B O R O U G H   O F   K E T T E R I N G

Committee	**EXECUTIVE**	Item 11	Page 1
Report Originator	Strategic Management Team	*Fwd Plan Ref No:* A15/009	
Wards Affected	All	11th November 2015	
Title	**HOUSING FINANCE – USE OF 'ONE FOR ONE' CAPITAL RECEIPTS**		

Portfolio Holder: Cllr J Smith / Cllr S Bellamy

1. PURPOSE OF REPORT

a. To provide members with a further update (following the previous report that was considered by Committee in September 2015), and

b. To seek Member approval for the immediate use of '1:4:1' housing capital receipts on specific schemes.

2. BACKGROUND INFORMATION

2.1 The Executive Committee at its September meeting received an update following the announcements made in the Government's Summer Budget regarding future levels for social rent and a reminder of the current policy position regarding the proposed use of Right to Buy Receipts.

2.2 This report specifically covers the future use of '1:4:1' capital receipts (right to buy receipts), however it is first worth reminding members of the recent announcements that the government made in relation to housing rents.

HOUSING RENTS

2.3 The Government announced in its Summer Budget on 8th July that it intended to reduce social housing rents by 1% a year (for a period of 4 years) to be effective from April 2016. This change came quickly on the heels of a national 10-year agreement for setting council house rents – that 10 year agreement became live in April 2015 but was effectively repealed by the Summer Budget announcement.

2.4 Although on first reading the government's proposals may not have captured the main headlines, the potential financial impact to local housing authorities is very significant. The estimated impact to this Council arising from a 1% rent reduction per annum for four years is around **£5m** (over the initial four year period), this increases up to around **£67m** (cash) over the duration of the 30-year business plan. These are very significant financial sums.

2.5 The Housing Revenue Account Business Plan is currently being reviewed so that the impact on the medium term revenue budget and the impact on the capital programme can be fully understood. This work is taking place alongside the normal budget preparation process that takes place at this time of year.

1:4:1 CAPITAL RECEIPTS

2.6 Shortly after the introduction of the new self-financing system for council housing in 2012, the Government introduced new regulations to govern the use of any capital receipts that were generated from the sale of council houses.

2.7 In summary, the scheme permitted local authorities to retain some of the capital receipt from the sale of council houses. A small proportion could be used to offset some of the debt and then some of the remainder could be used to fund up to 30% of the cost of a replacement dwelling – the latter commonly referred to as '1:4:1' capital receipts (as per the Government's name for the national scheme)

2.8 The Council's original policy position regarding the use of 1:4:1 receipts (approved by the Executive in September 2012) was to work with housing associations. New homes could therefore be built with the Council only having to 'fund' 30% of the cost (by effectively pass-porting through the 1:4:1 capital receipts) and the housing association funding the remaining 70%.

3 HOUSING STRATEGY 2015/16 – 2019/20

3.1 The Council approved a new Housing Strategy 2015/16 – 2019/20 at its meeting on 25th February 2015. Housing associations are now building fewer homes and are proving to be increasingly selective about what, where and when to build. Nationally, housing associations are actively lobbying the Government for more freedom to act outside local authority housing strategies and to reduce their obligations in relation to nomination agreements. As a result, the Housing Strategy enables a more diverse approach whereby the Council can acquire existing housing and seek to deliver new homes as well as continue to work with housing associations where this meets the Council's strategic objectives.

3.2 Contextually, the Housing Strategy was approved prior to the recent government announcements about the potential changes to the housing finance regime. It was based on the original 30-year housing business plan. Given that the business plan is currently being revised to take account of the change in national policy (and the potential loss of up to £67m in income), it is important that members recognise the uncertain nature of the financial landscape at the present time.

3.3 As previously reported to members, the Council has already committed some of the 1:4:1 capital receipts for the acquisition of private sector properties for the council housing stock. In the current financial year, three properties in Kettering are being acquired.

3.4 The government's '1:4:1' replacement scheme has a number of deadlines about when specific tranches of capital receipts must be spent by. The Council has a number of deadlines approaching in the near future – therefore this report seeks to propose a pragmatic way forward (in relation to the use of some of the receipts) that serves to address specific service issues that the council currently has without creating precedents about housing service provision in the future. Given the uncertainties that exist in the current housing finance environment, it would be unwise to assume anything different at the present time.

