

ADULTS AND COMMUNITIES SCRUTINY COMMITTEE	AGENDA ITEM No. 7
13 MARCH 2018	PUBLIC REPORT

Report of:	Simon Machen, Corporate Director for Growth and Regeneration	
Cabinet Member(s) responsible:	Cllr Peter Hiller, Cabinet Member for Growth, Planning, Housing and Economic Development & Environment Capital	
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NEW COUNCIL HOUSE PROVISION FOR PETERBOROUGH

R E C O M M E N D A T I O N S	
FROM: Corporate Director for Growth and Regeneration	Deadline date: N/A
<p>It is recommended that the Adults and Communities Scrutiny Committee:</p> <ul style="list-style-type: none"> • Notes the challenges to delivering council houses in the traditional sense for Peterborough as a local authority that has transferred its housing stock and no longer has a Housing Revenue Account • Notes the mechanism that the Council has already put in place to enable the provision of social housing that Peterborough City Council is directly engaged in delivering, through the establishment of the housing joint venture with Cross Keys Homes, Medesham Homes • Recommends to Full Council that the Council's focus for delivering social housing should continue to be through the now established joint venture housing company, Medesham Homes, rather than seeking to return to providing council housing in the traditional sense. This vehicle has the flexibility to deliver a range of tenures and to take advantage of the capability of each partner to provide land, funding and capacity and share risk when responding to the challenges of austerity and the housing crisis 	

1. ORIGIN OF REPORT

This report is presented to Committee in response to the following Motion that was carried at Full Council on 24 January 2018:

“Council resolves that the Adults and Communities Scrutiny Committee looks at the benefits, social value and business case for new council house provision and reports back its conclusions and any recommendations to Full Council.”

2. PURPOSE AND REASON FOR REPORT

- 2.1 This report is being presented to the Committee to provide the national context relevant to the delivery and ownership of social housing stock by local authorities in general, and to provide the background to the delivery and ownership of social housing stock by Peterborough City Council. This information is then used as a frame of reference to consider the benefits, social value and business case for new council house provision in Peterborough, and to draw conclusions and make recommendations.

2.2 This report is for Adults and Communities Scrutiny Committee to consider under its Terms of Reference No. 2.3

2.3 Housing Need (including homelessness, housing options and selective licensing)

2.4 *How does this report link to the Corporate Priorities?*

Driving growth, regeneration and economic development and
Keeping all our communities safe, cohesive and healthy

3. **TIMESCALES**

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	N/A
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4. **BACKGROUND AND KEY ISSUES**

4.1 For the purposes of this report, the term social housing is used to refer to housing stock owned and managed by local authorities and housing stock owned and managed by Registered Providers also known as Housing Associations.

The national context for the delivery and ownership of social housing by councils

The DCLG local authority housing statistics for England released in January 2018 showed that on 1 April 2017 local authorities in England owned approximately 39% of all social housing stock (council housing) with the remainder mainly comprising Registered Provider (RP/ Housing Association) stock and some other public sector dwellings such as armed forces, NHS and Police service owned stock.

There are 353 local authorities in England including district, borough unitary and county councils. In 2014, 167 local authorities (less than 50% nationwide) owned and managed social housing stock. This figure includes 47 authorities that have their housing managed by an arms-length management organisations (ALMOs). This position reflects the large scale voluntary transfer of local authority stock to Registered Providers which has been undertaken by many local authorities in response to government policies from the 1980's onwards.

The national shift in social housing ownership from local authorities to RPs, and the major changes in funding for social housing, resulted in a dramatic reduction in numbers of new local authority owned social housing dwellings being built but a significant increase in the number of RP dwellings built. Between 2010 -2015 8,000 social homes were built by local authorities and in the same period 150,000 social homes were built by RPs.

Changes to Government's funding arrangements for stock holding local authorities from April 2012, introduced through the Localism Act 2011, were expected to result in greater capacity for them to build more homes. Stock holding local authorities were given control over their Housing Revenue Accounts (HRA) in return for taking on a one-off share of the national housing debt. The HRA is the account in which a council's housing revenue (e.g. tenants' rent) and housing costs (e.g. property management and maintenance) are kept. Funding for the provision of local authority social housing had, up until this point, been managed at national level. All local authority social housing rents were pooled centrally and then redistributed (in accordance with a formula) back to stock holding local authorities to fund the management, maintenance and any major improvements of the housing stock, and to support their borrowing costs associated with their existing housing debts. Giving local authorities control of their HRAs, meant that councils could

retain all rental streams in respect of their housing stock going forward and take more decisions at a local level regarding investment in their housing stock.

