



COUNCIL CABINET
13 MAY 2003

Report of the Director of Policy and Director of Finance

Using Council Resources to provide Affordable Housing

RECOMMENDATION

- 1.1 To resolve to spend up to £3 million of capital receipts from the disposal of housing land and/or redundant assets on providing affordable housing over the period April 2003 to March 2006.
- 1.2 To use the first £1.3m of these capital receipts to make grants to registered social landlords, RSLs, to develop additional affordable housing for rent or sale in accordance with the Council's approved Housing Investment policy and fit-for-purpose Housing Strategy.

REASON FOR RECOMMENDATIONS

- 2.1 Under the Government's new regulations on the use of housing capital receipts, in order to use up to 100% of receipts, the Council must resolve to spend up to a specified amount of these receipts over a set time period.
- 2.2 The Housing Strategy identifies supporting RSLs as a key way to develop the additional housing required in the city as RSLs' ability to access private finance can 'stretch' the Council's resources. It is, however, prudent to maintain the flexibility to use the remainder of the receipts for other strategic housing uses identified in the future, for example, to support PFI applications or to fund further improvements to the Council's stock.

SUPPORTING INFORMATION

Resolution to spend up to £3 million of housing capital receipts on affordable housing

- 3.1. In February 2003, the Government amended the rules on the use of receipts stemming from disposal of housing land or redundant buildings to encourage a more strategic use of assets.
- 3.2. Previously, the Council could only use 25% of receipts generated by the sale of HRA properties and 50% of receipts from other disposals such as the sale of housing land. The remaining amounts had to be set aside to cover capital liabilities. Under the new regulations, the Council can use 100% of receipts from certain voluntary disposals to provide affordable housing. The only exceptions made are for disposals to sitting tenants including disposals under the right-to-buy and large and small-scale voluntary transfers of stock.
- 3.3. This amendment gives greater flexibility than under other transactions governed by the 'in and out rules'. Notably, it is not necessary for receipts from the disposal of certain assets to be tied to specific projects on a like for like basis.

- 3.4. Disposal of housing land already approved by Cabinet, but not yet sold, will generate a total receipt of £1.4 million, with a further £0.8 million anticipated from disposals yet to be considered by Cabinet. This gives a potential £2.2 million of capital receipts.
- 3.5. The Council cannot retrospectively resolve to use receipts for projects which incur greater costs than originally anticipated. Therefore, making allowances for land price inflation and/or further housing sites being sold, it is proposed to spend up to £3 million on affordable housing by March 2006. If more receipts become available, Council Cabinet can resolve to spend a further amount.

Use of the first £1.3 million receipts to support RSL development

- 3.6 The new Regulations state that the only legitimate use for the full receipt is the 'provision of affordable housing', that is:
- new or replacement social housing, most probably by an RSL, or alternatively directly by the authority, and
 - bringing the authority's stock up to the Decent Homes Standard, or other enhancements to the housing stock.
- 3.7 As the Council has sufficient funds through the ALMO route to meet the Decent Homes Standard across all the stock, it is proposed to use housing capital receipts arising until March 2006 to support other affordable housing priorities.
- 3.8 The Housing Strategy notes that making Council resources available to an RSL can 'stretch' the resources because RSLs can match-fund with private finance. The Policy Directorate's RSL development programme has identified a requirement for additional resources from available receipts, therefore, it is proposed to spend the first £1.3 million receipts available on RSL development. See scheme details in Appendix 2.
- 3.9 It is prudent, however, for the Council to maximise its flexibility regarding use of the remaining receipts, so as to accommodate:
- emerging strategic housing needs, such as further council stock improvements beyond the Decent Homes Standard
 - the rapidly evolving wider financial regimes governing both housing investment and local authority capital investment. Notably, under 'prudential guidelines' and recent changes to the PFI regulations, local authority investment in the provision of new council housing could become more attractive.

OTHER OPTIONS CONSIDERED

- 4.1 The Local Authorities (Capital Finance) (Amendment) (England) Regulations 2003 stipulate that the receipts can only be used for the purposes summarised in paragraph 3.5 of this report. Therefore, there are no other options regarding alternative uses for these specific resources, beyond those considered above. For example, the Council cannot voluntarily set aside the receipts to reduce its debt, as this does not fall within the definition in paragraph 3.5.

