

Housing Delivery Partnership Update

Final Decision-Maker	Communities Housing and Environment Committee
Lead Head of Service	William Cornall
Lead Officer and Report Author	William Cornall Director of Regeneration and Place
Classification	Public
Wards affected	All

Executive Summary

The report aims to finalise the strategy by which the council will itself recommence the delivery of affordable housing within the borough following positive decisions to pursue a Housing Delivery Partnership (HDP) with a Registered Provider, by the Communities Housing & Environment Committee on 13th November 2018, and subsequently by the Policy & Resources Committee on 13th February 2019.

Purpose of Report

Decision

This report makes the following recommendations to this Committee:

1. To stall the creation of an HDP for the time being until such time as a garden community becomes a firmer proposition, but instead seek Secretary of State direction to acquire up to 200 no. social rented homes on smaller developments (at a value of not more than £30m over the 5-year MTFS period), whilst utilising the services of a Registered Provider (RP) as a managing agent. The required financial hurdles for a positive investment decision should be a 5% Internal Rate of Return and a positive Net Present Value, as per the Council's current investment criteria for private rented sector housing (for Maidstone Property Holdings).

Timetable

Meeting	Date
CHE Committee	17 th September 2019

Housing Delivery Partnership Update

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	Accepting the recommendations will materially improve the Council's ability to achieve Embracing Growth and Enabling Infrastructure as well as the Homes and Communities objectives within the corporate plan.	[Head of Service or Manager]
Cross Cutting Objectives	The report recommendation supports the achievement of the deprivation and social mobility is improved cross cutting objectives by increasing the supply of social rented homes within the borough.	[Head of Service or Manager]
Risk Management	Already covered in the risk section	[Head of Service or Manager]
Financial	The current (5-year) Capital Programme was approved by the Council in February 2019. It includes the provision of £15 million for the delivery of Affordable Housing. A further £15 million will be required to fully fund the proposals in this report; this will be the subject of a bid within the (2020/21) Budget preparation and (2020/21 to 2024/25) Medium-Term Financial Strategy process, which is now commencing.	Interim Head of Finance (Deputy Section 151 Officer)
Staffing	In order to court developers and secure opportunities, and convert them to contract stage, this proposition would require a Grade 11 Acquisitions Officer to work within the Regeneration and Economic Development department to ensure delivery. This staffing cost will be charged to the capital cost of the schemes rather than feature in the base revenue budget of the council.	[Head of Service]
Legal	There are no specific legal consequences as a result of this report. Officers will consider the legal implications of the proposals and report back at a later stage.	Director of Environment and Place

Privacy and Data Protection	There are no Data Protection implications as a result of this decision	Policy and Information Team
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	[Policy & Information Manager]
Public Health	We recognise that the recommendations will not negatively impact on population health or that of individuals.	Public Health Officer
Crime and Disorder	The recommendation will have a negative impact on Crime and Disorder. The Community Protection Team have been consulted and mitigation has been proposed	[Head of Service or Manager]
Procurement	There are no immediate procurement implications within the report. However, procurement exercises in accordance with adopted Council procedure, will be followed as required by the future needs of the delivery of Affordable Housing (e.g. for the potential commissioning of consultants and contracts).	Interim Head of Finance (Deputy Section 151 Officer)

2. INTRODUCTION AND BACKGROUND

2.1 The remit from the two committees was effectively to identify a suitable Registered Provider (RP) partner with whom to form the HDP. Accordingly, a soft market testing exercise was undertaken where the following RP's were approached to gauge their appetite for such a venture;

- Golding Homes
- West Kent
- Town & Country
- Optivo
- Medway Housing Society (MHS)
- Mote Homes
- Hyde
- Clarion
- Rent Plus (a "for profit" RP)

2.2 All the above RP's responded positively, completing and returning a questionnaire, and subsequent detailed telephone conversations took place with Golding, West Kent, Town & County, Optivo and MHS. Orbit were also approached but they didn't respond. The responses were all very consistent and can be summarised as follows;

