

## READING BOROUGH COUNCIL

### REPORT BY DIRECTOR OF ENVIRONMENT & NEIGHBOURHOOD SERVICES

TO:	HOUSING, NEIGHBOURHOODS & LEISURE COMMITTEE		
DATE:	1 APRIL 2014	AGENDA ITEM:	11
TITLE:	SOCIAL HOUSING SUPPLY AND LOCAL AUTHORITY NEW BUILD FEASIBILITY STUDY		
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#### 1 PURPOSE AND SUMMARY OF REPORT

- 1.1 Ensuring a supply of good quality secure and affordable housing to meet identified local housing needs is a key policy priority for the Administration. The Council has historically been very proactive in enabling the supply of new affordable homes, and also provides nearly 7,000 local authority owned homes for rent.
- 1.2 In line with good practice set out in the Chartered Institute of Housing (CIH) and Chartered Institute of Public Finance and Accountancy (CIPFA) 'Voluntary Code for a Self-financed Housing Revenue Account', the Council is proposing to engage external consultants to independently review the Housing Revenue Account and the Council's Housing asset management plans. The code is intended to help provide transparency to tenants, members and other stakeholders on how the HRA housing service is being managed; to allow housing authorities to assess where they may need further support and assistance; and to ensure that the HRA is managed efficiently and effectively to maximise delivery of the Council's current priorities in relation to council housing. This is key to ensuring that the Council's housing stock is maintained over the longer term and meets future housing needs.
- 1.3 In order to maximise the supply of affordable housing into the future, the Council further intends to carry out a feasibility study and full appraisal of the options available to the authority to bring forward a programme of new build homes.

## 2 RECOMMENDED ACTION

- 2.1 That Committee endorses the planned external review of the Housing Revenue Account.
- 2.2 That Committee endorses the proposed work to develop a Housing Asset Management Strategy and investment plan.
- 2.2 That Committee endorses an Option Appraisal for a Local Authority new build housing programme and that a further report be presented to a future meeting of the Housing Neighbourhoods and Leisure Committee.

## 3 BACKGROUND

### Housing Need in Reading

- 3.1 The need for affordable housing in an area with a relatively buoyant local economy and consequently relatively high costs of housing are well documented.
- 3.2 The 2012 'Housing Need Assessment and Affordable Rent Review' prepared on behalf of five Berkshire Authorities by consultants DTZ identifies that there is a shortfall of 932 affordable homes each year within Reading. New supply of affordable homes has made a significant contribution to addressing needs over the last 5 years - without which the shortfall would be higher.
- 3.3 Most of those identified as in housing need have very low incomes and therefore need to be accommodated through subsidised rented homes or within the private rented sector, supported by Housing Benefit.
- 3.4 The recession and the impacts of welfare reform have increased both demand for affordable housing and homelessness. Homelessness decisions rose from 287 in 2011/12 to 598 in 2012/13.

### Enabling a Supply of Affordable Housing

- 3.5 The Council's Planning Policies concerning housing supply support the following key strategic objectives:
  - Ensure a good supply of housing, with a Core Strategy target of 572 per annum from 2006-2016 and 521 per annum from 2016-2026
  - Ensure a good supply of affordable housing
- 3.6 Over many years, Reading has seen significant housing growth and development and was designated a New Growth Point in recognition of the Council's commitment to facilitating housing development to meet local need.
- 3.7 As at the end of March 2013, in all sectors, it is estimated that Reading has a current supply of 4,400 dwellings with planning permission that could be built

within the next 5 years up to 2018/19. That equates to almost 8 years housing supply against the target annual provision. The Borough therefore has a very healthy housing supply although its implementation is almost wholly dependent on the activities of private sector house builders. This supply includes large schemes such as Green Park Village or town centre schemes as well as small-scale infill and conversions. All of these scheme types are very much dependent on market conditions in coming forward. The development industry will always bring forward relatively easy sites, such as greenfield sites, in preference to more constrained sites typical of Reading. Further affordable housing will be delivered as part of this future supply but a significant proportion will be in the form of “affordable rent” at only 80% of market rent and the overall proportion of social rented units will be less than has historically been provided.

- 3.8 Many affordable homes have been delivered by working with developers and partner housing associations to provide the right size and tenure of affordable homes to best meet Reading’s housing need, either on-site or via commuted payments to fund provision elsewhere.

