Sustainable and Equitable Highland Social Housing

Investing more for both new and for existing homes

1. <u>Background</u>

1.1 Across Highland there is a shortage of all types of housing, this is not just limited to any one kind of housing but across all types of private and social housing. As a cumulative result of these shortages ***the waiting list for social housing in Highland has grown to 7890, 9% (700) of these are active homeless cases***, with 1000 new homeless applications handled per year. Over 600 existing properties are currently assessed as overcrowded and require rehoming in a larger property. There is not only a profound impact on people and families living in temporary accommodation, but it also costs the council's main revenue budget £1.500m annually – each case costing approximately £2100.

1.2 Furthermore, as a result of Housing Revenue Account (HRA) cost pressures ***in 19/20 there has been a reduction in the amount made available for improvements to existing stock***. The improvements programme for 19/20 has ***£2.148m less than in 18/19***, with £2.500m currently scheduled. These improvements to existing stock are funded by Capital From Current Revenue (CFCR).

1.3 ***The current HRA budget has a substantially higher level of CFCR than in any other council budget line***. For the last full financial year (17/18), the total CFCR expenditure outwith the HRA was £0.828m as detailed in appendix 1. All of this was expenditure from developer contributions or drawdowns from earmarked funds. ***There was no CFCR within the core revenue budget***, with any other expenditure part of the capital budget and generally financed over the lifespan of the asset.

2. <u>Proposal</u>

2.1 It is evidenced that there are three needs –

1. Provide more housing stock
2. Reduce the impact of homelessness on individuals
3. Invest more in existing stock improvements

2.2 Making a significant impact on all three of these objectives can be met by more appropriately financing one aspect of the proposed programme of improvements to existing stock. The programme of works is approximately split into thirds of works with a lifespan of 20 years or more, 10 - 15 years and under 10 years.

2.3 Improvements with a lifespan of 20 years or more include double glazing, roof repairs, rewiring, many large household fittings and major preventative maintenance. The lifespan of some of these items is so long that they are generally replaced for aesthetic reasons before they are functionally required to be.

2.4 Within the current proposals each of the three lifespan types of improvement are budgeted for approximately £0.800m - £0.850m of expenditure.

2.5 It is therefore proposed that rather than £2.500m be spent directly on these three stock improvement areas. A proportion of the £0.800m for 20 year and over lifespan improvements be ***revenue neutrally refinanced to drastically improve outcomes*** for the above three needs as set out below. The full financial assessment is detailed in appendix 2.

1. £6.900m borrowed to increase the annual new stock build rate by 115 from 185 to 300 units, at £0.234m p.a. over the standard 60 years. Based on an average of £0.060m borrowed per unit, net of Scottish Government new build grant
2. £2.720m borrowed to increase 20 year and over lifespan improvements and preventative maintenance, at £0.170m p.a. over the minimum asset lifespan of 20 years

2.6 n.b. ***Repayments for money borrowed towards new builds will be fully serviced by the rental income***, repayments only require to be fronted between initial borrowing and tenants taking up residence. Public Works Loans Board (PWLB) interest rates are fixed for the term.

2.7 As a result of the substantially increased rate of building, it will be necessary to hire two new posts. One new surveyor to identify sites and progress the land acquisition and one more housing development officer to deliver the projects. This is £0.095m inclusive of on costs.

2.8 From the original £0.800m which finances the above, there remains a surplus of £0.301m. It is proposed that this be reinvested into existing stock improvements with a lifespan of 10-15 years and under 10 years by CFCR, increasing spend in this area from approximately £1.700m to £2.001m. ***This increases total expenditure on current stock improvements to £4.721m, marginally above the 18/19 figure of £4.468m.***

3. <u>Rationale</u>

3.1 In assessing the amount available ***the most cautious approach possible has been taken to ensure that this programme absolutely can be delivered revenue neutral*** within the existing £2.500m allocation. To that end the highest repayment amount has been assumed, that is that the entire amount of £9.62m is borrowed on 6 April and a whole 12 months' repayment is made in in this financial year - this will not happen as in reality it will not be borrowed at once and the amount repaid in year running substantially lower.

3.2 It is prudent to assess the affordability of borrowing over the term, once the houses are completed the ***rental income will cover the repayments in full*** - the average repayment per house per year runs at £2070 with an average annual rental income of £3900-4400.

3.3 The lower of the anticipated expenditure range of £0.800-0.900m for the 20 year life works was used to ensure this can be deliver revenue neutral. The HRA also aims for a minimum £2.500m surplus each year, so there is only a remote likelihood of the repayments being unaffordable.

3.4 A major contributor to the decrease in budget for improvements to current stock in 19/20 is a ***£0.988m increase in repairs required to existing stock***. By making improvements now, cost is reduced in the long term, as well as disruption and inconvenience to tenants caused by a sudden failure.

3.5 115 more units is based on council officer advice on the realistic availability of affordable land and capacity within the local construction industry to deliver these houses. The current review of the Local Development Plans offers an excellent opportunity to alleviate one of these. In isolation of these two issues, it would be possible to deliver over 715 extra new units per year for the same revenue neutral amount.

