

REPORT TO EXECUTIVE

Date of Meeting: 4 June 2024

REPORT TO EXTRAORDINARY COUNCIL

Date of Meeting: 10 June 2024

Report of: Director of City Development

Title: Local Authority Housing Fund (LAHF) Round 3 Funding

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

Local Authority Housing Fund (LAHF) Round 3 (R3) provides £450 million for a third round of funding with funding being used to deliver high-quality temporary accommodation for homeless families, and to provide housing for those on the Afghan Citizens Resettlement Scheme (ACRS).

Initial allocations for LAHF R3 were made to 203 local authorities (LAs), using an allocations formula. These LAs can also be considered for additional allocations (from unclaimed funds) if they can deliver more homes.

Local authorities that did not receive an initial allocation have been invited to notify DLUHC via an Expression of Interest (EOI) process if they too want to be considered for any unclaimed LAHF R3 funds to deliver the programme objectives.

Exeter City Council has provisionally been identified as eligible for £594,000 capital grant funding to purchase a minimum of 4 homes as per the following indicative allocation (there may be further allocations subject to take up of this scheme nationally):

Resettlement element: With this funding ECC is expected to provide a minimum of 2 home (s) for the resettlement element.

TA element: With this funding ECC is expected to provide a minimum of 1 home(s) for the TA element.

Large resettlement element (4+ bed): With this funding ECC is expected to provide a minimum of 1 home for the large resettlement element.

As with other affordable housing provision, there is an expectation that ECC part funds / finances some of the required capital. Government funding equates to 40% of total capital costs plus an additional **£21,000** per property to account for other costs including refurbishment and conveyancing costs. The governments funding formula is based on the median property price in Exeter of **£300,000**.

The local authority will receive an additional 10% uplift on the grant rate for every unit it will deliver via new supply.

The following key changes have been made for LAHF R3: -

- **Removed the requirement for local authorities to match fund a specific percentage on each home, with full fungibility across the fund elements (TA & resettlement)** – a local authority agrees to deliver a minimum number of TA homes and resettlement homes in exchange for their funding allocation, providing maximum flexibility and simplifying delivery.
- **Increased the programme time frame to a full two years** - increasing scope for a wider range of delivery options, including new supply.
- **Introduced a 10% new supply uplift** to support the growth of overall housing supply.
- **Providing revenue funding** to local authorities to support programme delivery.

Full details of the purpose of the funding, terms and reporting and monitoring arrangements are set out in the Memorandum of Understanding between the Department for Levelling up, Housing and Communities and Exeter City Council at Appendix 1.

There are three options available: -

Option 1 – Purchasing new build properties off the open market - To secure this capital grant funding, it is estimated that the council would need to contribute £630,400.

Option 2 – Purchasing ex-ECC properties off the open market – In order to secure this capital grant funding, it is estimated the council would need to contribute £297,000.

Option 3 – Do nothing - Turn down the opportunity to draw down on £594,000 in DLUHC grant funding to purchase additional properties.

2. Recommendations:

That Executive support and that Extraordinary Council agree Option 2 as follows:

- 1) acceptance of the full allocation of £594,000 in DLUHC grant funding;
- 2) the purchase of (four) properties off the open market;
- 3) that the Council's Capital contribution is funded through £297,000 of S106 funds;
- 4) identification and purchase of suitable properties to let;
- 5) that the rents be set at affordable rates in accordance with the provisions of the Memorandum of Understanding between DLUHC and Exeter City Council and the DLUHC recommended rental funding model Rent Standard – April 2023;
- 6) that the MOU (Appendix 1) be signed and returned to DLUHC by the 12th of June 2024 confirming the Council's participation in the programme;
- 7) that the Director of City Development and Housing and the relevant Portfolio Holder are given delegated authority to proceed with the acquisitions and to amend the number of properties purchased in line with the agreement above and including where additional government grant may become available (provided that no further capital contribution is required from Exeter City Council).

3. Reasons for the recommendation:

Exeter City Council is committed to supporting refugees, where possible and within available resources, that have been displaced due to conflict and the Local Authority Housing Fund (LAHF) is an opportunity to bring on additional units of long-term family accommodation that will help address much needed accommodation for this cohort and to provide homes for future housing need.

