Finance Panel
14 September 2012

Item 4

Update on Housing Finance

Purpose of report

For discussion.

Summary

This paper updates members on housing finance issues which have implications for councils in three areas:

1. Recent Government announcements on investment in housing
2. Affordable Rent Programme
3. Impacts of Welfare reform on councils' housing investment plans

Recommendations

Members of the Finance Panel are invited to note the update and comment on issues raised in this paper.

Action

Officers will ensure outcomes of Member's discussion are reported to the Environment and Housing Board's to inform decisions on priority areas of work.

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Update on Housing Finance

Introduction

1. This paper updates members on housing finance issues which have implications for councils in three areas:

   1.1. Recent Government announcements on investment in housing
   1.2. Affordable Rent Programme
   1.3. Impacts of Welfare reform on councils' housing investment plans

2. The LGA's Environment and Housing Board are meeting on 19 September to discuss priorities for their work programme. It is likely that this will have a strong focus on the issues raised in this paper and on developing LGA policy positions and lobbying on these issues.

3. Members of the Finance Panel are invited to comment the issues raised in this paper which can then be reported to inform the Environment and Housing Board's discussion and decisions.

Recent Government announcement on investment in housing

4. The Government announced a package of measures relating to housing and planning on 6 September 2012. A full LGA briefing is attached at **Appendix A** but in summary the key measures in relation to finance and investment in housing are as follows:

   4.1. **£200 million investment to encourage institutional investment in the private rented sector.**

   It is not yet clear who will be eligible for this funding, or what the timescales and process for the investment will be however it will be important that councils are involved at an early stage in discussions which affect institutional investment at it in housing in their area and how it will relate to existing strategies on Private Rented Sector housing.

   4.2. **A Government guarantee scheme worth up to £10bn which will enable developers to raise debt with a Government guarantee where they commit to investing in additional new–build rented homes.**

   This measure will be implemented via the Infrastructure (Financial Assistance) Bill which is scheduled for its second reading 17 September. The guarantee is subject to EU state aid clearance. Councils are not eligible to apply under the scheme. Officers are seeking clarification from DCLG on additional powers required to implement this measure and the timetable for the bidding process.

4.3. **£300 million to provide an additional 15,000 affordable homes and an extension of the refurbishment programme to bring additional 5,000 existing empty homes back into use.**

It is expected that this funding will be channelled through the Homes and Communities Agency's Affordable Homes Programme and distributed through a competitive bid based process based on value for money delivered. As in previous HCA bidding rounds, councils may find themselves at a disadvantage as a result of the current accounting rules which mean local authority borrowing is classified against Government debt – thereby scoring lower on value for money grounds.

These announcements highlight the importance of LGA arguments for relaxation of financial constraints on council borrowing to allow them to lever in resources to scale up house-building plans.

4.4. **Developers to be able to ask the planning inspectorate to review sites which they consider are unviable due to affordable housing requirements. The planning inspectorate would have the power to remove affordable housing requirements from the existing agreement and set it aside for 3 years in favour of a new agreement.**

This will require primary legislation (expected to be published in October 2012) and represents a significant extension of the Planning Inspectorate's role and could delay or undermine the delivery of much needed affordable housing. The LGA has argued that it will not address core issues stalling development and could lead to further delays whilst legislation and policy is developed and implemented.

Officers are working with housing advisors to develop a technical submission to CLG outlining the risks and issues to consider when designing the scheme.

Affordable Rent Programme

5. The Affordable Rent programme is the primary product by which the Homes and Communities Agency is providing £2.2 billion funding for the development of new affordable housing for the period 2011-2015. Under the programme funding is provided for housing investment programmes on the basis that affordable rented homes will be made available to tenants at up to a maximum of 80% of market rent and allocated in the same way as social housing.

6. There have been mixed reactions to the Affordable Rent programme amongst local authorities. However even where councils and other housing providers are currently involved in building new homes under the Affordable Rent programme, there are significant concerns about whether the model will be sustainable in the longer term.

