# MAIDSTONE BOROUGH COUNCIL

## COMMUNITY, ENVIRONMENT AND HOUSING OVERVIEW AND SCRUTINY COMMITTEE

## TUESDAY 10 FEBRUARY 2015

## REPORT OF HEAD OF HOUSING & COMMUNITY SERVICES

**Report prepared by Andrew Connors**

## 1. AFFORDABLE HOUSING PROGRAMME UPDATE

1.1 Issue for Consideration

1.1.1 To note the importance of affordable housing supply and how it is delivered, key challenges ahead and the opportunities for continued investment in the delivery of affordable housing.

1.2 Recommendation of the Head of Housing and Community Services

1.2.1 That the Overview and Scrutiny Committee note the contents of the report.

1.3 Reasons for Recommendation

Background

1.3.1 The delivery of affordable Housing supports the council's corporate priorities for Maidstone to be a decent place to live and to have a growing economy. The affordable housing sector is experiencing a period of rapid change. A combination of policy change at the national level, led by the shift in approach to subsidy and vast welfare and planning reform changes, has created opportunities as well as a climate of uncertainty and heightened risk.

1.3.2 This report seeks to raise the understanding of affordable housing delivery and highlight the key challenges, issues and opportunities affecting the future delivery of affordable housing across Maidstone and how the council aims to respond to these challenges by increasing the supply of much needed affordable new homes.

**Affordable Homes Programme**

1.3.3 In order to achieve significant new supply within public spending constraints, the Government introduced the Affordable Homes Programme (AHP) in 2011. A total of £2.9bn capital grant funding was made available nationally to fund affordable housing over the four year programme period (2011-15). The 2011-15 Affordable Homes Programme moved, for the first time, to making allocations for the full 4-year programme period at the outset.

1.3.4 The Homes and Communities Agency (HCA) are responsible for administering the AHP and also for regulating social housing providers to ensure that they are well managed and financially secure.

1.3.5 The centrepiece of this programme is the new *Affordable Rent* tenure, which consists of lower levels of capital subsidy, and higher levels of rent – set at up to 80% of market rent. Affordable Rent will form the principal element of the new supply offer. At the same time, new flexibilities were introduced to allow a proportion of existing social rent properties to be made available at re-let at an Affordable Rent, with the additional capacity generated from those re-lets applied to support delivery of new supply.

1.3.6 *Social housing* (pre-2011) was typically funded through a capital grant of £60,000 per unit – a figure substantially higher than under Affordable Rent. The HCA now give a capital grant of approximately £20,000 - £30,000 per home (although this figure can fluctuate depending on the agreement negotiated between the HCA and the Registered Provider).

1.3.7 As part of the Affordable Homes Programme, there is also the flexibility for some funding to be used for other forms of tenure including affordable home ownership and, in some circumstances, social rent. The expectation is that S106 (planning contributions) schemes will be delivered with zero grant input for both Affordable Rent and affordable home ownership.

1.3.8 In the 2013 Spending Review, the Chancellor announced that the AHP will be extended for three years up to 2017/18, signifying a continuation of the current model. A further £2.9bn of grant funding has been made available nationally to fund affordable housing over this extended programme period.

1.3.9 The programme seeks to:

- Increase the supply of new affordable housing – for Affordable Rent and affordable home ownership (shared ownership);
- Maximise the number of new affordable homes delivered with the available grant funding, supplemented by bidders' own contributions;
- Build homes that address the demographic challenges facing social housing, including the need for more one and two bedroom homes that match the needs of smaller households;
- Maximise delivery within the programme period and deliver new affordable homes by March 2018; and
- Encourage providers with capacity who are not currently developers, or who could do more, to bring that capacity into use, utilising the skills and expertise of existing delivery partners as appropriate. In addition to accessing capacity, the HCA's aim is to drive good value for money through the competitive process.

1.3.10Registered Providers are asked to fully utilize the following cost contributions, where available, to contribute to the delivery of new supply, and to reduce the call on capital grant funding.

