

Report to:	Cabinet	Date of Meeting:	7 January 2021
Subject:	Provision of Council (Social Rented) Housing at Buckley Hill Lane Netherton		
Report of:	Head of Economic Growth and Housing	Wards Affected:	St. Oswald;
Portfolio:	Cabinet Member - Communities and Housing		
Is this a Key Decision:	Yes	Included in Forward Plan:	Yes
Exempt / Confidential Report:	No		

Summary:

The report seeks approval for Sefton Council to re-enter the social housing market through the provision of council housing for rent, and to set out a direction of travel in order to achieve this.

Recommendation(s):

Cabinet:

- (1) agree the strategic case for Sefton Council re-entering the social housing market through the provision of council housing for rent set out in this report
- (2) give authority to negotiate the terms to acquire one block, comprising nine apartments, as the start of its future stock of council housing from Sandway Homes, as part of Sandway's development at Buckley Hill Lane Netherton.
- (3) give approval to register Sefton Council with the Regulator of Social Housing as a social housing provider
- (4) give authority to apply to Homes England to become an Investment Partner,
- (5) instruct officers to develop a Business Plan for council housing provision which sets out greater detail for the operational requirements, including financial modelling and management arrangements
- (6) give authority to pursue the procurement of a suitable housing association to provide the required housing management services, and delegate authority to the Head of Economic Growth and Housing in consultation with the Cabinet Member for Communities & Housing to appoint a management agent
- (7) agree to the procurement and appointment of suitable consultant(s) to assist undertake associated tasks set out in this report and arising from the recommendations in this report. The costs will be met from within the existing budget for the Economic Growth and Housing Service. Delegate the appointment of the consultants to the Head of Economic Growth and Housing in consultation with the

Cabinet Member for Communities and Housing; and

(8) note that a further report will be submitted to Cabinet setting out the terms to acquire the council housing stock from Sandway Homes, and which sets out the Business Plan and proposed operational arrangements

Reasons for the Recommendation(s):

to pursue the actions and recommendations set out in this report to Cabinet approval.

Alternative Options Considered and Rejected: (including any Risk Implications)

The Council could opt not to provide council housing, but this would limit the opportunity to increase the pace and scale of (affordable) housing delivery. It would also rely on Housing Associations to be the primary provider of social housing. While the provision of HA Affordable Rent housing is generally welcomed, provision of council housing can offer a complimentary alternative which can maximise the use of available and ringfenced resources.**What will it cost and how will it be financed?**

(A) Revenue Costs

Revenue resources will be required to fund the future management and maintenance of the council housing stock, the cost of which will be offset by rental income. A Business Plan will be prepared for future consideration by Cabinet

(B) Capital Costs

Capital resources will be required to fund the acquisition of properties from Sandway Homes. The level of funding required will be included in a future report

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets):

Capital resources will be required to fund the acquisition of properties from Sandway Homes. Revenue resources will be required to fund the future management and maintenance of the council housing stock, the cost of which will be offset by rental income.

Specialist resources will be required in order to fulfil operational functions identified in this report

Legal Implications:

Any local housing authority that is a landlord of social housing is subject to compulsory registration with the Regulator of Social Housing under Section 114 of the Housing and Regeneration Act 2008.

Section 27 of the Housing Act 1985 (HA 1985) requires local housing authorities to seek the approval of the Regulator of Social Housing to the making of management agreements for it's social housing.

Equality Implications:

There are no equality implications.

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Contribution to the Council’s Core Purpose:

Protect the most vulnerable: Many vulnerable people rely on accessing social housing for a home to live in.
Facilitate confident and resilient communities: Providing a stable home is a primary way of creating sustainable and resilient communities and lifestyles
Commission, broker and provide core services: Provision of Council housing would become a core service and a social housing allocations scheme is an existing core service
Place – leadership and influencer: NA
Drivers of change and reform: Providing Council housing would be a key change to the market of social housing provision in Sefton
Facilitate sustainable economic prosperity: NA
Greater income for social investment: NA
Cleaner Greener New build council housing will meet high quality standards and be energy efficient

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD.6222/20.....) and the Chief Legal and Democratic Officer (LD.4414/20.....) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

Not Applicable

Implementation Date for the Decision

Following the expiry of the “call-in” period for the Minutes of the Cabinet Meeting

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Appendices:

There are no appendices to this report

Background Papers:

There are no background papers available for inspection.

