

Cabinet Meeting	
Meeting Date	18 th March 2020
Report Title	Delivering Affordable Housing in Swale
Cabinet Member	Cllr Ben Martin, Cabinet Member for Housing
SMT Lead	Charlotte Hudson, Head of Housing, Economy and Community Services
Head of Service	Charlotte Hudson, Head of Housing, Economy and Community Services
Lead Officer	Charlotte Hudson, Head of Housing, Economy and Community Services
Key Decision	Yes/No
Classification	Open
Recommendations	<ol style="list-style-type: none"> 1. For the Council to pursue the mix of development options set out within the report for delivering affordable housing within the Borough. 2. To carry out a procurement exercise on the identified land holdings in Sittingbourne, for proposals on developments that deliver (but not limited to) affordable homes. 3. That the Council begins to establish a Council owned housing company to deliver housing. (LHC) 4. That Cabinet approve the drawdown of up to £250k of the capital budget provision to fund the due diligence and business planning work for the LHC and any necessary work on the identified Sittingbourne landholdings in order to carry out the procurement exercise.

1 Purpose of Report and Executive Summary

- 1.1 This report details options for increasing delivery of affordable housing in the borough and seeks approval for the establishment of a Local Authority Housing Company (LHC).
- 1.2 The proposals outlined in this report provide the framework for the Council to deliver affordable housing that can be scalable should land or funding become available.

2 Background

- 2.1 Affordable housing availability in England has worsened over the years with more and more people unable to buy or rent in areas where they live or work. New supply continues to fall short of demand and this provides an increasing shortage for those on low and medium incomes.

- 2.2 Social rents are linked to local incomes to keep rents more affordable and changes to rents are controlled by central government, rather than the provider. Social rents are lower than 'affordable' rents which are set at up to 80% of the market rate. In Swale the Local Housing Allowance on a 3-bedroom property currently provides a shortfall of £28.42 in Sheerness to £91.40 in Faversham per week against a private rented sector property.
- 2.3 Social housing is allocated on a basis of need and is covered through the Housing Allocations Policy and nomination rights with Registered Providers (RP). Currently there are 1,363 households on the Housing Register in Swale, between April to December 2019 there were 237 properties let through the register. The Housing Allocations Policy is currently being reviewed and this could also increase the numbers on the register.

Planning Delivery

- 2.4 Delivery of affordable homes historically has been a planning led approach with the reliance on s.106 to deliver affordable homes in Swale. The policy requirement of affordable homes on a development varies depending on location and ranges from 40% in rural areas to 0% on the Isle of Sheppey. The table below shows delivery over the past 5 years and current year to Q3.

Table 1 - Affordable Housing delivery 2014 – 2019

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 (Q1 - Q3)
Affordable Rent Tenure	109	24	90	72	11	45
Shared Ownership	47	36	54	60	57	40
TOTAL	156	60	144	132	68	85

- 2.5 The adopted Local Plan Policy DM8 covers developments of eleven or more dwellings and the table below sets out the percentage sought. However, due to viability these percentages are not always achieved.

Table 2- Affordable housing percentage sought

Area	Affordable Housing Percentage Sought
Isle of Sheppey	0% affordable housing
Sittingbourne town, urban extensions and Iwade	10% affordable housing
Faversham town and urban extensions	35% affordable housing
All other rural areas	40% affordable housing

- 2.6 Planning permission has already been granted for a number of sites and the table below provides a summary of the pipeline delivery for the next 3 – 5 years of s.106 affordable homes plus additional affordable homes secured outside of s.106 requirements.

Table 3 - Approved planning application sites: Pipeline delivery over the next 3-5 years

	Number of Affordable homes	Affordable Rent Tenure	Shared Ownership	Of which are wheelchair adapted homes
Sittingbourne	448	298	150	15
Faversham	340	217	123	9
Isle of Sheppey	87	45	42	0
Swale	875	560	315	24

- 2.7 In addition to the s.106 homes planned the Council also currently holds £323,550 in commuted sums.
- 2.8 In-line with the administrations ambitions for affordable housing, planning committee has also been more robust in its requirements for delivery of affordable homes through the planning process and will challenge the evidence that is presented against the Local Plan policy.
- 2.9 A Housing Supplementary Planning Document (SPD) is being prepared in tandem with the local plan review. The SPD will expand upon the housing policies in the local plan review. It will comprise a number of individual chapters relating to affordable housing, housing mix for market housing, housing for older people and those in need of care. It will also include detailed policy on alternative housing products such as park homes and modular housing and self-build and custom housebuilding.