- Borrowing capacity generated by the net rental income stream of the new properties developed;
- The additional borrowing capacity that can be generated from the conversion of existing social rent properties to Affordable Rent (or other tenures) at re-let;
- Other sources of cross subsidy, including surpluses from existing stock and activities, Recycled Capital Grant Funding (most commonly derived from shared ownership sales) and Disposal Proceeds Funding and income from developing new properties for outright sale;
- Other sources of funding or means of reducing the costs such as free or discounted public land, including local authority land, and local authority contributions such as from the New Homes Bonus; and
- The benefit of Government backed guarantees.

1.3.11The HCA assess scheme bids for capital grant funding which:

- Offer good value for money (taking account of both grant requested and anticipated costs, as well as the extent to which bidders have applied their own resources, including through utilising flexibilities available to generate capacity);
- Have a good and demonstrable prospect of delivery within the programme timeframe; and

- Meet local needs and priorities in their proposed locations, including building homes that address the demographic challenges facing social housing and any mismatch between existing stock and household needs (for example, by building more one or two bedroom homes in areas where there is a shortage of these).

1.3.12 Over half the available funding was allocated in the initial bid round, with the remainder, around £800 million, being made available on a continuous market engagement (CME) basis. Bidding for this is now open, and will remain so until all of the funding is allocated.

1.3.13 CME allows housing providers further opportunities to bid for firm schemes during the 2015 to 2018 period. This will include specialist, supported or rural housing, which can often require a longer lead time, and these, along with schemes making use of construction innovation including advance housing manufacture, are especially encouraged under CME.

1.3.14 The council achieved Registered Provider status with the HCA on the 26th March 2014. This basically enables the council to be a landlord of social housing stock once again. It complements our existing Investment Partner status with the HCA (awarded 19th November 2012), in which we can apply and receive grant directly from the HCA for providing affordable housing.

1.3.15 The council is actively looking for opportunities to acquire land/property as well as develop land within our ownership to help meet our commercialism and strategic housing objectives. Such opportunities could also form part of a bid for capital grant funding to the HCA under the CME process.

**<u>Maidstone Response to the Affordable Homes Programme Offer</u>**

1.3.16 There has been a strong response to the Affordable Housing Programme offer. Registered Providers and the HCA continue to see Maidstone as an important area for affordable housing delivery and investment. **Table 1** below shows the amount of funding the HCA has allocated towards the delivery of affordable homes, within each of the local authorities in Kent. This covers the period April 2011-September 2014.

| **Table 1 - Affordable Homes Programme (2011-15) - Schemes confirmed by the HCA** | | | |
|---|---|---|---|
| **Local Authority** | **Funding (£)** | **Affordable Homes** | **Grant Per Affordable Home** |
| Ashford | 5,167,174 | 386 | 13,386 |

| | | | |
|---|---|---|---|
| Canterbury | 1,447,635 | 126 | 11,489 |
| Dartford | 204,000 | 118 | 1,729 |
| Dover | 3,799,013 | 191 | 19,890 |
| Gravesham | 9,406,892 | 250 | 37,628 |
| **Maidstone** | **6,884,709** | **548** | **12,563** |
| Medway Towns | 9,115,126 | 399 | 22,845 |
| Sevenoaks | 1,023,222 | 83 | 12,328 |
| Shepway | 3,764,962 | 143 | 26,328 |
| Swale | 4,635,756 | 333 | 13,921 |
| Thanet | 3,217,900 | 106 | 30,358 |
| Tonbridge & Malling | 3,038,172 | 272 | 11,170 |
| Tunbridge Wells | 5,247,151 | 396 | 13,250 |

*Source: Homes and Communities Agency*

1.3.17 Maidstone has received the 3rd highest funding allocation of the 13 districts, and is delivering the highest number of affordable homes. The average amount of grant per home is also demonstrating excellent value for money at just £12,563.