This 'deal' however has not provided the self-financing capacity originally anticipated for stock retaining local authorities. From 2012 the level of discounts available to local authority tenants exercising their Right to Buy (RTB) were increased. This resulted in an increase in the number of RTB sales nationally, and despite the 'one-for-one additions policy' which allows for replacement of the homes sold within three years of the date of sale, this loss of existing stock has impacted on stock holding authorities' business plans which are informed by forecasts about their income from rental streams and the value of their assets.

The rent reduction policy announced as part of the budget in July 2015 has further impacted on the capacity of stock holding local authorities to expand their stock. The policy requires that rents in social housing be reduced by 1% a year for four years from April 2016, resulting in a 12% reduction in average rents by 2020-21. Previously, social housing rents could increase by 1% more than inflation – a formula set by the chancellor in 2013 and intended to last for 10 years.

This rent reduction policy not only applies to stock holding local authorities, but RPs as well, and consequently had a general impact on the business plans of all social housing providers in terms of their forecasts for building new homes.

Concerns about the provision of an adequate housing supply of not just social housing but also wider market housing have been expressed nationally and locally and the housing shortage has been described by Government as a housing crisis. In 2014 Government commissioned an independent review into the role of local authorities in housing supply. The report published in January 2015, investigated ways in which councils could support housing delivery both as direct providers and by enabling delivery in the wider market. It acknowledged the need for a huge national building programme to address the lack of housing supply. The report recommends that councils change from statutory providers to Housing Delivery Enablers and states that this role can be met through (i) community leadership and strategic clarity; (ii) creating housing opportunity; (iii) business leadership; (iv) management of housing supply; and (v) shaping a stronger housing finance market.

The Housing White Paper, 'Fixing our broken housing market' (2017) stated that the housing supply problem is threefold: "not enough local authorities planning for the homes they need; house building that is simply too slow; and a construction industry that is too reliant on a small number of big players".

More and more local authorities are now engaging in the provision of housing through a wide range of mechanisms in response to the housing shortages they are experiencing in their localities arising from the national housing crisis.

A report funded by the Royal Town Planning Institute and the National Planning Forum called 'Local authority direct provision of housing' was published in December 2017. This report looked at the extent, the motivations, and the means by which local authorities are directly engaging in housing delivery. It is informed by desk based research, case studies, roundtable discussions and a large scale survey of local authorities. A total of 197 different local authorities responded to the survey representing 56% of the total in England.

The report found that local authorities are finding a wide variety of means by which they can engage directly in housing development. This does include the traditional route of building through HRAs for some stock holding authorities, but also includes building through general funds accounts, developing joint venture housing company partnerships with other providers and establishing wholly owned local authority housing companies. Forty four per cent of the local authorities that responded to the survey stated that they had established a housing company and

according to the report 30 housing companies were set up during 2017 alone.

The findings from the survey indicated that the most important factor motivating local authorities to engage in housing provision was to meet local housing requirements, followed by a desire to tackle homelessness and then to generate income to provide income to replace the Revenue Support Grant and these three factors were rated as top motivating factors by most authorities.

The delivery and ownership of social housing in Peterborough

In 2004 Peterborough City Council transferred its housing stock to the Registered Provider Cross Keys Homes (CKH). The decision to seek to transfer was informed by an independent consultant's report that concluded that the Council would be unable to generate the money needed to bring its 10,000 homes up to the required Decent Homes standards set by Government. In December 2003, tenants were balloted regarding the proposal to transfer the Council's housing stock to a Registered Provider and 82 percent of tenants who took part in the ballot voted 'Yes' to the housing transfer. The Council's housing management staff were transferred to CKH pursuant to the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) and the RP officially took over the management of the housing stock on 4 October, 2004 with a commitment to ensure that the dwellings met the Decent Homes standard by the Government's deadline of December 2010. Achieving this involved CKH investing the considerable sum of £108 million into improvements to the transferred stock.

As part of the terms of stock transfer agreement, the Council receives part of the sale proceeds from Preserved Right to Buy transactions (where council tenants transferred to CKH who retained the right-to-buy purchased their home). These funds have supported the Council's affordable housing capital fund since 2004 and supplements funds accumulated from affordable housing commuted sums payments received from developers via S.106 planning obligations in lieu of on-site affordable housing provision on qualifying sites.

