

BARNSELY METROPOLITAN BOROUGH COUNCIL

This matter is a Key Decision within the Council's definition and has been included in the relevant Forward Plan

Report of the Executive Director of PLACE

Residential Investment Fund (RIF)

1. Purpose of report

- 1.1 This report sets out the case for Council investment in promoting housing growth, identifies the sources of funding that might be accessed through a Residential investment Fund (RIF) and identifies in broad terms the type of projects that might be supported.

2 Recommendations

It is recommended that:

- 2.1 **Cabinet agrees the principle of promoting housing growth through a Residential Investment Fund (RIF).**

- 2.2 **Cabinet approve that individual investment proposals are approved on a case by case basis, initially by the Capital Oversight Board, and, if necessary, dependent upon the nature of the investment, by Cabinet in accordance with the Council's established governance procedures.**

3 Introduction

- 3.1 It is proposed that the Council establish a Residential Investment Fund (RIF) to drive the delivery of new housing in the District. It is anticipated that this housing will be predominantly market sale but will also include affordable rent. By investing funding secured from a number of sources the Fund will facilitate increased and accelerated housing growth. Delivery will be primarily through partnership with both the private and the rented sectors. This fund will be available from 2016 – 2017 onwards.
- 3.2 The RIF does not have a defined level of resource as it will draw funding from a number of sources as and when necessary dependent on the requirements of specific projects; these funding sources are explored in more detail in the body of this report

4 Strategic Context

- 4.1 Barnsley's Housing Strategy identifies a requirement for 20,000 to 25,000 new homes by 2033. The Strategy makes support for increasing new housing development a key objective for the Council.
- 4.2 The Housing Strategy Delivery Plan identifies the following measures
- Boost supply of new homes to meet increasing housing demand
 - Work with developers to make housing development more economically viable
 - Enable more people to buy their own homes on the open market
 - Explore new funding delivery models to increase housing supply

- Work with partners to deliver more affordable housing
- Increase the supply of new build rented homes to meet growing demand

- 4.3 Barnsley’s plans for growth should be considered in the context of growth ambitions for the wider City Region. The SCR Business Plan 2015-2016 sets out an ambition to double the annual number of houses built from 3,500 to 7,000. Housing growth in Barnsley will play a key role in addressing the housing shortage in the wider City Region. Barnsley is working closely with the SCR to ensure that funding from the Gainshare Pot (Single Pot) and other funding sources is secured to enable the accelerated rate of housing delivery that is required.
- 4.4 The draft Local Plan, scheduled for adoption in summer 2017 identifies a need to increase the supply of housing in the District from a current rate of 730 properties in 2015/16 to 1070 per year up to 2020 and beyond. This increased level of delivery is essential to support the economic growth the Borough requires if it is to prosper. In Barnsley the housebuilding industry is not currently producing the housing that is needed and it is therefore the responsibility of the Council to intervene where it can to increase delivery.

Economic Benefits of Housing Growth

- 4.5 Increasing the rate of housing delivery will generate significant economic benefits for the District. Every new house built generates income for the Council in relation to Council Tax on an annual basis and New Homes Bonus for the first seven years following completion. The following table shows that increasing the supply of housing from current rates to the projected rate of 1070 per year would generate up to of £1m additional annual income per annum for the Council. The increased level of Council Tax would be collected year on year for the life of the property however New Homes Bonus receipts are only received for the first seven years.

Table shows ‘one year’ benefit of increased housing growth

	Current Annual Delivery	Projected Annual Delivery
Homes per Annum	730	1,070
New Homes Bonus	£803,000	£1,177,000
Council Tax	£730,000	£1,070,000
	£1,555,000	£2,247,000

It should be noted that additional income from housing growth has already been built into the Council’s MTFS.

- 4.6 In addition to the direct economic benefit to the Council, increasing the level of housing delivery has further benefits. During the construction period jobs are generated in construction trades and following occupation income through household spending is generated for the wider economy.
- 4.7 This paper will set out the approach the Council will take in allocating funding from the RIF, examine some potential interventions designed to resolve issues of land supply viability and capacity and identify a number of early potential investments.

5 Potential Sources of Finance

5.1 Prudential Borrowing

The Council is able to borrow to support initiatives that deliver both affordable and open market housing growth. Whilst the Council is able to borrow in this way there would be revenue cost implication to be considered in the interim until repayment of the funding provided is forthcoming. It would therefore be necessary to make a clear business case for any investment.

5.2 Sheffield City Region Funding

The Council as member of the Sheffield City Region (SCR) is able to access funding made available by Government as part of the Devolution Deal. Whilst the Council does not have a ring-fenced allocation it is able to bid in to a number of funding streams to support new housing development. Funding to support housing growth will be made available in 2017-2018 to provide infrastructure through the SCR Integrated Infrastructure Plan (SCR IIP) and through the SCR 'Gainshare' funding Pot. The Council is, in addition, supporting two SCR bids to Government; the first for funding for Starter Homes and the second for funding for Shared Ownership.

5.3 HRA Reserves

As part of the 2016-2017 Housing Revenue Account Budget an HRA reserve fund of £14.3m was approved by Cabinet in December 2015. This money is available for housing growth however it must be spent on acquiring properties that are brought in to the HRA or on improving and maintaining property that sits within the HRA. The Housing Revenue Account is the statutory Landlord account and before any specific investments or interventions are made it will be necessary to ensure the intended use complies with relevant legislation.

5.4 Commuted Sum monies

The Council receives commuted sums through S106 planning agreements in lieu of affordable housing that might otherwise be provided on site. This money is available to support the provision of affordable housing in the District.