1.3.18 There has been a far more cautious approach adopted by Registered Providers with respect to submitting additional scheme bids for grant funding since the opening of the extended Affordable Homes Programme (2015-18). This is mainly due to the HCA retaining a significant proportion of funding for future continuous market engagement (as referred to above), rather than allocating the entire funding available at the outset of the new programme period. **Table 2** below shows the confirmed initial funding allocations within each local authority in Kent so far as at December 2014.

**Table 2 - Affordable Homes Programme (2015-18) - Schemes confirmed by the HCA**

| Local Authority | Funding (£) | Affordable Homes | Grant Per Affordable Home |
|---|---|---|---|
| Ashford | 2,990,500 | 172 | 17,387 |
| Canterbury | 778,000 | 42 | 18,524 |
| Dartford | 0 | 150 | 0 |
| Dover | 910,000 | 26 | 35,000 |
| Gravesham | 1,134,000 | 101 | 11,228 |
| **Maidstone** | **1,457,173** | **176** | **8,279** |
| Medway Towns | 1,863,000 | 235 | 7,928 |
| Sevenoaks | 0 | 47 | 0 |
| Shepway | 1,090,000 | 49 | 22,245 |
| Swale | 4,074,000 | 136 | 29,956 |
| Thanet | 2,024,379 | 92 | 22,004 |
| Tonbridge & | 7,126,969 | 283 | 25,184 |

| | | | |
|---|---|---|---|
| Malling | | | |
| Tunbridge Wells | 3,342,000 | 108 | 30,944 |

*Source: Homes and Communities Agency*

1.3.19 The council was successful in obtaining a grant allocation of £210k from the HCA in the 2011-15 AHP, to bring 12 empty properties back into use as affordable housing. To be considered for the programme properties must have been empty for a period of 6 months and be brought back into use (completed) by March 2015. The council has so far brought back into use 4 empty properties on a lease and repair basis.

1.3.20 In addition, the council purchased Magnolia House back in March 2014, of which was in the former ownership of Maidstone and Tunbridge Wells NHS Trust. The property has been empty for over 2 years and was declared surplus to requirements by the Trust. Magnolia House consists of 8 self contained flats (4 x 1-bed and 4 x 2-beds). Refurbishment work has already started on site, and the properties are due for completion and handover early February 2015.

1.3.21 MBC have 100% nomination rights to the properties (being the freehold owner) which will be used to provide homes for homeless families in the Borough by offering settled accommodation to those who the council has a homeless duty to secure accommodation for. The properties will be let on an affordable rent basis (80% of the open market rent, inclusive of service charges) within LHA rates, which for one-beds is £122.36 and two-beds is £151.50. Management of the properties will be undertaken on behalf of the council by Hyde Housing Association.

**Past and projected affordable housing completions**

1.3.22 Maidstone has an excellent track record for delivery of affordable housing and has outperformed all other authorities in Kent with respect to the delivery of affordable housing, with the exception of Medway, which is a unitary authority. This is supported by **Table 3** below which shows the number of affordable homes delivered by each Kent local authority from 2010 to 2014.

| **Table 3: Numbers of affordable housing delivered by each Kent local authority between 2010 and 2011 and 2013 to 2014.** | |
|---|---|
| Medway | 1060 |
| **Maidstone** | **1050** |
| Ashford | 790 |
| Tonbridge & Malling | 630 |

| | |
|---|---|
| Gravesham | 560 |
| Dartford | 540 |
| Canterbury | 460 |
| Swale | 430 |
| Thanet | 370 |
| Tunbridge Wells | 340 |
| Dover | 200 |
| Sevenoaks | 170 |
| Shepway | 150 |
| **Totals** | **6750** |

1.3.23 The council is on track to exceed our target of completing 200 affordable homes during the 2014-15 financial year, with 225 affordable homes forecast for completion by year end, with a similar number anticipated for 2015-16.

