



Report of the Cabinet Member for Homes, Energy & Service Transformation

Special Cabinet - 23 January 2020

More Homes Development Programme Update

Purpose:	To set out the Council's ambition to deliver new affordable homes over 10 years.
Policy Framework:	More Homes Strategy, Local Housing Strategy.
Consultation:	Access to Services, Finance, Legal.
Recommendation(s):	It is recommended that: <ol style="list-style-type: none">1. The Council sets a target to deliver 1000 new Council homes via the Housing Revenue Account (HRA), and a further 4000 affordable homes as part of its ambition to deliver more than 5000 new affordable homes over the period from 2021 to 2031.2. In line with WG grant funding requirements, a 3 year rolling programme of development schemes is produced setting out where the homes will be delivered and is it noted that any changes in the financial assumptions presented in this report will result in an increase or decrease in the number of units that the Council can afford to deliver.3. Any further decisions relating to the process above will be delegated to the Director of Place and the Cabinet Members for Homes, Energy and Transformation, and future development schemes are detailed and approved via the annual HRA Capital Budget report.
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1. Introduction

- As well as investing just under £500m in improving its existing housing stock to ensure that homes meet the Welsh Housing Quality Standard,
- 1.1 the Council also has a clear ambition to deliver more affordable housing in Swansea. The More Homes Development Plan, which was agreed by Cabinet in February 2019, sets out short term plans to build 142 new council houses up to 2023. Beyond this, the current Housing Revenue Account (HRA) Business Plan includes an indicative £5m per year from April 2023 which has been set aside to fund new homes.
- 1.2 The Welsh Government (WG) has set a target of delivering 20,000 more affordable homes across Wales during this term. To support this, WG have removed the HRA borrowing cap as additional borrowing is seen as a key factor in achieving their ambition. The removal of cap provides the opportunity to consider increasing borrowing to fund further new Council housing.
- 1.3 In wider terms, there are various mechanisms in place to increase the supply of much needed affordable housing in Swansea. The LDP sets out the provision to deliver a minimum of 3,310 affordable homes over the period of the plan. This is achieved through a variety of mechanisms as follows;
- On-site provision of affordable housing to be delivered as part of new developments via Section 106 agreements.
 - Through Local Needs Housing Exception Sites or Rural Exceptions sites which will deliver over 50% or 100% of affordable housing on these sites.
 - Bringing empty homes back into use
 - Acquiring properties to bring back into use as council housing.
- 1.4 Another major delivery route for affordable housing supply is via Registered Social Landlords (RSLs) who are zoned to develop in Swansea. There are 4 RSLs currently operating in Swansea and between them they project to deliver over 4000 new homes over the next 10 years.
- 1.5 Various scenarios have been modelled and it has been concluded that it is feasible to increase the Council housing stock by an additional 1000 properties in the 10 years from April 2021, making a significant contribution to the overall ambition to deliver 5000 new homes. This report sets out the various factors that need to be considered.

2. Affordability within the HRA Business Plan

- 2.1 Based on current build costs of the agreed Swansea Standard specification, it is estimated that building 1000 new homes will cost around £180m over the ten year period from 2021/22. A mixture of WG grants and cross subsidy from planned mixed tenure developments could reduce the amount that the Council would have to directly fund through additional borrowing.

- 2.2 The WG Affordable Housing Supply Review has recommended radical changes to the current grant funding regime for social housing. These include making Social Housing Grant available to local authorities and introducing a new flexible 3 year Affordable Housing Supply Partnerships model. The detail of how this could operate and the level of grant funding is not yet clear, however it is likely that a gap funding model will be introduced. This will require organisations to submit a 3 year programme of named housing development schemes, and identify the grant requirement to make them viable.
- 2.3 In addition, the HRA development plan also includes delivery of proposed mixed tenure schemes. Via a separate report, the Council is recommending to Cabinet that the HRA procures a partnership or joint venture approach to deliver affordable and market housing on a package of sites and use land value and sales values to cross subsidise the cost of delivering more Council housing.
- 2.4 It is difficult to determine exactly what level of grant and cross subsidy will be achieved over the 10 year period, and it is therefore difficult to determine the full extent of the additional borrowing that will eventually be required, however it is estimated to be in the region of between £180m and £90m depending on the level of grant and cross subsidy.

3. Other factors to consider within the HRA Business Plan

- 3.1 The affordability of the new housing must be considered in the context of the overall HRA Business Plan that is required to maintain the existing housing stock and operate the housing service. Legally, the HRA cannot fall into deficit and a prudent level of reserves must be maintained. An increase in borrowing to fund new build will incur additional annual revenue costs. The current HRA Business Plan, that does not include the additional borrowing described in this report, forecasts that HRA borrowing will be £243m by 2023 with an annual revenue cost of £15m.
- 3.2 The revenue cost of the additional borrowing needed to fund the scheme is the key factor. A substantial increase in borrowing to fund new build will significantly increase the annual revenue cost to finance the debt for the long term. Annual revenue costs could rise to £30m, however this figure would reduce depending on the level of grant received. This increase in finance costs would significantly reduce the amount available to directly fund future capital programmes via Revenue Contribution to Capital Outlay (RCCO).
- 3.3 There is currently significant uncertainty around many of the assumptions built into the current HRA Business Plan which make it difficult to forecast the affordability of additional borrowing. These include;
- Economic Factors – Current economic uncertainty makes it difficult to forecast future rates of inflation and interest with any degree of accuracy. Changes to interest rates in particular could have a significant impact on the revenue cost of borrowing.

