WARWICK DISTRICT COUNCIL	**EXECUTIVE** **3rd September 2014**	**Agenda Item No. 4**

Title	Warwick District Council house building
For further information about this report please contact	Andrew Jones Andrew.jones@warwickdc.gov.uk (01926) 456830
Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No
Date and meeting when issue was last considered and relevant minute number	Executive Meeting 2nd July 2014 Executive Meeting 11th December 2013
Background Papers	PwC report

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes
Equality & Sustainability Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive	11th August 2014	Chris Elliott
CMT	11th August 2014	Chris Elliott, Bill Hunt, Author
Section 151 Officer	14th August 2014	Mike Snow
Deputy Chief Executive/Monitoring Officer	11th August 2014	Author
Portfolio Holder(s)	18th August 2014	Cllr Vincett
Consultation & Community Engagement		
Housing Strategy & Development Officer		
Final Decision?	Yes	

1 SUMMARY

1.1 This paper recommends that the Council endeavours to embark on a programme of house building, sets out the benefits of this and seeks permission to undertake further work on a delivery model that can maximise the build rate.

2 RECOMMENDATIONS

2.1 That Executive notes the position in Warwick District with regard to the need for affordable (social rent, affordable rent, shared ownership and low-cost among others) housing.

2.2 That Executive notes the headline outcomes as set out in this report of the PricewaterhouseCoopers (PwC) work (Appendix A).

2.3 That Executive agrees to officers identifying Council owned land for the delivery of council housing and bring forward proposals for scheme development to the Interim Housing & Property Board as soon as practicable.

2.4 That Executive agrees to officers identifying third party land for the delivery of council housing and bring forward proposals for scheme development to the Interim Housing & Property Board as soon as practicable.

2.5 That Executive agrees to officers, in consultation with the Portfolio Holder for Housing & Property Services and the Interim Housing & Property Board, bringing forward proposals to the February 2015 Executive for the creation of a Council Housing Company to help facilitate the accelerated delivery of a council house building programme and that a sum of up to £50,000 is made available to the Head of Housing & Property Services from the Service Transformation Reserve to commission any necessary expert advice.

2.6 That Executive agrees that officers examine the case for a "Buy to Flip" (buying to enable renting) policy and bring forward any proposals to the Interim Housing & Property Board for subsequent consideration by Executive.

2.7 That Executive agrees that the composition of the Interim Housing & Property Board is expanded to include the Shadow Portfolio Holders for Finance.

3 REASONS FOR THE RECOMMENDATIONS

3.1 Context

3.11 The Council has adopted a Housing Strategy (2014-2017) with three priorities. Objective 2, "Meeting the need for housing across the district" has been developed as it is recognised that the District has a dire need for affordable housing. This objective is supported by a Delivery Plan and this report seeks to ensure that identified actions in that Plan are taken forward.

3.12 It is acknowledged by most commentators that the UK requires 200,000 new homes to be built each year. During 2013, 109,000 new homes were completed of which 25,000 were affordable (source DCLG). Warwick District Council has 3,302 (August 2014) individuals on its housing waiting list broken down by band as:

Table 1

Band 1	40
Band 2	376
Band 3	1238
Band 4	1648

Over the last two years 100 affordable houses have been built in Warwick district although the Council's joint venture with Waterloo Housing Group (WHG) has a programme of work which should see an increase in delivery. However, this is against a backcloth of 855 affordable homes (WDC and Registered Providers) having been let over the period March 2012-March 2014 against 3,300 on the list indicating that we could only accommodate c13% annually unless we make a step change in delivery.

3.13 The Coventry and Warwickshire Joint Strategic Housing Market Assessment 2013 (Joint SHMA 2013) included an assessment of affordable housing need for this District. The need was assessed to be 268 new affordable homes each year between 2013 and 2031. This is equivalent to a total of 4,288 affordable homes to be provided over the period.