1. Introduction/Background

- 1.1 Cabinet has previously expressed a wish to pursue the future provision of Council housing for social rent. At the Cabinet meeting of July 2019, the Cabinet considered a report on the work that had been undertaken to update Sandway Home's Business Plan for their Phase 1 new-build housing programme, and resolved:

the request to Sandway Homes Limited to identify up to 5 affordable homes for purchase by the Council for the purpose of providing Council Housing and that a subsequent report, detailing the exact assets to be purchased and the financial implications be provided to support the decision in accordance with the Council's Constitution and Financial Procedure Rules be approved.

- 1.2 This report seeks to set out further information for Cabinet to consider relating to the strategic case for pursuing council housing provision and the proposed acquisition of a block of nine apartments from Sandway Homes - the Council's wholly owned housing company - to provide the initial stock. The report also sets out the further work required in order to make progress to provide council housing.

2 Strategic Case for council rented housing

- 2.1 Over the past two years there has been a growing acceptance in Government that councils need to play a greater role in meeting new build housing targets. There also appears to be an acceptance from within MHCLG that higher levels of house building can only be achieved through the active participation of local councils acting as developers and landlords. Sefton Council has already partly responded to this through the establishment of Sandway Homes, its wholly owned private housing development company.
- 2.2 Over the last 15 to 20 years, nationally, there has been a change in the housing market and the growth of the Private Rented Sector (PRS), indicating a growing demand for rented homes. Sefton has similarly seen a growth in the levels of its PRS. In part this growth in PRS and demand has been fuelled by a shortage of (alternative) social housing provision. The PRS offers a different kind of tenure option. While it may seem more accessible to many households, or in preferable locations, it also comes with perceived shortcomings for some households: eg a reliance upon short term tenancies and variable quality of provision offered – in particular the poor quality often offered by the lower to middle end of the PRS market.
- 2.3 The demand for the return to 'Council housing' has also been partly driven by the perceived commercialisation and independence of the broader housing association (HA) movement. In some cases HAs are perceived to have moved away from their traditional role of rehousing people in 'housing need'. Over recent years HAs pursuing Government grant funding to support new housing developments have been forced to build for 'Affordable rent', which in many parts of the country can result in much higher rent levels than traditional 'social rents'. This calls into question the true affordability of these newer rental properties.

- 2.4 Sefton's Local Plan identifies the need for a supply of affordable (including rented) homes. The latest Strategic Housing Market Assessment (SHMA) 2019 evidence continues to support the need for more affordable rented homes; particularly in the north of the borough. Therefore, the Council may wish to be seen to contribute to meeting such needs by directly delivering new council housing for social rent.
- 2.5 The latest SHMA would suggest that there is an adequate supply of general needs social housing across the south of the borough (Bootle/Netherton), other than 1 and 2 bedroom homes, some larger (4 bedroom +) homes, and some specialist accommodation such as homes for people with disabilities. Across the remainder of the borough there is a shortage of general needs rented accommodation of most types.
- 2.6 The Council has a statutory duty to maintain a social housing allocations policy and housing register, which is administered via the Property Pool Plus (PPP) scheme in Sefton. All HAs would normally offer at least 50% of their property vacancies under this scheme (75% for OVH), though some offer a higher proportion than required. Direct provision of council houses would allow all (100%) vacancies to be let via PPP to households in need.
- 2.7 The Council adopted a new Housing Strategy (2016-21) in June 2016. The Strategy recognises that;

"Housing should provide a secure foundation for individuals to live the lives they want to live. Finding the right home, in the right place, can be an essential platform for people seeking to support their families and sustain work".

"Within Sefton access to suitable housing, which is of good quality and affordable, is a key priority for all its residents and communities and this strategy sets out ways to identify and more importantly deliver improvements."

Provision of Council housing, as suggested in this report, would potentially help achieve this strategic objective.

