

Report to:	Council	Date of Meeting:	Thursday 18 January 2024
Subject:	Provision of Council Housing at Buckley Hill Lane, Netherton		
Report of:	Assistant Director of Place (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:

A Council Housing Business Plan was approved at Cabinet in April 2023 which will see the delivery of around 50 new homes over the next 5 years. This report recommends the funding into the capital programme for the acquisition of 18 homes (apartments) for social rent to be acquired from Sandway Homes at Buckley Hill Lane, Netherton.

Recommendation(s):

Council is asked to:

- (1) Approve a Supplementary Capital Estimate of £2,222,783 for the acquisition of new council housing at Buckley Hill Lane, Netherton to be funded through affordable housing capital receipts, historic right to buy sharing agreement receipts and Homes England grant funding as recommended by Cabinet following the meeting on 2nd November 2023.
- (2) Approve the net rental income from the scheme, including that received during the initial payback period to be reserved and reinvested into the Council Housing Programme.

Reasons for the Recommendation(s):

To progress with the delivery of council housing at Buckley Hill Lane through the acquisition of 18 apartments for social rent.

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

Option 1 – Do Nothing, choose not to provide council housing.

Cabinet has already approved the acquisition of properties at Buckley Hill Lane for use as council Housing in January 2021, and May 2022. However, the Council could choose not to provide council housing at Buckley Hill Lane, however this could limit the

opportunity to provide new social housing aimed to meet identified housing need in Netherton and does not align with the strategic case for council housing delivery. Further, this option would remove the complimentary offer of additional social housing provision thereby relying on housing associations to meet housing need.

Option 2 – Acquire 18 apartments for social rent without grant funding.

The Council could proceed with approval for the acquisition of homes at Buckley Hill Lane choosing not to apply to Homes England for grant funding through the Affordable Homes Programme (AHP) and instead fund solely from its own financial resources. This option is not recommended as financial viability appraisal has been undertaken justifying the need for grant funding to deliver social rent homes and funding is available through the AHP to deliver affordable housing in the way in which the Council proposes. Seeking to achieve grant funding would mean the Council's capital resources are available to deliver future Council Housing Programme opportunities.

Option 3 – Acquire 9 apartments for social rent.

A further option would be not to acquire 18 apartments and instead acquire 9 apartments for social rent as was approved at Cabinet in January 2021. Whilst this option would still deliver council housing in line with strategic priorities, market changes which affect Sandway Homes have seen a reduced demand for apartment sale properties and as such, the remaining 9 apartments could be sold to a housing association. The Council acquiring all 18 apartments offers benefits that it would be the sole provider of affordable housing on the site, especially with the apartment blocks being in close proximity to one another. Housing waiting list data from Property Pool Plus demonstrates strong need for smaller 1 and 2-bedroom properties.

What will it cost and how will it be financed?

(A) Revenue Costs

Revenue costs will be required for the ongoing and long-term housing management and maintenance of the properties once they are in Council ownership. The cost of this service will be off set against the rental income that the Council will receive from letting of the properties. An assumption of costs has been made based on the recent procurement exercise to appoint a Housing Management Agent and benchmarking with the social housing sector.

No borrowing has been assumed in the delivery of the scheme due to the existing capital finance available within the Council to support the delivery of social housing, however the appraisal is modelled to generate payback of the capital investment. It is recommended that this payback and any future net rental income beyond the payback period is reserved and reinvested into the Council Housing Programme to reflect year on year fluctuations and also develop and enable the provision of future council housing delivery across Sefton. There is therefore no impact on the bottom-line budget.

(B) Capital Costs

Capital costs equate to £2,222,783. The final capital cost required will be subject to a grant offer from Homes England.

Sufficient finance is available to support the acquisition through S106 commuted sum monies for the provision of affordable housing and Historic Right to Buy Sharing Agreement receipts following the Councils stock transfer to One Vision Housing.