3.14 The seriousness of the affordability problem in the District is demonstrated in the Joint SHMA 2013 which shows that purchase prices for entry-level homes of all sizes (except 3-bed homes) were highest or equal highest when compared with all the other local authorities in the Housing Market Area (HMA). For example the entry-level price for a two bedroom house in Warwick district is £140,000. The study also shows that entry-level private rents were highest for all sizes of homes and that income required to purchase or privately rent an entry-level home, without subsidy, was also the highest of all local authorities in the HMA. The study estimated that 46.1% of households were unable to afford market housing without subsidy.

3.15 The Local Plan - Draft Publication proposes policies that will go some way to addressing the shortage, however, the need for affordable housing is a problem that exists here and now and policy alone will not provide for the needs of the District's communities. Recognising this very real problem, the Executive has requested that officers explore proactive initiatives to make things happen.

3.2 Warwick District Council's response

3.21 As well as attempting to create a policy environment that brings forward affordable housing whilst not hindering the delivery of market housing, Warwick District Council (WDC) has established a joint venture (W2) with Waterloo Housing Group (WHG) to provide affordable housing and Members will recall receiving a 30 month review of progress at the 2nd July Executive. However, Executive was also keen to explore whether the Housing Revenue Account (HRA) could be used to address the affordable housing issue and so asked officers to investigate.

3.22 Following the Government's reform to the HRA subsidy system in April 2012, officers commissioned PricewaterhouseCoopers (PwC) to identify and appraise options available to undertake two distinct objectives for the Council:

- Assess the current landlord service and identify delivery options that may improve the value for money of the service; and
- Optimise the use of HRA resources in addressing a programme of new build housing that will accelerate and maximise the number of affordable homes.

3.23 As part of the commission, officers were keen to consider the relationship between the two objectives and assess whether any one commercial option is capable of achieving both objectives: Improving value for money on the existing landlord service may release more resources in the HRA which in turn could be used to develop more affordable homes.

3.24 The PwC work established a comprehensive set of criteria against which to assess various options. For the first objective (to improve value for money) the report considered the following options:

- Retain landlord service in-house
- Outsource – management and maintenance
- Service commission
- Arms-length management
- Transfer of stock

3.25 In respect of the second objective (to accelerate new affordable housing) the report considered the following options:

- Direct institutional investment
- Build now, pay later scheme (Joint Venture)
- Build now, pay later scheme (Wholly Owned Company)
- Concession
- Council Housing Company (ALMO)

3.26 Having undertaken a quantitative and qualitative analysis of each of the options, PwC's report recommends (a copy of which can be seen at Appendix A) that the Council should explore the use of a Council Housing Company which could offer the Council a conduit by which an enhanced efficiency programme could be delivered whilst offering an opportunity to utilise the HRA surpluses and borrow through the Company (thereby avoiding the constraint of the debt ceiling) to accelerate a new build programme. The latter point is particularly important as although the abolition of the national HRA subsidy system provided greater freedoms for Councils, the new arrangements did introduce a ceiling on the level of borrowing that each individual Council could maintain (Warwick District Council's ceiling is c£14m). This ceiling would be an inhibitor on the number of new houses that could be built, regardless of the level of surpluses that a Council was able to generate on its HRA although there is a temporary opportunity to bring Local Enterprise Partnership sponsored schemes forward which breach the cap.

3.27 In summary, and as set out in section 6 of the PwC report, the advantages of establishing a Council Housing Company are:

- It provides the Council with a conduit in which to deliver efficiency savings against the current operating costs. The Council Housing Company will serve as a useful change agent tool in which to affect the efficiency programme and becomes the Council's brand for delivering a more cost efficient and effective service. (Objective 1).

