

# CHESHIRE EAST COUNCIL

## REPORT TO: Cabinet

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<b>Date of Meeting:</b>	23 <sup>rd</sup> July 2012
<b>Report of:</b>	Strategic Director Places & Organisational Capacity
<b>Subject/Title:</b>	The Housing Challenge
<b>Portfolio Holder:</b>	Councillor J Macrae

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### 1.0 Report Summary

- 1.1 This report outlines the current position regarding overall housing provision and delivery across Cheshire East. It provides an overview of the current interventions that Cheshire East Council is making to contribute to both affordable and market housing delivery to address the shortfall in housing supply.
- 1.2 The report considers further measures to stimulate delivery and requests specific approval for the mechanism to allocate £6m capital resources currently in the capital programme for 2012/13 – 2015/6.
- 1.3 A further report will be presented to Cabinet during Summer 2012/13 with Phase 2 of our Affordable Housing Delivery Programme which is referenced in this report as part of our overall Housing Challenge programme.

### 2.0 Decision Requested

- 2.1 To consider the current position regarding overall housing provision and delivery across Cheshire East and endorse our programme of intervention to stimulate delivery.
- 2.2 To approve the qualifying criteria and the process outlined within Appendix 1 to allocate the Housing Capital Programme for 2012-15.
- 2.3 To request that further sites for affordable housing are identified as Phase 2 Affordable Housing programme in order to develop a five year development programme.
- 2.4 To agree that further work should be undertaken to explore new partnership working initiatives including:
  - Providing financial mechanisms to housing partners in order to enable them to have the financial capacity to deliver the level of affordable homes required across the authority.

- Explore partnership approaches with Registered Providers in order to bring forward an additional supply of affordable housing or intermediate products.

### **3.0 Reasons for Recommendations**

- 3.1 The background information contained within this report outlines the challenges we face in order to bring forward housing supply to meet the needs of the authority and achieve our ambition for growth.
- 3.2 Cheshire East, like many other areas across the Country is currently in a situation where delivery is at a very low level and some of the usual initiatives such as Section 106 agreements are not bringing forward the anticipated level of supply. In order to meet the housing challenge which we face, and achieve the targets which have been outlined as well as maintaining the current level of New Homes Bonus, we need to maximise the potential of the initiatives which we are either seeking to develop or have in place.

### **4.0 Wards Affected**

- 4.1 All wards

### **5.0 Local Ward Members**

- 5.1 All Local Ward Members

### **6.0 Policy Implications including - Carbon reduction - Health**

- 6.1 Housing is fundamental to the well being and prosperity of the Borough. There are direct connections between the quality of the housing stock and health, educational attainment, carbon reduction and care for older people. Providing sufficient housing is essential to maintain economic growth and vitality – and access to housing is a key issue in rural areas.

### **7.0 Financial Implications (Authorised by the Director of Finance and Business Services)**

- 7.1 The financial implications for the initiatives are highlighted below:
  - The New Homes Bonus is intended to be a permanent feature of the Local Government funding package from Central Government and commenced in the 2011/2012 financial year. The Government provides additional funding for new homes by match funding the additional council tax raised for new homes and empty properties brought back into use, with an additional amount for affordable homes. Match funding, for new homes and homes brought back in to use, is based on the National average Council Tax and is payable for six years. This relatively

new scheme shifts the way local authorities are funded, towards funding that is based on rewards from housing growth.

- The importance of New Homes Bonus will grow over time as bonus payments increase and formula grant decreases. In 2012/2013 the bonus is equal to less than 4% of formula grant, but by 2016/2017 is expected to be equal to more than 10%. Cheshire East should also benefit from such a change as the Councils' formula funding is historically relatively low, but there is large potential for housing development in the area.
- Development Prospectus – a capital allocation of £1m has been approved for 2012/13 and further capital allocations of £2m for 2013/14 and £3m for 2014/15. The outcome of the first year programme will determine future year spend. If there is demand then the process will be repeated in years two and three, however if insufficient interest is generated then the process for forthcoming years will be reviewed.
- Although income from NHB is sufficient to cover the annual costs of borrowing during the six year period as it is payable for a given property, this does not achieve the actual repayment of capital, NHB doesn't recover the capital costs of the scheme.
- Loans to Registered Providers – If approval to explore this approach is given then work will begin to scope the full financial implications for the authority. There will be a requirement for prudential borrowing and any associated costs would be covered by the Registered Providers.

