



DERBY CITY COUNCIL

**COUNCIL CABINET
5 SEPTEMBER 2006**

Cabinet Member for Neighbourhood, Social
Cohesion and Housing Strategy

ITEM 9

Review of the Housing Capital Programme Facilitation Fund

SUMMARY

- 1.1 The Government response to the review carried out by Sir Peter Gershon requires all local authorities to make efficiency savings of at least 2.5% p.a. over the three year period of the Spending Review 2004.
- 1.2 Over the last 12 months officers from the Council have been considering how these savings can be achieved in the context of the part of the Housing Capital Programme invested in new affordable housing – the Facilitation Fund. In essence this has involved trying to identify a 'stretch' or efficiency saving for the Housing Capital Programme by a reduction in the cost or an increase in the longer term value of what we achieve
- 1.3 This report outlines the options considered by officers and concludes that the following changes be made:
 - grant conditions be put on grant offers made to social housing providers, and a change be made to the timing of payments,
 - land sold by the Council for the purpose of social housing will generally be on a long leasehold basis, and
 - the Council will secure the freehold interest of the affordable housing land on S106 sites.
- 1.4 Subject to any issues raised at the meeting, I support the following recommendation.

RECOMMENDATION

2. That Cabinet agree to the following changes:
 - grant conditions be put on grant offers made to social housing providers, and a change be made to the timing of payments,
 - land sold by the Council for the purpose of social housing will generally be on a long leasehold basis, and
 - the Council will secure the freehold interest of the affordable housing land on S106 sites.

REASON FOR RECOMMENDATIONS

3. The adoption of the changes outlined in the report will, in the long term, provide increased value for money from the Facilitation Fund.



Review of the Housing Capital Programme Facilitation Fund

SUPPORTING INFORMATION

- 1.1 In 2004 a review of public sector efficiency (*Releasing Resources to the Front Line*) carried out by Sir Peter Gershon, was published by the Government. The Government responded to the recommendations of the review by requiring government departments and local government to make efficiency savings of at least 2.5% a year.
- 1.2 Officers have been looking at how savings might be achieved in the context of the part of the Housing Capital Programme invested in new affordable housing – the Facilitation Fund. In essence this has involved trying to identify a 'stretch' or efficiency saving for the Housing Capital Programme by a reduction in the cost or an increase in the longer term value of what we achieve.
- 1.3 A number of options have been considered as follows ...

A. Grant Funding

For the 2004/06 Facilitation Fund programme, grant was paid to housing associations developing agreed schemes on the basis of an Invoice being submitted. There were no formal conditions attached to the payment of the grant beyond the provision of dwellings to Council nominees at social rents.

It is proposed that grant conditions should be developed in respect of payments made from the 2006/08 Facilitation Fund and beyond. This would ensure that if a grant-funded property were to be sold, the provider would have to make a payment to the Council based on a percentage of the sale proceeds. This percentage would be the same as the relationship between the amount of DCC grant and/or the value of any discount on land sales or transfers and the value of the property when it was first developed. For example, if the amount of grant and land discount represented 20% of the cost of the property, any future repayment would be based on 20% of the sale price.

The presumption is that the payment is to be made to the Council, although at the sole discretion of the Council it may be recycled by the housing association back into affordable housing within Derby in order to meet the City's then strategic housing needs.

It is recognised that the requirement to pay a proportion of the sale proceeds to the Council will be taken into account by the housing association when they carry out their scheme appraisal and will result in the initial grant requirement being higher. However, grant from other funding sources, such as the Housing Corporation, is subject to grant conditions similar to those outlined above. Putting grant conditions on grants is seen as being of absolutely fundamental importance in order to retain the value of the investment within Derby. Previously the Housing Corporation was effectively underwriting the provision of grants by the Council to housing associations, but this position has now changed and the funding is coming from Council resources, necessitating the introduction of our own grant conditions.