- They welcome the fact that MBC is keen to re-enter the affordable housing sector and that it has allocated considerable capital in order to do so.
- They would all be keen to explore and form an HDP with the Council.
- However, all felt that the S106 affordable housing market, whereby the RP's compete to acquire S106 affordable stock from developers is working well, so an HDP could simply just add to the competition, and so not deliver any more affordable housing than would have been provided anyway.
- All but one of the nine responders did however indicate that they are not keen on smaller S106 deals (of say 10 units or less), so that this might be an area of focus for the Council if it wanted to re-enter the market, albeit that this might be best done outside of an HDP. Apparently, they are not keen on these smaller opportunities as they prefer to deliver their overall programmes via fewer but larger schemes. I.e. they find smaller sites as time consuming as larger sites to deliver.
- All the RP's indicated that for an HDP to be justified, it would need to bring about an "additionality" in supply, so create more affordable homes than would be supplied by the conventional S106 route. When pressed, the RP's suggested that the HDP should compete in the market to buy land, and then develop the sites out for a mixture of tenures, namely; affordable, market rent and market sale. This wouldn't be unreasonable but it would be a very different risk profile for the Council as it would then be much more exposed to planning risk, construction risk and sales risk too, and also the creation of long-term sustainable income streams from such investments would be less certain, than if the HDP focussed on S106 deals as was the original concept.

2.3 With those interviewed, the discussion then evolved on to the notion of the HDP being focussed on helping to deliver a complex regeneration site(s) or for example a garden community. In terms of the former, it was felt that Council investment via an HDP could help to overcome viability challenges, with the likes of the five town centre opportunity sites, especially if aligned to subsidy from Homes England too. In terms of the latter, the RP's liked the idea of the HDP being focussed upon the delivery of a garden community, whereby the advantages would be all the affordable housing being owned by the HDP rather than a consortium of RP's and that this in turn presented opportunities in terms of the long term management and stewardship of a garden community.

2.4 To summarise, the RP's commended the Council's ambition, but the issue (in terms of the lack of supply of affordable housing), in the eyes of the RP's, isn't a result of a lack of funds to invest but rather a lack of viable projects to invest in. I.e. it appears they all have access to cheap borrowing on not dissimilar terms to what the Council could access via the Public

Sector Works Loans Board. Some did also caution the cost and complexity of establishing an HDP if it wasn't going to deliver "additionality".

- 2.5 As an aside, a recent development from Homes England is that they have reintroduced the availability of grant to RP's and Councils to develop social rented housing again (this was withdrawn in 2011). The grant rates tend not to be too attractive though and it cannot be utilised on S106 housing, as they deem the subsidy should be coming from the landowner. That said, it is another delivery route that the Council will explore further and could be a mechanism by which viability might be approved on any Council owned sites for example.

3. AVAILABLE OPTIONS

- 3.1 Therefore, distilling all this, three potential strategies (to re-enter the affordable housing sector) for the Council start to emerge, as follows;
- 3.2 **Option 1** - Focus on small S106 deals that don't appeal to the main RP's. However, as these are less plentiful (circa 30 opportunities per annum) and not popular with most RPs, the Council could initially work in isolation and acquire up to 200 units over the 5-year MTFs period in its General Fund and so not need to re-open the Housing Revenue Account. I.e. the threshold has been recently increased from 50 to 200 affordable units that can be held in a council General Fund subject to direction from the Secretary of State.
- 3.3 The Council would need to engage an RP to manage the completed stock once complete, but this would be much more straightforward than establishing the HDP.
- 3.4 If the Council focussed upon acquiring 200 units of such S106 stock, at a likely unit cost of £150k each, this would be a £30m investment and so not within the (£37.5m) sum that was proposed for the HDP.
- 3.5 It would likely take around five years to achieve the target of 200 homes, and at this point the Council could review its options then, namely;
- Put the 200 homes into an HDP at this stage.
 - Sell the 200 homes to an RP at this stage.
 - Reopen the HRA in order to keep growing the portfolio (beyond 200).
- 3.6 The Council should target the same returns on investment (5% Internal Rate of Return and a positive Net Present Value) as it seeks for market rented housing via Maidstone Property Holdings Ltd.
- 3.7 The council should also choose to only deliver social rented homes and so jettison affordable rented and affordable home ownership tenures. There has been a strong steer that this would be the preference of Councillors. I.e. within the Local Plan Strategic Policy 20 for Affordable Housing are set out the affordable housing tenures, namely; social rent (circa 50% of market rent plus service charge), affordable rent (80% of market rent, albeit

