

Report to Cabinet
29 July 2020
Report of Director of place
Subject Future Housing Commissioning

Item

8

KEY DECISION

Purpose

To consider possible options for future housing commissioning.

Recommendation

To:

- a. Note the appraisal for the delivery options and agree next steps:
 - i. Further work to model the financial capacity of the HRA to deliver an on-going pipeline of sites; and
 - ii. To procure specialist advice to assist determination of preferred delivery option and provision of tax and legal advice as needed.
- b. Approve the outline business cases, programmes and funding required for 2020/21 for progression of three sites including:
 - i. Agreeing a virement of opportunities fund for design on Three Score phase 3 and Argyle St as detailed in the exempt appendix to this report. A virement for Mile Cross design costs were approved by cabinet in June;
 - ii. Recommending to Council to agree capital expenditure of £2.74m on the former Mile Cross depot and also an increase in the budget of £0.18m for design fees in order to utilise funding from business rates pooling as detailed in the exempt appendix to this report.
- c. Appropriate the land at Three Score phase 3 from the General Fund to the HRA under the Housing Act 1985, part ii, Section 19 (1) for the purposes of providing social housing, subject to a full valuation of the land.
- d. To approve that rents for properties developed to enhanced environmental standards are set at 5% above formula rent to assist with the additional costs of developing such properties and reflecting the savings for tenants in energy bills.
- e. Approve the procurement of a registered provider partner to develop additional affordable homes on city council sites for a 5-year period. The first tranche of sites is expected to deliver approx. 25 homes.

Corporate and service priorities

The report helps to meet the corporate priority Great neighbourhoods, housing and environment

Financial implications

The financial implications are detailed in the exempt appendix to this report.

Ward/s: All Wards

Cabinet member: Councillor Harris - Deputy leader and social housing

Councillor Stonard – Sustainable and inclusive growth

Contact officers

Graham Nelson, director of place	07979 516835
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Dave Shaw, delivery director	
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Background documents

None

Report

Background

2. Since 2012 Government refinancing of Housing Revenue Accounts (HRA) the council has embarked upon a programme of council house building.
3. To date 191 new council homes have been provided. These have included the purchase of dwellings required under S106 agreements at Rayne Park and Brazen Gate, development of small sites at Eglington Mews and Riley Close, our first Passivhaus development at Hansard Close, the conversion of a former area housing office at Bullard Road and the award winning Goldsmith Street development
4. In November 2019 Cabinet approved the Norwich council housing strategy 2020-2026 that stated our council housing ambition to:

“provide good quality, well maintained affordable homes to meet local housing needs within a safe, clean and well cared for neighbourhood.

We want to make a difference to peoples’ lives by promoting independent living and to build sustainable communities, where people take responsibility for their own lives and those of their families”.

One of the primary goals of the strategy is to meet housing need through the delivery of new homes.

5. In March Cabinet agreed to instruct the Director of Place to take forward a review of the Council’s approach to the commissioning of housing development which includes:
 - i) The development of a new approach to the commissioning of housing development taking full account of the Council’s resources, priorities and identified housing needs;
 - ii) The identification of future pipeline of sites to be taken forward for development by NRL and by other means of delivery.
6. A new housing commissioning board has been set-up, chaired by the head of housing, with officers from housing, city development, finance, planning and NPSN, to agree priorities and provide oversight for this work.

Housing Need

7. The 2017 strategic housing market assessment (SHMA) is the most up to date evidence of housing need. The SHMA concluded that the overall housing need for Norwich, over the 21 year period 2015-2036 was net additional 15,204 dwellings. The City Council, along with Broadland and South Norfolk District Councils, signed up to the City Deal in 2013. This committed these authorities to providing an additional 3,000 homes (as well as other economic and employment growth). Therefore, including uplift to account for the City Deal the overall housing need figure for Norwich is 17,074 dwellings for the plan period 2015-2036 (813 dwellings per annum):

