

Body: Cabinet

Date: 16 July 2014

Subject: Housing Investment Plan for Eastbourne

Report of: Ian Fitzpatrick, Senior Head of Community

Ward(s) All

Purpose This report provides an update on the Council's Housing Investment plans and seeks approval for first stage development of a new Housing Delivery Company. It recommends further action to expand on this work and to extend the scope of the Solarbourne green energy initiative.

Decision Type: Key Decision

Recommendation: Cabinet is recommended to:

- to provisionally release (subject to successful bids) from the Housing Regeneration allocation within the Capital programme up to a total of £14,348,626 for housing investment in the period 2014 through 2018.
- Delegate authority to the Snr Head of Community in consultation with the Cabinet Portfolio Holder for Community to undertake preparatory work to set up a Council owned Housing Delivery Company and report back to Cabinet in the autumn.
- Approve provision of £200,000 for a Housing Rescue Emergency Fund to help vulnerable people avoid the loss of their home by funding the purchase of properties originally built and provided by the Council where strict criteria are met.
- Approve provision of £500,000 to commence second Photo-Voltaic programme.
- Delegating authority to the Senior Head of Community in consultation with the Chief Finance Officer and Cabinet Portfolio holder for Finance to commence a second PV programme on the basis that market conditions (cost and FIT rate) result in systems being self-financing (including provision of a sinking fund to cover reduced warrantees).

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1.0 Introduction

- 1.1 The role of local authorities in shaping housing markets and meeting housing needs and aspirations has changed significantly over the past three years. Councils now have the ability to manage their landlord role independently within the financial constraints of a self financing Housing Revenue Account (HRA) while the Localism Act 2011 has given local authorities a general power of competence; unless otherwise prescribed by law.
- 1.2 At the same time, there is a clear recognition that public sector financial subsidy from central government for new homes and economic development will in the future be limited. In addition, the ability of the Council to invest in new Council owned homes in the traditional way is constrained by the caps on borrowing that apply to the HRA.
- 1.3 This means that for the Council to maintain its current progress on the housing and economic development fronts it will need to consider how to invest in ways that do not impact adversely on the HRA, find new ways to help subsidise affordable housing and also generate surpluses for investment in socially necessary projects.

2.0 Phase 1 Delivery – Housing and Economic Development

2.1 Delivery to date has focused on three areas:

1. Local Authority New Build: providing new housing on mainly Council owned land. The first phase of the LANB programme is underway to provide 35 new homes by December 2015. This is 12 more homes than originally envisaged. Sites include Coventry Court and Belmore Road and are being partly developed on a mixed tenure basis so that a limited amount of outright sales help financially support additional affordable homes and enable investment in local neighbourhood improvements.
2. Empty Homes Programme/SHEP: bringing empty properties back into use, including redundant retail units. Phase 1 of this programme comprises 20 affordable homes supported by £360k of grant secured from the Homes and Communities Agency and the refurbishment and commercial letting of 3 retail units.

Seven properties have been acquired to deliver the 20 new homes and three retail units in the Devonshire Ward identified as priorities from a neighbourhood improvement perspective. Completion of all homes is required by March 2015.

3. Driving Devonshire Forward (DDF): a ward focused neighbourhood improvement project which incorporates housing developments in the ward, as set out above, and the recommendations of an urban

design study undertaken last year. A local steering group has been established to co-ordinate delivery and to prioritise and bring forward initial projects. These include public realm improvements to key areas and working with the local business community to improve the Seaside Road retail offer.

2.2 The Housing and Economic Development Project Board (a joint initiative between Eastbourne Borough Council and Eastbourne Homes Ltd) has overseen and co-ordinated Phase 1 delivery which will deliver the total of 55 new homes and 3 commercial units.

2.3 The latest financial projections indicate that:

- The programmes are projected to be delivered at a Total Scheme Cost (TSC) in line with those originally approved by Cabinet and to produce a net rental stream slightly higher than appraised at point of approval. This does not take into account additional financial benefit to the Council from new homes bonus, business rate and council tax receipts.
- Council funding for the new homes and commercial units will be fully repaid over the expected 40 year term with a positive Net Present Value (NPV)* of £452k

*(NPV is a calculation which shows the value of the investment over 40 years in today's money compared to the value that would have been achieved by investment at a cost of funds interest rate)

2.4 The latest financial projections show that all programmes are performing in line with expected. The projections for the different phase 1 programmes are:

Programme	Units	TSC £k	Grant £k	Sales £k	Council Funding £k	Net Rent p/a £k	NPV £k
SHEP	20	1,919	360		1,559	64	5
LANB	35	4,719		1,021	3,698	133	223
Commercial	3	381			381	26	224
Total	58	7,019	360	1,021	5,638	223	452

3.0 Next Steps – Phase Two

3.1 An extensive programme of work for the period 2014-2018 has been developed by the Council, which will form Phase Two of the Housing Investment Plan.