**Total affordable Housing provision 2000 -2013**

Year	Affordable Housing Provision
2000/1	55
2001/2	171
2002/3	193
2003/4	314
2004/5	374
2005/6	311
2006/7	178
2007/8	314
2008/9	294
2009/10	184
2010/11	78
2011/12	148
2012/13	197
<b>Total</b>	<b>2,811</b>

- 3.9 On larger development sites priority for family houses (rather than smaller flats) for social rent has sometimes resulted in a reduced headline percentage of affordable housing on site. Development sites in Reading are also ‘brownfield’ and often more complex and costly to develop in a tight urban area. Nevertheless, an average provision of nearly 200 affordable housing units per annum has been built since 2006.
- 3.10 Reading continues to negotiate affordable housing on large sites as well as securing financial contributions from sites providing fewer than 15 units under the new DM6 policy, to be used to provide more affordable housing on other sites. However, recent proposals announced by Government may undermine the Council’s sub-15 unit policy.

- 3.11 Reading has traditionally used a small capital funding pot for forward funding small housing schemes and providing gap funding for specialist schemes or on difficult to develop sites. This has been a very successful approach and the Council has often recouped this funding from the Homes and Communities Agency (HCA) once schemes are underway, and have thus been able to recycle funding to bring other sites forward for delivery. Sites such as the recent successful development at the former Happy Prospect pub site in Southcote would have been unlikely to have come forward without local authority support.
- 3.12 Many of these smaller sites are on RBC-owned surplus parcels of land such as former garage sites, which would otherwise be difficult to develop. This approach ensures efficient use of land in what is a tightly bounded local authority area and has often delivered family-sized housing and/or specialist housing such as wheelchair accessible or supported housing for people with learning disabilities. All of these developments provide Reading with 100% of first housing nominations and the Council has been successful in delivering 71 new social rented dwellings since 2003 with partner Registered Social Landlords.
- 3.13 Reading Borough Council already has a small programme for building its own new homes. A 40 unit Extra Care Housing scheme on the former Avenue School site at Whitley Rise is due to complete this year. The development will provide much needed homes to enable older people to live independently in the community for longer. The Council successfully bid for over £3m from the HCA to fund the scheme which is a mix of 1 and 2 bedroom flats, some of which are wheelchair standard, with on-site care staff, a lift, communal lounge, restaurant, laundry, garden, hairdressing salon and assisted bathing facilities.
- 3.14 The Council will also start building works later this year on a new Supported Living Scheme providing 9 wheelchair accessible flats for people with learning disabilities. A life skills assessment and training flat will help potential residents to develop the skills they need to live independently. A grant of £450k was secured from the HCA to part fund the scheme which is due to complete in Summer 2015.

### **Pressures on Affordable Housing Supply**

- 3.15 As demonstrated above, ensuring a supply of affordable housing is a key policy priority for the Administration. However, the Council's own housing stock has decreased steadily over the years, largely as a result of tenants exercising their Right to Buy (RTB) as below, as well as the re-provision of some stock on Dee Park through a major regeneration in partnership with a Registered Social Landlord. The RTB has now been incentivised through increased discounts and an increase is expected in the number of people applying to buy council stock through this scheme. In addition, over the 30 year life of the HRA Business Plan some stock will no longer be fit for purpose and may have to be decommissioned.

- 3.16 The table below shows the loss of social rented housing through Right To Buy sales over the past 10 years. Overall, 171 Council homes have been sold, although numbers were very low from 2007/08 to 2011/12. In 2013/14 to date, a total of 30 sales have completed with 17 applications pending assessment (a further 3 sales are likely to complete this financial year\*). Based on this recent sales trajectory and the additional measures taken by Government it is anticipated that the number of successful RTB applications will increase over the next few years and may potentially double.

Right to Buy Sales	Numbers
2004/2005	45
2005/2006	13
2006/2007	18
2007/2008	13
2008/2009	4
2009/2010	9
2010/2011	5
2011/2012	6
2012/2013	25
2013/2014*	33
<b>Total</b>	<b>171</b>

- 3.17 More widely, affordable housing is now being developed under a new Government grant regime with most at 'affordable rents' which typically are 80% of market rents and with a greatly reduced level of grant per unit to fund this tenure. These rents are higher than 'social housing' rent levels - typically - 50-60% of market rents. The extra income generated is used to help develop new homes for those in housing need. However, 'affordable rents' are not affordable to all. The DTZ 'Housing Need Assessment and Affordable Rent Review' notes that *'the introduction of a cap on the overall level of benefits that can be received by an individual household means that rents on larger properties will need to be set at levels well below 80% of market rents to remain affordable to those on benefits'*.
- 3.18 Whilst more affordable housing is developed at 'affordable rent' levels, Registered Providers (not local authority landlords) are also able to convert a property at re- let from social rent to 'affordable rent' - thus further diminishing the supply of social rent properties.
- 3.19 In summary, all this points to an urgent need to find ways of delivering a supply of new housing that is really affordable to those in greatest need, whilst ensuring that the Council's existing social housing is fit for the future.