- 2.8 A trend among some HAs is a desire to target the rehousing of economically active households. For HAs they probably see this as a way of creating mixed and sustainable communities, and also not relying on rental income from a large portion of tenants on Welfare (eg Universal Credit) Benefits. However, it could also be seen as turning away from households who have greater (affordable) needs for social housing. The Council could take a slightly different approach and offer 100% of its own stock, under its (PPP) Allocations policy, and ensure it all gets allocated to households with the greatest needs.
- 2.9 The majority of the existing HA social rented stock will have rents set at (historic) Social rent levels. But since 2011, nearly all of the new-build HA rented stock will have rents set at Affordable rent levels. Social rent typically provides lower rents at 50-60% of the market rent, and are based on a formula for calculating rent levels. Affordable rents are usually higher, set at 'up to' 80% of market rent. By providing new homes at social rent levels the Council will be providing homes at more affordable rental levels.

- 2.10 SHMA evidence suggests the greatest social housing need is increasing the supply of 1 and 2 bedroom properties. Some HAs are reluctant to deliver new 1 bedroom homes, due to perceived longer term demand risks, and a desire to target the traditional family housing market.

The Council may be motivated to provide council homes to high-quality property standards (e.g. including energy efficiency and environmental sustainability). There is the opportunity for the Council (and Sandway Homes) to set an Exemplar role of council housebuilding to illustrate to other providers what can be achieved. This would help underpin the Council's Climate Emergency declaration. Standards set by Homes England for homes built by HAs under their grant funding programmes tend to be higher than delivered in the private sector. (These standards are currently under review by Homes England).

- 2.12 Accepting the evidence of the need for more social housing in Sefton, the Council could opt to rely upon Housing Associations (HA) to continue to deliver affordable rented housing for the borough. While the provision of HA Affordable Rent housing is generally welcomed, provision of council housing can offer a complimentary alternative. Benefits of council housing over HA provision could include;

- rents could be set at lower social rent levels
- all the homes could be offered to households on the Council's social housing register
- the Council can have greater control over the types of housing units provided
- the Council can have greater control and influence over how the homes are managed
- provision and management of social housing becomes democratically controlled

- 2.13 Based upon the above analysis, the case for the Council contributing toward the provision of social rented housing is strong.

4. Sandway Homes

- 4.1 Sandway Homes is the Council's wholly owned housing development company, which is currently pursuing new-build developments on land purchased from the Council. Their developments will comply with Council Planning policy, including for provision of affordable housing. While the majority of the homes Sandway provide will be market housing for owner occupation, they would provide 15% of homes as affordable housing on sites in the south of the borough (Bootle and Netherton) and 30% on sites elsewhere in the borough, to comply with the Council's planning policies.

- 4.2 As the Council's wholly owned company, this presents an opportunity for the Council to acquire some of the property Sandway delivers to offer as council housing. Sandway Homes have submitted their planning application for the Buckley Hill site – planning ref; DC/2020/01853. On this particular site there is an opportunity to acquire a block of nine, one- and two-bedroom flats to offer as council rented housing to meet the highest priority housing needs identified by the Council.

- 4.3 The proposed acquisition of a block of nine flats would be a greater number of social housing units than Cabinet originally requested Sandway Homes to provide in July 2019; which was a request for “up to five units”.
- 4.4 By working with Sandway Homes, the Council would not need to employ its own technical and design team to oversee construction and delivery of new build homes. However, Sandway Homes is a commercial entity and the Council will need to agree commercial terms to acquire these homes. Recommendation (2) seeks authority to negotiate the terms to acquire the nine proposed affordable dwellings from Sandway Homes, as part of Sandway’s development at Buckley Hill Lane Netherton. It is anticipated that the new homes will have been completed by April 2022, and terms for their acquisition will need to be completed prior to then. Also the issues outlined below will have to have been resolved or sufficiently progressed in advance of acquisition.