3.6 The ***PWLB rates are forecast to increase***. There is currently a window open to borrow at rates low enough to lower the average interest rate applied to the HRA.

4. Outcomes

This proposal is not just competent, by working with
4.1 The headline outcomes are –

1. 115 new council homes built
2. 88% increase of £2.221m for improvements to current stock
3. £0.150m saving against homelessness
4. Approximately £0.142m extra council tax revenue

4.2 ***This is an all-encompassing proposal*** that brings needed investment in new and existing properties, it also offers great outcomes to some of those on the homeless list by giving them a real home of their own. Whilst generating both income and savings to the council's main revenue budget. Investing and improving existing stock brings great benefits to both tenants and the Council.

4.3 There will be an indirect ***alleviation of 60-70 homeless cases***, by simultaneously tackling homelessness, the waiting list and overcrowding. The current Council policy is generally that new builds are used to move overcrowded tenants into, whilst freeing up that prior house for individuals living in temporary accommodation. As a result of reducing temporary accommodation demand, ***there will be a 10%, £0.150m saving*** in the main revenue account.

4.4 Preventative maintenance now will reduce repair cost and inconvenience in the future. ***Improvements such as double glazing will reduce the cost of living for tenants*** through lower energy bills, thus representing value for money and equity in the rent rate.

4.5 Other quantifiable outcomes are –

1. A ***decrease in the average interest rate*** applied to the current stock pool through lower current interest rates
2. An ***increase in the HRA surplus*** due to lower interest rates and lower maintenance costs of new builds in the short to medium term

Appendix 1

Cost Centre	CC Description	Exp Head	EH Description	Year	Period	Actuals YTD (£)
10C0203000	Ft William High St Coach Park	KC9100	CFCR Funding	1718	March	(3,267.52)
10E0009000	Standard PSHG Grants Lochaber	KC9100	CFCR Funding	1718	March	(166,818.00)
10E0227000	Inshes District Park	KC9100	CFCR Funding	1718	March	(264,718.00)
10E0235000	ITLR - West Link Asset No 2199	KC9100	CFCR Funding	1718	March	(247,394.00)
10E0550000	Safer Routes to Schools	KC9100	CFCR Funding	1718	March	(6,365.00)
10E0564000	Ness Castle Speed Scheme	KC9100	CFCR Funding	1718	March	(12,554.00)
10E0800000	DIP16088 Skye Light PC007CEEF	KC9100	CFCR Funding	1718	March	(10,371.12)
10E0801000	DIP16087 HQ Light PC006CEEF	KC9100	CFCR Funding	1718	March	(63,662.45)
10E0932000	DIP17023 Inverness Lib Light	KC9100	CFCR Funding	1718	March	(30,808.38)
10E0958000	Stoneyfield Bridge Link Retail	KC9100	CFCR Funding	1718	March	(21,839.00)
						(827,797.47)

Appendix 2

Total Current HRA CFCR Allocation - £2.500m

Total improvements to current stock with lifespan of 20 years and over - £0.800m[1]
Total improvements to current stock with lifespan of 10 – 15 years - £0.850m
Total improvements to current stock with lifespan of under 10 years - £0.850m

PWLB Annuity 60 year interest rate – 2.74%
PWLB Annuity 20 year interest rate – 2.29%

Enhanced house building programme 4

House building programme finances
Sum borrowed - £6.900m[9]
Term – 60 Years

Interest rate – 2.74%
Annual repayment (inclusive of repayment of interest and principle sum) - £0.234m[10]
Cost of borrowing - £7.166m
Staff costs to deliver - £0.095[11]

<u>20 years and over improvements finances</u>
Sum borrowed - £2.720m[12]
Term – 20 years
Interest rate – 2.29%
Annual repayment (inclusive of repayment of interest and principle sum) - £0.170m[13]
Cost of borrowing - £0.685m

Surplus revenue (1-(10+11+13)) - £0.301m[14]

Total works with lifespan of 20 and plus years - £2.720m
Total works with lifespan of 10 – 15 years (estimate) - £1.000m
Total works with lifespan of under 10 years (estimate) - £1.000m
Total works - £4.721m
Total of which CFCR - £2.001m[15]

Outcome – £0.800m[1] intended CFCR revenue refinanced make £6.900m[9] available for new house building, increasing annual total by approximately 115 to 300 units. Increasing 20 and plus year life improvements to existing stock by £1.92m to £2.720m[12] by borrowing and increase 10 – 15 and under 10 year life improvements by £0.301m[14] to £2.001m[15] by CFCR with surplus revenue. £0.095m[11] costs for additional surveyor and housing development officer. £0.150m saving from main revenue account against homelessness.

<u>2019/20 Costs</u>

Cost of borrowing for house building[10]	£0.234m
Cost of borrowing for long life improvements[13]	£0.170m
Shorter life CFCR works[15]	£2.001m
Staff costs to deliver[11]	£0.095m
Total	£2.500m