The Home Office have advised that at this juncture, they require over 100 properties of all sizes for the Afghan cohort. While 2 and 3 beds dominate the requirement there is a need for properties that are 4 – 7 beds in size.

One of the properties will be used for temporary accommodation and will assist local citizens who are homeless. The Council currently has 34 families in Temporary Accommodation.

Subject to council approval, once these properties have been secured, they will be an ECC asset. DLUHC envisages that once all Afghan households have been resettled the Council will be able to use the properties for other housing needs such as temporary accommodation which is always in high demand.

4. What are the resource implications including non financial resources

There are a number of resource implications to consider: -

Sourcing appropriate properties –This will require cross departmental co-operation with Housing Needs Department sourcing appropriate properties from open market, Estates and Housing Assets visiting and inspecting properties, Legal Department carrying out conveyancing and then when purchased, Housing Assets inspecting and arranging for necessary works to be carried out to ensure that all properties meet the Decent Homes Standard. Costs have been factored into the budget to cover the cost of conveyancing and inspections and £90,000 will be set aside to carry out necessary repairs if purchasing Ex-ECC properties.

Financing the council contribution

Option 1 – Purchasing New Build

The properties will be owned and managed by the Council and based on a stock profile of 3 x Two Beds and 1 x Four Beds it is estimated that the total cost of purchasing properties off the open market will be £1,246,000. Alongside contributions of £594,000 from DLUHC and a New Homes Bonus of £84,000 the Council will need to invest a total of £630,400.

There is currently £643,500 in unreserved non-restricted S106 funds. This includes underspends from LAHF 1 which came in with an underspend of £63,000 and a £40,000 underspend on LAHF 2.

Option 2 – Purchasing ex-ECC properties off the open market

The properties will be owned and managed by the Council and based on a stock profile of 3 x Two Beds and 1 x Four Beds it is estimated that the total cost of purchasing

properties off the open market will be £891,000. Alongside contributions of £594,000 from DLUHC the council will need to contribute a total of £297,000

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Project-On Costs – Appendix 2 provides an overview of associated Project Costs – legal costs have been factored into the budget alongside Officer time from Assets.

5. Section 151 Officer comments:

Whilst there is an opportunity cost to using s106 resources, this is an opportunity to acquire four additional properties without adding to the Council's borrowing requirement. This means that the rental income will add resources to the revenue account. The Finance team will work closely with Housing to ensure that the houses are placed in the most economically advantageous position, whilst ensuring that the Council is acting in line with legislation and s106 obligations.

6. What are the legal aspects?

The funds are to be provided by central government to authorities in accordance with the provisions of section 31 of the Local Government Act 2003. Section 31 addresses the power to pay grants to local authorities and states:

A Minister of the Crown may pay a grant to a local authority in England towards expenditure incurred or to be incurred by it.

This is a non-ring-fenced capital grant, although conditions can be attached as to the use of the grant. In this case, DLUHC requires the Council to enter into a Memorandum of Understanding (MOU). Members should read and consider the MOU.

Members will note that the terms of the MOU are not legally binding and state at paragraph 1 that 'this MOU is not intended to create legal or binding obligations. It describes the understanding between both parties for the use of funding specified in Section 3 of this agreement'.

The stated purpose of the scheme is for local authorities to acquire housing stock in order to "[r]educe local housing pressures and use of expensive and unsuitable accommodation, by providing better quality temporary accommodation to those owed homelessness duties by local authorities', to '[r]educe temporary accommodation costs' and to '[p]rovide sustainable settled housing to those on the ACRS [Afghan Citizens Resettlement scheme] so that they can build new lives in the UK, find employment and integrate into communities'.

7. Monitoring Officer's comments:

The Deputy Monitoring Officer reminds members that they are under an obligation to exercise their fiduciary duty carefully. The meaning of fiduciary duty can be summarised as a duty to conduct administration in a business-like manner with reasonable care, skill and caution and with due regards to the council's rate payers. When discharging their fiduciary duties councillors will need to consider the following:

- a. Prudent use of the council's resources, including the raising of income and the control of expenditure;
- b. Financial prudence both long and short term;
- c. Striking a fair balance between the interest of the council tax payers on the one hand and the community interest and adequate and efficient services on the other hand.

