

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	15 March 2017
DIRECTOR	Richard Ellis (Depute Chief Executive and Interim Director of Corporate Governance) Bernadette Marjoram (Interim Director of Communities, Housing & Infrastructure)
TITLE OF REPORT	Feasibility Study - 2,000 Homes
REPORT NUMBER	CHI/17/051
CHECKLIST COMPLETED	Yes

1. PURPOSE OF REPORT

The purpose of this report is to fulfil the decision taken at Communities, Housing and Infrastructure Committee on 1 November 2016 to bring forward a report on the feasibility of building 2,000 new homes by 2022.

2. RECOMMENDATION(S)

It is recommended that the Council:

- a. Note the content of the report;
- b. Note any increase in debt levels may impact on the Council's credit rating;
- c. Instruct the Head of Finance to discuss with Moody's the likely impact of the Council's credit rating if the Council were to raise debt levels;
- d. Instruct the Head of Legal and Democratic Services to commission a QC's opinion to ratify the use of the Council's Common Good land holdings for Council house build both in terms of the legal position and best value criteria;
- e. Instructs the Head of Land & Property Assets to carry out a Land Assembly Programme and determine the quantity of land required and the most suitable land holdings available to the Council for the purpose of Council housing;
- f. Instructs the Head of Land & Property Assets to provide a detailed development process and methodology for delivery.

3. FINANCIAL IMPLICATIONS

The main areas of income and expenditure involved in building 2,000 houses will be debt charges, management costs, repairs and maintenance, capital replacement programme and income from rental of the properties.

4. OTHER IMPLICATIONS

The Housing Revenue Account guidance issued by the Scottish Government in 2014 states that “In addition, where affordable and sustainable for the HRA, the provision of a new supply of council houses for rent where there is an identified need is also a desirable outcome. Investment priorities for affordable housing should be set out in a local authority’s Strategic Housing Investment Plan, informed by its Local Housing Strategy. Where affordable housing proposals will deliver new council houses for current or future council tenants, then the HRA should pay for the provision of the houses.”

5. BACKGROUND/MAIN ISSUES

There is a demand for Council Housing despite the reduction in rent for private rental properties this can be seen through the priorities identified in the LHS these are detailed below.

5.1 Local Housing Strategy

5.1.1 The current Local Housing Strategy was developed in partnership with a wide range of stakeholders with an interest in housing and was approved by the Housing & Environment Committee in 2012. A new LHS will be developed during 2017.

5.1.2 The housing priorities identified in the LHS:

- To encourage the delivery of the housing supply requirement, a total of 1,250 units per annum for the next ten years.
- This total includes the need for 415 affordable houses per annum for the next ten years to meet identified housing needs.
- Preference for affordable housing to be social rented and 1 and 2 bedroom size, based on projections from the Housing Needs and Demand assessment.
- Ensure developer contribution to affordable housing through the Council’s Affordable Housing Policy.
- Development of a Council new build housing programme especially to support regeneration areas.
- Delivery of affordable housing by RSLs through Section 75 Agreements and their own new build programme.
- Meet the housing needs of those with particular needs including older people, people with physical and/or learning disabilities and where applicable those needs of key workers.

- Improve the condition of housing in the City by achieving the Scottish Housing Quality Standard for public sector housing by 2015 and through the Scheme of Assistance for the private housing sector.
- Tackle fuel poverty and improve the energy efficiency of houses across all tenures in the City.

5.2 Strategic Housing Investment Plan

- 5.2.1 The Strategic Housing Investment Plan (SHIP) 2017/18 – 2021/22 sets out the approach by Aberdeen City Council to the investment in and delivery of affordable housing in the City. The SHIP is informed by and is in accordance with the strategic outcomes contained within the Local Housing Strategy.
- 5.2.2 The SHIP is submitted to the Scottish Government every two years, with the most recent submission in November 2016 following Committee approval. Any suitable sites identified for the delivery of affordable housing by the Council will require to be included in the SHIP going forward.
- 5.2.3 The SHIP:
- Sets out investment priorities for affordable housing
 - Demonstrates how these will be delivered
 - Identifies the resources required to deliver these priorities
 - Enables the involvement of key partners