4 UTILISING THE CAPITAL RECEIPTS AND MEETING LOCAL HOUSING NEEDS

4.1 Currently the Council has around £775,000 in one-for-one capital receipts that it needs to utilise or pay back to the Government. The following table sets out the timeframe for spending these receipts.

Year	Qtr	1 - 4 - 1 Receipts Received £'000	1 - 4 - 1 Cumulative Receipts £'000	Dates Receipts to be Used
2012/13	4	108	108	31/03/2016
2013/14	1	165	273	30/06/2016
2013/14	2	166	439	30/09/2016
2013/14	3	30	469	31/12/2016
2013/14	4	47	516	31/03/2017
2014/15	1	133	649	30/06/2017
2014/15	2	89	738	30/09/2017
2014/15	3	0	738	31/12/2017
2014/15	4	37	775	31/03/2018
Total		**775**		

4.2 In light of the current circumstances, a pragmatic opportunity has been identified to invest some capital receipts into a larger new build housing development by Waterloo Housing Association at Laburnum Crescent, Kettering. This would involve the Council passing on some of its 1:4:1 receipts directly to the housing association to facilitate them delivering 8 new social housing units (in line with current policy) whilst also using some of the remaining receipts to help the council purchase up to 5 new 'special needs' units in the same larger development. Five is the maximum number of 'special needs' units that is deliverable in this development, therefore the proposal is that the Council negotiate with the Housing Association to purchase up to five of these units.

4.3 The Council would contribute its 1:4:1 receipts (amounting to 30% of the cost of the 8 units) to the housing association, in return for some nomination rights. The Housing Association would be responsible for funding the remaining 70%.

4.4 The Council would be able to use 1:4:1 receipts to offset 30% of the cost of purchasing (up to) 5 new 'special needs' units, it will need to use external borrowing to fund the remaining 70%.

4.5 Given the current uncertainties in both local government and housing association finance, it is considered that this approach is taken with regard to the immediate use of 'one for one' capital receipts because;

- It complies with current policy
- It keeps options open for the future
- It helps secure the economic benefit of new homes for the local economy

4.6 The funding requirements are summarised in the following Table, this would in effect utilise 1:4:1 receipts up to the end of 2016;

	No of Properties	Average Price £'000	1 4 1 Receipts £'000	Council Funding £'000	Total £'000
Council Acquires	5	130	195	455	650
Housing Association	8	115	276	0	276
Total	**13**		**471**	**455**	**926**

4.7 There are currently 28 applicants of various household types on the Keyways Housing Register who require wheelchair accessible accommodation and suitable accommodation is in extremely short supply. If the Council were to purchase up to 5 properties it would enable the Council's housing stock to have more scope to meet the needs of some of our more vulnerable customers in a way that we are not able to do through the adaptation to our existing stock.

4.8 The provision of new 'special needs' council housing will have a positive impact on the lives of some of the most vulnerable people in our community. Many disabled residents have to live in accommodation that is not ideally suited to their needs. As a result, health and social care agencies have to provide high levels of care and support for such residents at considerable expense. This new development will not only help residents to have a much better quality of life but will reduce the need for high-end care and support packages which have to be funded by statutory health and social care agencies. This project is illustrative of a burgeoning partnership between the Council, Kettering General Hospital, Nene Clinical Commissioning Group and the County Council which seeks to achieve better outcomes for vulnerable people whilst reducing the burden on over-stretched budgets. We continue to exploring several exciting initiatives with the Hospital in order to reduce admissions of elderly tenants to hospital acute wards and provide move-on accommodation for vulnerable people who are ready for discharge from hospital.

4.9 As outlined earlier in the report, the proposals outlined in this report provide a pragmatic way forward (in relation to the use of 1:4:1 capital receipts) whilst also addressing a specific housing need. Provided that the external debt is structured appropriately, the rental income will service the debt costs and associated up-keep and result in an annual net income of around £12,000. Due to the ‘special needs’ nature of the accommodation it will also be exempt from the right to buy provisions – under the current legislation.

