

Report to Cabinet

23 November 2017

By the Cabinet Member for Housing and Public Protection



Information Report

Not exempt

Affordable Housing Investment

Executive Summary

Our Housing Strategy (adopted 2013 and reviewed 2017) has the objective of increasing the supply of homes that people in housing need can afford. This commitment has delivered 1186 new affordable rented and shared ownership homes across the district since 2010.

A significant part of this strategy has been realised by using affordable housing commuted sum payments (secured from housing developers through Section 106 agreements where affordable housing is not provided on site). This approach has seen an investment of over £8 million over a seven year period and has helped deliver 240 of those 1186 affordable rented units

To deliver affordable rented housing in the district the Council has historically worked very closely with a number of Registered Providers (formally known as Housing Associations or Registered Social Landlords) such as Saxon Weald (created by Horsham District Council to manage the Council's former housing stock following the completion of Large Scale Voluntary Transfer in 2000), Stonewater and Hyde Housing. This approach became much more challenging when the Government unexpectedly introduced a requirement for Registered Providers to cut rents in real terms by 1% pa for a period of 4 years. As a result of this rent Registered Providers reassessed their financial models, halted their proposed development plans and became more reliant on greater contributions from commuted sums. This period of uncertainty also coincided with a sharp increase in the level of commuted sums collected by this Council primarily due to progress with large scale housing developments such as the West of Horsham schemes.

In 2017 the Government has made a number of new announcements and statements on the housing crisis and affordable housing. It is therefore a good time to review the Council's approach to investing in affordable housing. This report sets out the future direction for the Council as it continues to invest in affordable housing and make the best use of commuted sums. It recommends that we continue to work with Registered Providers and we invest in good quality temporary accommodation. It also proposes that the Council undertakes further work to assess the case for the creation of a vehicle to enable the direct delivery of affordable housing. In undertaking this work the Council needs to be mindful that at the time of this report the Government has not yet fully articulated its view of the future for affordable housing.

Recommendations

Cabinet is recommended to:

- Review and support the Council's approach in investing in affordable housing as set out in sections 3.2 and 3.3 of this report
- Note that further work will be undertaken in developing and accessing options for the delivery of affordable housing as set out in section 3.4 of this report

Reasons for Recommendations

- i. To assist the Council in achieving its target of delivering 240 affordable homes a year through the allocation of affordable housing commuted sum payments to maximise on site delivery.
- ii. To assist the Council to achieve its objective to reduce the number of households having to be placed in bed and breakfast accommodation through the provision of additional temporary accommodation.

Background Papers

Horsham District Housing Strategy Position Statement Annual Review 2016/17

Wards affected: All wards affected.

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Background Information

1 Introduction and Background

1.1 National picture

In 2015/16 central government told all Registered Providers that they must make a rent reduction of 1% pa for 4 years through to 2019/20. This was in sharp contrast to the long standing Government policy of allowing rents to rise by RPI plus 1% a year. Registered Providers were caught unaware by this proposal and were forced to reassess their financial modelling. At the same time it was announced there would be no grant for rented homes and that the focus would be on home ownership with Government grants being allocated towards the delivery of shared ownership. As a result, the majority of national Registered Providers had no choice but to halt their development plans and reassess their development aspirations with a substantially reduced income forecast. In practice often this meant delivering half the number of houses originally intended or them making significant changes to the profile of sites to increase the proportion of units for sale at normal market prices in order to help cover the cost of the affordable homes there.

2017 has seen a renewed focus from Government on the issue of affordable housing. In February it published the Housing White Paper – ‘Fixing our Broken Housing Market’. This set out the Government’s intention to provide a revised definition of affordable housing within the National Planning Policy Framework, introduce affordable private rented housing and support innovation from local authorities to promote more house building. Government would however expect new tenants of affordable properties to be offered equivalent terms to those in council housing including a right to buy their home.