Implications of the Proposals:

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

Financial resources are required to fund the acquisition of properties from Sandway Homes as a capital cost. Revenue resources are required to fund the housing management and maintenance service that the Council will offer to its tenants through an appointed Housing Management Agent, the cost of which will be fully funded by rental income received for the properties.

Specialist external advice is required to support in a number of areas to enable the operational activity in delivering council housing including legal and project management of the acquisition. The procurement and financing of external support was approved at Cabinet in January 2021.

There will be an asset implication resulting from the acquisition of properties, although the management and maintenance of which will be managed by a Registered Provider.

Legal Implications:

A local authority may hold up to 199 homes outside of a Housing Revenue Account under a Government direction subject to writing to the Secretary of State for Housing Communities and Local Government to apply to hold specific homes outside of an HRA.

Sefton Council have registered as a Registered Provider of Social Housing with the Regulator of Social Housing based on the intention to provide social housing as is required under Section 114 of the Housing and Regeneration Act. The Council will be subject to regulatory and legislative requirements and compliance through its new landlord duties.

There would be a requirement to provide tenancy agreements for each property determined by the Housing Act 1985, Housing Act 1996, and Localism Act 2011. Standard tenancy agreements would need to be developed with the support of expert legal advice. Such agreements could then be utilised for any future council housing properties considered.

Section 27 of the Housing Act 1985 allows local authorities to enter into management agreements in relation to their housing stock. Under this Section 27, local authorities which are registered providers of social housing are required to seek the approval to these agreements from the Regulator of Social Housing. A Management Agent has been appointed following a competitive and fully compliant procurement process. Regulator approval is pending.

The Council would need to enter into a new supply contract with Homes England to agree to the terms and conditions attached to any grant offer and ensure compliance with the AHP.

Equality Implications:

An Equality Impact Assessment has been undertaken and no negative impacts have

been identified. The EIA found that the provision of council housing and subsequent landlord service will have a positive impact on the protected characteristics of age and disability. The EIA will be reviewed and updated at the relevant review point and as work continues with the operational requirements to enable the Council to provide council housing.

Climate Emergency Implications:

The recommendations within this report will

Have a positive impact	Y
Have a neutral impact	N
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	Y

Although building of new homes will have a negative impact on the Climate Change Emergency as a result of the construction and build process. Sandway Homes have included mitigation measures within their design for the development and will be undertaking the development in a manner compliant with Planning policy EQ7 Energy efficient and low carbon design.

Measures introduced at Buckley Hill Lane to reduce the carbon footprint through construction include:

- Electric vehicle charging points to each dwelling and to the apartment block
- Energy efficient design with high thermal efficiency values to reduce heat loss, high efficiency boilers and heating systems
- Sustainable design and landscaping throughout the site with 'green streets'
- Surface water drainage integrated into landscape features to encourage wildlife

The properties that will be constructed will conform to the latest Building Regulations which will ensure that they will have a higher energy efficiency rating than the average equivalent property in Sefton.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: New council housing at Buckley Hill Lane will provide secure, quality homes to those most in housing need. Homes will be let at social rent level which offers the most affordable route to social housing. Homes will be developed to high energy efficiency standards which will help to reduce energy bills for tenants.

Facilitate confident and resilient communities: Provision of new council housing will provide additional housing choice to local communities in Sefton. Homes will be offered through Council tenancies enabling stability for households and families in housing need creating sustainable, confident, and resilient communities. A new housing management and maintenance service will be in place for tenants of any new council owned homes and will support tenants and communities through this service. Provision of shared ownership homes will provide an added housing offer and alternative route to home ownership at Buckley Hill Lane.

Commission, broker and provide core services: Provision of new council housing will become a core service. A housing management and maintenance service will be in

place, and the Council will work with its appointed management agent to deliver this for new Council tenants. Homes will be let through the existing allocations scheme, Property Pool Plus which is already in place as a core service.

Place – leadership and influencer: Not applicable.