capped at the Local Housing Allowance, inclusive of service charge) and shared ownership, which escalate in affordability in that order to the end user. Regrettably, minimal social rented housing has been delivered in the borough since 2011, and so if the council does once again become a deliverer, it should focus its investment on social rented housing alone.

3.8 In terms of the risks for this approach, they would be;

- The Right to Buy would apply, but because the Council would be buying the units at circa 60% of open market value, it would be insulated against a financial hit brought about by the discount that would need to be provided.
- Smaller schemes tend to be built by smaller developers, who by their nature, may be less financially stable than the volume housebuilders. However, this risk can be mitigated by acquiring completed units rather than making phased payments under a construction contract.
- The stock would still be managed by an RP, so co-branding would need to be negotiated to maximise kudos to the Council.

3.9 In terms of evidence that there will be enough opportunities for the council to pursue, there were 27 applications in the last financial year for residential schemes >11 units & <50 homes (i.e. policy is zero AH below 11 units). On the assumption that the typical number of homes per application in this grouping was 20 (the median point), based on an average of 35% affordable housing, there should have been around 27 smaller sites each with an AH provision of 7 homes, so 189 affordable homes per annum in this category.

3.10 Based on the 21 (of the 27 schemes) that have been determined, only 4 will have the affordable housing delivered on site, and another 6 will have it provided off site by way of a commuted sum.

3.11 Hence, this is a sensible and relatively untapped sector of the market upon which the Council should focus its direct investment in affordable housing on.

3.12 **Option 2** - Focus the HDP on regeneration sites. The reality however is, the Council cannot use its PWLB monies to create subsidy, and the Council already has to mechanism to invest in such schemes more generally, viability permitting, through market rent investment via Maidstone Property Holdings Limited. So, the Council will continue to look at such sites in terms of how it can use its own investment to unlock delivery, but that is can occur in isolation of an RP or through scheme specific JV's, so an HDP wouldn't add any additional value.

3.13 **Option 3** - Align the HDP to the delivery of a garden community proposal. This has the most potential for an HDP, but realistically this is a longer-term proposition as any such Garden Community will not be allocated in the Local Plan Review until 2022, with the delivery of new homes not likely be until

2027 at the earliest. So that HDP is a good option for this area, but it's too early to create one.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The preferred option is option 1, to stall the creation of an HDP for the time being until such time as a garden community becomes a firmer proposition, but instead seek Secretary of State direction to acquire up to 200 no. social rented homes on smaller developments (at a value of not more than £30m over the 5-year MTFs period), whilst utilising the services of an RP as a managing agent. The required financial hurdles for a positive investment decision should be a 5% Internal Rate of Return and a positive Net Present Value, as per the council's current investment criteria for private rented sector housing (for Maidstone Property Holdings).

5. RISK

5.1 The risks have been explored within the main body of the report.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 The HDP concept has been to this Committee on two previous occasions and subsequently to the Policy & Resources Committee.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 If this recommendation is agreed, our intended approach will be confirmed to the RPs that expressed an interest, but that we confirm our willingness to collaborate with them on regeneration sites, but outside of an HDP structure.

8. REPORT APPENDICES

None.

9. BACKGROUND PAPERS

None.