The changing national and local picture in terms of housing delivery gave rise to the following motion which was proposed and approved by Full Council on 15 April 2015;

"That this Council notes that social housing was transferred to partners in 2003 and the strategy of the Council has not been reviewed since. I respectfully ask that this Council creates a cross party review of the present strategy and to consult and create a new fit for purpose strategy recommendation that reflects our changing city to enable a future proof and resilient strategy going forward. The provision of social housing has changed significantly since 2003 and update of what social housing could and should be achieving, and delivering, is long overdue".

A recommendation was agreed to establish a cross party task and finish group to consider the Council's strategy for housing, recognising the changes to the city and its economy over the years since the Council transferred its stock to CKH in 2004.

In January 2016 the task and finish group submitted a report to the Growth, Environment and Resources Scrutiny Committee. The report's recommendations included that the Council should 'finance and build new homes to meet specific needs' and that it should finance more building of affordable rented housing by supporting housing associations with access to finance'.

On 25th July 2016 Cabinet approved the Council's establishment of a Joint Venture (JV) housing company with CKH. The decision to establish the JV was in part in response to the recommendations of a task and finish group's report.

The housing company JV between the Council and CKH has an objective to deliver new housing of all types and tenure, so as well as providing social housing it will also deliver market housing in response to the need for increased housing supply. This approach will enable cross subsidy for the social housing provision from the sale of homes built for market sale and supports the Council's motivations for re-engaging in delivering housing. These motivations are the same as

those shared by most local authorities that have decided to re-engage in the direct delivery of social housing: meeting local housing requirements for both social and market housing; tackling homelessness and dependency on expensive temporary accommodation and generating income to replace the ever dwindling levels of Revenue Support Grant from Government.

When the structure for the proposed housing company was being considered, the Council looked at the option of setting up a wholly owned local authority housing company. This option was rejected on the grounds that it did not play to the Council's strengths in terms of what it can contribute to delivery. Since the stock transfer in 2004 the Council no longer has in-house skills in housing management and development (as these staff were transferred across with the housing stock to CKH) and the time and resources involved in rebuilding these skills would be considerable and disproportionate to the likely sale of stock.

Cross Keys Homes were considered a logical choice for partner for the JV housing company, as the largest residential social landlord in Peterborough and an existing key strategic partner with the Council. The housing joint venture which is called Medesham Homes, has been structured so that the Council would own 50% of the JV partnership and Cross Keys (through their wholly-owned development company) owns the other 50%.

While this JV will not provide "council houses" in the traditional sense, it will provide social housing that Peterborough City Council as a local authority is directly engaged in delivering. The benefits of a JV housing company approach for Peterborough, is not only the access to the skills that CKH can bring to aid delivery and management of the housing stock once it is completed, but also the shared financial input to support the delivery of new homes.

Peterborough committed £100,000 to Medesham Homes for operating capital and to set aside an allocation of £20m 'invest to save' capital to support the Council's share of investment in future schemes to be delivered by the JV. As part of budget approval decision by Full Council for 2016/17 that agreed to the creation of a housing company, it was also agreed that the £14.6m funds accumulated from capital receipts received from Cross Keys Homes from income generated from qualifying RTB sales, would be directed to the housing company to build new affordable homes in Peterborough.

The first scheme to be delivered by Medesham Homes is now on site and will deliver 29 social homes for rent that will contribute towards alleviating the pressures experienced by homeless families currently living in temporary accommodation (in many cases hotels or hostels) and also reduce the Council's revenue financial burden arising from spiralling temporary accommodation costs.

Beyond this first scheme, Medesham Homes has schemes that total just under 200 units at feasibility stage and in excess of another 100 units in a pre-feasibility stage around the Peterborough area, all of which would be delivered over the next three years if they come forward as currently being explored. Additionally, Medesham is engaged - and will continue to engage - with public and private organisations to build a long-term development pipeline, focusing primarily on social housing provision and is working within the Combined Authority. The Combined Authority has a budget of £170m to deliver affordable housing in Peterborough and Cambridgeshire over a 5 year period from April 2017. Medesham Homes will be submitting bids to access these funds to support its delivery programme over the next few years.

The benefits, social value and business case for new council house provision

In response to the motion to look into the benefits, social value and business case for new council house provision, the following considerations have been taken into account:

The benefits/social value to be gained from new council house provision

- Providing homes to meet the housing needs of households that cannot afford to access market rented or home ownership
- Increasing the capacity to meet the demand for social rented housing on the housing register
- Ensuring that the homes built are the right type and size to reflect the needs of households on the housing register particularly in light of the under occupancy charge known as the 'bedroom tax' that is applied to social housing tenants deemed to occupy larger accommodation than they need
- Alleviating the demand for temporary accommodation for homeless households
- Increasing the supply of well maintained and well managed rented housing available in Peterborough
- Ensuring that homes are built in the right locations to support sustainable development in Peterborough
- Reducing expenditure on temporary accommodation for homeless households by increasing the supply of housing that is available to the Council to meet their housing needs

Is there a business case for new council house provision in Peterborough?