In September the Communities Secretary announced a green paper on social housing that would be a ‘wide-ranging, top-to-bottom review of the issues facing the sector’. The green paper’s intention was to start a nationwide conversation on social housing. This was followed by the Prime Minister launching her vision to renew the ‘British Dream’ at the Conservative Party Conference in October. In her speech she confirmed that the cornerstone of this was to fix the ‘broken’ housing market. The broad proposals were to increase support for Help to Buy, provide additional funding for affordable housing and post 2020 rent increase of Consumer Price Index + 1% for five years were confirmed, essentially returning to the arrangements in place prior to the 2015 rent cuts.

1.2 Local picture

An example of how changes introduced in 2015 have impacted locally is the Winterton Court site in Horsham. When this site was originally proposed it was set to offer almost 70 affordable homes. The final site approved had a different look with 23 affordable homes (20 affordable rent and 3 shared ownership) and just over 40 for market rent.

The annual 1% rent reduction policy has meant locally Registered Providers are unable to deliver affordable rented homes as they have done in the past. Where sites do lend themselves to additional rented units the amount of funding support needed to deliver those homes has increased significantly. In some cases this has increased by almost five times when compared to the average financial support provided to Registered Providers prior to 2015.

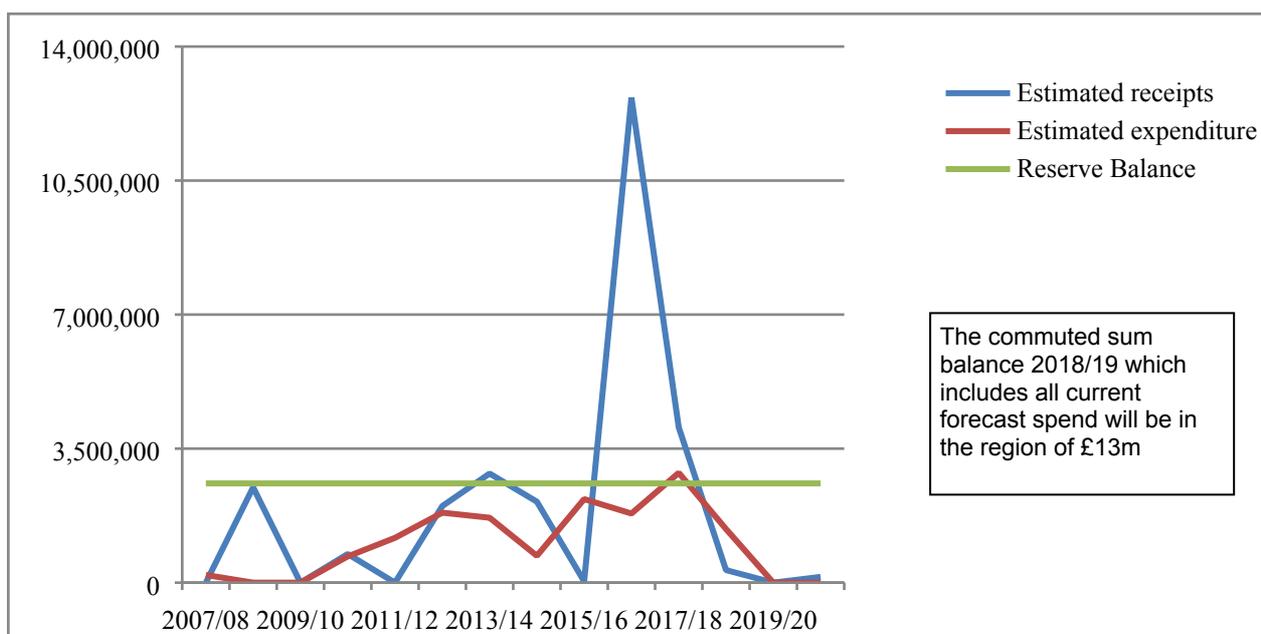
Despite the imposition of the rent reduction policy, our district target remains that of delivering 240 affordable homes per year made up of both affordable rented and shared ownership accommodation. This figure was identified using the Strategic Housing Market Assessment (SHMA) and detailed analysis of the Housing Register. Examining a snapshot of the delivery of affordable homes between 2013 and 2017 shows that 858 affordable

homes have been delivered. If the target had been fully met 960 homes would have been delivered. Had government policies affecting Registered Providers not have been implemented it is anticipated the target would have been met.