5. Further work required

Homes England Affordable Housing grant programme

- 5.1 It would be beneficial if the Council were to explore whether it could bid for and obtain Affordable Housing Grant from Homes England (HE) to assist and support the acquisition costs for purchasing the block of nine flats from Sandway Homes. This dialogue is ongoing currently. If the Council are going to apply to HE for Affordable Housing Programme grant funding, attaining ‘Investment Partner’ status with HE is a requirement. The Council have options for attaining this status. To receive grant funding, the Council will need to be a qualified Investment Partner of Homes England in its own right or be working with an organisation that is. Investment Partner status confirms that organisations have the financial and technical capacity to deliver their proposed schemes, and that they have financial and legal good standing. On balance officers believe that it is usually better to become an Investment Partner in the Council’s own right. The process to attain this status shouldn’t be overly difficult for a Local Authority, though accessing expert (external consultancy) assistance would be helpful with navigating the application process.
- 5.2 HE launched their 2021-26 Affordable Housing funding programme in September 2020, to deliver up to 130,000 affordable homes by March 2026 – outside of London. Funding will begin to become available from April 2021. Fifty percent of this funding will be available to support delivery of homes for rent. This grant is in high demand from a well-developed housing association sector who will be well placed to submit competitive bids. The Council would benefit from accessing (external consultancy) expertise to help guide its own funding bids with HE.
- 5.3 Capacity and expertise would be required to assist the Council to become an Investment Partner and to manage the grant application process, and oversee compilation of competitive bids. The Council do not have the capacity or expertise in-house to do this. One thing of importance to note is around the use of Homes England’s ‘Investment Management System’ (IT system). Bids and any grant awarded is managed via this system. Unless an organisation is using the system all of the time it is a difficult one to use. Therefore, it is recommended to consider employing a consultancy to do this work on the Council’s behalf.

Regulatory Requirements;

- 5.4 In delivering council rented homes, the Council would need to re-register with the Social Housing Regulator and abide by the rules (including rental limits) set out by the Regulator and the broader regulatory regime. The Government issued its new Social Housing White Paper in November 2020. This includes proposals, post Grenfell, for a tighter housing regulation regime. Among other measures, the Government proposes to establish a new arm of the Regulator of Social Housing to proactively regulate on consumer standards including quality of homes, repairs, meaningful engagement with tenants and complaints handling. While the proposals in the White Paper are broadly welcomed they also make the management of social housing more challenging.
- 5.5 Further work is required to consider the Council's decision-making framework and constitution in order that there is proper democratic accountability for its future decision making for council housing stock, and its future tenants. This will likely include the need for an annual report on the past years performance and plans for the following year; including operational and financial issues. Reports will also likely need to address the Council's compliance with regulatory requirements.

Financial Issues

- 5.6 The Council could deliver less than 200 homes through the General Fund and without re-opening the Housing Revenue Account (HRA). Alternatively, the Council would need to re-open the HRA to deliver a larger number of units than the 200 threshold. Should the Council re-open the HRA, it has already been confirmed by MHCLG (and reported previously to Council in response to questions raised) that there is no risk of the pre-stock transfer debt being re-activated. There had been concern about a potential financial barrier related to historic pre-stock transfer HRA debt which had been written off by Government. Officers sought written clarification from MHCLG on the issues relating to the financial arrangements following the Council's stock transfer in 2006, and were informed by MHCLG:

You asked if the council would be required to repay any of the historic debt and/or gap funding that was provided as part of Sefton's 2006 stock transfer. I can confirm that neither the debt nor the gap funding will need to be repaid if Sefton builds 199 council homes outside the HRA, or if it builds 200 or more homes that are accounted for in a Housing Revenue Account.

- 5.7 ***Capital Funding;*** Capital resources are required to fund the acquisition of properties from Sandway Homes. Sufficient capital resources are available to purchase these initial nine units from Sandway Homes, arising from the historic Right To Buy Sharing Agreement included in the stock transfer arrangements, subject to a full business case being presented to Cabinet in future. These receipts are intended to be used to pursue the Council's housing objectives. Also to be noted is the possible future availability of Planning S106 commuted sum receipts for the provision of off site affordable housing. Further work will be undertaken to determine potential future capital requirements and funding sources. Being clear on the availability of capital funding will be a key matter to

satisfy Homes England of the Council's financial standing in order to help become an investment partner.

- 5.8 The Council will seek to explore opportunities for capital grant funding from Homes England, but they would only expect to offer grant in the region of 25%-35% of scheme costs. They would expect the Council to identify funding to meet the remainder of the capital costs. The lower the proportion of costs sought from Homes England the more competitive the funding bid would be seen from a HE 'value for money' perspective.
- 5.9 *Revenue Funding*; The council will need to meet the costs of managing its housing stock, meeting the costs of day to day responsive repairs, and setting aside funding for future planned maintenance works. The Council would receive rental income from the new property's tenants. Further financial work is required to develop an operating financial model that will test whether this income will be sufficient to meet the operational costs, but this will also become clearer when a housing management partner has been procured.