	Greater Norwich	NPA	Norwich
Overall need excluding City Deal	39,486 (1,880pa)	30,593 (1,456pa)	15,204 (724pa)
Of which is affordable housing	11,030 (525pa)	9,168 (437pa)	5,828 (278pa)
Of which is market housing	28,456 (1,355pa)	21,425 (1,020pa)	9,376 (444pa)
City Deal and balancing workers/jobs uplift	5,228 (249pa)	4,153 (198pa)	1,870 (89pa)
Including additions for City Deal	44,714 (2,129pa)	34,746 (1,655pa)	17,074 (813pa)

8. Whilst this shows a requirement for Norwich to deliver 813 dwellings per annum (dpa), in reality Norwich will deliver 477 dpa, much less than need, as we are limited by land capacity. The balance will be met in the rest of Norwich policy area (NPA). This was formally agreed under the Greater Norwich Joint Core Strategy, which remains the current development plan for the area
9. As well as the SHMA the council housing options team manage the waiting list, which currently has approx. 4000 applicants. Of these 8% are in very high need and in either emergency or gold banding.
10. In recent years delivery of new housing has not kept pace with the housing need identified above:

Delivery rates of housing 2014-2019		14/15	15/16	16/17	17/18	18/19
Total Delivery	Greater Norwich (2,046 pa)	1,681	1,728	2,251	2,034	2,779
	Norwich (477 pa)	249	365	445	237	927
Affordable Housing Delivery	Greater Norwich (525 pa)	243	222	456	531	724
	Norwich (278 pa)	50	25	44	56	137

11. From the table you will see that there is a backlog in delivery, which will increase the housing need for future years. The recent large increase in recorded delivery is down to a change in how student accommodation is recorded and by office to residential conversions.
12. The level of delivery of affordable housing in the City is especially low. This can mainly be attributed to viability challenges by developers and Government exemptions through permitted development rights and vacant building credit. Most of delivery of affordable housing is as a result of Council activity, either direct development or the provision of land and grants to registered providers of affordable housing (RPs)

13. The SHMA gives a breakdown of annual housing need by property type. This shows:

Property Type		Market Housing	Affordable Rent	LCHO	Total
Flat	1 Bed	50	92	7	149
	2+ Bed	55	49	9	113
Houses	2 bed	54	26	5	85
	3 bed	231	56	14	301
	4 bed	47	15	2	64
	5 bed	9	2	1	12
Total		446	240	38	724

14. Preparation on commissioning an update to the SHMA is already underway. Norwich City Council, along with Broadland District Council, South Norfolk District Council, Breckland District Council, North Norfolk District Council, Great Yarmouth Borough Council and Norfolk County Council have formed a steering group and are preparing a brief for the Central and East Norfolk Housing Needs Assessment (CENHNA) 2020, which will inform the housing needs up to 2041.

15. As well as the SHMA the council housing options team manage the waiting list, which currently has over 4000 applicants. Of these approx. 8% are in very high need and in either emergency or gold banding.

16. The waiting list also shows a different mix of property types for affordable housing for rent, with the main need identified as 1-bed flats, 2-bed houses and larger 4+-bed houses. This is due to changes in Government legislation such as the bedroom tax and the SHMA using historic occupation of property types to determine need.

Pipeline of Sites

17. Officers have identified a number of city council owned sites in both the HRA and General Fund that are suitable for development

18. Three key sites have been identified to take forward immediately that can deliver approx. 260 new homes over the next 5 years. These are:

- a. Mile Cross depot site (approved at cabinet in June 2020) - 156-200 homes
- b. Argyle Street, former housing subsequently demolished – 14 homes
- c. Three Score Phase 3, adjacent to the Rayne Park development – 90 homes

19. The exempt appendix to this report provides details of the outline business cases for these three developments, along with the funding required in 2020/21 for project management, design services and technical services.