5.3 Housing Need and Demand Assessment (HNDA)

- 5.3.1 The Aberdeen housing market area housing needs have been identified through the HNDA 2011. The HNDA was developed through collaboration by Aberdeen City Council, Aberdeenshire Council and the Aberdeen City & Shire Strategic Development Planning Authority with the involvement of a range of stakeholders.
- 5.3.2 At a strategic level the HNDA informed the Strategic Development Plan, the Local Development Plan (LDP) including the Affordable Housing Supplementary Guidance and the Local Housing Strategy.
- 5.3.3 A new HNDA is currently under development and should soon be submitted to the Centre for Housing Market Analysis. Utilising the new HNDA model the emerging position indicates that the level of need for affordable housing remains significant under every scenario modelled. The levels identified remain well beyond the scope of the planning system to be able to facilitate through planning policy.
- 5.3.4 The SHIP, LHS and delivery partners aim to maximise the provision of new affordable housing across all delivery mechanisms. This requires RSLs, Council, developers and other affordable housing providers to

individually and collectively maximise their delivery of affordable housing in a sustainable and financially prudent manner. Through this approach it is likely that the greatest number of affordable houses can be delivered.

5.4 Financial feasibility study

5.4.1 Following Communities, Housing & Infrastructure Committee decision on 1 November 2016 to bring forward a report on the feasibility of building 2,000 new council homes by 2022 Arneil Johnston were commissioned to deliver a feasibility study as the demand is illustrated in the LHS.

5.4.2 The study focuses on the financial ability of the Housing Revenue Account (HRA) to support the funding of a future Council house build programme on the basis of annual rental increases of RPI plus 1% which will have to be updated each year to reflect the actual rental increase. In addition the study also examines and assesses the potential to access alternative funding streams or delivery mechanisms to help support the new build programme.

5.4.3 In summary the Arneil Johnston feasibility study indicates the following:

The ACC current 30 year finance plan model is fundable on the basis of the rents increasing at inflation plus 1% per annum (current rental policy) and the debt affordability rates sit comfortably under the maximum prudential borrowing limit of 35% (prudential threshold) throughout the plan. (The model will require to be re-run to reflect the Council's decision on rent setting for 2017/18 as the modelling parameters have changed).

5.4.4 If the Council were to increase their borrowing capacity to just below 35% the HRA business plan could sustain additional investment of up to £150M (in years 3-6 of the plan). This takes some account of risk (current Scottish average debt affordability is 25%) however does not detail the potential impact on the Council's credit rating.

5.5 Credit Rating

5.5.1 Elected Members will be aware that the Council obtained a credit rating that will be required to be maintained during the term of the bond that was issued in 2016. In order to maintain the rating, the appointed credit rating agency will be required to conduct reviews at least once every twelve months.

5.5.2 This review will assess the Council's ability to meet its debt repayment commitments and is assessed by understanding the factors that generate and restrict the future cash flow of the Council. Officers will be required to monitor this analysis regularly and will form part of the new financial statements to committee going forward.

5.5.3 The Council, in obtaining its credit rating supplied the following information in relation to its underlying borrowing requirement and Council must adhere to the level advised to ensure no impact on its credit rating. Should the Council wish to deviate from this position it is essential that the credit rating agency is notified to have a reassessment of the rating. Any increase in this position would put the credit assessment at risk of being downgraded.

Represented by and Funded through:	2017/18	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000	£000
Underlying Financing Requirement B/F	125,316	(24,544)	111,204	59,692	32,645
Bond	(370,000)	0	0	0	0
Alternative Funding (PWLB etc)	0	0	(111,204)	(59,692)	(32,645)
Net Position Funded Annually	(244,684)	(24,544)	0	0	0

5.5.4 The Council will be expected to continue to strengthen its financial management arrangements and position as they are an important feature of the annual credit reassessment. In addition, the Council will also need to present some of its existing financial information in different ways in light of the new interest from the credit rating agency (Moody's) and the bond investors. This annual budget report represents the start of a different presentation and emphasis on financial information.

5.5.5 One of the key aspects of the credit rating is the Council's level of debt and ability to meet future interest payments as they fall due. The level of debt is directly linked to the Council's capital investment programme which is reflected through the Balance Sheet and future interest payments are directly linked to the revenue account. Our legal framework requires that the repayment of interest payments has the first call on the revenue income of the Council before all other expenditure.

5.5.6 The material difference with this project is that the construction and letting of housing will generate a revenue stream which would allow the financing of any debt raised to acquire and build affordable housing.

5.5.7 As such, the first stage in taking the project further will be to open discussions with the credit rating agency to determine the likely impact on the credit rating.

5.6 Financial Modelling – Summary

5.6.1 A number of scenarios have been tested with the most advantageous model being £105k per unit build costs, £0k land value and £30k subsidy and £5m from the Housing Infrastructure Fund and a 25% new

build rental premium. This results in debt affordability levels well below the Councils 35% limit. However there are a number of assumptions which would be deemed as high risk - the most notable being the ability for the Council to deliver the provision of land at nil value.