5.5 Homes and Communities Agency (HCA) Programmes

The HCA administer a number of programmes designed to promote housing growth. These programmes include Starter Homes, Shared Ownership, Rent to Buy, Builders' Finance Fund, and Help to Buy

5.6 Enforced Sale Enabling Works Levy

The Housing and Planning Act 2016 includes a provision that would allow the Council to enter in to an agreement with government to retain some or all of the Housing Levy generated through the enforced sale of 'higher value' council properties. Retention would be conditional on monies being used to achieve additional housing growth. The final determinations has not yet been published and as a result it is not clear precisely how monies generated in this way could be spent

6 Potential Investments

6.1 De risking Development Sites

It may be necessary for the Council to de risk larger development sites by creating fully serviced plots that can be disposed of on a phased basis. This investment can then be recovered on the sale of land to housing developers.

6.2 Land Acquisitions

Following a review of sites with extant planning approvals the Council believes that there will be occasions when it will be appropriate to acquire a site from a private owner in order to

achieve delivery using funding from the RIF. There is the potential to recover acquisition costs on subsequent sale or development of the site.

6.3 **Direct Delivery**

By assuming the role of developer the Council can add to the capacity of the house building industry in the District and add to the total quantum of completions achieved.

The development finance required to deliver a project should be fully recovered on completion of sales. It should also be possible to achieve more than 100% recovery. There is also the potential to generate a number of revenue streams for the Council.

6.4 **Sale Guarantees**

Many house builders are cautious about pressing ahead with development on sites where values are low and demand is not strong. In order to provide house builders with the confidence they require it may be appropriate for the Council to underwrite sales on some more marginal sites. It is likely that properties acquired in this way would be brought in to the HRA and let as affordable housing. Any acquisitions would be at a pre agreed price ratified as representing value for money.

6.5 **Stock Acquisition - Berneslai Homes**

There is the potential for reserves held in the HRA to fund a capital acquisitions programme to mitigate the loss of council housing stock through RTB and Enforced Sales. The RIF could support three broad areas of activity; new build, S106 acquisitions, and miscellaneous acquisitions.

6.6 **Loan Finance**

Development period loan finance can support house builders in bringing forward new development sites where conventional bank funding is not available. Loans would be secured through a first charge on the land and would be fully recoverable however there would be a risk of default if loans were provided to builders who under other circumstances had been unable to secure development funding.

7 Process and Governance

7.1 Following an initial report presented to SMT on 20th February 2016 the RIF was trailed at the Council's Property Forum on the 7th July with a request for expressions of interest from developers by the end of August.

7.2 The Council has received a number of proposals from developers that are currently being assessed against the following criteria; ability to increase and accelerate housing growth and recoverability of the investment. In addition the Council has discussed a number of proposals with Berneslai Homes that involve committing HRA reserves to deliver additional housing.

7.3 Following assessment of proposals will be brought forward for approval in the first instance by the Capital Oversight Board and if necessary, dependent upon the nature of the investment, by Cabinet in accordance with the Council's established governance procedures.

7.4 In the event that the RIF is oversubscribed the Council will undertake a competitive assessment of the submitted proposals in order to determine which is best able to deliver accelerated housing growth and recoverability. It should be noted however that there is no finite funding 'pot' as monies will be drawn from a number of different sources dependent on the nature of the bid. These will mean that different bids will not always be in direct competition.

7.5 Currently there are a number of investment proposals under consideration. These include a mixture of property and land acquisitions, and housing developments. These are summarised in Appendix 1. This appendix identifies a range of projects with potential housing numbers and project costs. These projects will be financed by a range of public and private sector funders and do not indicate the financial contribution to be made by the Council.

8 Consideration of alternative approaches

8.1 The Council does not have a statutory duty to invest in housing growth and could therefore choose to promote growth through its wider enabling activities. This has been the Council's approach up until this point and whilst a great deal has been achieved in terms of increasing the number of houses delivered in the District it is unlikely on its own to result in the delivery of the 1,070 properties per year as required in the emerging Local Plan.

The report proposes a number of potential investments in new housing projects designed to increase and accelerate housing growth. Alternative approaches will be considered if and when identified.

9 Implications for local people / service users

9.1 The report identifies a number of proposals to increase housing growth. The emerging Local Plan identifies a need for 1,070 new homes a year during the Plan period in order to meet the housing needs of households in Barnsley

10 Financial implications

10.1 The report identifies a number of different interventions to stimulate housing growth within the area. The intention is that any investment made by the Council will be recoverable.

10.2 Approval is sought in principle to establish a Housing Residential Investment Fund using funding from a variety of sources including HRA Reserves, S106 Commuted sums, SCR funding and potentially prudential borrowing. Each proposal will be considered on a case by case basis with the most appropriate funding option being proposed at that time

10.3 It should be noted however that where monies are set aside from the Council's own resources, these resources will not be available to support other competing priorities where appropriate.

11 Employee implications

11.1 There are no immediate employee implications as a result of this report however it will be necessary to keep this under review in the light of developing workload demands associated with project management of the RIF

12 Climate Change & Sustainable Energy Act 2006

12.1 There are no direct implications arising from this report this item will be addressed as individual proposals are brought forward

13 Risk Management Issues

13.1 Risk management issues will be addressed as proposals are brought forward on a case by case basis

14. Promoting Equality & Diversity and Social Inclusion

There are no direct implications arising from this report

List of Appendices

Appendix 1 Project Pipeline

Background Papers

Barnsley Housing Strategy (2014 – 2033)

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