7. Recent analysis undertaken by the LGA has revealed common concerns to be:

8. **That the 80% market rent rate may be more than the new housing benefit limits in some places**. A number of councils, Housing Associations and lenders indicated that

this that providers are concerned the impact of welfare reform on the ability to let Affordable Rent properties, particularly in high value areas. Uncertainty about future revenue streams may undermine the financial model.

9. **That larger homes will be far less viable under the new affordable rent model** and there will likely be an increase in small-size properties being developed. Our research indicated that this is proving to be the case.

10. **That arrears and bad debts will impact on the ability to borrow** (particularly for Housing Associations)**.** Reductions in grant and increased perceptions of risk are likely to change access to capital as well as driving reductions in the scale of development programmes. There are no immediate changes in borrowing costs as many providers have in place facilities available for the next three years. The view across providers however is that the Affordable Rent model will use more of their resources and will increase their borrowing costs.

11. It is also worth noting is that the reinvigorated right to buy policy includes provision for capital receipts to be retained at a local level on the proviso no more than 30 per cent of the cost of the new homes comes from the Right-to-Buy receipt. This is based on the Affordable Rent model on the assumption that replacement homes will be built as Affordable Rent properties rather than social properties.

12. The LGA lobbied for Councils to be eligible to participate in the Affordable Rent programme, should they wish. A number of councils have been named as successful providers however their ability to participate has been delayed by the transition to self financing and is constrained by the public borrowing rules which place them at a disadvantage to Housing Associations.

13. The Environment and Housing Board is considering as one of its future priorities a programme of work to develop evidence based proposals for a sustainable funding model for social and affordable housing in the next spending review period.

Welfare Reform and impact on councils' Housing Revenue Account

14. Following discussion of the impact of Welfare Reform at the LGA Leadership Board in May 2012, officers were asked to d**eveloping a more complete understanding of some of the cost implications (both direct and indirect) of welfare reform with a view to pursuing a new burdens conversation with Government.**

15. In response to this officers have been monitoring the impact of current and forthcoming housing benefit changes on councils, residents, and local housing markets and establish the costs to councils of implementing the reforms.

16. It is still very early to reach conclusions about the impact of changes which for the most part have yet to take effect, with most measures in the Act not being implemented until April 2013. Nor is it possible to disentangle, at least on the evidence currently available, the effect of welfare changes from those caused by the state of the wider economy. However initial analysis highlights two issues which could impact on councils' housing investment plans:

16.1. The household benefit cap may make it difficult for many households to afford to rent in the Private Rented Sector under the ‘affordable rent’ model. This may impact on the viability of the model for investment, particularly in high value areas.

16.2. Payment direct to tenants could increase the risk of arrears with an impact on rental income streams which will in turn impact on ability to secure invest in new housing against those income streams. Increased levels of uncertainty and risk on this issue could deter borrowing even if the problem does not materialise.

17. On this second issue, the movement to direct monthly payments to tenants has prompted concerns from many during the passage of the Act regarding the impact of increased arrears and fluctuations in income stream on housing providers’ financial position. DWP have accepted that there are some people for whom direct payment of the housing element of universal credit to landlords is still appropriate. A number of demonstration projects testing out issues such as the appropriate trigger points for payment direct to landlords, the impact of direct payments of claimants and protection for vulnerable groups will run from June 2012 for 12 months. The demonstration projects are as follows:

17.1. Southwark Council and Family Mosaic, London

17.2. Oxford City Council and Oxford Citizens, (part of the) Greensquare Group, Southern England

17.3. Shropshire Unitary County Council and Bromford Group, Sanctuary Housing and The Wrekin Housing Trust, West Midlands

17.4. Wakefield Metropolitan Borough Council and Wakefield and District Housing, Northern England

17.5. Torfaen Borough County Council and Bron Afon Community Housing and Charter Housing, Wales

17.6. Edinburgh Council, representing Scotland

18. The LGA is also working with the Association of Retained Council Housing and others to commission which will amongst other areas assess and analyse planned local authority housing capital investment and borrowing and analyse income and revenue expenditure assumptions underpinning capital spending and debt reduction plans and evaluate vulnerability to risk. This information is likely to be helpful in building an evidence base around the possible impact of direct payments to landlords on the HRA.

Financial Implications

19. There are no financial implications arising from this report.