- Income from Rents and Grants – The WG Affordable Housing Supply Review has made several recommendations and these have been broadly accepted by the Minister. The recommendations include the retention of a formal rents policy which is similar to the current system but the detail of the actual rent increases which will be allowed under the system have not yet been published. In addition, rent income will also continue to be affected by welfare reform. The impact of Universal Credit has already led to an increase in the bad debt provision from 4% to 5% within the Business Plan. This may need to be adjusted further should rent collection rates continue to fall. The review has also recommended some additional conditions which could be attached to the annual £9.2m Major Repairs Allowance (MRA) Grant.
 - Emerging National Policy including Decarbonisation - WG have announced some outline decarbonisation targets for housing in Wales, and although specific requirements for social housing have not yet been set, indications are that energy rating targets will be considerably higher than current levels. It is too early to provide accurate forecasts of the investment needed to retrofit our existing stock to meet the new targets. An initial estimate to achieve an EPC rating A for existing stock across 13,500 homes is in excess of £500m. There has been no indication from WG on whether any additional funding will be provided to fund the investment required.
 - Redevelopment Projects - There are plans post 2020 for regeneration schemes at Tudno Place and Heol Emrys and Griffiths John Street which will require substantial investment. Whilst the Business Plan has made some provision the full cost of these schemes has not yet been determined.
 - The Swansea Standard Specification – build costs have modelled on this specification, a Fabric First approach, which is thermally efficient and 25% above current building regulations. The Better Homes, Better Wales, Better World report states that by 2021, all homes developed with public sector funding should be built to zero carbon standards, with new houses across all other tenures achieving this target by 2025. Current discussions with the Building Research Establishment (BRE) indicate that the Swansea Standard will meet these requirements. The Swansea Standard can also be combined with renewable technologies to improve the energy efficiency even further should these requirements change.
- 3.4 It must be noted that any changes in these assumptions will result in an increase or decrease in the number of units that the Council can afford to deliver.

4. Next Steps

- 4.1 As soon as the new WG national rent policy and the new grant funding regime have been agreed it is proposed that a rolling 3 year development programme in line with the WG new funding regime is reported to

Cabinet. This programme will set out how the Council will meet the ambition to deliver 1000 new affordable homes. This new rolling programme starting in April 2021 will overlap with or supersede the current HRA development programme that projects 142 new council homes up to 2023. Of the 142 new homes projected to 2021, it is likely that approximately 85 of these will be delivered by 2021, so this figure will be in addition to the 1000 new homes target.

- 4.2 The Council is also undertaking a procurement exercise to appoint a partner to undertake a Joint Venture approach to develop mixed tenure housing on larger HRA sites. This will form a significant contribution to the delivery plan.
- 4.3 The Council has also commissioned a masterplan for the regeneration of Heol Emrys and Tudno Place, and this will also include an element of new build housing. There are also plans to deliver new housing on vacant land following the refurbishment of the Griffith John Street area. Both these schemes, along with other infill areas will be considered for development to contribute to the target.
- 4.4 Partnerships and collaboration will also be a factor in WG determining grant awards, and it is likely that the HRA may be able to deliver larger sites on public or private land by working in partnership with regionally zoned Registered Social Landlords. All such opportunities will be explored to ensure full contribution to the development plan.

5. Equality and Engagement Implications

- 5.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:
 - Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
 - Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above.

- 5.2 An EIA Screening Form has been completed and a full EIA report is not required at this stage. Each site will need to be considered in detail once the development proposals are known. This will be subject to a further report.
- 5.3 Delivery of affordable homes is a good example of the 5 Ways of Working promoted by the Wellbeing of Future Generations (Wales) Act 2015 and will make a significant contribution to the 7 well-being goals. It is an example of collaborative working between the public and private sector in a sustainable way resulting in a long term partnership with the

objectives of developing homes within the city for the benefit of future generations.

- 5.4 Increasing the supply of affordable housing will assist in the regeneration of areas, and stimulating economic growth, addressing issues such as poverty, inequality, jobs and skills which directly contributes to the council's obligations to act in a sustainable way pursuant to the WFGA.

6. Financial Implications

- 6.1 The current HRA Business Plan includes a budget of £5m per annum for More Homes over the next 30 years. Any potential grant funding opportunities will be explored as part of the process. WG are currently reviewing the financing of affordable housing delivery, so at present assumptions cannot be made about any potential grant subsidy to support the schemes.

- 6.2 An increase in borrowing required to fund the new build programme could significantly increase the revenue costs of supporting the HRA borrowing. The current HRA Business Plan forecasts that HRA borrowing will be £243m by 2023 with an annual revenue cost of £15m. Depending on the level of additional borrowing, annual revenue costs could rise to £30m.

- 6.3 As set out in Section 3, there is a significant uncertainty around a number of factors, including rental income, which makes long term investment planning difficult. In addition, the future investment needed for existing HRA housing stock to meet the WG's decarbonisation targets is currently unknown. As such, this report represents a high level strategic ambition based on preliminary forecasts with many issues and factors which need to be detailed and considered before the ambition can be realised.

7. Legal Implications

- 7.1 All external goods and services will be procured in line with Contract Procedure Rules and European procurement regulations as appropriate.

- 7.2 Any appropriation, acquisition and disposal in respect of HRA land will be done in accordance with the powers in the Housing Act 1985 and in accordance with the Constitution.

- 7.3 Any powers and works need to be carried out in line with the Well-being of Future Generations Act (Wales) 2015

8. Conclusion

- 8.1 It is possible to demonstrate that delivering 1000 new homes over the 10 year period could be affordable within the HRA business plan however there remains uncertainty on a number of issues, especially around income, grants and the emerging decarbonisation agenda.

Appendix 1 - EIA Screening Tool

Background Papers - Cabinet Report 21/219 - Development Programme Part 1 (HRA)