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<b>REPORT TO:</b>	<b>Housing and Community Services Committee</b>	<b>AGENDA ITEM: 9</b>
<b>DATE OF MEETING:</b>	<b>11<sup>th</sup> October 2012</b>	<b>CATEGORY: DELEGATED</b>
<b>REPORT FROM:</b>	<b>Mark Alflat - Director of Operations</b>	<b>OPEN</b>
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<b>SUBJECT:</b>	<b>Additional affordable housing</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: HCSO1</b>

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## **1. Recommendations**

- 1.1 That members approve that a partnership approach be progressed with the intention of providing additional affordable housing in the District. The partnership would primarily be focused on new build but would also seek to acquire existing properties subject to set criteria.
- 1.2 That a partnership model will be developed in detail over the next quarter with a report back to this Committee, with recommendations, in the new calendar year.

## **2. Purpose of Report**

- 2.1 Given the high unmet demand to consider the potential mechanism(s) for delivering additional affordable housing in the District.

## **3. Executive summary**

- 3.1 The report states the case for additional affordable housing for rent to be provided in a proposed partnership of a housing association and, potentially, a developer.
- 3.2 A number of government initiatives combined now give circumstances, whereby for the first time in a generation, there is a rationale for local authorities to build new and acquire existing vacant homes.
- 3.3 The government is now encouraging local authorities to build not only to meet the high demand for additional affordable housing but also to play their part in generating economic activity. The reinvigoration of the construction sector is seen as key by government.

3.4 Every additional affordable housing unit built or long term empty property acquired is worth approximately £10,000 to the General Fund in new homes bonus over a six year period.

#### **4. Detail**

4.1 The Housing and Community Services Committee of 14<sup>th</sup> June 2012 agreed that 'additional' Right to Buy (RTB) receipts would be directed into additional affordable housing provision under the central government scheme whereby, given such a local authority commitment, allows that local authority to keep 100% of those receipts. Prior to changes to the RTB discount rules the government had predicted the projected number of sales for each local authority area and still takes 25% of these receipts. The additional receipts are presumed to increase as a result of removing capping of discounts effectively increasing them by upto 200%.

4.2 The Council is currently projecting to sell around 12 homes this year and therefore commitments do need to be made on the projected additional income.

4.3 At the June meeting of the Committee it was agreed that the options for delivering the new supply would be examined in more detail with a further report to the Committee. A budget of £20,000 was approved for any specialist external advice required. It was not necessary to utilise this in the production of this report.

4.4 Increasing the supply of affordable housing generates approximately £10,000 per unit in New Homes Bonus over a six year period.

#### Affordable Housing demand

4.5 At 1<sup>st</sup> September 2012 there were over 1,800 applicants registered on the Council's waiting list. These can be single person households but the majority are from at least two person households i.e. the formal registered demand is from at least 3,000 people. Applicants are asked to verify and refresh their details on an annual rolling basis (the anniversary of the date of their application) i.e. this is a true measure of actual demand.

4.6 The annual turnover in the social housing stock of 3,803 (including housing association properties in the district) is around 250 properties a year. Therefore demand outstrips supply by a multiple of over 7.

4.7 Whilst there have clearly been a number of benefits to the national Right to Buy policy the effect on those without a home has been dramatic. Without an effective base to operate from it's very difficult to achieve in other sectors of life whether it be employment or education or to become contributing members of the community.

4.8 At one time there were approaching 8,000 affordable homes for rent within the District. 30 years of the Right to Buy has seen the affordable housing stock decline to 3,803 (including the 750 Housing Association or Registered Provider - RP homes). Over the same period house prices have risen many times more than the rate of inflation putting homes for purchase outside the scope of most on or below median incomes. The national average age of first home ownership is now 37.

4.9 The average lower quartile District house price is £110,000 for which a deposit of around £11,000 would be needed. The Chartered Institute of Housing 2011 survey

for the District comparing house prices with incomes revealed that average house prices are broadly 7 times more than the average wage when loans to income ratio was traditionally set at a maximum of 3 times.