Drivers of change and reform: Delivery of new council housing will offer homes at social rent adding to the existing provision of social housing in Sefton and providing an alternative social housing offer to those in housing need.

Facilitate sustainable economic prosperity: Development of Buckley Hill Lane and other sites within Sandway Homes' Phase 1 programme will generate direct and indirect employment and training opportunities supporting economic prosperity. Supply chains such as contractors, suppliers, technical and professional services will be supported throughout the development process.

Greater income for social investment: Not applicable.

Cleaner Greener: Newly developed council housing will provide high quality homes and be energy efficient with low carbon design measures. Design of the homes has been developed by Sandway Homes to be compliant with Planning policy and Building Regulations.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD 7390/23) and the Chief Legal and Democratic Officer (FD 5590/23) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

Not applicable

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Appendices:

There are no appendices to this report.

Background Papers:

Cabinet (07/01/2021) – Item 79 – Provision of Council Housing Buckley Hill Lane, Netherton

Cabinet (26/05/2022) – Item 11 – Provision of Council Housing at Buckley Hill Lane, Netherton

Cabinet (06/04/2023) – Item 154 – Council Housing Business Plan

1. Introduction/Background

- 1.1 In January 2021, Cabinet considered a report seeking approval for the Council to re-enter the social housing market through the provision of council housing for rent and set out the direction of travel to achieve this.
- 1.2 Since the January 2021 Cabinet resolution, a considerable amount of work has been undertaken to bring forward the recommendations, including establishing a new Council Housing Programme Business Plan which was approved at Cabinet in April 2023 and bringing forward the acquisition of homes at Buckley Hill Lane.
- 1.3 Discussion and negotiation has been underway with Sandway Homes in respect of the acquisition of properties at Buckley Hill Lane. A revision to the proposed mix previously agreed by Cabinet is presented within this report to acquire 18 apartments to deliver as social rent homes. A timeline is provided as follows:
 - December 2021 – Cabinet agreed the strategic case for Sefton Council re-entering the social housing market through the provision of council housing for rent and as the start of its future housing stock from Sandway Homes. Cabinet gave authority to negotiate terms to acquire 1 apartment block at Buckley Hill Lane, comprising 9 apartments (6 x 1-bed and 3 x 2-bed).
 - May 2022 – Cabinet considered a Business Case and approved the acquisition of 4 houses to be provided as Shared Ownership homes, in addition to the 9 apartments previously approved with the proposed acquisition being in line with the Planning Policy compliant affordable housing requirement.
 - April 2023 – Council Housing Business Plan approved by Cabinet confirming negotiations were underway to acquire both apartment blocks (18 apartments, a mix of 1 and 2-bedrooms), an increase in the total number of affordable homes on the site and in place of the planning policy requirement of 13 homes.
 - November 2023 (current position) – Negotiations have progressed with the proposal presented to acquire both apartment blocks on the site comprising of 18 apartments which will see 9 x 1-bed and 9 x 2-bed apartments provided. With the affordable housing requirement removed by Planning Committee, the Council can seek to apply for grant funding from Homes England through the AHP to help fund the acquisition.

Strategic Case

- 1.4 The Business Case presented to Cabinet in 2022 set out a detailed strategic case for the delivery of council housing and specifically the acquisition of new homes at Buckley Hill Lane. Affordable housing need is still strong across Sefton and whilst evidence suggests that there is an adequate supply of general needs rented housing across the South of the borough (Bootle/Netherton), there remains need

for smaller 1 and 2-bedroom homes which are being provided at Buckley Hill Lane.