## **8.0 Legal Implications (Authorised by the Borough Solicitor)**

- 8.1 Providing loans to Registered Providers in order to enable them to have the financial capacity to deliver the level of affordable homes required across the authority may constitute State Aid. If State aid is not granted legally, it may lead to investigation and condemnation by the European Commission. This in turn can lead to a project being terminated or the Council being required to recover any illegal aid from a beneficiary at a later stage, plus interest.
- 8.2 If, there is an element of State Aid, this must be managed. Either the project is restructured to avoid containing aid, or else the aid must be made legal. State aid may only become legal if authorised by the European Commission, for which there are two routes that can be followed. Either:

The aid package must be notified to the European Commission for individual prior approval; or

It may receive deemed approval without notification on the basis that it fits within an already notified and approved aid scheme in the Member

State concerned (approved as a framework scheme), or a so-called "block exemption" Regulation (in which the Commission has outlined the conditions under which a State aid can be granted lawfully). A State aid qualifying for approval via a block exemption or prior-approved national framework scheme may be implemented immediately. Any other aid must wait for individual approval before it may be legally implemented. Any implementation outside these boundaries results in the aid being illegal unless and until such time as individual European Commission approval is given.

8.3 An illegal aid is subject to interest recovery (for the period of illegality) even if subsequently approved by the European Commission.

8.4 Advice should be sought from legal services at the earliest opportunity to ensure that any aid can be granted legitimately and in time to meet our timescales.

## **9.0 Risk Management**

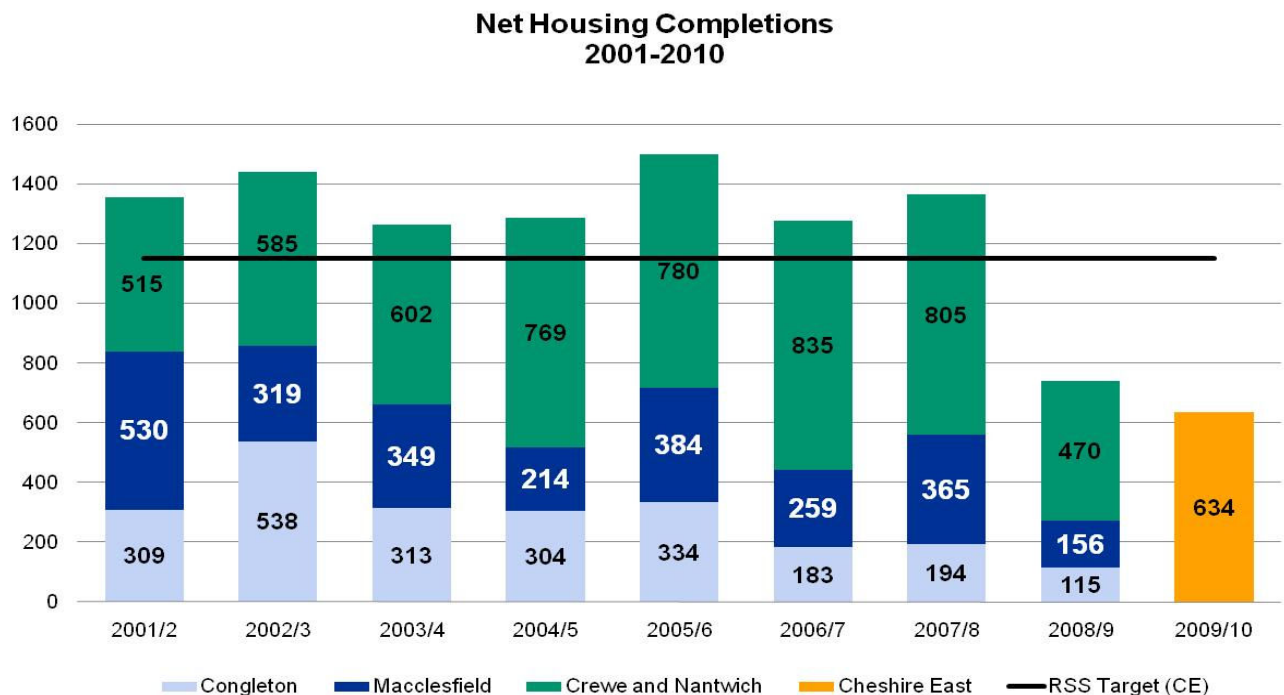
9.1 The current economic climate has impacted significantly on the housing market and the ability to bring forward the required level of housing development to meet our ambition for growth. The authority can chose not to intervene and leave it to market forces, however exploring new approaches and initiatives to bring forward new housing supply could stimulate the market. In stimulating the market it will help us to maximise the New Homes Bonus which will continue to be reduced if the level of supply continues to decline.