Simon Copper – Deputy Monitoring Officer.

8. Report details:

All properties under LAHF 1 and LAHF 2 have now been purchased and 7 households have moved into their new homes, the remaining properties are going through a matching process to identify suitable households.

Whilst locally all Bridging Hotels have been closed and households rehoused the Home Office have advised that at this juncture, they require over 100 properties of all sizes for the Afghan cohort. While 2 and 3 beds dominate the requirement there is a need for properties that are 4 – 7 beds in size.

Purpose of funding and Next Steps

The £450 million LAHF R3 helps deliver DLUHC's commitment to assist those who are homeless to secure accommodation, alongside supporting the government's humanitarian obligations to provide safe and suitable housing to those fleeing Afghanistan.

The objectives of LAHF R3 are to:

- Reduce local housing pressures and use of expensive and unsuitable accommodation, by providing better quality temporary accommodation to those owed homelessness duties by local authorities.
- Reduce temporary accommodation costs.
- Provide sustainable settled housing to those on ACRS so that they can build new lives in the UK, find employment, and integrate into communities.
- Support local housing markets by assisting the delivery of new housing stock or new developments to grow overall housing supply.

Property acquisition

Within the framework of the purpose and objectives of the fund set out above, we want to provide local authorities with as much flexibility as possible to shape local delivery according to circumstances in each area. The guidance provided in this document is intended to support this. Local authorities will need to be satisfied that their specific plans are lawful and deliverable.

Housing delivered as part of LAHF R3 could include, but is not limited to:

- expanding existing local authority delivery programmes or those of local housing association partners;
- increasing the number of affordable housing units in housebuilder-led schemes due to complete in 2024-25 or 2025-26;

- bringing empty / dilapidated properties (both residential and commercial units) back into use, including properties owned by a local authority or housing associations;
- remodelling defunct specialist accommodation including sheltered accommodation;
- ‘flipping’ forthcoming shared ownership completions into housing;
- providing modular housing as part of wider efforts to use MMC to support local temporary accommodation pressures;
- commissioning new supply that can be delivered in 2024-25 or 2025-26 from developers;
- purchasing existing properties on the open market.

Local authorities may choose the most appropriate delivery mechanism to achieve the fund’s objectives and to bring on stream the accommodation as quickly as possible.

Officers are proposing the following options for Council to consider: -

Option 1 – Purchasing New Build Properties

The Council uses eligible Section 106 funds to purchase through open market acquisition.

Based on a stock profile of 3 x Two Beds and 1 x Four Beds it is estimated that the total cost of purchasing properties off the open market would be £1,246,000. Alongside contributions of £594,000 from DLUHC and a New Homes Bonus of £84,000 the Council would need to invest a total of £630,400.

The Council’s contribution will come from the use of Section 106 Funding towards the acquisition of affordable housing in Exeter.

Rental Income Yield

Rents would be set at Affordable Rent and capped at LHA + £100 per month and are based on [median private rentals](#) in Exeter

Property Size	Median Market Monthly Rent	Affordable Rent @ 80% of Market Rent	LHA Rate	Rent to be charged
2 Bed	£1,173	£938.40	£792.83	£892.83
3 Bed	£1,495	£1,196	£947.40	£947.40
4 Bed	£2,348	£1,878.40	£1,296.45	£1,296.45

Assuming a 1% annual rent increase would see a total income of £3.15 million over a 50-year period. With On costs for Contribution to Technical officer and Housing Officer, Planned Maintenance, Reactive Repairs and allowance for bad debt and voids factored in this would see a total outlay of £2.4 million over the same period. Concentrating on acquiring new build properties would see a reduction in long term planned maintenance costs.