- In order to deliver council housing in the traditional sense to any scale, the Council would need to have a HRA. Peterborough has not had a HRA since the stock transfer in 2004
- The HRA is a ring fenced account therefore any income generated from building council houses cannot be used to subsidise income lost from the reductions in Revenue Support Grant.
- Although the Council could deliver up to 200 houses without a HRA, each property would need to be individually notified to the Secretary of State for approval and therefore there would be a large administrative burden and place an artificial limit placed on the number of homes to be provided.
- Council houses are subject to Right to Buy therefore new stock built could be lost to the private sector and therefore no longer available to meet the need for social rented accommodation. The Right to Buy also impacts on the Council's business plan because of the loss of income from an ongoing rental stream. Homes built by housing companies (including Medesham Homes) are not currently subject to the Right to Buy.
- In order to deliver council housing in the traditional sense, the Council would need to have staff to oversee the delivery and management of the stock. This would mean recruiting new staff with the appropriate skills and experience at a time when the Council already is faced with major budget constraints. Alternatively the Council could pay an RP to manage the housing which would be an added pressure/consideration for the business plan for any new scheme.
- In order to understand the full implications of returning to delivering council housing in the traditional sense, the Council would need to invest considerable time and resources including seeking specialist Legal Advice, in order to understand the legal and financial complexities that this would involve before being able to prepare a business plan.

Conclusion

The challenges to delivering council houses in the traditional sense as a local authority that has transferred its housing stock and no longer has a Housing Revenue Account, means that there is no obvious business case for returning to this approach to delivering social housing for Peterborough.

All of the benefits/social value that could be gained from new council house provision in the traditional sense can be gained from the provision of social housing delivered through the

Council's JV housing company with CKH, Medesham Homes. This vehicle has the flexibility to deliver a range of tenures and to take advantage of the capability of each partner to provide land, funding and capacity, and to share risk when responding to the challenges of austerity and the housing crisis.

The Council has already invested considerable time and resources in setting up Medesham Homes and has committed substantial finances to supporting the future delivery of housing development through this vehicle. If the Council now moved to an alternative delivery model this could jeopardise the existing partnership with CKH and the pipeline of schemes that partnership are preparing to deliver.

5. CONSULTATION

5.1 There is no requirement for formal consultation in relation to this matter.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 It is anticipated that this report will provide the Committee with an overview of the key considerations that have informed the conclusions and recommendations proposed in response to the Motion approved by Full Council.

7. REASON FOR THE RECOMMENDATION

7.1 To ensure that the Council's approach to delivering social housing in Peterborough is appropriate, taking into account our position as a local authority that has transferred its housing stock and no longer has a Housing Revenue Account and our existing mechanisms already in place.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1
1. For the Council to return to delivering 'council houses' in the traditional sense. This was rejected because of the hurdles involved as a local authority that had transferred its stock and no longer has a HRA as set out in the report
 2. For the Council to deliver social housing through a wholly owned housing company. This is referred to in the report as an option that was rejected at the stage when Cabinet approved the establishment of the existing JV housing company delivery vehicle. This was rejected on the grounds that it did not play to the Council's strengths in terms of what it can contribute to delivery.

9. IMPLICATIONS

Financial Implications

9.1 There are no new Financial Implications arising from the recommendations of this report. The financial implications arising from the decision to create the Housing Company JV were approved by Cabinet on 25th July 2016 when approval was granted for the Council's establishment of a Joint Venture.

Legal Implications

9.2 n/a

Equalities Implications

9.3 n/a

Rural Implications

9.4 n/a

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

- 10.1
1. The Elphicke-House Report: From statutory provider to housing delivery enabler: Review into the local authority role in housing supply. Published January 2015
 2. The Smith Institute: Delivering the renaissance in council-built homes: the rise of local housing companies. Published October 2017
 3. Professor J Morphet & Dr B Clifford, Bartlett School of Planning, University College London: Local authority direct provision of housing. Published December 2017
 4. The Ministry of Housing, Communities and Local Government: Local authority housing statistics: Year ending March 2017, England. Published 18 January 2018

11. APPENDICES

11.1 None