20. In addition to the three priority sites, further opportunities are being considered, including land purchase, that have the potential to deliver 139 dwellings concurrently.
21. A number of smaller city council owned sites have also been identified as having potential for delivery. Further work will be undertaken by the housing commissioning board to refine the prioritisation of these sites and it is believed that these could deliver approximately 200 new homes.
22. The council has for a number of years worked in partnership with local registered providers of affordable housing (RPs) to deliver new affordable homes on such smaller sites. In the last 5 years 70 new affordable homes have been delivered on former city council owned sites in this way.
23. Whilst only small these sites often help transform areas that have previously been under used or attract anti-social behaviour.
24. It is recognised that the council will not be able to fully meet housing need by itself due to limits on financial borrowing. It is therefore recommended that, alongside direct delivery, the council procures a RP partner, for a period of 5 years, to deliver a number of these smaller sites.
25. An initial tranche of sites will be offered for consideration once a partner has been procured and this is expected to deliver in the region of 25 homes. Further sites will be then proposed throughout the duration of the partnership to ensure additional delivery.
26. The city council also owns some larger strategic sites, including the rest of Three Score, that could deliver a further 1500-2000 new homes.
27. The council has approved an opportunities fund for the purpose of acquiring properties and land. This fund offers the ability to quickly react to strategic land opportunities as they arise. We are currently aware of opportunities in Hethersett, East Norwich and to the west of Norwich that will deliver significant levels of housing in the future.
28. Previously the council has purchased affordable housing required through S106 agreements. Typically these are cheaper to acquire and could form part of a wider strategy to provide additional homes, albeit the council would have little control over the specification of these homes.

HRA Business Plan

29. The HRA business plan models the long-term financial viability of the HRA. The two key outputs from the business plan are the period over which the HRA would have the ability to repay all of its borrowing; and the maximum level of debt held at one time.
30. Historically, the ability to repay all borrowing over a 30 year timescale was utilised as a measure of the financial viability of the HRA. This is a notional measure as there is no requirement to repay borrowing over that period, but it acts as a measure of the payback period on the investments made. However, councils and registered providers are now considering extending their borrowing periods well beyond 30 years to better reflect the lifespan of the

assets, and in some cases they have no plans to repay any borrowing in the foreseeable future. To reflect this, the council has extended the business plan projections to 60 years to enable further investment opportunities to be explored, such as additional new build schemes and the consideration of renewing rather than upgrading some housing stock.

31. Additionally, total HRA borrowing was restrained by a government imposed borrowing cap (£237m). However, in 2018, in order to facilitate an increased level of new social housing, the government's borrowing cap was removed. The borrowing capacity therefore now falls within the remit of the Prudential Code.

Key assumptions within the business plan

32. The 'base' 2020/21 HRA business plan, includes all estimated costs of maintaining and upgrading the current housing stock over the next 60 years and forecasts that existing borrowing could be repaid within 24 years.
33. Given the length of time over which the business plan is based, there are a number of key assumptions and a degree of estimation uncertainty. The key assumptions included in the 'base' business plan include:
- The HRA will only borrow when necessary and will first seek to utilise existing reserves as set out in the Capital Strategy. The HRA holds £207.5m of existing borrowing, of which £179.6m is historic and placed externally at rates varying from 2.92% to 9.63%. As it is impossible to predict future interest rates, a prudent assumption of 4.5% increasing to 5% is applied throughout the plan.
 - Future rental income assumes that existing government policy will continue to be applied (CPI as at preceding September plus 1%); Rental income for new dwellings is assumed to reflect that of existing dwellings of a similar property size and type.
 - In order to maintain a prudent approach and mitigate against the risk of real costs (building, maintenance & management) increasing at a higher rate than the recorded CPI of the preceding September, the model assumes a difference of +0.75% for the first 10 years, reducing to +0.5% thereafter throughout the plan.
34. Using the 'base' business plan, a number of additional new build scenarios have been modelled to project the impact on the overall HRA financial position.

These scenarios make the following assumptions:

- 30% of the total cost of new social housing and 100% of grants to Registered Providers will be funded from retained Right to Buy receipts.
- New developments are modelled on the following ratio of property types for each scheme (based upon analysis of the council's waiting list):

1-Bed Flat	25%
2-Bed House	65%

4-Bed House	8%
5-Bed House	2%

- Pipeline dwellings will be delivered from year 5, with the costs arising in the year preceding delivery.
- All new homes are built to enhanced environmental standards.
- In November 2019, Cabinet approved the Norwich Council House Strategy, which highlighted a number of areas within the existing housing stock for future review, including tower blocks, environmental improvements and sheltered housing. Any additional investment requirements arising from this work will place an additional demand upon HRA resources and will therefore need to be considered alongside the requirement for new housing.