## **10.0 Background and Options**

10.1 Within the current economic climate the ability to deliver both market and affordable housing presents a significant challenge for the authority. Developers who paid high land prices at the height of the market are now struggling to bring forward viable developments. We are seeing stalled sites and low house building rates, the ability to access finance and mortgages is a problem for both Developers and first time buyers as financial institutions tighten their criteria and require substantial deposits. As the Government states within its 2011 Housing Strategy *"The housing market is one of the biggest victims of the credit crunch: lenders won't lend, so builders can't build and buyers can't buy. The lack of confidence is visible in derelict building sites and endless For Sale signs. It is doing huge damage to our economy and our society"*. Central to the Governments plans for economic growth is the stimulation of the housing market, a priority which is shared by Cheshire East.

10.2 The low levels of housing development are impacting on our ability to achieve local housing targets. We currently have an overall housing target of 1150 which is no longer achievable with the significant decrease in the number of dwellings being built. Between 2001 and 2008 there were in excess of 1000 dwellings built each year with a

peak in 2005/6 of almost 1500. In 2009/10 this decreased significantly to a total of 634 dwellings built and by 2010/11 this had fallen to 466.



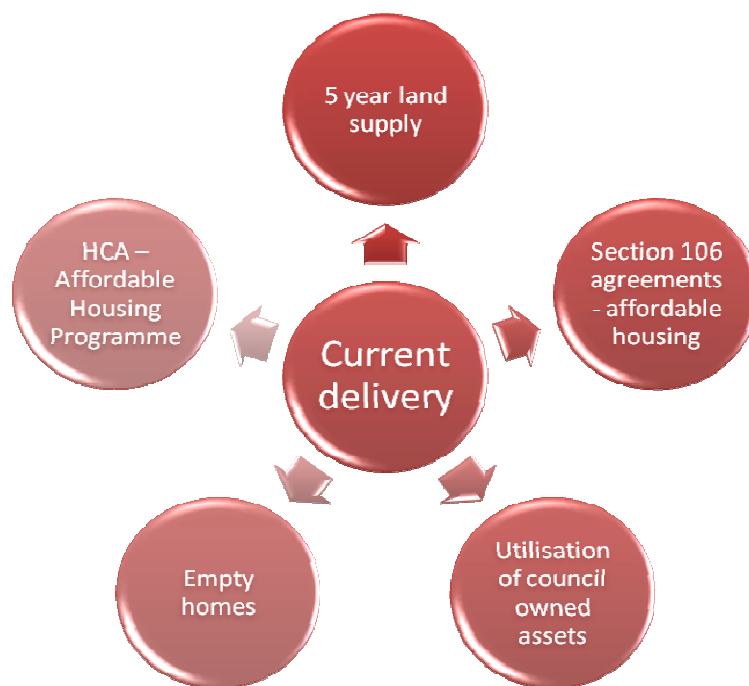
10.3 The National Planning Policy Framework places a requirement on Local Planning Authorities to identify and maintain a rolling 5-year supply of deliverable housing sites plus a buffer of either 5 or 20%. Following the intention to revoke the Regional Spatial Strategy (RSS), the Council has resolved to continue with the housing requirement of 1,150 dwellings per annum. The Strategic Planning Board agreed to apply a 5% buffer to the five year total of 5,750 units. Once past shortfalls in completions have also been accounted for, this equates to a 5 year supply figure of 6,379 homes.

