

# READING BOROUGH COUNCIL

## REPORT BY THE EXECUTIVE DIRECTOR OF ECONOMIC GROWTH AND NEIGHBOURHOOD SERVICES

<b>TO:</b>	<b>HOUSING, NEIGHBOURHOODS AND LEISURE COMMITTEE</b>		
<b>DATE:</b>	<b>6 JULY 2021</b>	<b>AGENDA ITEM:</b>	
<b>TITLE:</b>	<b>LOCAL AUTHORITY NEW BUILD PROGRAMME PHASE 4 - SPEND APPROVAL</b>		
<b>LEAD COUNCILLOR</b>	<b>CLLR EMBERSON</b>	<b>PORTFOLIO :</b>	<b>HOUSING</b>
<b>SERVICE:</b>	<b>HOUSING COMMUNITIES</b>	<b>&amp; WARDS:</b>	<b>BOROUGHWIDE</b>
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### 1. PURPOSE AND SUMMARY OF REPORT

- 1.1 Officers have continued to review opportunities to bring forward the development of new Council homes in order to increase the supply of affordable housing and maximise the use of Right to Buy (RTB) 1 for 1 replacement receipts, S106 receipts and Government Grant.
- 1.2 This report provides an update on the current Local Authority New Build (LANB) programme which has to date delivered 174 local authority homes, with schemes in progress to deliver another 307 homes by 2024. The report also details proposals and funding arrangements for the next phase of the programme (phase 4).
- 1.3 The report seeks spend approval for a budget of £1.4m to start delivery of the next phase of the programme during the financial year 21/22, funded through a combination of HRA borrowing; Right to Buy receipts; S106 receipts and Homes England Grant where appropriate. It is also states that the existing Capital Programme will be reprofiled with £1.4m moving from 23/24 to 21/22.
- 1.4 The report also sets out an intention to request spend and budget approval for an additional £30.6m to continue the delivery of Phase 4 of the Local Authority New Build and Acquisitions Programme from 22/23, as part of the budget approval within the 22/23 Medium Term Financial Strategy process.

## **2. RECOMMENDED ACTIONS**

- 2.1** That Housing, Neighbourhoods and Leisure Committee approve the spend of up to £1.4m on phase 4 during the financial year 21/22, noting the required reprofiling of the budget currently within the existing Capital Programme for Phase 4 of the LANB programme (£1.4m) from 23/24 to 21/22 (will form part of the Budget Monitoring Outturn Report due to go to July Policy Committee)
- 2.2** That Housing, Neighbourhoods and Leisure Committee notes the intention to request spend and budget approval for an additional £30.6m to continue the delivery of Phase 4 of the Local Authority New Build and Acquisitions Programme from 22/23, in parallel to the budget approval within the 22/23 Medium Term Financial Strategy process.
- 2.3** That Housing, Neighbourhoods and Leisure Committee delegates authority to the Assistant Director of Housing and Communities in consultation with the Lead Member for Housing, the Leader of the Council, the Director of Legal and Democratic Services and the Director of Finance to agree which sites are suitable to progress within the spend approval and restrictions set out in this report.
- 2.4** That Housing, Neighbourhoods and Leisure Committee delegates authority to the Assistant Director of Housing and Communities in consultation with the Lead Member for Housing, the Leader of the Council, the Assistant Director of Legal and Democratic Services and the Director of Finance to: (a) tender; and (b) enter into contracts in connection with the Phase 4 LANB programme with the winning bidders in respect of multi-disciplinary/consultancy services and works to deliver the housing schemes, as set out in this report.
- 2.5** That Housing, Neighbourhoods and Leisure Committee delegates authority to the Assistant Director of Housing and Communities in consultation with the Assistant Director of Legal and Democratic Services and the Director of Finance, to approve the purchase of existing properties from the open market for the purpose of providing affordable housing, with a maximum limit of £500,000 per single unit.

## **3. POLICY CONTEXT/BACKGROUND**

### **Local Authority New Build (LANB) Programme**

- 3.1** To date the Council's new build and acquisitions housing programme has delivered 174 new Council owned homes with a capital spend of £32.2m This also includes the acquisition of several existing properties.
- 3.2** In addition spend approval is in place for a further 307 new homes and these are

in progress to be completed in the next 4 years, with an expected capital spend of c£80.2m. These schemes are detailed below. This includes a mixed approach to delivery by making use of small pieces of HRA land and ex garage sites, as well as larger sites.