Borrowing Capacity

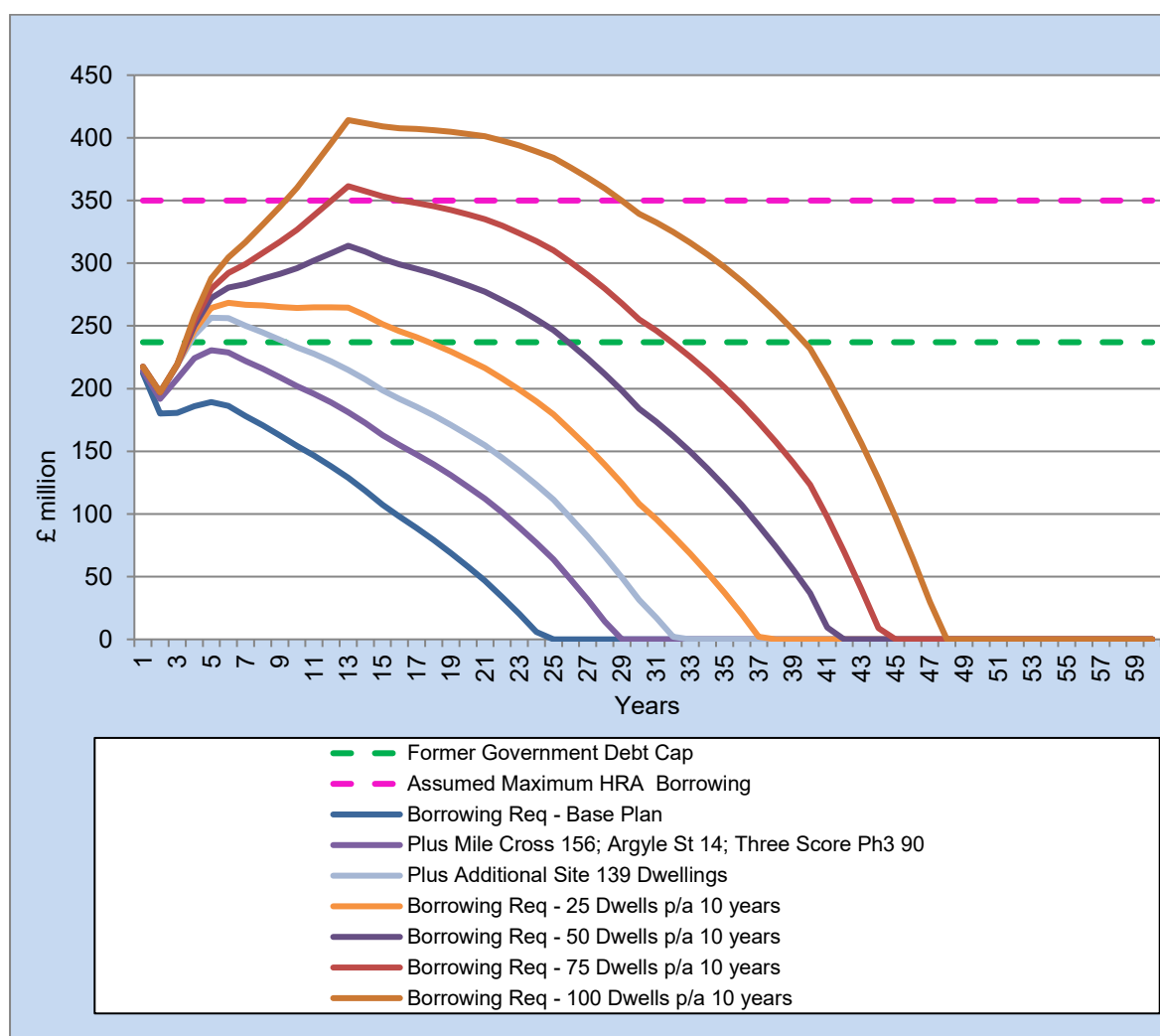
35. Although the government removed the HRA borrowing cap in 2018, and the council may now determine how much it will borrow to fund HRA capital expenditure, it still has to demonstrate that the overall borrowing of the council (HRA & GF) is affordable, prudent and sustainable as required by CIPFA's Prudential Code. It is important to note that because the prudential code applies to total borrowing, the capital ambition of both the HRA and general fund need to be considered in tandem. The current level of borrowing in the HRA is £205m and £116m for the general fund.
36. For the purposes of the modelling, a guideline HRA borrowing limit of £350m has been applied. In setting this level, consideration has been given the level of interest payments, the gearing ratio (borrowing level to the HRA asset value of £809m) and current general fund borrowing. This level will continue to be reviewed in light of the general fund capital ambition, forecast interest rates and the changing HRA asset base.
37. Any long-term financial forecast will include a number of risks and uncertainties and the HRA business plan is no exception. As already explained, a number of assumptions are made, but some elements can change, such as unforeseen upgrade and maintenance costs, increases in development costs and changes in government rent policy. It is important these risks are considered when looking at borrowing levels and repayment periods.