1.3 Commuted Sums

As can be seen from the graph below, there has been a large spike in council income from commuted sums over the recent period. Whilst the s106 agreements with the two developers of this 2500 unit scheme secured a substantial number of affordable units on site, part of the balance was made up through commuted sum payments. At the time, this agreement in itself was not a concern. Registered Providers had progressive and sizeable development plans which would have required financial support to maximize affordable rented unit delivery. The abrupt policy changes described above however changed this scenario.

The graph demonstrates minimal expenditure in 2007/08. Expenditure increased in response to the upturn in collection of commuted sums in 2009/10. The Council's actions and successful partnership with the Registered Providers saw income closely mirroring expenditure rates between 2009 and 2015 which led to the good level of affordable homes delivery referred to above. However the sudden reduction in income to Registered Providers, as a result of the new rent reduction policy, meant that this could not be maintained.



Historically the average balance of commuted sums has been around £2.5 million. If this historical level of reserves is to be retained as a future base figure, it provides the council with a "surplus" of £10.5 million. However, as can be seen, receipts are predicted to drop dramatically as we reach 2019/20. Mindful of these figures, it is appropriate for the council to review its policy. In doing this it does however have to be equally fully mindful of ongoing changes in Government policy.

There are a number of points that need to be considered when determining the best future use of commuted sums. These are:

- At present the graph above demonstrates, estimated receipts dropping away to levels similar to 2007/08 post 2017. However this could change if the review mechanisms that the Council have in place demonstrate that schemes have been more financially viable as the

housing market has improved and in turn could provide for additional affordable housing. This could deliver an additional £5 million in receipts over the next five to ten years.

- The changing market in which Registered Providers have had to operate with reduced government grant is leading to a reduction of affordable rented properties being delivered. The Government has signaled its intention to reverse this decision.
- Registered Providers are requesting substantially increased financial support (around five times as much when compared to previously delivery averages) to provide the Council with nomination rights. Historically providers were able to access funding from Homes and Communities Agency to deliver rented accommodation. This is no longer the case. They could also estimate income from rented units increasing which was brought to an end when the rent cuts were introduced in 2015.
- Annual cost of providing bed and breakfast accommodation to homeless households now averages £234,000 per annum (2013 to 2017). This is unsustainable as a financial model. We have gained invaluable experience of delivering temporary accommodation. This includes the use of £2.9million commuted sums to deliver 17 units of new temporary accommodation at Bishopric to support our homeless households and reduce our reliance on expensive bed and breakfast.
- There has been an increase in households with an identified housing need. The Housing Register stands at 695 households (01/06/2017). This compares to 565 as at 01/06/2016.

2 Relevant Council policy

2.1 This report accords with the objectives of the Corporate Plan as it will help:

- Support the delivery of housing to meet local need
- Prevent homelessness throughout the Horsham District
- Provide access to appropriate and affordable housing
- Reducing the number of households placed in Bed and Breakfast accommodation

3 Details

3.1 To make the best future use of the commuted sum funding and to provide a range of housing solutions to those in greatest housing need, we need more than one solution. We have a proven track record in delivering accommodation through Registered Provider partners and can meet our short term demand for temporary accommodation with direct delivery. These models work and we will continue them whilst there is an identified need. We will also continue to explore options for direct delivery of affordable accommodation. These solutions are set out in more detail below.

3.2 1. Support of Registered Providers to deliver affordable rented accommodation

We have worked in partnership and provided substantial support to Registered Providers in the past which has enabled us to deliver affordable rented homes for those in housing need. We will consider continuing to do this on sites that have specific issues preventing their delivery where this could be unblocked with additional funding. In return for supporting Registered Providers to deliver accommodation, we receive 100% of nomination rights to the initial vacancies and 75% of all subsequent resulting vacancies. The access to these nomination rights directly reduces the number of households on the district's housing register and in temporary accommodation.