Total Income (Rents)	£3,152,203.20
Total Outlay (staff costs, bad debt and voids, planned maintenance & reactive repairs)	£2,450,301.18
Return to ECC over 50 years	£701,902.01

Pros

- The government will be providing £594,000 investment to purchase additional family homes.
- There will be a 10% New Homes Bonus for purchasing new build properties – this will be around £84,000 of additional grant funding.
- With 35 families currently in Council temporary accommodation and over 1,000 families on the housing register, in the medium to long-term the accommodation can be used to relieve Council and local housing need.
- There are available properties on the market which will mean that we will be able to meet delivery within timescales.
- Concentrating on purchasing new build properties will mean that the Council will be purchasing modern housing stock and that there are less upfront costs associated to refurbishment, removal of asbestos and the properties will meet current building regulations and have updated insulation – reducing long term planned maintenance costs.
- Rent charges will be fully covered by HB claims and / or affordable top-ups for those households with income more than benefits thresholds

Cons

- There is currently £643,500 of eligible funding in the Section 106 account utilising this will effectively expend current s106 funds The Section 106 Account will increase over the coming year as committed receipts are paid to the Council.

Option 2 – Purchasing ex-ECC Properties

The Council uses eligible Section 106 funds to purchase through open market acquisition.

Based on a stock profile of 3 x Two Beds and 1 x Four Beds it is estimated that the total cost of purchasing properties off the open market would be £891,000. Alongside contributions of £594,000 from DLUHC the Council would need to invest a total of £297,000.

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Pros

- The government will be providing £594,000 investment to purchase additional family homes.
- With over 1,000 families on the housing register, in the medium to long-term the accommodation can be used to relieve Council and local housing need.
- One of the properties will be used as temporary accommodation and benefit Exeter Citizens who are homeless or at risk of homelessness. The council currently has 34 families we currently have in temporary accommodation.
- There are available properties on the market which will mean that we will be able to meet delivery within timescales.
- Rent charges will be fully covered by HB claims and / or affordable top-ups for those households with income more than benefits thresholds

Cons

- Purchasing properties off the Open Market will come with its challenges and will require cross department co-operation. However, this should not be an issue as the Council has successfully purchased 27 ex- ECC properties off the open Market over the past 3 years.

9. How does the decision contribute to the Council's Corporate Plan?

The service will contribute to the Council's Corporate Plan in the following areas: -

- Building great neighbourhoods - By tackling social inequality through maximising homelessness preventions and reliefs and through maintaining and developing emergency, first and second stage housing options with suitable personalised support to address single and multiple need.

- Promoting active and healthy lifestyles - Supporting households to access key health and advocacy services in primary and secondary healthcare services including mental health assessment and support, physical and social care, and education, training, and employment opportunities.
- Tackling congestion and accessibility - By extending access to homelessness & housing support services by extending our reach into the community through outreach and co-location and by developing multiple access points to advice and assistance

10. What risks are there and how can they be reduced?

Risks are:

- **Local housing market** - not having the desired property available for acquisition. This is a minimal risk as the market has been assessed for the range of properties and there are sufficient numbers of 2 to 3+ bed houses available including new builds. The Developer who was used to deliver LAHF 1 and LAHF 2 on time has already confirmed that they are able to meet our needs under LAHF 3.
- **Officer capacity to progress the scheme.** The risk is low to medium. The identification of properties would be undertaken by the Housing Needs Service with conveyancing and purchase via Legal and Estates who have been notified of the potential scheme and timescales. Subject to purchasing properties that can be inhabited without significant lead in for compliance and repairs an assessment of ongoing capacity for property management including cyclical maintenance will be undertaken. It is likely that there will be additional works needed to the properties to bring them to a decent homes' standard, this will include asbestos removal, new kitchens, and bathrooms etc. These works will put additional pressures on Tenancy Services and Assets to oversee this work.
- **Public perception** that the Council are acquiring properties for refuges when so many local people are in housing need. This can be mitigated by ensuring clear communications that the funding is targeted grant monies from central government and that there is no impact on the Council's social housing development programme, and that long term the properties will be used for local citizens. One of the properties is to be used as temporary accommodation which will directly help local families who are homeless or at risk of homelessness in the city.

11. Equality Act 2010 (The Act)

Initially the properties acquired will be ring-fenced for the eligible cohort. Once there are no longer eligible households the properties will be free to be used as the Council determines best. This might be as temporary accommodation for homeless households or as long-term homes to relieve household need.

12. Carbon Footprint (Environmental) Implications:

No direct carbon/environmental impacts arising from the recommendations.