Modelling

38. The chart below sets out a number of potential scenarios and the associated impact on the repayment of HRA borrowing. The outputs from the model show that the proposed schemes at Mile Cross, Argyle Street and Threescore would increase the borrowing of the HRA to £231m (which remains below the previous debt cap) and extends the repayment period to 28 years. These schemes are therefore considered affordable by the HRA. Adding a further potential scheme of 139 dwellings into the plan, increases the borrowing to £257m and further extends the repayment period to 32 years.

39. When further pipelines of sites are included, the model shows that in order to maintain HRA borrowing below the assumed limit of £350m, between 50 and 75 new homes per year could be delivered over a 10-year period, once the development of 399 new homes included within existing schemes is complete. However, the repayment of HRA borrowing would extend to between 41 and 44 years.
40. The chart also highlights the impact of building 100 new homes per year over a 10-year period, which would increase borrowing well beyond the assumed £350m limit to £414m, with the repayments period extending to 47 years (The graph shows reaching zero in year 48 but the debt is paid off in the year before). However, the potential exists to increase the number of new dwellings, if savings can be identified elsewhere within the HRA.

HRA borrowing repayment scenarios



Sensitivities in the model

41. Within the MHCLG guidance on rent setting for local authorities there is flexibility to set rents at up to 5% above formula rent for individual properties.

42. In July 2016 cabinet approved that rents for Passivhaus properties are set at 5% above formula rent to assist with the additional costs of developing such properties and reflecting the savings for tenants in energy bills.
43. It is now recommended that we take advantage of this flexibility for the development of any new homes that meet enhanced environmental standards as well as Passivhaus (equivalent to an average £4 per week additional rent). This will assist with offsetting the additional development cost, and bring down the payback period of the individual scheme, particularly as the evidence shows that residents would make significant savings on fuel bills.
44. In addition to rent we have modelled the developments based upon an enhanced environmental standard. During the design process we will prepare cost plans for this standard alongside building regulations compliant and Passivhaus standard for consideration.

Delivery Options

45. Officers have identified four main options for the delivery of new build council housing and will be undertaking a full appraisal to determine the most appropriate option to deliver on our aspirations. Further analysis will be undertaken and to assist this specialist legal and financial advice will be procured.
46. The four options are:
- a. In house delivery - Maximises control but may bring operation complexities if attempt to engage in private house building. Would need to increase internal staffing capacity to deliver at scale.
 - b. Delivery through a wholly owned company - Makes best use of current NRL resources, would need 'teckal' exemption for delivery of council housing activities but would also be able to engage in private house building.
 - c. Partnership with RP - May benefit from similar ethos in partner organisation. Could delivery efficiencies through use of established team. Carries some element on contract/relationship risk.
 - d. Through a joint venture with a private developer - Likely to minimise cost (if contract right), cedes some control and flexibility, risk if partner is in financial difficulty.

Recommendations

47. Cabinet are asked to:
- a. Note the appraisal for the delivery options and agree next steps:
 - i. Further work to model the financial capacity of the HRA to deliver an on-going pipeline of sites;
 - ii. To procure specialist advice to assist determination of preferred delivery option and provision of tax and legal advice as needed.