Currently the Council grant is paid to housing associations in the following tranche payments – 40% on acquisition of site, 40% on start on site and 20% on practical completion. This was based on the approach adopted by the Housing Corporation. However, they have recently changed the tranche payments they make to the following – no payment is made on acquisition of site, 50% is made on start on site and 50% on practical completion. It is proposed that the Council will adopt the same tranche payments.

B. Land sales

It is proposed that there be a general presumption that land sold by the Council for affordable rented housing will be sold on a long leasehold basis – 99 years, with a premium and then a peppercorn rent.

However, other circumstances might apply that would warrant a longer or shorter term and indeed authority could be sought for a freehold sale if it were to be beneficial to the Council. An example of this would be a situation where land was being sold for market housing to be built, with the sale proceeds and/or the surplus on the sale of the houses being used to fund or cross subsidise affordable housing. By selling land relating to the homes for sale on a freehold basis, the sale price would be enhanced maximising the cross subsidy and hence the level of provision of affordable housing in the scheme.

It is recognised that if the affordable housing land is to be used for new build HomeBuy – or other forms of shared-ownership – then as time goes by and the length of the outstanding lease reduces, such properties would become more difficult to sell because mortgage companies would no longer be prepared to offer mortgage finance. Although it would be possible to consider lease extensions, this could result in a situation arising where leases come to an end at different times and would impact on the Council's ability to deal with the land. In the light of this, it is proposed that shared ownership properties also be transferred freehold in order to maximise the value obtained. Only where a property is intended for social rent would the freehold be retained.

Where land is sold at below open market value, then the discount made would be viewed as a grant and so would be covered by grant conditions, including the requirement to repay this value in the event of a sale.

C. Section 106 sites

Currently the Council has no legal interest in the affordable housing provided on residential development sites and secured by means of Section 106 Agreements.

It is proposed that in future on 'Section 106' sites the freehold of the affordable housing land is transferred by the developer to the Council for £1 and then transferred on to a housing association on a 99 year leasehold basis, also for £1. The developer would be able to choose the housing association to own and manage the affordable housing, subject to certain limitations, and build the properties for the housing association under licence, if that is what they agree.

This would enable the Council to benefit from increases in values in the longer term.

D. Low Cost Home Ownership

In recent years the Government has promoted a number of models to make home ownership more affordable. As part of the review of the Facilitation Fund officers did consider a number of these models.

Although this is potentially an attractive option no specific proposals for its implementation have been developed. If such proposals were to be brought forward then they would be the subject of a further Cabinet report.

- 1.4 During the Summer these options were the subject of consultation with the housing associations currently working in Derby. Only one consultation response was received, which has been reflected in the proposals.

OTHER OPTIONS CONSIDERED

2. Do nothing.

Bearing in mind the need for the Council to be seen to be reacting positively to the Gershon Review, this is not considered to be a viable option.

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Background papers:	None
List of appendices:	Appendix 1 – Implications

IMPLICATIONS

Financial

1. There are two main financial impacts – some additional short term costs in terms of additional conveyancing and transaction costs, set against the longer term benefit of securing the value of the investments being made in affordable housing. The short term costs can be charged to the capital cost of the scheme as an integral part of the proposals, and hence the issue is whether the longer term benefit requires to be secured. As grants and land discounts can amount to considerable sums of money, it is considered imperative that some form of contractual obligation be introduced to regulate future sales in the ways indicated in the report.

Legal

2. New grant conditions will need to be prepared in respect of grant offers made to social housing providers, these being on a similar basis to those conditions made by the Housing Corporation.

Personnel

3. None directly arising.

Equalities impact

4. In the longer term the efficiency savings identified for the Housing Capital Programme will enable additional affordable housing to be developed. This will be designed to meet the needs of all groups, including minority ethnic communities, disabled people, those in need of general needs housing and older people.

Corporate priorities

- 5.1 The provision of the additional affordable housing will help to promote the Council's objectives to create **healthy, safe and independent communities** and **a shared commitment to regenerating our communities**.
- 5.2 It will also further the priority of **working in partnership to achieve socially cohesive communities**, and help to meet the Corporate Plan targets relating to affordable housing provision.