Report for Resolution

Report to	Cabinet 14 March 2012	**Item**
Report of	Head of city development	14
Subject	Options for the funding and delivery of affordable housing on council owned land	

Purpose

To consider the funding options and mechanisms available to support affordable housing delivery on council owned land.

Recommendations

(1) To agree the use of a range of funding options, detailed in the report, for the delivery of affordable housing schemes on council owned land;

(2) To agree that the mechanism to enable the development of affordable housing on council owned land will be the disposal of packages of sites to registered providers supplemented by the option for the council to build its own new stock; and

(3) Note that at a subsequent meeting cabinet will agree the development sites following local consultation.

Financial Consequences

There are no immediate financial consequences for the council arising from the proposals in this report. Financial models for each scheme brought forward in line with the agreed development mechanisms will be developed and submitted for members' consideration.

Risk Assessment

There are two main risks. Firstly, the funding arrangement for new social housing has changed and as a consequence there is a degree of uncertainty about deliverability. However the proposals in this report seek to mitigate this risk. Secondly, the delivery of affordable housing attracts government incentive grant (New Homes Bonus) and a failure to deliver will, obviously impact on the level of grant received.

Strategic Priority and Outcome/Service Priorities

The report helps to meet the strategic priority “Decent housing for all”

Cabinet Member: Councillor Bremner

Ward: All

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Report

Delivery of Affordable Housing

Background

1. The current requirement in Norwich is for 677 new affordable dwellings each year as determined by the Strategic Housing Market Assessment update of September 2011.

2. There has been a cut in government funding for affordable housing of nearly 50%, which has resulted in average grant rates for the region reducing from £40-50,000 per dwelling, to £20-25,000.

3. The Government, via the Homes and Communities Agency (HCA), has stated that any new affordable housing requiring public subsidy should be either let at Affordable Rent Tenancy (ART) levels or low cost home ownership. ART levels are set at 80% of market rent levels for the immediate area.

4. The cuts in capital grant funding means that Registered Providers (RPs) must consider alternative funding streams, such as the revenue funding generated by charging higher, ART levels of rent. The use of revenue funding carries higher risks than capital funding and as a result of these risks and the capital funding cuts, RPs have significantly reduced their development programmes. It should be noted that the additional revenue generated by RPs charging ART will not be ring- fenced to be spent in the area it was accrued in.

5. Previously, the council has worked in partnership with RPs via the Delivering Affordable Housing Partnership (DAHP), whereby land was sold to the RPs at £15,000 per plot, the sum of which was reinvested as grant funding once a scheme was completed. The council was granted 100% nomination rights in perpetuity for homes delivered in this way.

6. The council has a long held objective to deliver new council owned housing and was successful with a bid for Local Authority New Build funding prior to this programme being suspended and then withdrawn by the Government. The costs associated with developing new affordable housing are laid out in Appendix 1.

Funding options for new affordable housing

7. There are various sources of funding for new affordable housing, these include:

   - Affordable Homes Programme funding through the Homes and Communities Agency – locally Orbit Housing Association, Places for People, Orwell Housing Association, Wherry Housing Association and Saffron Housing Trust have successfully bid for funding.

   - RPs which have not been successful in drawing down funding from the HCA now have the opportunity to access a small pot of funding by signing a Short form agreement with the HCA. Any grant drawn down in this way must be used to provide ART dwellings.

- Registered Providers own reserves – RPs have built up reserves and are able to borrow against their existing asset base to provide funds for development.

- Housing Revenue Account re-financing – re-financing will allow borrowing headroom that could support the delivery of new council homes in the medium to longer term.

- Disposal of land / dwellings for a capital receipt - This could include the sale of land currently earmarked for affordable housing to Registered Providers or private developers or the disposal of individual assets that are uneconomic to maintain at auction.

- New Homes Bonus (NHB) - The council will receive an NHB per property for the first six years following completion. Payments will be based on match funding the council tax paid on each property, dependent on which banding the new build falls within. An additional £350 will also be awarded, when a property is classed as affordable housing. This sum is not ring-fenced and, like many other authorities, the annual bonus payment is used to underwrite general fund expenditure.

- Council shared equity dwellings – A property can be developed and sold for up to 80% of the open market value. The remaining unsold equity is vested in the Council and can be purchased by the owner at a later date.