- b. Approve the outline business cases, programmes and funding required for 2020/21 for progression of three sites including:
 - i. Agreeing a virement of opportunities fund for design on Three Score phase 3 and Argyle St as detailed in the exempt appendix to this report. A virement for Mile Cross design costs were approved by cabinet in June;
 - ii. Recommending to Council to agree capital expenditure of £2.74m on the former Mile Cross depot and also an increase in the budget of £0.18m for design fees in order to utilise funding from business rates pooling as detailed in the exempt appendix to this report.
- c. Appropriate the land at Three Score phase 3 from the General Fund to the HRA under the Housing Act 1985, part ii, Section 19 (1) for the purposes of providing social housing.
- d. To approve that rents for properties developed to enhanced environmental standards are set at 5% above formula rent to assist with the additional costs of developing such properties and reflecting the savings for tenants in energy bills.
- e. Approve the procurement of a registered provider partner to develop additional affordable homes on city council sites for a 5-year period. The first tranche of sites is expected to deliver approx. 25 homes.

Integrated impact assessment



NORWICH
City Council

The IIA should assess **the impact of the recommendation** being made by the report

Detailed guidance to help with the completion of the assessment can be found [here](#). Delete this row after completion

Report author to complete

Committee:	Cabinet
Committee date:	29 July 2020
Director / Head of service	Director of place
Report subject:	Future Housing Commissioning
Date assessed:	21 July 2020

	Impact			
Economic (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Finance (value for money)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Provision of more council homes will improve overall affordability of the housing stock. This represents a prudent use of financial resources to meet corporate priorities. A balance will need to be found for the delivery of additional homes against the overall costs within the HRA that doesn't impact negatively on the council's overall borrowing and prudent financial management of the HRA.
Other departments and services e.g. office facilities, customer contact	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
ICT services	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Economic development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The delivery of new affordable housing will provide employment opportunities, opportunities for local contractors and businesses and will generate local spending for the benefit of the wider economy. Providing more housing is important in supporting sustainable economic growth and prosperity.
Financial inclusion	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Providing additional social rented housing at enhanced environmental standards will advance financial inclusion by helping to improve housing affordability and reduce fuel poverty.

	Impact			
Social (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Safeguarding children and adults	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Building more council homes to meet changing needs will help provide accommodation for vulnerable adults and children.
<u>S17 crime and disorder act 1998</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Human Rights Act 1998	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Health and well being	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The provision of sufficient and decent quality housing is essential to ensuring decent levels of health and well being.
Equality and diversity (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Relations between groups (cohesion)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Eliminating discrimination & harassment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Advancing equality of opportunity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Environmental (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Transportation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

	Impact			
Natural and built environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Provision of high quality new homes will enhance the built environment.
Waste minimisation & resource use	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Pollution	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Sustainable procurement	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Procurement of design and construction services will include opportunities for local contractors and suppliers. We would also seek opportunities for local apprenticeships and training.
Energy and climate change	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	There is opportunity for the new homes to be designed and built to a higher environmental standard than building regulations, which will bring benefits to both the environment and tenants, when compared with standard build types. The focus will be on reducing energy and water demands to help reduce fuel bills for residents and to assist the council with meeting the commitments to the climate change agenda
(Please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments

	Impact			
Risk management	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<p>Appropriation of the land at Three Score phase 3 to the HRA reduces the risk of further expenditure to the General Fund and allows the council to utilise significant retained RTB receipts, which will reduce the risk of having to pay these to central Government along with punitive interest payments.</p> <p>There are risks with all developments around cost, quality and time but these will be carefully managed throughout delivery and minimised or mitigated wherever possible.</p> <p>Ground conditions on developments are always a major risk, but these can be mitigated and a significant sum has been included within appraisals to deal with these issues along with a contingency.</p>

Recommendations from impact assessment

Positive

Overall this report will provide more council homes which will improve overall affordability of the housing stock. The investment priorities represent a prudent use of financial resources to meet corporate priorities and will provide local employment opportunities.

Negative

Overall borrowing of the council will increase and extend the payback period of the HRA business plan. This will be managed in conjunction with the S151 Officer to keep within recommended prudent levels and programmes of delivery amended accordingly. Site risks will be mitigated wherever possible and contingencies included within cost plans.

Neutral
Issues
Delivery options will be further explored through the provision of specialist advice and reported back to cabinet.