- 1.5 Demand for the Council's Housing Options service remains very high with homeless presentations increasing over the last 2-years and an increased need and demand for temporary accommodation.
- 1.6 Property Pool Plus is the Choice Based Lettings Scheme in place in Sefton allows households seeking affordable housing to rent to register and apply for housing. Data from Quarter 1 2023-24 shows that there are currently 3,517 households registered for rented affordable housing in Sefton, 63% have an assessed housing need and nearly half (46%) require a 1-bedroom home to meet their housing need. Of the properties advertised to let there are, on average 162 bids made per property. Data also demonstrates strong demand for adapted properties with 208 households requiring an adapted property compared to 31 adapted properties being advertised to let.
- 1.8 The delivery of council housing presents an opportunity to intervene to meet housing need and demand as this grows and changes, including the opportunity to relieve homelessness pressures. The 18 apartments at Buckley Hill Lane will be a mix of 1 and 2-bedroom homes with those on the ground floor being built to Building Regulations M4(2) standard meaning that they are accessible and adaptable.

2. Buckley Hill Lane Development

Financial Position

- 2.1 In working to bring forward council housing at Buckley Hill Lane, a full financial viability appraisal has been undertaken, with the support of a specialist consultant. The appraisal is based on a key set of assumptions to determine the viability of delivering the 18 apartments for social rent of which independent valuation has been obtained and purchase price agreed with Sandway Homes ensuring that value for money is achieved and a purchase price is not being agreed above open market value.
- 2.2 Total scheme costs are £2,222,783. The appraisal shows that the acquisition would generate a positive return with the assumption of £60,000 per apartment Homes England grant funding. The appraisal is run over a 40-year period which is typical for a social housing development given the lifecycle of housing with some housing providers now appraising over much longer periods.
- 2.3 Officers have been in dialogue with Homes England about the availability of grant funding to support the delivery of council housing at Buckley Hill Lane and funding remains available through Continuous Market Engagement (CME) route i.e. on a scheme by scheme basis which is the intended route for any bid made by the Council. The programme requires a start on site by 30 September 2025 and completion by March 2026, which is in line with Sandway's programme for the site and achievable. An application for Investment Partner status will be made and is to be achieved prior to the payment of any grant.

- 2.4 Since the introduction of the AHP in 2021, Homes England have announced some key changes to the programme. Relevant to the acquisition at Buckley Hill Lane is the February 2023 update which introduced social rent-specific grant rates in all parts of the country meaning that higher grant rates can be achieved for housing organisations delivering social rent homes. Prior to this update, providers wanting to deliver homes for social rent could only do so at grant levels mirroring that of affordable rent, a more expensive rent which typically requires less grant.
- 2.5 Approval of any grant funding will require the Council to enter into a new supply contract with Homes England and ensure compliance with the contractual framework, including the Capital Funding Guide and recovery determination. A review of compliance may take place though Compliance Audit post completion and handover of the homes and so it is important to prepare and plan for this throughout the bidding process and grant drawdown process.
- 2.6 Ringfenced capital resources are available internally to fund the purchase of homes from Sandway Homes arising from s106 commuted sum monies for the provision of affordable housing of which £379,500.50 is available and proposed to be committed and the historic Right to Buy Sharing Agreement following the Council's stock transfer of which £763,282.50 to be committed assuming that the Council achieves the assumed £60,000 per apartment grant offer from Homes England.
- 2.7 In addition to the total scheme costs of £2,222,783, the Housing and Investment Service anticipate incurring estimated fees during 2023/24 of £18,561 which includes consultancy fees and external legal advice required to bring forward the acquisition. It is proposed to capitalise these fees for 2023/24 committing Right to Buy Sharing Agreement receipts to cover the cost.
- 2.8 The Affordable and Supported Housing Supplementary Planning Document (SPD) was adopted on 25th May 2023 to inform decisions on land use planning in Sefton and sets out the exceptional circumstances that may justify off-site affordable housing provision and financial contributions in lieu of on-site provision. Future affordable housing contributions secured through the planning process will enable a future capital funding opportunity to support the Council Housing Programme.
- 2.9 As noted in section 4, there is a risk that grant funding is not achieved. This would leave the Council with the option of choosing not to progress with the acquisition in which case an alternative Registered Provider (housing association) would likely be sought.
- 2.10 However, given the strategic case and positive benefits that the delivery of council housing will bring as outlined in previous reports and the approved Council Housing Business Plan, the Council could choose to bridge the funding gap with the use of capital receipts. Payback is currently generated in year 17 and cash flow positive from year 1 with surplus net rental income paid back to reinvest in the Council Housing Programme.
- 2.11 To mitigate the risk, officers have been in dialogue with Homes England from an early point and consultants will support with the development and submission of a grant funding bid.