- Commuted sums from private developments of 5 or more dwellings– Under certain circumstances, it will not be feasible for a developer to provide affordable housing on site. The council has agreed that subject to an independent assessment, a payment in lieu of affordable housing, or ‘commuted sum’ will be accepted. The funds raised from these payments can be used to deliver affordable housing elsewhere.

- Section 106 Town and Country Planning Act - In line with policy 4- Housing of the Joint Core Strategy the council will seek a proportion of affordable housing on all developments of 5 dwellings or more.

- Norwich City Council and Homes and Communities Agency strategic partnership – currently the strategic partnership has £2.5million available to support its objectives including the delivery of affordable housing.

- Community Infrastructure Levy – It is anticipated that from November 2012, developers will have to pay CIL on each ‘open-market’ property they develop. The primary use of this charge will be to fund infrastructure projects such as roads and bridges but the Government is currently consulting on allowing CIL to be used to fund affordable housing provision.

- Institutional investment - Some large investment companies and pension funds are looking to convert capital into a revenue stream. They are looking for models that will give them a guaranteed annual return on investment that is better than they can currently achieve through traditional investment and this may include investing in affordable housing with landlords providing a guarantee over rental income.

- Joint ventures between public and private sector partners – Some house builders are exploring the option of establishing joint ventures with councils in order to build Local Authority owned homes.

Further detail on each option is shown at Appendix 2.

8. Whilst all of the above options are available for the funding new affordable housing, it is likely that the most significant options in the next 3 years will be:

   a. Homes & Community Agency funding,

   b. Registered Providers reserves,

   c. Commuted sums/developer payments,

   d. Receipts from the disposal of land.

   It is anticipated that the receipt to the council from disposals and commuted sums will be approximately £3million in 2012/13 which would support the delivery of approximately 30 new affordable council built homes.

Delivery options for new affordable housing

9. We have identified five options for delivering new affordable housing on small sites of council owned land. These are:

   a. Restoration of the DAHP. The DAHP has a proven track record but does not work well in the current economic climate, where delivery partners require as much flexibility as possible when delivering their programmes.

   b. The council working in partnership with one RP to deliver the entire programme. We have used this method recently, when working with Orwell Housing Association in the HCA 100 homes project. Working with one developer means cost efficiencies are achieved but it is also high risk.

   c. Group the sites together in batches of 4 or 5 and procure an RP partner(s) to deliver them. The council will be assured of getting best value for its affordable housing land in this way.

   d. The council delivers the sites itself. In this respect modest financial provision has been made in the housing capital programme to enable the council to explore in more detail the implications of undertaking development of this nature.

   e. Combination of options c & d, so that there is some council development, whilst allocating the majority of sites to RP partners.

   Further details of each option are shown at Appendix 3.

10. The proposed mechanism to be adopted is e) the combination of selecting a small number of sites which are appropriate for the council to consider delivering social rented housing on, and to allocate the remaining sites to RPs

via a competitive tendering process. The tendering process will help to identify the level of support (if any) the RPs would require to bring sites forward for development. The council will invite RPs to bid for one or more packages of sites, setting out the criteria on which the bids will be assessed. Weightings will be placed on a range of factors, including (but not limited to); amount offered for the land; tenure mix proposed and timescales for delivery. RPs will then submit their proposals for each package of sites and officers will assess each one against the criteria. This will ensure that the council achieves best value for money for the land; an acceptable tenure mix, quality design and nominations rights over the properties.

Next steps

11. Officers will identify approximately 20 sites which have the most development potential. Each site will be risk assessed according to the council's risk matrix and scoring guide.

12. Further work will be required by officers on the development potential of the sites. Following this, in May ward members will be briefed and then officers will organise initial consultation events with affected tenants and residents. The briefing with ward members will allow Councillors the opportunity to identify other council owned sites that could be considered for inclusion in future development programmes.

13. Following this a further report will be made to Cabinet, probably in June, with feedback from the consultation events together with an assessment of the role of the City Council as house builder. This report will ask for a decision to be taken on the sites to be decommissioned and developed and approval for how the sites should be packaged for procurement purposes. We anticipate this process taking no more than 2 months.