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – RSL Development

IMPLICATIONS

Financial

- 1.1 The Council's policy in recent years has been for the Housing Service to retain the usable proceeds of right-to-buy sales and other housing land and asset disposals for reinvestment in line with the Housing Strategy. The current Capital Strategy provides for departures to be made from this policy only in 'exceptional circumstances', although it has yet to be revised in the context of the very latest reforms to housing finance.
- 1.2 At present, housing capital receipts subject to set aside are eventually taken into account in the calculation of housing subsidy. The assumption made is that by setting aside receipts to repay debt, there is a corresponding reduction in debt financing costs and a reduced need for subsidy. There is therefore no additional financing cost to the Council if it is now able to retain certain housing capital receipts in full and invest them in the provision of affordable housing, given that receipts would otherwise have to be set aside.
- 1.3 The new regulations which allow this change may not be applied retrospectively. Consequently, it is advisable to seek a general approval to commit these specific receipts towards the provision of affordable housing, separate from the more particular uses proposed separately in the report. Should the Council's priorities within the housing capital programme change in the future, members would not then be constrained by the terms of the resolution.
- 1.4 We have reviewed the anticipated housing land and asset sales over the coming three years and, allowing for land price inflation and additional small sites being disposed of, propose to make provision for up to £3 million receipts over this period. This figures represents an upper limit of likely available receipts. There will be no sanction imposed on the Council if this amount of receipts is not realised or expended within the next three years. If, conversely, additional housing receipts become available, Council Cabinet will be able to pass a further resolution to spend these new resources.

Legal

- 2.1 The Local Authorities (Capital Finance) (Amendment) (England) Regulations 2003 introduce revised set aside provisions in relation to capital receipts from the disposal of housing land other than through the Right to Buy or stock transfer.
- 2.2 Prior to using the new provisions, the Council must determine to spend a specified amount towards the provision of affordable housing, as

defined in the Regulations. That sum may then be deducted from such receipts before calculating the set aside requirement.

Personnel

3 None.

Corporate Themes and Priorities

- 4.1 The proposal comes under the Corporate Plan theme of **A Fairer Society**, notably by contributing to improving housing choices available in the city.
- 4.2 The proposal furthers the priority of **Improving Life Chances for Disadvantaged People and Communities**. Specifically, it focuses on outcome 2.11 – meeting the housing need of Derby's households who cannot afford to rent or buy a suitable home on the open market.

Appendix 2

Council-funded Registered Social Landlord Development Programme 2003/04 – 2005/06

Scheme	Council contribution £'000s*	Number of units**	Already in development / grant approved
Vulnerable Young People Scheme	78	18	✓ □
Howard Street, Normanton	24	1	✓ □
Purchase and Repair of Existing Properties, city-wide – Riverside Housing Association	175	3	✓ □
Pear Tree Street, Normanton	22	1	✓ □
Purchase and Repair of Existing Properties, city-wide – Home Housing Association	32	3	✓ □
Wayfaring Road, Chaddesden	277	8	✓ □
Bowling Green, Normanton	591	16	✓ □
Radbourne Gate, Mickleover – Rent	264	8	✓ □
Radbourne Gate, Mickleover – Shared Ownership	104	8	✓ □
Holmes Street, Normanton	10	1	□
Purchase and Repair of Existing Properties, city-wide	81	1	□
Purchase and Repair of Existing Properties, city-wide – Raglan Housing Association	217	4	□
Purchase and Repair of Existing Properties, city-wide – to be decided	285	5	□
Purchase and Repair of Existing Properties, city-wide – Tun Tum Housing Association to meet BME needs	300	5	
London Road	100	1	□
Greenwood Court, City Centre	280	25	
Poet's Corner, Regeneration of low demand properties in Old Sinfen	375	10	
Slack Lane, West End	100	9	□
Cameron Road, Normanton – Home Zone	375	23	□
Heatherton Village Leasehold Scheme for the Elderly	139	14	
Heatherton Village – Rent	237	16	
Blenheim Drive, Allestree - includes rent and shared ownership	412	12	
TOTAL	4,477	192	
<i>of which, funded from:</i>		Hypothecated number of units***	
Housing Capital Programme	1,966	84	
Commuted payments from developers made under section 106 agreements for provision of affordable housing	1,225	53	
Capital receipts	1,286	55	

* Exact figures could change slightly following further negotiation with the Housing Corporation regarding joint funding.

** Total number of units in the whole development, including units funded by the Council in 2002/03 and those supported by the Housing Corporation on jointly funded schemes.

*** The number of units attributed to each funding source is an hypothecation as the exact funding mix for each scheme depends on further discussion with the Housing Corporation.