Sensitivity Analysis

- 2.12 Sensitivity analysis has been undertaken to understand the impact that the following sensitivities will have on the financial position, particularly given the initial small number of homes proposed as the Council Housing Programme progress. The main sensitivity areas are as follows:
- Void (Empty Properties) – Given the small number of properties proposed, one empty property can have an impact on the financial position. As such, an increase in empty properties has been tested.
 - Bad Debts – A reasonable assumption has been included within the Business Case, however an increased level of bad debt has been tested given the likely pressures that communities and households are facing due to the cost of living crisis in paying households build and rent.
 - Inflation – Inflation has been assumed at 2% within the appraisal as this reflects the Government’s target to bring inflation back down to this level. Inflation has however been fluctuating over the past 12-18 months with levels of 11.1% (CPI) reached in October 2022. Whilst inflation has continued to fall, sensitivity has been tested to determine the position if inflation were to remain at 6.7% as reported in the 12 months to August 2023.

3. Update on the Operational Requirements

Housing Management Agent

- 3.1 Further to the January 2021 Cabinet resolution, a housing management agent has now been appointed. The Council has appointed a Registered Provider through competitive and fully compliant procurement process. Contracts have not yet been entered into as the Council awaits approval from the Regulator under Section 27 of the Housing Act 1985 to enter into a management agreement.
- 3.2 Work is underway to develop related operational requirements including, the development of policies relating to the management and maintenance of socially rented housing, tenancy agreements for the letting of homes and future Governance arrangements. Operational requirements will be developed prior to the onboarding of properties at Buckley Hill Lane and will be subject to a future report to Cabinet as was recommended at the May 2022 meeting.

Regulatory Requirements

- 3.3 Registered Providers of Social Housing in England are regulated by the Regulator of Social Housing (RSH) and Sefton Council are registered as a Registered Provider of Social Housing based on the intention to provide council housing.
- 3.4 The Social Housing (Regulation) Bill received Royal Assent on 20th July 2023 bringing forward some of the biggest reforms to social housing, and in particular the regulation of social housing in decades. Largely a result of the tragic events at Grenfell Tower which saw serious issues on the safety and quality of social housing identified as well as the way in which social housing tenants are treated by their landlords. Subsequent proposals were introduced within the 2018 social

housing green paper and 2020 social housing white paper, many of which have now been brought forward with the introduction of the Act.

- 3.5 Many of the provisions are not yet in force and are subject to further regulations made by the Secretary of State, however, it is anticipated that most aspects of the Act will take effect on 1st April 2024 when the proposed new consumer standards come into place following consultation by the Regulator of Social Housing (RSH).
- 3.6 The law brings forward some ground-breaking changes, including:
- Strengthening the RSH to carry out regular inspections of the largest social housing providers and the power to issue unlimited fines to social landlords.
 - Enhancing the RSH's role in regulating the consumer standards.
 - Additional Housing Ombudsman powers to publish best practice guidance to landlords following investigations into tenant complaints.
 - Powers to set strict time limits for social landlords to address hazards such as damp and mould.
 - New qualification requirements for social housing managers.
 - Introducing stronger economic powers to follow inappropriate money transactions outside of the sector.
- 3.7 New proposals for consumer regulation will see the RSH regulating in a pro-active way with greater enforcement powers for those housing providers that are not complying with the standards. As a social housing provider, the Council will need to ensure that tenants are receiving a service that meet the standards and that the Council is complying with the standards. This forms part of the housing management agent contract and the ability to hold the service provider to account. As referenced at paragraph 3.2, Governance arrangements will be developed with regulatory compliance a key feature.