3.2 Two new bids for funding have been made within the last six three months, the first to the Local Growth Fund (LGF) and the second to the National Affordable Housing Programme (NAHP). Details of the scale of bids and overall phase two work is summaries below:

3.3

HCA Bid	Type	TSC net of grant	Grant	TSC	Units
NAHP 2015- 2018	New build	£1,267,753	£207,500	£1,475,253	10
NAHP 2015- 2018	New build	£439,530	£97,500	£537,030	6
NAHP 2015- 2018	New build	£440,876	£88,000	£528,876	4
NAHP 2015- 2018	New build	£552,861	£12,600	£565,461	4
NAHP 2015- 2018	Purchase & repair	£1,637,144	£500,000	£2,137,144	20
LGF Firm Bid 2015- 2017	Purchase & repair	£483,110	£0	£483,110	4
LGF Firm Bid 2015- 2017	New build	£137,738	£0	£137,738	1
LGF Firm Bid 2015- 2017	New build	£320,000	£0	£320,000	2
LGF Firm Bid 2015- 2017	New build	£956,550	£0	£956,550	5
LGF Firm Bid 2015- 2017	New build	£592,298	£0	£592,298	4
Sub total		£6,827,860	£905,600	£7,733,460	60

LGF Outline Bid for 2016-2017	New build and purchase & repair	£7,520,766		£7,520,766	56
Total		£14,348,626		£14,348,626	116

4.0 Financial Implications

- 4.1 The current Business Plan for the HRA which runs from 2012 through 2042 is currently being reviewed in the light of the first two years of Self-financing, to account for the developments detailed above and increased incidence of Right-to-Buy since increases in discounts were introduced in 2012.
- 4.2 The HRA Business plan with detailed 10 year projections will be updated in the autumn, when the outcome of the bids to the LGF and NAHP programmes are known and can be accounted for in the Plan.
- 4.3 The above table provides details of the total gross scheme costs and does not net off receipts from sales or grant. Delivery of the programme is subject to successful outcome of bids and the overall development programme being self-financing.
- 4.4 Cabinet is recommended to:
- to provisionally release (subject to successful bids) from the Housing Regeneration allocation within the Capital programme up to a total of £14,348,626 for housing investment in the period 2014 through 2018.

5.0 Investing for the Future – Delivery Vehicle

- 5.1 It is unlikely that the Council will in the short and medium term be able to develop within the HRA due to borrowing caps. To meet need and requirements detailed in Eastbourne's 'Core Strategy – Local Plan', the Council needs to explore new ways to develop homes.
- 5.2 The Housing and Economic Development Project Board has considered options to extend delivery, taking advice on partnerships and having regard to what other Councils were doing. Other Councils considering new housing development have in a majority of cases opted for a simpler delivery vehicle structure rather than more complex partnership arrangements. Examples are detailed in Appendix A.
- 5.3 Accordingly the Board recommended that further work be undertaken on the viability and practicality of the Council establishing a new wholly owned investment subsidiary which would be able to take forward and deliver on behalf of the Council investment in housing and other related areas of activity to deliver the Council's corporate outcomes.
- 5.4 The advantages and disadvantages of a Council owned Development

Company are:

- An ability to borrow for housing investment without being constrained by HRA borrowing restrictions although the rules and principles around Prudential Borrowing are applicable.
- The ability to develop a wide range of housing products across rented and owner occupied tenures that can be tailored to meet specific housing needs and priorities and so reduce demand for high cost services, such as supported housing for older people, at a local and County level.
- Houses developed by the company for rent do not have to carry a Right-to-Buy although the company can still sell them to residents if it so wishes, with or without a discount.
- Houses owned by the company for rent do not have to have rents set at levels below those prevailing in the market place (as is the case for all homes rented directly by the Council within or without the HRA), making it easier to develop without the need for subsidy but at the risk of rents being unaffordable to people with low and middle incomes.
- Surpluses earned from the sale of homes developed by the company to sell do not have to be reinvested into housing, creating resources for expenditure on other areas of public service.
- There is scope, if the company is successful, to at a later stage bring in private investment or shareholder and so realise the value of the Council's original investment for use elsewhere. However, this may mean that the ability of the Council to control and direct the company's activities may be diluted.
- The Council carries the full risk of any investment that do not perform as expected or which generate losses rather than surpluses. It may also be left owning assets that it cannot sell or let.