- As the Council Housing Company is 100% owned by the Council, there is no requirement for procurement for any partners to establish the company and deliver operating services. (Objective 1 & 2).
- If the Council Housing Company achieves the efficiency savings identified in the business plan against the current cost base (which forms the management fee), the Council Housing Company will have created free cash-flow which it could either borrow against or lease properties to deliver an accelerated housing programme. (Objective 2).
- As the company is delivering services on behalf of the HRA, but is not tied to the HRA, any borrowing or credit arrangements entered into by the vehicle should not be caught by the HCFR and therefore will not be breaching any caps imposed, subject to the Council's prudential code.
- Properties would be exempt from Right to Buy.

3.28 Members will be aware that the latest HRA Business Plan (2013-2062), presented to 11th December 2013 Executive, projected £729m of cash surpluses over the 50 year life of the plan which equates to c3,800 homes. PwC's work suggests that there is scope to further improve the Plan's efficiency and it will be a key task of the new Head of Housing & Property Service to consider the report's observations particularly in relation to bad debts, garage costs, management costs, repairs costs, capital works and service charges although it should be noted that the team managers have already been progressing work in most of these areas. Of particular importance is an up-to-date stock condition survey and work has commenced on this to conclude by the end of the financial year.

3.29 However, a decision regarding alternative housing management delivery models should not be taken until Council is comfortable that the Plan has been forensically examined. This is borne out by benchmarking work undertaken by PwC which show that WDC's management and repair costs were higher than 11 of the 16 authorities in the sample and expected management and maintenance costs are higher in the plan than calculated by Government at the time the new arrangements came into being.

3.210 Members will recall that the Housing Strategy included an action (ref 2.2.1) to consider buying existing private homes that are for sale on the open market for subsequent letting as affordable housing ("Buy To Flip"). This is another, albeit limited, mechanism for increasing the supply of council housing and should be taken forward in tandem with the other proposals in this report.

3.3 <u>Access to land</u>

3.31 There is therefore a clear message from PwC's work that the Business Plan could generate even greater revenues and that creating a new delivery entity could address the constraint caused by the £14m debt ceiling. However, there is a further constraint that the Council needs to tackle and that is access to developable land.

3.32 Through the work of the W2 Partnership, an investigation had taken place to consider what Council-owned land could be utilised for the delivery of affordable housing. This investigation considered garage sites and some potential infill sites. Unfortunately despite initially promising evidence, only a limited number of schemes have been able to be progressed.

3.33 Officers believe that a further review of such sites along with exploration of selective demolitions and an analysis of land that is not being efficiently used may provide further opportunities for house building. Such an investigation would not be at odds with the aspirations of our W2 partner (WHG) as they are less interested in the smaller sites where land values can make site development unviable.

3.34 That said the reality is that within the HRA there is limited land available and certainly not the amount required that would fulfil the potential of the HRA business plan. Consequently attention would need to be turned to third-party owned land and to a lesser extent land assets of the Council's General Fund if the Council wanted to deliver a large programme of new council housing.

3.35 The Local Plan - Publication Draft proposes 12,860 new homes for Warwick District over an 18 year period to address the objectively assessed future housing needs of the HMA. Within that number, there are identified sites where a significant quantum of council housing could in theory be delivered:

Table 2

Allocations with no Permissions

Site and proposed gross number of dwellings	**Opportunities for delivery of council housing (based on 40% but would be site dependent)**
Kenilworth School site, 250	100
Kenilworth VI Form College, 130	52
Former Sewage works, 215	86
Land at Montague Road, 140	56
Riverside House/Court Street, 175	70
Leamington Fire Station, 60	24
Land West of Europa Way, 1190	476
Land south of Harbury Lane/Grove Farm (not the part granted) , 1505	602
East of Whitnash/South of Sydenham, 300	120
Red House Farm, 250	100
East of Kenilworth, 760	304
Crackley Triangle, 90	36
Total	**2026**

Table 3

Permissions, Windfalls and Small Urban Sites

Category and agreed/anticipated gross number of dwellings	**Opportunities for delivery of council housing (based on 40% but would be site dependent)**
Sites with outstanding planning permissions, c3200 - *See highlights below*	1280
Woodside Farm	
Land north of Harbury Lane	
Fieldgate Lane	
East of Radford Semele	
Harbury Gardens	
Windfalls, 2485	994
Small urban sites, 393	157
Total	**2431**