A recent example of the support we are able to provide is the site of 20 affordable rented properties which were delivered by Saxon Weald in Cowfold. This provided the Council with

20 additional nominations rights for those on the Housing Register. Two further sites have received commuted sum spending approval and we await delivery of 15 units of rented accommodation (8 rented homes in Coldwaltham with Stonewater and 7 rented homes in Christs Hospital with Hyde Housing).

Supporting Registered Providers to deliver affordable rented accommodation will continue to deliver a number of benefits including:

- Providing homes for the increasing number of households on the Housing Register.
- Supporting reaching our affordable homes delivery target.
- Meet specific demand pressures. Adapted units of larger family homes, for example.

To make the best use of commuted sums we need to ensure our work with Registered Providers delivers the accommodation we need and in the areas of greatest demand. An assessment of demand has been completed through an analysis of the Council's Housing Register, the Strategic Housing Market Assessment and Parish Housing Needs surveys alongside data available in respect of West Sussex Health Profiles and the Office of National Statistics Population Projections. This has provided a set of objectives which can be used to guide our work with Registered Providers. In future we will encourage schemes that:

- Provide accommodation in the areas of greatest demand. These are Horsham Town, Broadbridge Heath, Southwater, Billingshurst and Warnham.
- Deliver smaller units of accommodation. 36 per cent of households on the Housing Register require one bed accommodation.
- Provide an accommodation solution to those households in housing need that would be adversely affected by welfare reform changes. This includes households under the age of 35 being restricted to the Local Housing Allowance (LHA) shared room rates as an upper rental threshold.
- Provide an accommodation solution in smaller parishes where hidden households unable to secure suitable affordable housing in their home town/village can be identified through local housing needs surveys. Previous local connection schemes have been delivered in Amberley, Ashington, Cowfold, Henfield and Washington in recent years.
- Support options for community-led housing solutions identified through the Sussex Community Housing Hub. Horsham District Council has co-funded a Community Led Housing Advisor with a number of other East and West Sussex Authorities to provide communities with an expert to help shape to identify opportunities that may be available to deliver accommodation in their community to meet their local objectives and demand.
- Provide specialist accommodation for those with disabilities to both live independently and provide appropriate accommodation for families with disabled children to function as a family unit. There are currently 44 households on our housing register with an identified need for adapted accommodation.
- Provide accommodation to meet the changing demographic of the District. This could include extra care schemes similar to that delivered previously by Saxon Weald at Highwood Mill. Horsham District profile data suggests we will have a 72.2% growth in our population aged 65+ to 2039 including an extra 3,629 residents aged 90+ over the same period.

3.3 2. Delivery of temporary accommodation

Delivering additional units of temporary accommodation for those facing homelessness provides a number of benefits:

- Reduces reliance upon unsuitable Bed and Breakfast for our most vulnerable households.
- Reduces in Bed and Breakfast expenditure - Average £234,000 pa 2013 to 2017 but which will increase with service demand.
- Reduces the council's average annual cost of bed and breakfast accommodation by around £200,000 per year
- Generates income from temporary accommodation rental units, thereby contributing to the funding of our housing services.
- Enabling us to rationalise our current temporary accommodation stock which in turn will allow us to de-commission ineffective stock and potentially dispose of or redevelop sites. This will provide further benefits such as capital receipts or redeveloped sites providing alternative housing.
- Mitigating additional accommodation obligations that will be placed upon Local Authorities in respect of the Homeless Reduction Act 2018.
- Utilisation of commuted sum (Section 106) funds where agreements allow.
- The delivery of additional temporary accommodation units therefore meets the Council's Strategic plan to improve the Council's housing stock and build revenue streams through an increasing investment portfolio.

Opportunities for additional acquisition are being negotiated and we have two schemes detailed below that are included in the 2018/19 capital programme.

Proposed Temporary Accommodation Sites			
Site	Potential Units	Funding	Year
Rowan Drive, Billingshurst	8	£1.5m	2018/19
Peary Close, Horsham	8	£1.5m	2018/19

We do not need to continuously deliver new temporary accommodation. The schemes listed above will enable us to meet the current demand levels and further reduce the reliance upon bed and breakfast accommodation. It should be noted that there will always be need for some level of bed and breakfast accommodation.