13. Are there any other options?

The Council is already facing significant financial pressures and there are other options where S106 funding could be used: -

Council Own Build Programme

Exeter City Council has given itself the target of building 500 new Council homes in the Housing Revenue Account by 2030. 72 homes have been completed, with a further 112 on site at Vaughan Road and Hamlin Gardens. There are also a number of other sites that are being investigated and designed at present with the potential to deliver a further 200+ new homes into the HRA.

The HRA are in the unique position when developing on HRA land, rather than purchasing units, that consideration can be given to other more specialist forms of housing, including housing for older residents, Extra Care and for those with mobility issues or requiring fully wheelchair accessible properties. Where sites are suitable from a layout and geographic position these types of properties will be considered and designed into each scheme. Currently there is need for 31 fully wheelchair accessible wheelchair properties, as per the data from Devon Home Choice, this is a need across 1 bed to 4 bed homes. Detail in the table below.

Wheelchair Accessible Housing Need by Band and Bedroom					
01.04.2024	1 Bed	2 Bed	3 Bed	4 Bed	Total
Band A	1	1			2
Band B	5	8	5	2	20
Band C	5				5
Band D	3	1			4
Total	14	10	5	2	31

New build schemes within the HRA are funded using a combination of funding sources, including borrowing, HRA capital, retained Right to Buy Receipts and S106 commuted sums. The funding for each scheme is built up of the most financially advantageous combination of the funding sources with the aim of reducing the borrowing required to the absolute minimum. The HRA are in detailed discussions with Homes England to add to these funding streams by bidding for grant monies under the Homes England Affordable Housing programme on future schemes. The use of this Homes England grant restricts the ability of the HRA to utilise RTB receipts on the same scheme.

The HRA has used S106 commuted sums on a number of schemes in the past, most recently several million pounds of this S106 money was used on the recently completed Edwards Court Extra Care scheme. Whilst there are not large sums of S106 commuted sum available to use for affordable housing provision at the moment, not having this money available for new build schemes has the potential to make the viability of schemes more challenging and removes one of the 'cocktail' of available funding streams.

The viability of new build affordable housing schemes is a challenge for the HRA at this time. There is a combination of issues at play currently; tender prices are continuing to rise, with sub-contractors seemingly cherry picking the work that they want to do, and material prices have not returned to previous levels; interest rate rises are increasing the costs of borrowing and reducing the amount of borrowing that can be financed with the available rental income on schemes; less capital is available through the HRA, RTB receipts and S106 monies; and we don't yet have a track record for bidding to Homes England for grant and the levels of grant being offered may not be keeping pace with tender rises. This combination of factors is making the funding of new build schemes for the HRA particularly challenging flexibility is required to arrive at the most advantageous combination of funding sources.

LAINGS Properties

This scheme consists of 18 non-traditional Laings Easi-Form properties (concrete panel construction, designed for speed of construction rather than longevity), which, for the most part form one half of a pair of semi-detached properties. The project is two thirds completed but has suffered from delays with the previous contractor, relating to Covid shutdown of their business, and the need for an alternative contractor to be brought in to finish some partially completed properties. There are still 6 properties to be completed. There is also the potential to purchase a further privately owned Laings property, which is the other half of one of the Council owned properties, so the purchase of this property would aid in the rebuilding of the Council owned property.

The Laings project received a budget allocation at committee on 20 February 2018 for £3.25m, at that time this was thought to be adequate to develop all the properties. But the scheme has suffered a number of setbacks & changes since this original allocation; including the addition of another property; Lockdown contractor shutdowns and slow progress; issues with the original contractor resulting the Council bringing in a replacement contractor; significant changes in material and labour costs resulting in large cost uplifts.

To date 12 of the 18 properties have been completed on this project, these properties are signed off and have tenants living in them.

There are 6 properties that are still to be completed for this project, one remains un-demolished, two are a self-contained pair of semi-detached houses, and the final three have been demolished and the remaining half of the semi is weather protected and propped with scaffolding.

A budget totalling £2.5m is required to deliver the final phase of the Laings project. This budget also includes the purchase of one privately owned property. The purchase of this property is underway.

S106 monies could be used towards the redevelopment of the Laings Project, although it would still require additional borrowing of £1.9 million to complete the scheme. It is likely to take 5 years before there is sufficient funds in the S106 budget to cover the complete cost of the re-build.

Director City Development, Ian Collinson

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Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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