#### New affordable housing supply and the wider economy

- 4.10 The Homes and Communities Agency (formerly the Housing Corporation), following the Comprehensive Spending Assessment of 2010, cut the grant for new supply by 63%.
- 4.11 There are only a handful of RPs with mainstream grant funding for any project in the East Midlands and none for South Derbyshire projects. In the region there is limited money for some rural projects and some continuing new build in the Milton Keynes new town hub. However in effect the traditional funding mechanism for new social housing for the last 20 years has currently disappeared from this region.
- 4.12 The construction industry has been in decline since 2008 when the supply of finance became tighter. On top of that, public sector funding and new build projects have significantly declined since 2010 which has meant that, although the overall economy is flat lining, the construction industry has been in significant decline for over 3 years.
- 4.13 The government approach seeks to stimulate the construction sector in an effort to reinvigorate growth in the wider economy. The cumulative effect of a number of measures introduced, and about to be introduced, could offer an opportunity to start to realise that aim. The measures include:
- Allowing local authorities to utilise the additional Right to Buy receipts from higher discount sales,
  - Freeing up local authorities from the national housing finance system enabling them to make their own decisions about investment
  - Encouraging local authorities to build themselves
  - Enabling developers to renegotiate Section 106 affordable housing obligations
  - Underwriting loans to RPs to provide additional affordable housing
  - Encouraging the private investment sector to become involved in new build housing.
- 4.14 The CBI (Confederation of British Industry) Construction Council claims that for every £1 spent on capital investment in new build housing £2.84 is spent in wider economic activity.
- 4.15 Although the local South Derbyshire economy is in relative terms a success story, with local unemployment at half the national average, more can always be done to improve matters.
- 4.16 The Council now has the opportunity to be both facilitator and provider in terms of delivering economic growth as well as building to meet the high demand for additional affordable housing.

#### Delivery options for new affordable housing

- 4.17 In their simplest form there are three options in how the new provision could be delivered.

- We could make our resources available to an RP (Housing Association) and they would utilise them to provide new housing association properties in our area (Option1).
- The Council could develop its own additional supply (Option 2)
- A mixture of the first two options such as sharing the development process with an RP and resultant properties to be owned in proportion to the funds invested by each organisation (Option 3).

### Option 1

- 4.18 RPs have been the government's favoured delivery model for new affordable housing for well over 20 years. They have received significant grant aid to do this. They have built up expertise and knowledge. It's a tried and tested delivery model.
- 4.19 Critics would argue that Housing Associations should have delivered more with the grants received and that the untapped capacity in many housing association balance sheets evidences that. In reality it's a mixed picture with some housing associations having stretched themselves and their resources more than others.
- 4.20 Other critics state that Housing Associations have built low spec' housing that will create future sustainability problems. In reality it's again a mixed picture and it could be argued that local authorities from strategic housing and planning perspectives could have done more to influence the specification upwards. In addition some of the poorer stock has been developer built under S106 agreements and the RP has purchased this as a completed product. The stock provided within the last 10 years in South Derbyshire generally meets a good standard.
- 4.21 The decision of whether we choose to deliver additional stock simply by providing our resources to a Housing Association comes down to two issues. Price and control.
- 4.22 On the price issue the housing association development model seeks to take account of both the capital development cost and the ongoing revenue costs on an individual property basis. In this way it builds in the management and maintenance costs for the next 30 years into its overall development costs and then sets the rent at a level reflective of those costs. In this way they may allow for full property upgrades in that 30 year life cycle when these might not have to be delivered. On the management side it also builds in annual costs into its financial modelling whereby in reality adding small numbers of properties to the portfolio is unlikely to increase the overall management costs.
- 4.23 The other issue on price is that the development model will require upto 70% of the finance required for development to be sourced from borrowing unless the housing association is willing to put some of its own resources in to help fund development. Borrowing is cheaper for local authorities to do given our access to the Public Works Loans Board.
- 4.24 The control issue is more straightforward and relates to the future use of the property and movement in rent levels i.e. without ownership we don't have direct control over these issues and therefore the investment we've made in the properties. Continued future use of the property for affordable housing purposes

could be secured through covenants relating to nomination rights i.e. we could stipulate to whom the properties are let.

### Option 2

- 4.25 The converse argument relating to control applies i.e. the local authority can set rents and determine future use and take policy decisions utilising existing local structure e.g. the Housing and Community Services Committee.
- 4.26 Additionally (being the converse of Option 1 above) we are likely to be able to keep development costs lower simply by excluding all future management and some of the maintenance costs from the equation whilst also borrowing at lower interest rates. We have an untapped additional borrowing capacity of £8m
- 4.27 We'd be investing our own business income back into our business and helping to ensure that better economy of scale is maintained in the future management of the housing stock. It can often be more expensive, per unit, for Councils and Housing Associations to manage very low stock levels on a dispersed basis simply because overhead and infrastructure costs are shared by a lower property base.
- 4.28 There is a wide existing skill base already within the Council relating to new build. A number of officers have direct experience including a recent appointment of the ex Head of Development from a Housing Association.

### Option 3

- 4.29 A mix and match approach of the first two options could be the most productive way forward recognising that there are strengths but also some drawbacks in both approaches.
- 4.30 A blend of the two is also becoming an established model. Colleagues in a nearby Council are proposing to use a model where there is a mix of skills used between officers from within the Council and an RP partner. They have set a target for the number of homes to be delivered over a medium term timeframe and the proportion of the resultant homes belonging to each organisation will reflect the level of investment in terms of land, money and time.
- 4.31 By working with a preferred RP partner the Council could also seek a commitment that the RP will put in a share of cash investment and allow the Council to gain access to other sources of funding such as HCA funding if this is increased in future years.