3.4 Looking ahead - creation of a new vehicle to deliver affordable housing?

It is important to ensure all opportunities to increase permanent affordable housing delivery are investigated. We have undertaken an initial assessment of creating a wholly owned Council Housing Company but we need to fully understand the implications of this. Not least in the light of recent Government announcements that have suggested affordable housing owned by council housing companies could be subject to 'right to buy'. Indeed the Secretary of State's regular use of the phrase 'housing crisis' and the flurry of announcements from the Government on affordable housing and housing in general has considerably added to the uncertainty around the future of affordable housing. It is welcome that the Government is being more proactive but it does mean any significant change in policy by the Council will have to be fully understood before proceeding.

The work completed to date has identified a number of options for the holding of permanent stock and these need be considered in greater detail. They include:

- Council operated Registered Provider
- Wholly owned Housing Company
- Arms-Length Management Organisation (ALMO)
- Blended approach of multiple options

Delivering additional units of permanent accommodation could provide a benefits including:

- Ensuring smaller sites provide on-site delivery where traditionally Registered Providers decline to bid for the affordable housing allocation.
- Creating a portfolio of accommodation that could be used to finance further development providing a longer term delivery stream.
- Ability to ensure developments focus on the unmet needs of those on the Council's Housing Register.

Given the number of changes and increasing complexity of Government affordable housing policy, it is recommended that we commission an appraisal to review our options and make recommendations for the district council's own future policy for provision of affordable housing.

4 Next Steps

- 4.1 In order to continue the approach referred to within this report, meet the significant challenges facing the affordable housing market and make the best use of commuted sums we need to pursue a flexible approach. As this report has demonstrated policy shifts by the Government have had a significant impact on the delivery of affordable housing and the level of commuted sums. We should look to maximize our use of commuted sums and it is likely this will include continuing to work with Registered Providers where it is appropriate to do so and have an on-going commitment to invest in new temporary accommodation to meet demand. The recent large increase in the level of commuted sums held by the Council also offers the opportunity to investigate fully the possibility of directly delivering affordable rented homes. This could offer an additional way to make the most effective use of the funding. It goes without saying that in bringing forward proposals the Council will have to keep fully informed of the Government's evolving agenda on affordable housing.

5 Views of the Policy Development Advisory Group and Outcome of Consultations

- 5.1 The proposals to support Registered Providers and deliver additional temporary accommodation were discussed and supported by the Housing and Public Protection Policy Development Advisory Group 21st August 2017. The recommendation to further investigate methods to deliver additional permanent housing units was in principle supported pending the outcome of an assessment of options.

This report will be taken to Housing and Public Protection Policy Development Advisory Group 20th November 2017.

- 5.2 This report reflects recommendations from the Council's Interim Monitoring Officer
- 5.3 The Head of Finance supports the points detailed within the paper and highlighted the need to consider income generation through any development opportunities that become available.

5.4 The general principles of this report have been shared with two Registered Providers.

- Saxon Weald commented that the targets set were understandably broad. They also understood the need for all future options to be examined and suggested they would be happy to explore closer collaborative working that would help meet the objectives set out in section 3.2.
- Moat Housing have also been consulted as a larger stock holding partner operating across a number of Council areas in the South East. They commented in support of the recommendation to continue to support Registered Providers. They further added their support specifically to flexible approach the Council has adopted to facilitate the most appropriate tenure splits on site.

6 Other Courses of Action Considered but Rejected

6.1 This report is for information only and advises the current position of the Council's affordable housing commuted sum spend. Any options to be progressed at a later date will be brought to relevant PDAG(s) for comment and to the cabinet for approval.

7 Resource Consequences

7.1 No financial consequences.

7.2 The financial consequences of any individual options that may be progressed will be reported to Cabinet.

8 Legal Consequences

8.1 No legal consequences.

8.2 The legal consequences of any individual options that may be progressed will be reported to Cabinet.

9 Risk Assessment

9.1 There are no direct risks associated with this report.

10 Other Considerations

10.1 There are no consequences in respect of Crime & Disorder; Human Rights; Equality & Diversity and Sustainability.