14. The RPs which have grant funding from the 2011-15 HCA Affordable Housing Programme, have signed a contract to say that they will complete all dwellings they develop by March 2015. Allocating sites to them by August 2012 will ensure they have sufficient time to take the sites through planning and complete their build programmes by this deadline.

15. It should be noted that RPs must deliver units within their contracted programme to Affordable Rent Tenancy levels. The council will be able to deliver social rent, as will RPs that have not signed contracts with the HCA.

Appendix 1

The costs associated with developing new affordable housing are laid out in the table below. It is worth noting that if the council were to develop its own housing it does have some land that could be made available which would reduce these costs.

It should also be noted that the land costs relate solely to the ‘DAHP’ model, where land was valued on a per plot basis of £15,000.

Property Type	Land costs	Build cost	On Costs	Total estimated Costs
Studio	£15,000	£24,000	£2,925	£41,925
1 Bed Flat	£15,000	£61,200	£5,715	£81,915
2 Bed Flat	£15,000	£79,200	£7,065	£101,265
2 Bed House	£15,000	£92,400	£8,055	£115,455
3 Bed House	£15,000	£111,600	£9,495	£136,095
4 Bed House	£15,000	£127,200	£10,665	£152,865
Average	£15,000	£82,600	£7,320	£104,920

Appendix 2

Funding options for affordable housing

Affordable Homes Programme

£4.5 billion available to deliver 170,000 new homes.

Locally Orbit Housing Association, Places for People, Orwell Housing Association, Wherry Housing Association and Saffron Housing Trust have successfully bid for funding with only Orbit naming specific sites in Norwich.

The capacity available amongst local Registered Providers is much lower than in recent years due to the financial risks involved in the new 'affordable rent' model.

HCA short form agreements

The HCA has introduced a mechanism whereby RPs or LAs can deliver new affordable housing for 'affordable rent' without any grant even if they were not successful with a bid to the affordable homes programme 2011-15. This will be done by signing a short form agreement with the HCA on the basis that new dwellings will be delivered via ART.

Council social rents are currently around 50% of open market rents and so the increase could amount to approximately £1,200 per dwelling per annum. This amount of additional rent would allow the council to prudentially borrow approximately £20,000 meaning that 5 dwellings at affordable rent could fund an additional new affordable dwelling.

RPs own reserves

Some local RPs do not have preferred partner status with the HCA but can continue to develop utilising the reserves that they have built up in previous years. They will also have the facility to borrow against their existing assets in order to raise finance for development but this will be at a much reduced level than in previous years.

Housing Revenue Account refinancing

This may free up capital to enable the council to develop new council homes but this is unlikely in the short or medium term due to the need to service the debt that reformation will create and the need to upgrade the council's existing stock.

It is currently proposed that £200,000 is made available as part of the Housing Capital programme for 2012/13 for feasibility studies and preparation of sites for new build local authority dwellings. A reasonable expectation is that at most the Council may be able to consider developing approximately twenty new affordable dwellings subject to securing in the region of £2million via appropriate funding arrangements.

Disposal of land / dwellings for a capital receipt

This could include the sale of land currently earmarked for affordable housing to RPs or private developers or the disposal of individual assets that are uneconomic to maintain.

In 2010/11 the council disposed of individual properties that are uneconomic to repair to the value of £4.5m, and a further £1.8million was received in 2011/12. It is currently estimated that an additional £2.1m will be received in 2012/13 which could deliver approximately twenty new affordable dwellings for the council or could be used to subsidise developments on council land by RPs.

New Homes Bonus

The council will receive a new homes bonus (NHB) per property for the first six years following completion. Payments will be based on match funding the council tax paid on each property, dependent on which banding the new build falls within. An additional £350 will also be awarded, when a property is classed as affordable housing. It is worth noting though that any properties that are classed as empty homes at the time of calculation will be deducted from the total of new dwellings.

This is an annual grant based on the total number of dwellings built during the year (whether affordable or otherwise.) This is cumulative so although Norwich has received £670,000 for the first year and £1,184,000 for year 2 (£670,000 from year 1 and £514,000 for the second year). It is worth noting that the Government has provided £1billion funding for the first four years of this programme but in subsequent years the bonus will funded from formula grant for Local Government. In view of other commitments and budgetary pressures it is unlikely that this funding will be available to support new build.