Homes England Funding

- 2.10 Homes England provide grant funding to enable the delivery of affordable homes which Councils and RPs can access as well as using their own funds or recycled grant money. Homes England recently introduced the Strategic Partnership Fund (HESP) which allows certain RPs, including Hyde and Optivo, access to higher levels of grant with the aim of delivering additional affordable homes. Hyde have secured £95.4m and need to deliver 1,623 affordable starts by March 2022. Hyde have already brought forward the Stones Farm development utilising the HESP funding and are actively exploring other sites. Optivo have secured £44.9m and need to deliver 1,000 affordable starts by March 2022

Increasing delivery

- 2.11 In May 2019 the administration committed to deliver more affordable homes in Swale, this was further confirmed with the adoption of the Housing, Homelessness and Rough Sleeping Strategy in July 2019. The key objective within the strategy relating to affordable homes is to “develop a borough wide approach to invest in and deliver affordable homes, with a particular focus on social rent”.
- 2.12 The administration has also backed their commitment with the identification of capital funding to enable delivery. In the February 2020 budget report Council agreed that an additional £10 million could be borrowed to fund housing projects. Borrowing to fund capital expenditure on affordable housing will require long-term borrowing. The Council will need to find revenue funding for the debt charge costs and for minimum revenue provision. Unless projects can fully cover these costs there will be a further pressure on the revenue budget. This level of funding will only enable limited delivery of affordable housing.
- 2.13 The Leader, Cabinet Members and senior officers have met with the main RPs who operate in the borough to discuss opportunities that may be available, and a series of research has been conducted to identify where resources in Swale should be targeted. The highest need remains for affordable rented housing but there is also need for intermediate housing products for aspiring homeowners. It is therefore important that the council considers this in its delivery approach.

Council owned Land

- 2.14 Although the Council has limited land holdings, exploration of using these sites to maximise affordable housing is imperative. The following sites have been identified as suitable for housing development in Sittingbourne, the Council has limited suitable landholdings in Faversham and the Isle of Sheppey.
- Old Bus Depot (East Street);
 - Cockleshell Walk Carpark; and
 - Fountain Street.

Delivery Vehicle

- 2.15 Set out below are three options for the Council to pursue in utilising its land and capital to further this ambition in increasing affordable housing. The main difference between the options would be the level of control the Council has in the development and on-going management balanced against risk and return of the investment. This report is only discussing the delivery vehicle and a full appraisal on a site by site basis will be brought forward in due course. A mix of options may be suitable in some scenarios.

Option 1 – Sale of Land for Affordable Homes

- 2.16 This option would be for us to market the land for sale to RPs to develop out schemes that incorporated affordable housing. The Council can dispose of land under s.123 of the Local Government Act 1972, with the development of affordable housing the land receipt is likely to be at an undervalue and therefore the use of the General Disposal Consent 2003 where an undervalue that does not exceed £2m can be agreed providing the wellbeing criteria is met.
- 2.17 In addition, the Social Housing Act 2010 (as amended) provides consent to local authorities to dispose of land to registered providers at less than market value for the development of housing, other than housing for outright sale.
- 2.18 The benefits of this approach are that this would be quick and relatively simple to deliver and would take limited Council Officer resource and limited financial risk to the Council. There would be no need for a procurement exercise or set-up of a delivery vehicle such as Local Authority Housing Company or Joint Venture. Although apart from the designation of the use of affordable housing we would have no further control on the development outside of our separate powers as the Local Planning Authority and holding the Housing Register. With this option the funding is likely to be through grant already held by the RP and therefore this would just divert from other potential schemes (albeit these might not be in Swale) and therefore in real terms do not increase affordable housing delivery. Consideration also needs to be given to the location of these sites as they are paramount to the regeneration ambitions for the town centre.