5.5 If the scope of delivery or levels of funding required change then there would still be opportunity to consider partnerships at a later date or to establish development specific joint venture arrangements for individual schemes or specialist housing.

5.6 On balance, establishing such a company offers more advantages than disadvantages to Eastbourne. Strategic oversight and direction of the company and its activities would remain firmly with the Council, making sure that the company's activities are in line with corporate priorities, policies and strategies.

5.7 Whilst setting up a company is relatively straight forward, establishing use requires a detailed assessment of the risks and the legal and financial options available to safeguard the Council's interests. Matters to be considered include:

- Company structure and governance
- Legal and financial issues, including risks to the Council
- Branding
- Operating budget and funding
- Delegations
- Ownership and management of properties developed by the company

Further work to ensure due diligence will be undertaken and reported back

to Cabinet at the point that the company becomes active with future schemes.

5.8 Cabinet is therefore recommended to:

- Delegate authority to the Snr Head of Community in consultation with the Cabinet Portfolio Holder for Community to undertake preparatory work to set up a Council owned Housing Delivery Company and report back to Cabinet in the autumn.

6.0 Housing Rescue Emergency Fund

6.1 The Council occasionally receives requests from owner occupiers to buy back homes sold to them under the Right-to-Buy. As the offer value of these homes is normally at full market value, even though they may have been sold at a substantial discount, the current policy is to reject such requests.

6.2 This is because until the introduction of a self-financing HRA the resources were not available to fund such purchases. Moreover, they do not represent value for money compared to new build or purchase and repair. However, there are a limited number of cases where the exercise of the Right-to-Buy was undertaken in good faith but that the purchaser has become seriously vulnerable due to circumstances beyond their control, such as deteriorating health. In such cases, the household may be threatened with homelessness if they cannot maintain mortgage payments on the property.

6.3 There is therefore a case that in exceptional cases, the Council buys full or part share in such a property, leaving the resident in situ as a shared ownership occupier or a tenant of the Council. This will help prevent homelessness and reduce the risk of further deterioration in health and well-being of a vulnerable household. In most cases where an authority provides this type of scheme purchase price can be as much as 40-70% of market value reflecting tenanted value, type of property and/or risk of future right to buy.

6.4 There are risks associated with buying back properties in these circumstances:

- In cases where the Council becomes the full owner of the property, the tenant may in the future again exercise their Right to Buy (although this is limited to any new discount above that already taken)
- Any mortgage arrears may not necessarily have been the result of debt to purchase the home – for example consumer debt may have been secured against the property
- The Council maybe taking on properties with high levels of disrepair and costs to bring them up to the Decent Homes Standard

6.5 These risks can however be mitigated by imposing restricted criteria as set out below:

- Eligibility for consideration under the Emergency Home Rescue Fund is restricted to owner occupiers who have bought the property under the Right-to-Buy scheme and remain in occupancy and the sole owners of the property at the time the application for assistance is made.
- The Council is likely to have a formal duty to assist under homelessness

legislation.

- Owner occupiers will need to be able to evidence sufficiently critical health problems and/or resources to preclude their being able to sell the property and move to another address.
- The property is subject to an independent valuation by an RCIS approved agent.
- Purchase price is adjusted to reflect discount previously given and tenanted value.

6.6 Cabinet is therefore asked to:

- Approve provision of £200,000 for a Housing Rescue Emergency Fund to help vulnerable people avoid the loss of their home by funding the purchase of properties originally built and provided by the Council where strict criteria are met.

7.0 Solarbourne

7.1 In 2011/12 the Council undertook a programme to install solar panels on a Council homes and commercial properties. This scheme was extremely popular with residents as electricity generated during the day offset the household's energy cost. For the Council the scheme has provided an income in excess of £100k per annum from the Government Feed in Tariff (FIT) and has assisted reduce the Town's carbon footprint.