### The Housing Revenue Account

- 3.20 The Council currently has 6,992 homes in total and of these 1,322 are managed under the North Whitley PFI contract and 5,670 managed directly by RBC. The HRA is a ring fenced account that (in law) sits within the General Fund, but

otherwise is kept wholly separate from it to deal with council housing finance. The main income is housing rent, and the account is charged all expenditure related to council housing.

- 3.21 In April 2012 the Government reformed council housing finance, and introduced 'self-financing'. This means that councils keep their rental income and use it to manage and maintain their housing stock. The Council has an HRA debt which was £199m at 1/4/13, and the HRA includes annual repayment of c.£4m. The Council has an HRA Business Plan and this currently shows the debt is forecast to be repaid in just under 30 years.
- 3.22 The HRA is a key contributor to the Council's objective of ensuring a supply of decent and affordable homes and it is vital that it is up to date and fit for purpose going forward.
- 3.23 The housing authority should have in place an effective system for the on-going management, monitoring and reporting of risks to the HRA. A different set of risks have been transferred to the housing authority from central government within the self-financing system. In this context periodic external scrutiny of the HRA Business Plan and underpinning plans is considered to be good practice.
- 3.24 Following the implementation of self financing, the Council has now commenced a substantial business plan review. The financial model has been updated each year since self financing, and detailed work has commenced to ensure that the HRA is used efficiently and effectively to maximise delivery of the Council's current priorities in relation to housing.
- 3.25 Key principles set out in the Chartered Institute of Housing (CIH) and Chartered Institute of Public Finance and Accountancy (CIPFA) new 'Voluntary Code for a Self-Financed HRA' are:
- Financial viability - The housing authority has put in place arrangements to monitor the viability of the housing business and takes appropriate actions to maintain viability.
  - Risk management - The housing authority has in place an effective system for the on-going management, monitoring and reporting of risks to the HRA.
  - Asset management - The housing authority has in place arrangements to maintain its assets to maximise their value into the future. The authority complies with the principles of good asset management as they apply to HRA assets.
- 3.26 The Council therefore intends to commission an independent review of the HRA business plan and the asset management plan under-pinning it.

### Asset Management

- 3.27 The Council has a responsibility to ensure that its existing housing stock meets local needs and agreed standards now and in the future. The Housing Asset Management Strategy is the document which should clearly set out priorities

for the maintenance and improvement of the housing stock, to ensure that the Council's housing stock is sustainable in the long term. The Council needs to be satisfied that investment decisions in respect of the housing stock are made wisely and ensure best use of resources. A pro-active Asset Management Strategy will ensure that stock decisions can be made ahead of crisis and through effective planning responsive repairs can be minimised.

- 3.28 The Council's housing stock is maintained to the 'decent homes standard'. The stock has been the subject of significant investment over many years and the Council successfully achieved the Government's Decent Homes compliance target in 2010. 81.6% of tenants said they were satisfied with the overall quality of their home in 2012/13, and 80.1% of tenants were satisfied with the repairs and maintenance service. The Council is aiming to further improve tenant satisfaction and in particular getting repairs 'right first time', increasing the percentage of repairs jobs to monitor quality and keeping appointments.
- 3.29 Comprehensive visual surveys of properties are carried out on a rolling basis as well as a range of specialist surveys. The surveys together with assumptions about the life of 'components' (such as windows or boilers) feeds into a 30 year profile of replacement need and informs the annual programme of works (and feeds into the 30 year HRA business plan). 97% of all homes have been surveyed since 2005 and homes are resurveyed every 5 years to update the data. The stock survey data has recently been independently validated by Chartered surveyors, Ridge and Partners.
- 3.30 The Council is now seeking to develop an Asset Management Strategy for the future, making best use of HRA land and property to meet future housing needs.

## 4 PROPOSALS

- 4.1 The Council is seeking to commission independent expertise to ensure that the authority is making the best use of the HRA and its assets, and to carry out an appraisal of options for delivering a supply of new housing that is really affordable to those in greatest need. There are three key and inter-linked elements to the external review work proposed:
- Advise on the efficiency and performance of the current HRA
  - Advise on current asset management with regard to best practice and inform the development of an Asset Management Strategy for the HRA
  - Assess the feasibility and viability of delivering LA new build affordable housing on Council (HRA and GF) land and 3<sup>rd</sup> party land and advise on options and delivery vehicles.

### Options Appraisal for Local Authority New-build

- 4.2 The Council has historically been very proactive in undertaking redevelopment of existing assets. Examples of this include the comprehensive Dee Park

regeneration and discounted disposal of land and property to RSL partners for affordable housing development, including garage demolitions.