Table 4

Growth Village Larger Allocations

Site and proposed gross number of dwellings	**Opportunities for delivery of council housing (based on 40% but would be site dependent)**
Baginton - north of Rosswood Farm, 35	14
Barford - Sherbourne nursery, 60	24
Barford - off Bembridge Close, 12	5
Bishops Tachbrook - south of school, 150	60
Burton Green - Burrow Hill Nursery, 60	24
Cubbington - Allotment land, 35	14
Cubbington - Opposite Willow Sheet Meadow, 65	26
Hampton Magna - South of Arras Boulevard, 100	40
Hatton Park, 80	32
Kingswood - R/O Brome Hall Lane,12	5
Leek Wooton - The Paddock, 30	12
Radford Semele, 50	20
Hockley Heath, 20	8
Total	**284**

3.36 Tables 2-4 demonstrate that in theory it would be possible to deliver the council housing numbers calculated in the PwC report but it would require Council to decide that it wishes to bid against Registered Providers (RP) for the S106/Condition sites and/ or enter into early negotiations (**i.e. now**) with the developers.

3.37 In the alternative, given that RP's are being encouraged by government and the HCA to build for Affordable Rent rather than Social Rent, it may be possible for the Council to contract with Registered Providers on the S106/Condition sites so that the RP that bids successfully for the 40% affordable element acquires the affordable rented and shared ownership housing stock but sells the social rented housing to the council upon completion (subject to Homes & Communities Agency grant rules).

3.38 If the Council wants to go along a house building/purchasing route then it must be clear why it wants to do it. Warwick district is an attractive place to live and it is most probable that at the minimum, all the S106/Condition sites mentioned above will see competition among the established Registered Providers to deliver the affordable housing element (subject to the overall scheme development proving viable). Also, given the Council's Housing Policy, 60% of that affordable housing would be at social rent levels as opposed to affordable rents. Therefore there is an argument that the Council need not do anything in respect of these large sites: the market and the planning process will deliver affordable housing.

3.39 Furthermore, the Council has entered into W2 to help deliver the District's affordable housing needs; however, the 30-month review has revealed the problem the Council has in not having land available and the reliance on WHG purchasing third party land with, on occasion, WDC subsidy.

3.4 <u>The case for intervention</u>

3.41 Officers do consider there is a convincing argument to be made for the Council to take an interventionist approach (house building and/ or house purchase) including but not limited to:

- Ensuring that more new homes are delivered at social rent in accordance with the Business Plan. The difference between social rent and affordable rent varies from £14 per week for a one-bedroomed property to £28 per week for three bedrooms;
- Influencing the speed at which affordable housing is delivered. Whilst it is arguable that the market will deliver the affordable housing, we know from the experience of the last five years that should a downturn return, it is likely that sites will get stalled;
- Providing a greater likelihood of meeting the affordable housing deficit as detailed in the SHMA. It is unlikely that this deficit can be addressed by the Local Plan policies alone;
- Maintaining the Council management function as a sustainable business. A decreasing housing stock with commensurate reduction in staffing resource will see further pressure on service standards;
- Ensuring that tenants have securer tenancies than RP's are able to offer;

- Mitigating the risk of central government allowing developers to deliver sites with less than 40% affordable housing;
- Taking a key role in shaping new communities. The Council currently has a housing stake in most parts of the District. There is the potential for this place shaping presence to be lost in the growing parts of the District if council housing is no longer a factor.

3.42 Therefore, officers recommend that the Council takes an interventionist approach. The latest position on the Business Plan (December 2013) is that with changes to reflect latest service performance and key assumptions, and based on a new build programme of social rather than affordable rents there has been a significant shift in the potential new homes that could be delivered; even after taking into account the latest Right to Buy initiatives and revised national Rent Policy (abolition of convergence). Potentially 3,831 social rent homes could be built within the 50-year life of the business plan as opposed to the 1,459 affordable rent homes predicted in the original plan.