Development	Number of homes	Type of units	Estimated Completion
5 x Conversions of unused space in existing Council blocks	9	9 x 1 bed flats	Summer 2021
George Street	4	2 x 1 bed flat 2 x 2 bed flat	Summer 2021
Cattle Market - Temporary Modular Units	40	40 x 1 bed homes	Summer 2021
Lyndhurst Road	18	8 x 1 bed flats 10 x 2 bed flats Replacement community space	Winter 2021
Camelford Close	1	1 x 4 bed house	Spring 2022
Circuit Lane	1	1 x 2 bed house	Spring 2022
Foxhays Road	3	3 x 2 bed house	Spring 2022
5 Ian Mikardo	1	1 x 3 bed house	Spring 2022
Wentworth Avenue	2	2 x 2 bed house	Spring 2022
North Street	37	17 x 1 bed flats 19 x 2 bed flats 1 x 3 bed flat	Summer 2022
Arthur Hill	15	15 x 2 bed flats (key worker housing)	Autumn 2022
Wensley Road	46	8 x 1 bed flats 10 x 2 bed flats 26 x 3 bed houses 2 x 4 bed houses	Winter 2022
Battle Street	Circa 94	TBC	2024
Hexham Road	Circa 36	TBC	2024
<b>Total</b>	<b>307</b>		

- 3.3 As shown in the above table, 40 modular units are under construction at the Cattle Market. These will be used for temporary accommodation as part of the wider package of initiatives to meet the continued need for housing and support for individuals who were previously street homeless and now housed as part of the Council's response to the pandemic. All other homes will be used as permanent accommodation, with a small number aimed at specialist groups with additional needs or keyworkers.

### **Right to Buy Receipts**

- 3.4 In 2012, new arrangements were introduced regarding the use of RTB receipts. The Council elected to enter into an agreement with central Government to retain a proportion of any RTB receipt in order to develop replacement affordable housing within the administrative area. This means that an element of each RTB receipt has to be used to fund the development of additional affordable homes - often referred to as 'RTB 1 for 1 replacement'. In early 2021 the Government issued refreshed guidance improving the flexibility as to how these receipts can be used, but there continues to be a number of constraints on how these can be spent:

- receipts can only fund up to 40% of development or acquisition costs;
- receipts can only fund rented properties (to be used for permanent or temporary accommodation);
- receipts can't apply where there is other public subsidy and cannot fund the acquisition of public land;
- receipts cannot be transferred to a company wholly owned by a local authority as this was seen by Government as an attempt by some LAs to circumvent the RTB requirement - this has been appealed to no avail;
- receipts must be spent within 5 years of receipt or repaid with a punitive rate of interest charged if this is not achieved;
- RTB receipts cannot be combined with S106 receipts or Government Grant.

- 3.5 RTB receipts can be passed to Registered Providers (RPs) to fund 40% of a housing development (where there is no other HCA funding being provided) or retained to fund local authority new build schemes.

### **Section 106 Affordable Housing Contributions**

- 3.7 Under current planning policy all new housing developments, which require planning permission, are expected to contribute to the delivery of new affordable housing provision to meet local need. This requirement is subject to the development being viable. Developments of nine or fewer units require a commuted sum to be paid. For developments proposing ten units or more the Council's planning policy requires, in the first instance, for the affordable homes to be provided 'on site' and to be 30% of any development. Where there are exceptional reasons, the provision of surrogate sites or a commuted sum may be considered. On-site contributions or commuted sums are secured via a Section 106 agreement. In relation to commuted sums, receipts paid by the developer are then held by the Council and have to be used to help deliver Affordable

Housing within the Borough. This would be through the funding of RBC new build housing or grant funding to a Registered Provider. The use of S106 receipts cannot be combined with the RTB receipts outlined above and therefore need to be allocated to separate developments.

- 3.8 RBC has been very successful in negotiating onsite delivery of affordable housing contributions, however, in some cases financial contributions have been accepted and are required from smaller scale developments.

## **4. CURRENT POSITION**

### **Budget Available**

- 4.1 At the end March 2021, the Council had £3.65m of unspent RTB receipts. Additional RTB receipts are received by the Council each quarter and, although RTB sales are slightly reducing, the average total receipt per quarter is £320k. It is anticipated that this figure will broadly continue and, if retained, these receipts will result in an additional £1.28m of receipts per year, totalling an extra £3.84m by the end of the financial year 23/24. Combined with existing receipts this would result in a total of £7.49m RTB receipts being available.
- 4.2 Of the anticipated £7.49m, £2.09m of the receipts are currently allocated to schemes within the existing phases of the LANB programme, with £5.4m remaining to fund schemes within phase 4. These receipts have staggered deadlines for when they will need to be spent, up to March 2026.
- 4.3 In addition c.£1.56m of unallocated S016 receipts (received) are also available for affordable housing development, and c.£1.4m is expected to be received before 2024. A total of £2.96m.
- 4.4 This equates to the availability of £8.36m in subsidy available for phase 4 of the Local Authority New Build Programme.
- 4.5 The final option in terms of funding for Affordable Housing is the available grant from Homes England. The budget for two of the Council's existing schemes (North Street and Wensley Road) includes Homes England funding to the total of £6.3m, and a new programme was launched at the start of 2021. This provides the Council with further opportunity to bid for additional grant to support the delivery of new homes.