7.2 In November 2011, the Government stated that the FIT rate would be reduced for new installations from April 2012. At that point an assessment of the viability of systems identified that the programme was no longer financially viable.

7.3 Over the past two years Photo Voltaic (PV) systems have decreased in cost. Whilst FIT rates have also reduced, a recent viability assessment indicates that it is now feasible to restart the programme. In relation to viability, it is relevant to note that the government is reviewing FIT tariffs on a three monthly basis and this assessment is based on the tariff in place at the time of writing.

7.4 As noted, the viability assessment indicates that the Council could invest in PV and provide a surplus. This surplus does, however, depend on the costs of systems, efficiency and the FIT tariff payable. In addition, it is unlikely that any new systems would benefit from 25 year warranties as was secured by the Council during the initial programme.

7.5 As there are a number of issues affecting viability there is a need to continually assess the business case at short intervals before investing. As such this report recommends delegating authority to the Senior Head of Community in consultation with the Chief Finance Officer and Cabinet Portfolio Holder for Finance to commence a second PV programme up to 500k on the basis that market conditions (cost and FIT rate) result in systems being self-financing (including provision of a sinking fund to cover reduced warranties).

7.6 Cabinet is recommended to:

- Approve provision of £500,000 to commence second Photo-Voltaic programme.

- Delegating authority to the Senior Head of Community in consultation with the Chief Finance Officer and Cabinet Portfolio holder for Finance to commence a second PV programme on the basis that market conditions (cost and FIT rate) result in systems being self-financing (including provision of a sinking fund to cover reduced warranties).

8.0 Consultation

8.1 The Council has undertaken and continue to undertake extensive consultation in developing and delivering 'At Home in Eastbourne', which underpins and informs the Council's housing development programme. The HEDP has in working up DDF similarly consulted and continues to consult widely with local people and communities.

9.0 Environmental, Human Rights, Community Safety, Youth, Anti-poverty Implications.

9.1 The delivery 'At Home in Eastbourne' and the HEDP's work will give the Council greater scope to deliver its wider role of community well being. Developing the wider economy and encouraging investment in homes in a sustainable and equitable way will help to reduce crime, improve the environment and contribute towards human rights.

10.0 Resource Implications

10.1 Delivery of the LGF 2015-17 and NAHP 2015-2018 programmes, and progressing the Development Company model are subject to successful bids and ongoing viability assessment. The overall programme is set to be self-financing. Schemes delivery costs are included within the total scheme costs.

10.2 Delivery of the Solar PV scheme will only proceed on the basis that it is self-financing.

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Appendix A: Local authority housing companies

Council	Company details	Housing outcomes
Ashford	Wholly owned subsidiary being established in 2014	New build mixed tenure homes
Barking & Dagenham	'Barking & Dagenham Reside' - sale & leaseback partnership (2012)	476 new build affordable homes
Birmingham	'Birmingham Municipal Housing Trust' - wholly owned subsidiary (2009)	New build affordable rent and market sale homes. Delivered 1,400 homes since 2009.
Ealing	Wholly owned subsidiary currently being developed	500 new build mixed tenure homes
Enfield	Wholly owned subsidiary being established in 2014	Purchase and repair affordable homes
Greenwich	'Meridian Home Start' - wholly owned subsidiary (2011)	Affordable rent
Newham	'Red Door Ventures' - wholly owned subsidiary (2014)	3,000 new build mixed tenure homes
Shepway	Wholly owned subsidiary being established in 2014	New build mixed tenure homes
South Cambridgeshire	'South Cambs Limited' - wholly owned subsidiary (2013)	Affordable rented property by leasing empty publicly owned empty homes, and redevelopment of council owned bedsits, new build market rented homes with long term tenancies. Forty homes planned in the first two years.
South Holland	'South Holland Homes' - wholly owned subsidiary (2010)	New build affordable rent and management of affordable homes built by private developers as part of their S.106 planning obligations.
Thurrock	'Gloriana Thurrock Limited' - wholly owned subsidiary (2013)	1000 new homes - predominantly affordable rent supported by open market sale and shared ownership
Wokingham	'Wokingham Housing Limited' - wholly owned subsidiary (2011)	180 new build affordable housing, shared ownership and private sale homes over five years and purchase of affordable homes developed through S.106 policies