3.43 The Plan is being reviewed to ensure that its assumptions are sound: The letting of the major contracts was assumed to have achieved large savings and there is also an assumption around management efficiency savings which needs to be further validated. Work has also commenced on bringing the stock condition data up to date which may reveal a programme of work not currently accounted for and once this is complete a new asset management strategy will be developed as per Housing Strategy action point 3.9. Notwithstanding this, there will be in all probability a significant surplus on the plan which could be utilised for a large programme of council housing if Council wishes to proactively source land. If it decides not to then the Business Plan will need to consider its stock improvement and debt repayment strategies.

3.44 The asset management strategy could include considering the sale of high value assets where this would generate capital to re-invest into additional provision. Clearly this would need to be subject to careful appraisal to ensure firstly that there were genuine opportunities to use the money generated within a reasonable time frame and secondly that sales would result in net additions to the council's housing stock.

3.5 <u>Next steps</u>

3.51 There are clearly two issues that the Council needs to address if it wishes to embark on a significant programme of Council house building: Sourcing the land for development and accessing the necessary finance for land purchase and property construction. This report advises Members that there are opportunities for the Council to access land and that there is also a way for the Council to address the debt ceiling issue. It is therefore recommended that officers enter into discussions with developers and RP's to try and gain access to land for development and that in tandem with this a detailed examination of the benefits of a Council Housing Company are investigated, using the Interim Housing & Property Board as a "sounding-board". Furthermore, it is recommended that the composition of the Board is broadened to include the Shadow Portfolio Holders for Finance; this will enable greater Member involvement in this important issue whilst not prejudging the outcome of the investigation into a Housing Committee which is reporting to November's Council meeting.

3.52 As an initial piece of work it is recommended that there is a concentration on the role the Company could play in delivering an affordable housing programme with the aim of providing a report for the February 2015 Executive. The outcomes from this investigation may encourage an examination of whether a Council Housing Company could deliver a more economic, efficient and effective housing management service for the District's Council tenants but it is recommended that no work takes place in respect of this at present.

4 POLICY FRAMEWORK

4.1 The Council's Sustainable Community Strategy has 5 key thematic areas of which Housing is one. The proposals in this report help to deliver the actions agreed in that Strategy as detailed in the Housing Strategy Delivery Plan.

4.2 The Council's Housing Strategy has as one of its key aims "Meeting the need for housing across the district". The report seeks to build on the work of the W2 partnership by bringing forward opportunities for an accelerated affordable homes building programme.

5 BUDGETARY FRAMEWORK

5.1 There are no budgetary consequences as a result of this report although it is noted that further work will be required on the Council's HRA Business Plan.

5.2 It is understood that a new housing company will be separate to the Housing Revenue Account. Accordingly, the costs of investigating and setting up the new company will not be able to be a charge on the HRA. At this stage it is proposed that a budget of £50,000 is created to commission any necessary expert advice. This can be financed from the Service Transformation Reserve which currently has an unallocated balance of £1.8m.

6 ALTERNATIVE OPTIONS CONSIDERED

6.1 The option not to attempt to embark on a house building programme was considered but for the reasons laid out at paragraph 3.41 this was rejected.

7 RISKS

7.1 The report recommends an approach that has oversight by the Portfolio Holder and Interim Housing & Property Board with an ultimate decision to be made by the Executive. Therefore there are no risks in undertaking the investigations recommended in this report.

7.2 Should a proposal come forward or a specific project be developed then that will have its own individual risk register although it should be made clear at this point there is a risk Central Government could act to make it difficult, if not impossible, for Councils to borrow more than the cap through an arms length company. This is because the debt would still be classified as Government debt on the nation's balance sheet.