## **5 PROPOSAL**

- 5.1 It is proposed that a further total spend approval of £1.4m is agreed for continuation of the LANB programme in the financial year 21/22, and that spend approval and budget approval is requested for a further £30.6m as part of the Medium Term Financial Strategy process to enable the delivery of Phase 4.
- 5.2 It is also recommended that Committee note the required reprofiling of the

budget currently within the existing Capital Programme for Phase 4 of the LANB programme (£1.4m) from 23/24 to this financial year, enabling the feasibility and design work to start for the sites within phase 4. This change will also be reflected in the July 2021 Budget Monitoring Outturn report to Policy Committee.

- 5.3 The profiling and budget approval, and additional spend approval for a further £30.6 to deliver the schemes will be included as part of the 22/23 Medium Term Financial Strategy (MTFS) process, due to be completed in early 2022.
- 5.4 The progression of each site and allocation of funds to a particular development will depend on the viability and projected costs of each scheme and cannot be confirmed until a detailed development plan has been produced. This means that there may be a possibility that not all sites on the short list will be developed at this time. These decisions will be agreed at the Local Authority New Build Programme Board, with regular updates provided to the Corporate Management team and the Members via the Land and Property Development Board and Lead Member Briefings.
- 5.5 It is also proposed that a small programme of property acquisitions often within existing Council owned (HRA) flatted blocks, will continue.
- 5.6 The total budget, once approved, will be funded via a combination of sources as broken down below:

<b>Funding</b>	<b>Amount</b>
RTB receipts	£5.4m
S106 receipts	£2.96m
HRA borrowing	£23.64m

- 5.7 Where appropriate Homes England funding will be applied for to supplement the budget enabling the spend approval requested, however this is unconfirmed at this time.
- 5.8 Strict rules and limitations on how funding can be combined mean that there will be three sub-groups to this phase of the LANB programme:
  - RTB + HRA borrowing funded units
  - S106 + HRA borrowing funded units
  - Homes England Grant + HRA borrowing funded units (Homes England Funding can be combined with S106 grant if required).
- 5.9 A financial appraisal of each development or purchase will be completed and only schemes that are expected to be cost neutral or provide a positive return to the HRA will be progressed to construction. This means that rental income will cover borrowing costs (interest costs), management and maintenance costs.
- 5.10 In order to expedite the process of delivering viable sites through to completion, it is recommended that delegated authority be given to the Assistant Director of

Housing and Communities in consultation with the Lead Member for Housing, the leader of the Council, the Assistant Director of Legal and Democratic Services and the Director of Finance to agree which sites to progress within the spend approvals and restrictions set out above. It would be the intention to engage with relevant ward members as part of this process.

- 5.11 It is also recommended that delegated authority is given to the Assistant Director of Housing and Communities in consultation with the Lead Member for Housing, the Leader of the Council, the Assistant Director of Legal and Democratic Services and the Director of Finance to tender for and enter into contracts with the winning bidders in respect of multi-disciplinary/consultancy services and works to deliver the schemes, subject to the further spend approval and budget being approved.
- 5.12 It is also recommended that delegated authority is given to the Assistant Director of Housing and Communities in consultation with the Assistant Director of Legal and Democratic Services and Director of Finance, to continue to approve the purchase of existing properties from the open market limited to a maximum purchase price of £500k.

## **5. CONTRIBUTION TO STRATEGIC AIMS**

- 5.1 In supporting the delivery of sustainable affordable homes in the town, this proposal supports all three of the council's Corporate Plan priorities:
- Healthy environment
  - Thriving communities
  - Inclusive economy
- 5.2 This proposal will deliver a significant increase in affordable, sustainable homes for families in Reading. This helps support the following of the Council's Strategic Aims:
- To Develop Reading as a Green City with a sustainable environment and economy at the heart of the Thames Valley
  - To establish Reading as a learning City and a stimulating and rewarding place to live and visit
  - To promote equality, social inclusion and a safe and healthy environment for all
- 5.3 As stated above the design criteria of the Council's development programme ensures that safe and sustainable homes are provided for those most in need.
- 5.4 The Local Plan for Reading, adopted in 2019, indicate that Reading requires 406 new affordable homes per annum to meet the assessed need. The proposed delivery of phase 4 of the LANB programme, with sites being 100% affordable (rented) and where possible larger family sized homes, significantly supports

that Council's ambition to deliver the required levels of Affordable Housing to meet the assessed need.