**Key challenges ahead for affordable housing**

1.3.24 The Affordable Rent model marks a shift in the approach to subsidy away from high levels of ***capital*** subsidy to one of high levels of ***revenue*** subsidy provided through Housing Benefit. Under this model, the level of future inflation-linked increases to the rent are crucial to the amount of borrowing that can be supported, and therefore, to the level of capital subsidy required in order to build each home.

1.3.25 Housing association rent policy is regulated by government. Rents for new homes are set at up to 80% of market levels and inflated each year by RPI+0.5%, although this will change to CPI+1% from 2015. This inflation-based approach is critical to the viability of the model, as it forms the basis on which housing associations can borrow at attractive rates from the financial sector.

1.3.26 The effect of the model is to create a sub-market rental sector, with rents which are more affordable to people who could not generally afford to rent privately. This approach can only function if tenants who cannot afford to pay these rents from their own income receive assistance from the state. Typically, this means that Housing Benefit accounts for 50% of the rental stream on new Affordable Rent properties, and more than 50% of the increased rent on existing properties converted from social rent. Nationally, the Housing Benefit bill is expected to rise by £1.4 billion over 30 years to pay for the shift in approach to subsidy.

1.3.27 A further pressure point created by the reduction to capital subsidy is that it forces more funding to be sourced privately. This means that many providers will find their borrowing increasingly constrained by gearing the longer the current model remains in place. Some housing associations are closer to reaching their borrowing limits than others, but eventually all will become constrained and will have to slow or halt their development programmes. Therefore access to alternative funding sources is increasingly crucial to maintaining supply.

**Welfare Reform**

1.3.28 Another significant challenge is welfare reform. Since April 2013, the Housing Benefit payable to social housing tenants has been restricted (social sector size criteria) according to the number of bedrooms in each property. This means that many housing associations will need to consider being involved with downsizing incentive schemes and the development of attractive schemes for older people, to address the issue of under-occupation.

1.3.29 One of the main stumbling blocks preventing people from downsizing is that enough smaller properties are simply not available. The National Housing Federation estimates that 180,000 households are under-occupying two bedroom homes, but would be competing for only 85,000 one bedroom properties across the entire sector if they all opted to move. This issue becomes even more pronounced in the context that local authority lists have a further million people waiting for one bedroom properties. Currently over 55% of applicants (1,337) on the council's housing register have a 1-bed need.

1.3.30 Most Registered Providers are concerned that the aforementioned *social sector size criteria* and *direct payments* under Universal Credit will each increase arrears and affect the sector's ability to collect rents. At present most rent payments for people on housing benefit are sent direct to landlords. But when Universal Credit is introduced nationally between now and 2017, tenants will receive one lump sum covering all their benefits and be expected to meet their housing costs themselves, a month in advance.

1.3.31 This has lead to many Registered Providers introducing 'Rent in Advance' policies. This reflects concern among Registered Providers that people will default on payments when they have to pay rent themselves, a month in advance, under the new system.

**Planning & Housing Reforms**

1.3.32 The **Growth & Infrastructure Act 2013** came into force in April 2013, aiming to speed up development and encourage economic growth. One of the key measures, introduced temporarily until 30 April 2016, is for interest holders in land to be able to apply to the local planning authority (LPA) either to modify or to remove an affordable housing planning obligation, enforced under section 106 of the Town and Country Planning Act 1990, if it results in the development not being economically viable. The LPA is obliged to deal with the application so that the development becomes economically viable.

1.3.33 If modification of the affordable housing requirement is justified on that basis, then the guideline states that a viable affordable housing provision should be proposed, delivering the maximum level of affordable housing consistent with viability and the optimum mix of provision. This gives the Council an element of discretion about how to modify the affordable housing requirements and any application made by a developer must be backed up by robust viability evidence.

1.3.34 On 30th May 2013 **Permitted Development Rights** were introduced in England to authorise a change of use from an office use (Class B1(a)) to a residential use (Class C3), without having to lodge a planning application. This right will expire on 30th May 2016, when the Government will consider whether to extend the period.