The Strategic Housing Land Availability Assessment (SHLAA) which was approved in March 2012 identifies capacity for 4,783 dwellings on deliverable sites (within the 5-year supply). This equates to a housing supply of 3.75 years, or a deficit of 1,596 homes. To address potential shortfalls the Council produced the Interim Planning Policy on the Release of Housing Land (adopted 24 February 2011) in order to manage the release of housing land to maintain a five years supply, as an interim measure whilst new policies are being developed through the Local Plan process. It has been operating successfully since its adoption and is leading to an increase in the supply of housing land. Developers have submitted planning applications on a number of sites adjacent to the settlement boundary of Crewe. However in spite of these recent approvals Cheshire East does not have a five year housing land supply.

- 10.4 In relation to affordable housing, the 2010 Strategic Housing Market Assessment established that there is a requirement for 1243 units of affordable housing per annum to meet housing need and whilst not an achievable target the figure demonstrates the high level of need across the authority. The target set for affordable housing is currently 300 units per annum, which contributes towards the overall housing target of 1150. We had seen an increase in the levels of affordable housing being developed, with a peak in 2009/10 when 444 units of affordable housing were developed and contributed to the majority of the housing completions. This was however at a time when there were high levels of public subsidy available through the HCA's National Affordable Housing Programme. We are now seeing declining completion rates, with 290 units of affordable housing delivered in 2010/11 and 247 units in 2011/12.
- 10.5 The levels of public subsidy through the HCA have been reduced with a move to raising the required resources through borrowing and the introduction of the affordable rental model, which enables Registered Providers to charge higher rents (80% of open market rents) on new build and a percentage of void properties. Across Cheshire East there has been a cautious approach taken by the majority of Registered Providers when submitting bids for the HCA's Affordable Housing Programme 2011-2015.
- 10.6 The HCA's National Affordable Housing Programme 2008 – 2011 allocated approximately £22 million to Registered Providers, which enabled the development of 804 units of affordable homes across Cheshire East. The recent Affordable Housing Programme 2011 – 2015 resulted in the allocation of approximately £10,672,000 to deliver a firm allocation of 464 units across Cheshire East (This is subject to change as the RP's may move allocations around within their partnering arrangements). With the Government now placing more emphasis on housing providers using their own assets to secure borrowing and increasing the levels of rent to bring forward development, Registered Providers are now finding themselves operating in a more commercial environment.
- 10.7 The Local Investment Plan for Housing (LIP) was adopted by the Sub Regional Leadership Board and individual authorities in 2010. The LIP outlines the way in which we can seek to address the issue of housing supply both locally and at a sub regional level, reflecting the new financial arrangements which are now in place. A paper presented to the Sub Regional Leadership Board put forward a target to achieve the delivery of an additional 1,500 homes across Cheshire and Warrington within the period 2011-15 and to develop a framework to secure investment and delivery of 10,000 new homes over the period 2015-25. In order to deliver this level of development across the sub region, each local authority will need to commit to either a local or sub regional approach which will enable delivery.

## 11.0 Current interventions

11.1 Cheshire East currently uses the following mechanisms to bring forward housing supply:



11.2 **5 year land supply** - As mentioned previously the Council has already introduced the Interim Planning Policy on the Release of Housing Land in order to manage the release of housing land and to help maintain a five years supply. Although this has brought a number of sites forward in advance of the Local Plan, the document is being reviewed to encourage more appropriate and sustainable sites to come forward to help increase the housing land supply. Work on the Local Plan is also continuing with the document expected to be adopted in the next 3 years.

11.3 **HCA – Affordable Housing Programme** - This funding stream enables the delivery of a large proportion of our affordable homes. Cheshire East needs to support the Registered Providers to ensure that they are able to deliver the housing units identified within their development programmes and within the specified time frame of 2011-2015. We do not want to see schemes jeopardised or funding moved to other areas.