Risks

- 5.10 Providing council housing requires identification and management of the risks appropriately. A thorough risk register will need to be developed. This will need to consider external risks, which may include national policy issues including: future rent setting policies, impact of the right to buy, cumulative effect of numerous welfare changes, and changes to the regulatory framework. Local risks might include: land supply, site development experience and capacity, access to grant funding, planning, and commissioning appropriate management services.

Stock and Tenancy Management arrangements

- 5.11 The Council will need to put in place suitable arrangements for the management and maintenance of its housing stock, to perform a suitable landlord function. Given the low numbers of properties it will own – initially at least – it would be uneconomic to manage them in-house and recruit staff to do this. Alternatively the Council could procure and appoint a HA partner to manage its housing stock. A HA would be familiar with the Regulator of Social Housing's regulatory requirements. This might offer a quicker, lower risk, and more cost effective initial response. At some point in the future, the Council might want to consider and determine the likely point at which (ie number of properties and rental income) it would be more feasible to bring the management and maintenance functions in house.
- 5.13 Section 27 of the Housing Act 1985 (HA 1985) requires local housing authorities to seek the approval of the Regulator of Social Housing to the making of management agreements. The regulator's general approval under Section 27 states:

The regulator has issued a general approval which allows for certain types of management agreements to be made without seeking specific approval. The general approval can be found on the regulator's website and should be considered in full, but in summary a local housing authority may enter into a management agreement which complies with the following conditions: the

agreement is for no more than five years duration; tenants have been consulted as required by the HA 1985; the selection process for the manager has been fair and open, in accordance with European Union and national law.

The following categories of agreement which meet the above conditions are covered by the general approval:

- those subject to tendering conditions and containing certain terms; or*
- those dealing with a small number of homes (i.e. no more than ten homes or twenty hostel spaces); or*

- 5.16 Consideration will need to be given to the type of performance framework the HA Management Agent will use to report to the Council. This will need to cover operational and financial performance and frequency of reporting, and where those reports will be considered within the Council.
- 5.17 The Council may need to put in place some support services. Certainly it will need a 'client role' to oversee the procurement of a suitable consultant and support the work of that consultant, relating to: registration with the Regulator of Social Housing, application for HE Investment Partner status, submission of grant funding bid to HE, and procurement of a HA Management partner.
- 5.18 The Council will need to decide whether or not it wants to provide any other support services once the new homes are in management, such as finance, or any of its services that could support the management of the dwellings (eg grounds maintenance, property maintenance, anti-social behaviour service). The Council will be better placed to determine whether provision of such support services are required when it appoints a HA Management Partner and agrees the extent of their role and the cost of their services.

6. Conclusion

- 6.1 Delivering a new generation of Council homes is not simply about building or acquiring stock. It is also about re-entering a world where service provision is externally regulated, where rent levels are controlled by national formula and where capital subsidy from Government is scarce and difficult to acquire. Whilst the Council may own new stock, it will be required to develop and manage the homes in line with broader Government policy and regulatory requirements. There will be challenges to deliver new council housing but the potential benefits could outweigh the challenges and be significant.
- 6.2 Initial proposals for providing council housing rely on new-build homes being provided by Sandway Homes. This can be considered to be the first phase of council housing provision. Sustaining the growth of council housing through Sandway Homes will rely on the Council providing further council owned sites for Sandway Homes to develop. In time the Council will need to consider the scale of any council housing provision it aims to deliver. Longer term the Council may consider other options to grow its social housing stock; which may include acquiring existing (poor quality) private sector stock and refurbishing/remodelling this. This could present a 'regeneration' motivation for council housing provision. For example, the Council could consider acquiring poor quality HMO stock, with a view to refurbishing/remodelling this to provide better quality 1 bedroom self contained flats accommodation.

6.3 In considering the above, the scale of Council housing delivery when nearing the 200 unit threshold, will ultimately lead to a decision to consider whether it should reopen the Housing Revenue Account. Re-entering the provision of council housing is clearly a major commitment, with significant potential benefits but not without its challenges. This report is intended to seek the initial approvals and outline the thought processes, resource planning and governance through which the Council will need to progress.