1.3.35 The council's planning policies for residential development require a certain proportion (current adopted policy is 40%) of units to be allocated as affordable housing, but only if planning permission is required, which will not apply in the case of new rights. However many residential developers and Registered Providers are now seeking out suitable office buildings for conversion from office to residential which may include provision for affordable housing.

1.3.36 A further round of planning and housing reforms was announced in the Chancellor's Autumn Statement. The Autumn Statement included measures to extend affordable housing capital investment to 2018-19 and 2019-20, to ensure that on average 55,000 new affordable homes per year continue to be delivered.

1.3.37 The government remains committed to establishing shared ownership as a route to home ownership, and making it more attractive to both households and investors. To stimulate further investment in shared ownership, the government will extend the scope of Stamp Duty Land Tax (SDLT) multiple dwellings relief so that "lease and leaseback" arrangements with housing associations on shared ownership properties also attract the relief.

1.3.38 The government will also consult on options for streamlining the process for selling on shared ownership properties, and will work with housing associations, lenders and the regulator to identify and lift barriers to extending shared ownership.

1.3.39 The government has also proposed taking further action to speed up the planning process by keeping the speed of decisions on major applications under review and taking steps to speed up s106 negotiations.

1.3.40 On 1st December 2014 Minister of State for Housing and Planning Brandon Lewis announced an additional initiative aimed at getting empty or redundant land and property back into use. Where a vacant building is brought back into any lawful use, or is demolished to be replaced by a new building, the developer should be offered a financial credit equivalent to the existing gross floorspace of relevant vacant buildings when the local planning authority calculates any affordable housing contribution which will be sought. Affordable housing contributions will be required for any increase in floorspace.

1.3.41 Housing will be working with Planning to agree how to address this issue and the method of assessing/calculating the credit.

**<u>Opportunities for alternative funding and delivery models</u>**

1.3.42 The delivery of affordable homes within Maidstone and across the country continues to be of extreme importance as buying a home is increasingly out of reach for many people. House prices are rising faster than average earnings and there are 1.7 million households on waiting lists for affordable homes across England. The number of people renting has doubled and the average first-time buyer is now 35 years old. In some rural communities, where wages are low, homes have become unaffordable for people.

1.3.43 Research has shown that the stability of an affordable home can have profound effects on childhood development and school performance and can improve health outcomes for families and individuals.

1.3.44 But the benefits of affordable housing extend beyond its occupants to the community at large. The development of affordable housing can increase spending and employment in the surrounding economy by creating jobs and stimulating local economic development. It also acts as an important source of revenue for local authorities such as through the New-Homes Bonus. The New Homes Bonus is a grant paid by central government and is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.

1.3.45 The Council continue to support the corporate priority of delivering affordable housing by maintaining a capital programme and investing directly in the provision of affordable housing within the borough. Since stock transfer (2004) the council has invested £18m towards supporting the delivery of over 1,150 affordable homes. Capital will continue to be required to help contribute towards the importance of delivering affordable housing.

1.3.46 Many Registered Providers and local authorities are now considering alternative funding sources for delivering affordable housing in addition to the aforementioned routes of HCA/Council capital grant, borrowing (long/short term bank lending) and recycling subsidy from conversions/sales. The most popular alternative funding source being Special Purpose Vehicles.

1.3.47 This refers to finance where investors set up special purpose vehicles (SPVs) with local authorities (or others) and Registered Providers to fulfill a specific set of objectives. Investors are typically insurance and pension funds looking for stable, inflation-linked returns. These might be Local Asset Backed Vehicles where the local authority contributes land or another tangible asset into the vehicle.

1.3.48 The LGA's 'Investing in our nation's future' calls on an incoming government to make changes that would free councils to play their role in ensuring everyone finds an affordable home. New housing facilitates economic growth, and helps increase council tax, business rates, and New Homes Bonus receipts locally. New homes for rent can also offer on-going income generation for councils. Councils have already proven they are well placed to increase housing supply and many more are setting up their own housing companies or exploring the potential to do so, offering flexibility on tenure and rent. Properties that are not subject to financial losses through 'Right to Buy' and schemes that can be financed free from the borrowing cap are all being looked at. Some councils are embarking on new approaches to apply private investment to meet local housing need with schemes that are self-financing, using the rent generated over the term to repay institutional investors.