Council delivery for shared equity.

Through the partnership with the HCA the council is investigating the potential of utilising some of its land and resources to develop a small pilot site for new affordable housing of shared equity dwellings.

In this model new owners would purchase a share of the dwelling, typically 70% based on the open market value. The remaining equity would be vested with the council and the owner could purchase this share in increments at a later date based upon the market value of the time up to the full 100%.

This product is aimed at the first time buyer market and there are currently over 150 people registered with Orbit Homebuy agents for this type of accommodation in the Norwich area.

The receipts that the council would receive for the additional equity in future years could be used to fund further development of affordable housing.

Commuted sums from private developments

The council has developed an interim statement on the off site provision of affordable housing which details the circumstances in which a commuted sum for off site delivery can be paid in lieu of on site delivery. The statement also shows how any commuted sum will be calculated.

Due to the number of applications that may be affected by this policy it is estimated that the council may receive approximately £1million per annum which could be used to deliver approximately ten new affordable dwellings for the council. Alternatively commuted sums collected could be used to subsidise development of new affordable housing to meet housing need by providing capital grants to RPs.

<u>Section 106 Town and Country Planning Act 1990</u>

In line with policy 4- Housing of the Joint Core Strategy the council will seek a proportion of affordable housing on all developments of 5 dwellings or more, with 20% required on developments of 5-9 dwellings, 30% required on 10-15 dwellings and 33% required on all developments of 16 dwellings or more through the use of a section 106 agreement.

If a private developer can not get a RP to take on the affordable housing required under the Section 106 agreement it could be possible to agree a lesser number in return for the dwellings being gifted to the Council for free.

<u>Norwich City Council and HCA partnership</u>

Norwich City Council and the HCA entered into a strategic partnership through the signing of a collaboration and investment agreement in September 2009. The agreement set out a number of strategic objectives for the partnership:

- To accelerate the delivery of affordable homes
- To increase the supply of private homes
- To improve the quality of existing homes
- To maximise the opportunities for local employment
- To deliver early outputs
- To create sustainable communities
- To deliver strategic regeneration projects within Norwich

The partnership currently has funds amounting to £2.5million to deliver on the objectives above. In addition the partnership is working on the disposal of land at Threescore, Bowthorpe and any receipts from the phased sale of this land will be recycled to support the above objectives.

<u>Community Infrastructure Levy (CIL)</u>

The council in partnership with the Greater Norwich Development Partnership is looking to introduce CIL to fund infrastructure in the sub-region from November 2012. The Government is currently consulting on allowing CIL to be used to fund affordable housing provision. If successful the Government is looking to introduce this as policy from April 2012.

If affordable housing is funded from CIL it will mean that there is less resource available to fund other infrastructure projects and some prioritisation work will need to be carried out. Norwich City Council are keen to top slice any CIL from additional private dwellings in Norwich to support the delivery of new affordable housing.

Officers have calculated that on known private development sites the shortfall in funding of affordable housing amounts to £37million. This investment

Institutional investment

Some large investment companies and pension funds are looking to convert capital into a revenue stream. They are looking for models that will give them a guaranteed annual return on investment that is better than they can currently achieve through traditional investment.

One option that could do this would be for them to build out affordable housing and lease them on a long leasehold arrangement to a RP or LA. The length of lease would usually be in the region of 20-30 years after which the RP or LA could purchase the freehold. This option is likely to need the use of affordable rents in order to provide the headroom to pay the yield required which is typically around 5%.

Initial investigations have commenced with an investment company looking at both council and privately owned land for this model. In addition some RPs have expressed an interest in pursuing this model.

Public / private sector joint venture

House builders are increasingly keen to enter into joint ventures with councils in order to build out sites in local authority ownership. They see this as a way of reducing some of the risks associated with development particularly up front land costs.

The house builder will front fund the development and take their standard profit on the development costs with any additional profit on house sales being shared.

The council can use their share of profits to recycle into affordable housing on the site or elsewhere in the city which could be retained by the council. Officers are currently looking into how this model could be used at Three Score.

Appendix 3

Delivery options for new affordable housing

Restore the DAHP by inviting new partners to join and setting up new terms of reference.

