management Plan budgets. If all the Additional HRA Borrowing Programme bids are successful this will release more resources which can be used to carry out these small site developments.

4.0 Project Financing

- 4.1 The Housing Investment Programme (approved by Council in February as part of the overall Investment Programme) included £13.6m for Developments and Property Purchases over 2018/19 and 2019/20. The projects detailed in this report will extend the development programme to an estimated £43.7m. The resources available to finance new build developments within the HRA are detailed below. If the bids outlined above are not

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successful, or there are insufficient resources available within the HRA, certain development schemes may be progressed through Thamesway Housing Ltd.

Section 106 Affordable Housing Contributions

- 4.2 These have previously been used on the Kingsmoor Park PFI Scheme and to provide affordable accommodation through Thamesway. Due to the greater flexibility within the HRA it is now intended that these s106 contributions are used on HRA new build schemes. The Executive is asked to resolve that all s106 contributions held by the Council are to be used to help finance HRA or General Fund housing developments.

Retained One For One Replacement Receipts

- 4.3 These receipts can finance up to 30% of the cost of new affordable housing. However they currently need to be used within 3 years or returned to the Government with interest charged at 4% above the base rate. They can also not be passed on to a group company of the Council. As Woking previously had no headroom within the HRA borrowing cap Council determined on the 6 April 2017 that going forward these receipts should be passed back to the Government rather than being retained locally. On the same date the Council also resolved that the Chief Finance Officer be authorised to determine whether or not to retain future receipts.
- 4.4 Earlier this year the Chief Finance Officer determined to 'switch on' receiving receipts with effect from 1st April 2018. This was to enable the HRA to fund the committed schemes detailed in this report. The recent Government announcements mean the Council may be able to continue to retain these receipts if its funding bids are successful. There is a risk the HRA will not be able to build up enough receipts to fully finance 30% of the scheduled developments at the time of construction. Officers will need to discuss with the MHCLG whether any shortfall can be funded by WBC on an interim basis and future retained receipts replace this interim financing once received. Officers will also discuss whether the receipts passed back to the Government in 2017/18 can be reclaimed.

HRA Borrowing Headroom

- 4.5 As discussed above, Woking has submitted bids for additional headroom for the schemes outlined. There is also existing headroom within the cap generated by appropriating garage and commercial property assets from the HRA to the General Fund. The 2019/20 Budget Report will also request a further appropriation of HRA land. However this headroom is limited and needs to be apportioned between financing the committed schemes (detailed in appendix A) and for future investment in the Council's existing stock.

Housing Investment Programme (HIP) Reserve

- 4.6 As discussed in the HRA MTFs Report the existing HIP reserve balance is required to mitigate the financial impact of the Sheerwater project.
- 4.7 It is estimated that sufficient HRA resources have been identified to fund the committed schemes under section 1 of the attached schedule. In order to provide the other potential schemes the HRA is reliant on the bids outlined in this report being successful. Moreover the timing of the construction of these developments needs to be aligned with the timing of the funding resources becoming available. This includes the timing of one for one receipt income and the Government awarding funding\headroom in the appropriate year.
- 4.8 Officers are progressing all the outlined development schemes as far as possible as this will bring forward the construction phases and make the bids fit with the deliverability criteria in the Government's bid assessment process. If the Government funding is not forthcoming then the Council may look to progress these schemes through Thamesway Housing Ltd.

5.0 Earn Your Deposit Scheme

- 5.1 On the 14th August 2018 the Government released a consultation on changing the rules around the use of retained receipts. The consultation considers extending the time to use receipts from 3 years to 5 years and passing on the receipts to a group company. The wording in the consultation indicates that, if this policy change is carried through, the Government is likely to require that the group company tenants are given an option to become homeowners (it does not refer to the Right to Buy). This consultation therefore provides an opportunity to promote the Earn Your Deposit Scheme reported to the Executive on 1 February 2018.
- 5.2 Under the Scheme tenants share a proportion of the likely future property value uplift. The tenant may only then access these funds as a deposit for the purchase of their first home. A maximum deposit is set.

6.0 Conclusion

- 6.1 The development schemes outlined in this report would significantly increase the local affordable housing supply. The recent announcements by the Government have the potential to provide the HRA with the flexibility necessary to deliver these schemes. However this is dependent on the Government approving the bids. The full removal of the HRA borrowing cap would allow long-term investment in additional affordable housing and allow authorities to tackle the housing shortage locally.

7.0 Implications

Financial

- 7.1 The financial implications are detailed within the report.

Human Resource/Training and Development

- 7.1 No specific Human Resource or Training and Development implications.

Community Safety

- 7.2 No specific Community Safety implications.

Risk Management

- 7.3 There are a number of specific risks to the figures included in the forecast as set out in the report. There is an ongoing risk in the medium term of changes in government policy which could affect the General Fund as well as the Housing Revenue Account and Thamesway Group.
- 7.4 The development of HRA homes needs to be managed within the resources available to the HRA. The position needs to be closely monitored and alternative delivery plans considered should there be significant changes to the financial assumptions outlined in the report.

Sustainability

- 7.5 There are no sustainability implications.

Equalities

- 7.6 There are no equalities implications.

Safeguarding

7.7 There are no safeguarding implications.

8.0 Consultations

8.1 There have been no formal consultations on this paper.

REPORT ENDS