Option 2 – Development partner/ Joint Venture (JV)

- 2.19 This option would be to undertake a procurement exercise to identify a development partner to jointly deliver affordable housing. It would most likely be a RP but could be a combination of Developer and RP. A development agreement/joint venture can be structured in various ways based upon the composition and proposals that come forward. This option would provide us with more control than Option 1 and bring about additional resource and skills from the partners. Funding could be provided either through grant money available to the partners or private finance in addition to any funding the Council provided. Without undertaking the procurement exercise, it is difficult to determine the exact structure and proposals that would be achieved and the risk liability for the Council. The process of selecting the development partner and drawing up the development agreement can be lengthy and could potentially delay delivery of affordable homes.

Option 3 – Create a Local Authority Housing Company (LHC)

- 2.20 A LHC is an independent arms-length organisation wholly or partly owned by councils. It can develop, buy and manage properties within and outside of a

local authority area and offers the ability to intervene long-term in the market and address the range of housing needs in our borough. The homes a LHC provide sit outside of the local government housing finance system (Housing Revenue Account) and are not subject to the Housing Act. The benefits of a LHC are greater control and influence, greater freedoms and flexibilities (esp. over rents, borrowing and Right to Buy), greater stewardship role in place-shaping through developing mixed tenure developments and a financial return which would generate capital and revenue returns to fund future projects. The downside is that the Council would still need to acquire the relevant skills for development and management, although these can be bought in via consultancy or property management outsourced. Financing would be through the Council mechanisms, private finance or accessing Homes England funding directly. Within the LHC there would also be an opportunity to partner on individual sites should this be appropriate. However, the risk would sit wholly with the Council.

- 2.21 All options detailed will provide the council with a mechanism to make an impact and assist with the delivery of affordable housing. Having reviewed these delivery models against the objectives of the Council, it is proposed that establishing a LHC would provide the Council with the most effective mechanism to provide additional units of social housing, yet still maintain a level of control of the delivery. However, the other options remain viable and legitimate routes should this maximise the best outcome in delivery of affordable housing.
- 2.22 Setting up a LHC is fairly straight forward, a small board of directors would need to be appointed, articles of association and a business plan adopted. It is recommended that the Company structure is a company limited by shares wholly owned by the Council. There are standard model articles of association that can be considered and if appropriate can be used with or without modification as required. The Council will nominate directors to the Company board and care should be taken in avoiding conflict of interest for the nominees due to their position in the Council and their role as furthering the interests of the Company. The model articles allow for five directors. The recommended structure will allow the company to trade for profit and thus pay a dividend to its shareholder.
- 2.23 The company will require a business plan to be adopted and it is recommended to appoint a consultant to prepare the business plan for adoption.

3. Proposals

- 3.1 For the Council to pursue the mix of development options set out within the report for delivering affordable housing within the Borough.

- 3.2 To carry out a procurement exercise on the identified land holdings in Sittingbourne, for proposals on developments that deliver (but not limited to) affordable homes.
- 3.3 That the Council begins to establish a Council owned housing company to deliver housing.
- 3.4 That Cabinet approve the drawdown of up to £250k of the capital budget provision to fund the due diligence and business planning work for the LHC and any necessary work on the identified Sittingbourne landholdings in order to carry out the procurement exercise.

4 Alternative Options

- 4.1 Alternative options are considered in the main body of the report.

5 Consultation Undertaken or Proposed

- 5.1 Advice has been sought from Legal, Procurement, Property.

6 Implications

Issue	Implications
Corporate Plan	The increase of affordable housing in the borough supports priorities within the emerging local plan.
Financial, Resource and Property	Capital funding has been identified, which is detailed in the main body of the report. The business plan development will consider all financial and tax implications. Land identified for use for affordable housing delivery will be brought forward on a site by site basis and be accompanied by the appropriate valuation.
Legal, Statutory and Procurement	Localism Act General Power of Competence provides the legislative framework for the Council to create a LHA.
Crime and Disorder	None identified at this stage.
Environment and Sustainability	None identified at this stage.
Health and Wellbeing	None identified at this stage.
Risk Management and Health and Safety	Risk implications are discussed within the body of the report. A risk plan will form part of the business plan development.

Equality and Diversity	None identified at this stage.
Privacy and Data Protection	None identified at this stage.

7 Appendices

7.1 None

8 Background Papers

None