4. Risk

- 4.1 The key risks are detailed in the table below with the Right to Buy risk further expanded.

Key Risks	
Risk	Mitigation
1. Insufficient Funding – Homes England grant funding does not support the scheme.	Dialogue with Homes England in advance of grant funding bid. Appointed consultants supporting preparation and submission of bid. Robust financial viability appraisal demonstrating financial position.
2. Right to Buy – Council housing sold through Right to Buy.	Calculating discount eligibility through the Right to Buy requires calculating the cost floor and accounting for the cost of constructing, acquiring, repairing, or maintaining the property within the last 15 years meaning a Right to Buy sale is less likely within the first 15 years.

<p>3. Economic Uncertainty – Acquisition price changes due to continued increase in construction, material, and inflation costs.</p>	<p>Fixed purchase price to be agreed with Sandway Homes as soon as practicably possible. Negotiation to include discussions around market uncertainty and potential inflated costs. Robust Financial Viability Appraisal undertaken to determine offer to Sandway Homes. Contingency modelled.</p>
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Right to Buy Risk

- 4.2 Cabinet is particularly asked to note that the direct delivery model will mean that there will be a risk that properties can be bought under the Right to Buy (RTB). However, some protection against this provided by the 'Cost Floor Rule':

A special limit on the amount of discount may apply if the property is newly built or acquired, or where there have been improvements, repairs or maintenance work on the property. This is known as the 'cost floor rule'.

If a total of £5,000 or more has been spent in the 10 years (15 years for properties built or acquired by the landlord on or after 2 April 2012) before the right to buy application, the discount must not reduce the sale price below the amount that has been spent.

Ongoing repairs and maintenance work to existing properties (as opposed to work on recently acquired dwellings) can only be counted if the cost of the work exceeds £5,500.

- 4.3 The 'cost floor rule' will mitigate the risk that properties will be lost to RTB but not completely remove it. Should a property be lost to RTB the Council will automatically retain 25% of the receipt with the remaining 75% paid to central government. However, under changes introduced by government in April 2021 to the RTB pooling arrangements local authorities can apply to retain a greater proportion of receipts for reinvestment into affordable housing delivery.
- 4.4 In April 2012, the government raised the maximum cash cap on RTB discounts to £75,000 and confirmed that receipts generated by additional sales resulting from the discount increases (against a baseline of sales forecast before the increases) would be used to fund replacement stock on a one-for-one basis nationally. At the same time, the government offered to enter into an agreement with any local authorities that wished to retain their own receipts from additional RTB sales so that they could reinvest them in new affordable housing themselves.
- 4.5 To retain their "additional receipts", local authorities must enter into an agreement with the Secretary of State under section 11(6) of the Local Government Act 2003 (as substituted by section 174 of the Localism Act 2011). Under this agreement, authorities can retain receipts arising from additional RTB sales provided the authority spends a sufficient level of those receipts on replacement social housing within a 5-year period.

4.6 Additional restrictions apply to acquisition of properties; however, all local authorities are free to use any retained receipts to acquire up to 20 replacement properties each year.

4.7 It is difficult to anticipate the level of RTB interest that there will be in the new stock, however, the 'cost floor rule' is likely to be a significant disincentive to potential purchasers.

5. Conclusion

5.1 Following detailed financial viability appraisal and discussion and negotiation with Sandway Homes, delivery of the Council's first homes at Buckley Hill Lane can be achieved in financial terms and will meet the Council's strategic priorities by providing new, quality, safe and secure homes to households in housing need.

5.2 A revised acquisition mix is presented to acquire 18 apartments. The mix of homes will meet housing need and deliver the most affordable rent offer being for social rent. Social rent-specific grant rates are now available in all parts of the country through Homes England's AHP and so the Council can now seek to achieve a higher level of grant that previously envisaged.