5.6.2 One of the key findings of the financial model is that the debt affordability and whole life cycle costs are critical to setting an affordable rent.

5.6.3 As such, the next stage of the process will be to seek alternative funding sources to attempt to reduce the overall construction cost and on conclusion of the construction model provide a detailed financial assessment and phasing of any building programme.

5.7 Land options

5.7.1 The Council has identified that none of the available land held on the HRA is sufficiently large to be considered for inclusion in the proposal to construct 2,000 houses.

5.7.2 On that basis the HRA will require to purchase development sites to support the proposed new build programme, therefore incurring a land value which will add to the total costs of development. The options for purchasing land include open market purchase, transfer of land from the General Fund or Common Good Fund. As a result it is recommended that the Head of Land & Property Assets carries out a land assembly programme and determines the quantity of land required and the most suitable land holdings available to the Council for the purpose of Council Housing.

5.7.3 The acquisition of land assets from the Common Good to the HRA are likely to be at best consideration/full market value unless there is a legal acceptance of a business case to permit disposal at below best consideration/market value under the Land Disposal Regulations. It is therefore recommended that the Head of Legal & Democratic Services commissions a QC's opinion to ratify the use of the Councils Common Good Land holdings for Council house build both in terms of the legal position and best value criteria.

5.7.4 In conclusion as recommended further detailed work is required on the development process and methodology for the delivery of 2,000 new council homes.

6. IMPACT

Improving Customer Experience –

Accurate budget monitoring and forecasting assists the Council to plan and design our services around current and future customer needs as much as possible. Ensure the Housing Revenue Account delivers affordable rents to the tenants.

Improving Staff Experience –

Good financial information improves good financial management and helps to track how successful management initiatives, such as service redesign, have been.

Improving our use of Resources –

As a public sector organisation, the Council has a legal duty to be open, transparent and accountable for spending public funds.

Corporate –

The report relates to the Single Outcome Agreement and the Council vision of Aberdeen – the Smarter City, in particular the strategic priority ‘Smarter living (Quality of Life)’ where we will provide quality services to our council tenants to enable them to have a dry, warm home in a safe and enjoyable environment.

The community plan sets out our vision for the future of the City – an Even better place to live and work, where people can expect high Quality services to meet their needs.

This report meets the following objectives:

- Homes challenge – improve the quality of Housing and Environment for individuals and the community.
- Adopt and implement strategies to support independent living for people with special needs.

It also meets the objectives in the policy document “Aberdeen – the Smarter City”:

- Smarter living – we will enhance the physical and emotional wellbeing of all our citizens by offering support and activities which promote independence, resilience, confidence and self-esteem.

Public –

The Council has a duty to ensure that best value is considered in all of its operations and this report helps to inform that process, and as such this report will be of interest to all current and potential council tenants.

7. MANAGEMENT OF RISK

A number of risks are identified within the feasibility study and these are highlighted in Appendix 1 within this report.

8. BACKGROUND PAPERS

Feasibility Study completed by Arneil Johnston in February 2017
30 year Housing Revenue Account Finance Plan

9. REPORT AUTHOR DETAILS

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Description	Details	Mitigation/Action Required
Scottish Government Subsidy	The current subsidy grants from the Scottish Government is £57,000 for Council new build. In order to be considered for the grants the project will need to be included with the Strategic Housing Investment Plan (SHIP), currently no proposals to fund ACC new build programme within the 2017/18 -20121/22 SHIP.	Include the projects within an updated SHIP once projects have been identified.
Rental premium on new build	Potential to charge 25% premium on new build, currently this is not charged on ACC stock. Previously implementation resulted in high arrears.	Test the feasibility of implementing rent levels 25% above ACC levels and ensure within LHS.
Building 2,000 houses by 2022	Building 2,000 houses by 2022 is an ambitious target this can be seen by reviewing other local authority targets.	Review the timeline for the potential build.
Land value	Land value indicated in the feasibility study of £15k per unit may not be achievable current land value for RSL new builds is currently c£25k per unit.	Review land held by the Council for potential new build.
Credit rating	Additional borrowing by the HRA could impact on the credit rating of ACC.	Discussion with Moody's on the likely impact of additional borrowing on the credit rating.
Reducing build cost	Feasibility study indicates reducing overall build costs will ensure affordability however recent new builds undertaken by ACC have resulted in considerably higher unit costs.	Market test to establish if lower build costs are achievable within the Aberdeen City area.