Strengths
- The partnership has a good reputation and the organisations involved understand how it works and what is required of them.
- The partnership has a proven track record.
- The council has some control over the development and can set out the tenure mix required for units.

Weaknesses
- One of the reasons for disbanding the DAHP was Housing Association partners concerns about build costs provided by the contractor partner, Lovell.
- In working with a small number of Housing Association partners, the risks of non- delivery are increased.
- There is also a risk that the HA partners will use the same architects for each of their schemes, resulting in a number of small housing sites looking the same or similar.

The council works in partnership with one Housing association partner in order to bring forward all development sites.

Strengths
- The council has recently worked with Orwell Housing association to enable 108 homes on council owned sites. This has been successful.
- In working with one partner across a number of sites, economies of scale can be achieved.
- Working with one partner on the 100 homes project has also meant that we have been able to design an employment and skills package to encourage the HA to work with and employ either directly or through sub-contractors, a number of entry level workers and apprentices.

Weaknesses
- This strategy is high risk as it is reliant solely on one housing provider delivering a large number of units on mostly very constrained sites.
- Most of the main HAs in the county have signed their Affordable Housing Programme 2011-15 contracts with the HCA so are fairly limited in terms of capacity, so are unlikely to want to take on a similar number of units as the HCA deal.

Put packages of sites out to tender for locally active Housing association partners to bid on.

Strengths
- With competition from a range of HAs, the council could benefit from a much increased capital receipt for its land. Historically the capital receipts for land have been reinvested as grant funding but there is no reason why

the council could not retain all or partial future receipts to help fund further affordable housing developments in the city.

- This approach is relatively low risk. Each site would be developed by a HA that was interested specifically in it and have an idea about how best to deliver it to achieve the best efficiencies for the site.
- 85% of HCA Registered Providers have signed contracts for delivery, enabling them to draw down funds from the Affordable Homes Programme 2011-15. If the sites were put out to tender early in 2012, the HA(s) would have sufficient time to deliver the units to fit in with HCA timescales, including completion by 31st March 2015.
- If the sites were put out to tender in small packages and all at the same time, the HA(s) could plan their delivery programmes accordingly.

Weaknesses

- There is uncertainty for the HAs as they will not know which sites or how many are coming forward- unless they are all released at the same time. If they believe there may be more attractive, less constrained sites to come forward at later stages, they may hold back from submitting tenders for the first sites to be allocated.
- Because of the lack of HCA funding and because HAs have committed large parts of their AHP programmes already, there is a risk that no HA bids will be submitted for the sites put out to tender.

<u>The council develops the sites itself. NCC land bank the sites in the short term so that we can develop them out ourselves in the medium to long term.</u>

Strengths

- The council has absolute control over what development happens where, how the properties are let, which tenures are used and when each site comes forward.
- The council would realise a long held ambition to build new council housing for the first time in more than 20 years.
- There is a proposal from the Director of Regeneration and development that funding be set aside from 2013-14 for the enabling of new affordable housing, and also that there is an increase to the site formation budget in 2012-13 to enable site formation and preparation work.

Weaknesses

- To develop each site will be expensive and require considerable financial commitment from the council.
- Developing these sites ourselves would also require significant officer resources. In order to deliver the 100 homes part of the HCA deal, there was a requirement for 0.2 FTE in the Development team to help manage the process. When officers submitted a bid for Local Authority New Build funding in 2009, there was a requirement for approximately 0.8 FTE Senior officer post for the months leading up to the bid submission.
- There is a low risk of a delay in bringing sites forward while the council organises funding and sets up internal mechanisms to enable the necessary departments to see new units added to the councils stock.
- There will be a limit to the amount of funds that the council can borrow against the rental income of any new build, dependent on the headroom available following HRA reformation.

The preferred approach is a combination of council led development and allocation of sites, via tendering, to Registered Providers.

Strengths

- In using a combination of two delivery methods, the risk to the council is reduced.
- Development officers could select the most appropriate sites for the council to develop.
- The council could insist on 100% nomination rights in perpetuity on newly built affordable homes.

Weaknesses

- Setting up the mechanisms to deliver new NCC stock will be time consuming and require additional resources.
- A lack of consistency in approach may cause an issue.
- In adopting two methods for delivery, there may be an additional burden on resources, such as officer time.