4.10 Whilst there is much uncertainty within the HRA and the change in basis for setting rent levels could significantly reduce income compared to the original business plan – it is considered that the use of ‘1:4:1’ monies to help purchase up to five special needs units is a pragmatic course of action – for the reasons previously outlined in this report.

4.11 Given that the Council would have to re-pay the Government any balance of the ‘one-for-one’ receipts (with interest) if it were not used and given the specific needs of the Council’s housing stock, a combination of purchasing new ‘special needs’ units and investment into Housing Association stock would enable the receipts to be invested within Kettering Borough and therefore increase the number of social homes within the Borough (and the associated economic activity that is associated with the delivery of new housing). Given the wider economic uncertainties outlined in this report, it would also be a legitimate course of action for the committee to decide to return the 1:4:1 receipts to the government.

4.12 The approach outlined in this report provides some flexibility for the remainder of the ‘1:4:1’ receipts (together with any new receipts) into the future and does not commit the Council to adopt a specific route in relation to these at the present time – this is particularly important given the current financial landscape.

5. CONSULTATION AND CUSTOMER IMPACT

5.1 As outlined in the report.

6. FINANCIAL RESOURCE IMPLICATIONS

6.1 The financial implications are outlined throughout the report. Of particular relevance is the uncertainty that exists as a result of recent Government announcements about future rent levels – this could cost the Council a minimum of £67m over the 30 year business plan and will result in significant challenges over the medium term for the delivery of the current Housing Strategy.

6.2 The proposals contained in this report represent a pragmatic short-term approach to the immediate use of 1:4:1 capital receipts. It also seeks to help address a specific housing need in a way that will currently protect the investment from exposure to right to buy legislation (as it currently stands).

6.3 To comply with financial regulations, the proposals outlined in this report will need to be reflected by revising the Council's Capital Programme. In line with the Council's Constitution, any scheme change greater than £250,000 will need to be recommended to full Council for adoption.

6.4 The Council is currently holding around £775,000 in '1:4:1' receipts. The timeframe for spending these receipts is set out earlier in the report. Of these receipts, it is proposed that £276,000 is used to help fund the development of 8 units at Laburnum Crescent (by Waterloo Housing Association) and that up to £195,000 is used by the Council to help purchase up to 5 'special needs' properties. This would in effect utilise the '1:4:1' receipts up to the end of 2016.

6.5 To fund the remaining 70% of purchasing the special needs units, the Council will need to fund (through external borrowing) a sum of up to £455,000. As outlined earlier in the report, the rental income from the properties will cover the financing costs.

6.6 The Executive in accordance with the Council's Constitution would be required to recommend the following changes in the capital programme to full Council.

	Changes to the Capital Programme £'000
Social Housing Grants	276
Purchase of Special Needs Units	650
Financed by:	
1:4:1 Capital Receipts	471
External Borrowing	455

7 HR IMPLICATIONS

7.1 None at this stage

8 LEGAL IMPLICATIONS

8.1 None at this stage.

9. RECOMMENDATIONS

That the Executive Committee;

a. Note the update provided in this report and recognises the uncertainties that currently exist;

b. Subject to an analysis of the Government's forthcoming Autumn Statement (in relation to any further financial implications for the Housing Revenue Account);

   i. approve that up to £276,000 of '1:4:1' capital receipts are passed onto Waterloo Housing Association to help facilitate them delivering 8 new social units as part of their new housing scheme at Laburnum Crescent;

   ii. approve that up to £195,000 of '1:4:1' capital receipts are used by the Council to help purchase up to 5 special needs units from Waterloo Housing Association (as part of the new housing scheme at Laburnum Crescent);

c. Grant delegated authority to the Head of Legal Services to agree terms with Waterloo Housing Association;

d. Recommend the changes required to the Capital Programme (as outlined in section 6.6) to full Council.

Background Papers:
Date: N/A

Previous Reports/Minutes:
Executive Committee: Housing Strategy 2015-20 – Increasing Housing Supply
Date:15th October 2014

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Ref: Forward Plan: A14/006