1.3.49 Alongside pressing for the financial freedoms and a reintroduction of the conditions that allow councils to build, the LGA is also exploring a practical investment offer that could help councils build at scale without public subsidy. The offer aims to provide a further option to support councils:

- Pursue and secure new kinds of additional funding, outside the Housing Revenue Account (HRA);

- Build homes to meet housing need, generate income and stimulate growth;
- Access favourable rates from institutional or other corporate funders, which are often only achieved 'at scale'.

1.3.50 The model of support the LGA would like to test with interested authorities involves the LGA assisting a group of councils to collectively access institutional or other corporate finance to build new homes. For any single council the cost of entry to this type of arrangement could be prohibitive. Accordingly, the LGA would look to reduce entry costs and forward fund the spend on due diligence; the legal, property and financial expertise to secure funds at the most competitive rates with financing sourced and structured in a way that meets council needs. The LGA would recover its costs, potentially together with an industry standard percentage, from the finance raised. These costs would be spread over the whole consortia.

1.3.51 A key element of the offer is to provide support to the participating councils through what can be a complex and expensive process, to enable them to secure additional funding for housing development. Getting the process right can provide much needed homes as well as play a significant part in a councils income generation and growth strategies.

1.3.52 The LGA invited expressions of interest to be submitted by the 10th of September 2014 from local authorities who are interested in accessing significant funds to develop their own new housing outside of housing revenue accounts (where councils have an HRA). Maidstone submitted an expression of interest and have had a follow up conversation to discuss the shape of the offer in more detail and enable the LGA to better understand the council's ambition for future housing development.

1.3.53 As part of the LGA's next steps for the Institutional Investment in Housing offer, they are arranging 1:1 meetings with the Councils most likely to begin schemes in 2015/16. A provisional date for a visit to Maidstone Borough Council has been set for Thursday 5th February 2015.

1.3.54 The council is also considering the creation of a 'Local Housing Company' to build new affordable and private homes. In considering a project of this kind, the council will have to consider its powers and duties and what is the best way to set the company up in order to demonstrate that the proposal is reasonable and beneficial to council tax payers and the community. Also that the council is achieving best value and able to deliver it's strategic commercialism and housing objectives.

1.4 Alternative Action and why not Recommended

1.4.1 The Committee could choose not to receive update reports. However, given the importance of the affordable housing programme in helping to contribute to Strategic Plan priorities, this course of action is not recommended.

1.5 Impact on Corporate Objectives

1.5.1 Affordable Housing supply contributes to the delivery of the Strategic Plan priorities; For Maidstone to be a decent place and to have a growing economy.

1.6 Risk Management

1.6.1 Housing will consider how bids meet local needs and priorities and will verify fit with the HCA during the bid assessment process. Housing will also continue to monitor the impact of welfare, housing and planning reforms and work closely with stakeholders/partners to address issues as they arise.

1.7 Other Implications

1.7.1 None

| | | |
|---|---|---|
| 1. | Financial | |
| 2. | Staffing | |
| 3. | Legal | |
| 4. | Equality Impact Needs Assessment | |
| 5. | Environmental/Sustainable Development | |
| 6. | Community Safety | |
| 7. | Human Rights Act | |
| 8. | Procurement | |
| 9. | Asset Management | |

1.8 Relevant Documents - None

1.8.1 Appendices - None

1.8.2 Background Documents - None

| **IS THIS A KEY DECISION REPORT?** | | **THIS BOX MUST BE COMPLETED** | |
|---|---|---|---|
| Yes | | No | X |

If yes, this is a Key Decision because: ……………………………………………………………..

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Wards/Parishes affected: ………………………………………………………………………………..

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