## **6. ENVIRONMENTAL AND CLIMATE IMPLICATIONS**

- 6.1 On the 26th of February 2019 the Council declared a Climate Emergency and resolved to act to accelerate a carbon neutral Reading to 2030. Reading Climate Change Partnership's Reading Climate Emergency Strategy 2020-25 and the new RBC corporate Carbon Plan 2020-25 was adopted in November 2020. The Council will therefore seek to ensure the scheme delivers on this commitment by developing designs that maximise all sustainability options.
- 6.2 The Council's existing approach for Local Authority New Build homes is to seek to ensure that where possible schemes are built to Passivhaus principles. The application of a fabric first approach of Passivhaus reduces greenhouse gas emissions and delivers significant long-term energy savings to the tenants. The low running costs and higher quality building mean that costs are significantly reduced over the life of the building for the occupiers.
- 6.3 The use of sustainable materials plays an important role in the design. This, combined with the high quality of building physics achieved through insulation, thermal bridge-free design and airtightness ensures that the sustainable benefits of Passivhaus principles will last.
- 6.4 In addition to the above, the Council is committed to delivering sites that offer a sustainable location for residents in terms of access to employment, schools, and other local services via good public transport, pedestrian and cycling networks. While seeking to encourage and support sustainable travel, where possible the scheme will provide charging points for electric vehicles.

## **7. COMMUNITY ENGAGEMENT AND INFORMATION**

- 7.1 Individual schemes will have their own consultation and engagement plan, which will support the statutory consultation required as part of the planning process.

## **7 EQUALITY IMPACT ASSESSMENT**

- 7.1 Not applicable to this report.

## **8 LEGAL IMPLICATIONS**

- 8.1 The Council has powers under section 9 and 17 of the Housing Act 1985 to provide housing accommodation and to acquire land and housing for the purposes of Part II of the Housing Act 1985.
- 8.2 A local authority can allocate land held for specific purposes under different statutory powers - i.e. under section 122 Local Government Act 1972 (LGA 1972)



or section 19(1) of the Housing Act 1985 (HA) Part II.

- 8.3 Proposals to deliver new council homes would need to obtain planning permission under the Town and Country Planning Act 1990 and any other necessary consents.
- 8.4 Works contracts worth £4,733,252 (Works Threshold) or more must be advertised in the Official Journal of the European Union or after 11pm on 31 December 2020 following the UK's withdrawal from the European Union via the UK's e-notification service Find a Tender and then tendered or be procured via a framework agreement which itself has already been advertised in OJEU or Find a Tender (as applicable) and undergone a tender process. The Public Contracts Regulations 2015 (as amended) do not require an OJEU or Find a Tender (as applicable) advertised tendering process in the case of below Works Threshold contracts. Such contracts must be awarded in line with the Council's Standing Orders.
- 8.5 It will be necessary to enter into contracts with the successful contractors.
- 8.6 Any legal encumbrances for sites will need to be identified at an early stage and any issues that could impede or prevent development be highlighted and where possible resolved as each individual site is progressed.

## **9 FINANCIAL IMPLICATIONS**

- 9.1 The capital budget approved by the council in February 2021 included £1.4m in 2023/24 for the new build programme. This paper proposes that this is brought forward into 2021/22 to meet the early costs of a phase 4 of the new build programme. The full capital costs of phase 4 are not currently included in the capital budget. In the next few months is intended that a case will be made as part of the council's budget setting process for 2022/23 and beyond, for an estimated £30.6m to be considered for inclusion in the capital budget for phase 4.
- 9.2 The case for capital investment in to each individual site will examine the impact on the HRA 30 year business plan, and only projects that are neutral or have a positive impact on the financial performance of the HRA will be pursued.
- 9.3 In the event that capital expenditure does not ultimately lead to the creation of a capital asset, then costs incurred will fall to revenue, where they are currently unbudgeted.
- 9.4 These financial implications were reviewed by Mark Jones, strategic business partner, on 8/6/21.

## **10. BACKGROUND PAPERS**

- 10.1 Policy Committee report July 2017

10.2 Policy Committee Report July 2015.

10.3 HNL report November 2015