- 4.3 It is proposed that a feasibility study to determine the capacity to deliver a local authority new build housing programme, and the best way of achieving this, is undertaken and be informed by the review of the HRA business plan.
- 4.4 This element of the work would provide an appraisal of options for the delivery of new homes. This would include consideration of different delivery vehicles - either inside or outside of the HRA regime. There are a myriad of ways in which new build schemes can be modelled and the local context will be a key component informing this work.
- 4.5 The study will establish potential funding sources and mechanisms and scope potential land available which alongside other considerations would determine the potential scale of a new build programme. This will inform an appraisal of suitability of delivery vehicle.
- 4.6 A report will be produced which develops both a commentary around the options/vehicles as well as the national policy and financial landscape and then focuses in on the opportunities within Reading for member consideration.

### **Asset Management**

- 4.7 The Council is now seeking to develop a new housing asset management strategy and investment plan. This will include the implementation of a new asset management IT system and the development of an investment plan based on the Council's validated stock data. The latter will clearly set out major improvements by area over the life of the plan providing transparency for tenants.
- 4.8 The new Asset Management Strategy will set out a clear plan for the continued management, maintenance and refurbishment of the Council's existing stock over the coming years, to ensure that the stock is kept in a good state of repair and meets modern requirements. It also intends to look more broadly at wider, more strategic asset management issues such as:
  - To ensure the ongoing availability of housing stock which specifically caters for the housing needs of older people and those with disabilities/additional needs through the provision of appropriate properties and facilities.
  - A long term strategy and programme in place to incrementally improve the energy efficiency of the housing stock and reduce levels of fuel poverty.
  - To identify and consider opportunities to remodel or extend existing homes to better meet local need and provide a more balanced profile of stock.
  - Ensuring the best use of social housing stock, linking to initiatives such as our down-sizing incentive scheme.
  - To use procurement processes to best effect to ensure value for money in the delivery of all repairs, maintenance and improvement works.

### **Indicative Timescale**



4.9 It is anticipated that consultants will be appointed in February and the HRA review and LA new build options appraisal is likely to take circa 2-3 months. Further work beyond this point will be required to develop a robust asset management strategy and investment plan.

## **5 COMMUNITY ENGAGEMENT**

5.1 Last year the Council worked with tenants to develop a new tenant involvement strategy with a fresh set of aims and a 3 year action plan. There are a wide range of opportunities for tenants to get involved from tenants conducting scrutiny reviews of services (such as the appearance of estates, or the services' response to welfare reform) to estate walkabouts, or being part of a sounding board. The Council has invested in really empowering and valuing tenants and runs a 13 week 'tenant academy' course open to all RBC tenants. This provides training for tenants so that they can develop an understanding of all aspects of the Housing Service and it leads to a level 2 NVQ in Housing Practice. This has led to real challenge from tenants and is actively driving performance improvement.

5.2 The Council strives to keep all tenants informed and continues to publish Housing News twice a year and has also introduced twice yearly Neighbourhood Newsletters to provide more detail about what is happening in tenants' local area - this is something that tenants requested as one of their priorities. The results of the 2012 Tenant Satisfaction survey indicated that 75.3% of tenants think the Housing Service is good at keeping them informed about things that might affect them.

### **Asset Management**

5.3 The Council is developing a new tenant 'quality panel' to focus on performance and satisfaction with the Council's Housing repairs service. This builds on and will work with the existing tenant scrutiny panel to continue to carry out mystery shopping and service reviews.

### **Proposed Review**

5.4 Tenant representatives have been advised of the planned work and the results will, in due course, be reported back to tenants. A fuller briefing will be offered to tenants on the purpose and scope of the review and options appraisal.

5.5 The review will have regard to local context including tenants' stated priorities and current performance.

## **6 FINANCIAL IMPLICATIONS**

6.1 The review of the HRA will include consideration of the key revenue and cost assumptions and stock profiles which underpin them, will test their robustness, and will consider what changes, improvements or efficiencies could be made. The review will identify the level of available resources beyond the core stock investment needs which might be put to other programmes. These additional programmes fall into four broad areas:

- Service investment
  - Regeneration/redevelopment
  - Further stock investment beyond the present local decent homes standard
  - New build housing
- 6.2 Advice on the asset management strategy will include a view on current procurement practice and opportunities to secure better value through strategic commissioning.
- 6.3 The options appraisal for the delivery of local authority new build housing supply will include an assessment of the financial, legal and commercial opportunities for the Council to deliver viable housing developments on Council and 3<sup>rd</sup> party land.

## **7 LEGAL IMPLICATIONS**

- 7.1 The options appraisal will include a cost/benefit/risk analysis of suitable delivery vehicles and the legal and financial parameters within which each can operate.

## **8 SUSTAINABILITY IMPLICATIONS**

- 8.1 Part of an effective asset management strategy is to have a long term programme in place to incrementally improve the energy efficiency of the Council's housing stock and where economically viable consider use of renewable or low carbon technologies, helping to reduce carbon emissions and reduce levels of fuel poverty.

## **9 BACKGROUND PAPERS**

- 9.1 None