### Private sector investment in affordable housing provision

- 4.32 Another variation on option 3 being considered is that of working with a private sector investor and/or developer to bring higher levels of investment into a new build project.
- 4.33 A number of traditional house builders are keen to work with affordable housing providers because they have the surety of knowing there's a demand and market place for their product.

- 4.34 One developer has a model whereby it undertakes to supply most of the capital for the new build and it owns the property in the first instance. The properties would be let at affordable (not social) rents to applicants from the waiting list and the developer would take the rental income for a set period. The tenancy and property would be managed and maintained by the Council and the ownership would revert to the Council at the end of the set period.
- 4.35 The advantage of such a model to South Derbyshire DC is that our HRA is projected to generate surpluses in the long-term but as a business we're relatively 'cash poor' in the short term. The problem with social housing demand is that it's here now but our own ability to significantly meet that demand now is limited.

#### Scale and ambition

- 4.36 There is currently very high unmet demand for a significant addition to the affordable housing stock within the District (see 4.5 above).
- 4.37 The Council could seek to develop a small number of homes on its own or in partnership with an RP. This would be a start and could establish a model of delivery to be used and replicated in the future. The advantages of a smaller scale approach though are limited. For instance providing new build on any level is clearly a substantial undertaking and warrants the need to establish effective delivery mechanisms that minimise risk and maximise return. Such mechanisms and delivery structures together with the engagement of external experts would need to be done whether our ambition is to build 5 homes or 500.
- 4.38 The high demand for affordable homes means that building on a modest scale will undoubtedly help but will not significantly impact on that demand which continues to grow exponentially beyond our ability to meet it.
- 4.39 If our ambition is to significantly impact on the current and future demand there is a case for setting a more challenging new build target over a short to medium term period and then to work on a delivery model set to achieve that.
- 4.40 Such a target would enable momentum to be created and a delivery team established that would have an economy of scale. In addition some of the private developer / financing models are built towards a more meaningful scale i.e. delivery of around 120 homes over a 1-3 year period would be a minimum.

#### Land availability

- 4.40 Despite national government often stating that the public sector needs to release more land for affordable housing, until it provides a meaningful stimulus this will not happen e.g. Councils, government departments, agencies and quangos owning that land will inevitably want to maximise the receipt from an open market sale to fund other projects relating to their core activity.
- 4.41 This Council's available land bank is modest, at best, and the suitability of some sites is questionable. The estimated capacity of the sites is around 75-100 units of affordable housing assuming that at least one of the larger and several of the smaller sites are unviable.

- 4.42 Land not in the ownership of the Council but currently allocated for housing under planning may be able to be purchased although land owners will be seeking the maximum premium.
- 4.43 Land as exception sites may present more of an opportunity for developments outside of the urban core where any development will by nature need to reflect the size of the current community and infrastructure i.e. small scale. Although the statutory roles must remain distinct there is a clearly a synergy to be gained in the Council being a direct provider of affordable housing as well as being the strategic housing authority with a responsibility to adequately plan for housing needs as well as being the planning authority with the wider responsibility to plan for all community needs.

#### Buying S106 planning obligations from developers

- 4.44 There are a number of substantial S106 planning obligations already issued by the Council which have currently not been built out. There are a number of reasons why they are not being utilised but primarily the reason is that the construction / developer sector will not invest in wholesale development schemes at current margin and risk levels i.e. they perceive too high a risk for too small a margin.
- 4.45 A potential way of reducing their risks could be for the Council to offer them guarantees about purchasing the affordable housing elements of developments at a set unit price.
- 4.46 In addition and more generally the Council could negotiate alongside RPs with developers at the point that they offer the affordable housing elements to the market to the highest bidder.

#### Property acquisition

- 4.47 In some parts of the District, and particularly some parts within the Swadlincote environs, ex Council properties can be purchased for less than the cost of building new. Although purchase of such properties does not increase the overall supply of housing, and the investment does not generate wider economic benefits, it will make strategic housing sense to buy rather than build in some circumstances.
- 4.48 Long term vacant, ex Right to Buy, properties on what are traditionally identified as council estates can become blights on those estates particularly where properties have been boarded up. Buying such properties would have the effect of also positively contributing to the new homes bonus by reducing the numbers of long term empty properties

### **5. Financial Implications**

- 5.1 Becoming a provider of new additional affordable housing clearly has significant financial and risk implications. Building homes is expensive.
- 5.2 The proposal in this report needs much more detailed analysis before the financial implications can be fully itemised.
- 5.3 The initial report on potential new build affordable housing approved a budget of £20,000 to progress to the next stage. That resource has not yet been used and the

report has been put together utilising the collective knowledge of in-house officers and external agencies. The £20,000 though can now be used to commission an independent report on how to maximise the resources available for new build for the benefit of the community in terms of additional affordable housing and wider economic growth.

## **6. Corporate and community implications**

- 6.1 A key strategic objective of the Council is to deliver a range of affordable and decent housing.
- 6.2 Council housing waiting list information clearly indicates that there is very high demand for additional affordable housing in the District.