**The programme will deliver 464 units of affordable housing (2011-2015)**

**11.4 Section 106 Agreements** - Through the development of the Supplementary Planning Document for affordable housing, there is a requirement for the provision of 30 per cent affordable housing to be delivered on all allocated sites. The Council will also negotiate for the provision of 30 per cent affordable housing on all unidentified 'windfall' sites of 15 dwellings or more or more than 0.4 hectare in size. The threshold reduces on rural sites where the population is less than 3,000 to 0.2 hectares or 3 dwellings or more. The authority expects Developers to work with Registered Providers to bring forward the affordable housing requirement and it is an effective way of securing provision on site whilst enabling the development of mixed communities. There is however tension between overall delivery and the provision of affordable housing, with the Developers questioning viability. Council's are being encouraged to take account of viability and be flexible on Section 106 obligations which could result in a reduction in affordable housing.

- **Provision through Section 106 agreements in 2010/11 delivered 21 units**
- **Provision through Section 106 agreements in 2011/12 delivered 27 units**

**11.5 Utilisation of council owned assets** - In 2010 Cheshire East Cabinet gave permission for the disposal of 11 sites for the provision of affordable housing. The sites have been split into two phases with the aim of carrying out an evaluation on the first phase to ensure that the aims and objectives of the project had been achieved and to establish if there are any lessons to learn requiring a different approach with the second phase. The primary objective was to provide affordable housing in the form of rental or intermediate units and secondly we also wanted the opportunity to establish if the sites could provide a revenue stream through ground rents, which required the sites to be offered on a lease basis for a period of 126 years.

- **Phase One will deliver between 55 and 60 affordable homes**
- **Phase Two will deliver in the region of 100 affordable homes**

The process has demonstrated that we can utilise our land assets to bring forward social benefits in the form of affordable housing, whilst having the ability to generate an annual revenue income and this can be achieved without disposing of the asset.

**11.6 Bringing empty homes back into use** - Over the last two years we have been pro actively working to reduce the level of long term empty homes. Whilst this does not generate an additional supply, it increases the levels of accessible homes, some of which are affordable and reduces the negative impact associated with empty homes on communities. In September 2010 we had 3,287 recorded long term empty homes and



through our approach we have seen a 29% reduction to 2,340 in October 2011.

We have introduced a number of initiatives including the development of a Private Sector leasing scheme and the introduction of interest free loans for renovations (subject to eligibility). Recently we have supported Registered Providers to submit bids to the HCA to bring empty homes back into use.

The most significant impact came from the change to the Council tax discount for properties empty for longer than 6 months which was reduced from a 25% discount to 0% discount. This has encouraged owners to think about what to do with their empty home, and resulted in advice being given to around 300 people in the 8 weeks following the change in discount.

- **Through all initiatives including advice and support we anticipate 100 long term empty homes bringing brought back into use on an annual basis.**
- **Budget: £500k capital allocation for the Private Sector Leasing Scheme, match funding for RP's and interest free loans.**

## 12.0 Mechanisms to bring forward additional supply



**12.1 Development of the Local Plan** –The Cheshire East Local Plan is currently being prepared to provide a clear vision and strategy to guide the growth of Cheshire East over the next 20 years. One of the objectives of the Core Strategy is to deliver sufficient housing in terms of quantity, quality, tenure, affordability and location to meet the Borough's needs.

This level of growth is felt appropriate to provide the best opportunities to live and work within our communities, reduce out commuting and the possibility of dormitory communities, allow economic restructuring and increase productivity, as well as improvements to the level and range of facilities present in communities and their accessibility.

The Local Plan will provide sufficient housing land to meet the growth expected in the Borough.

**Assumption: based on the previous forecasts: between 23,000 and 32,000 new homes over the next 20 years.**

**12.2 New Homes Bonus** – A capital allocation of £6million has been approved for the financial period 2012 – 2015. Approval was granted to utilise the affordable homes premium to fund the prudential borrowing. The capital bid would secure funding of £1 million for 2012/13 which could be utilised to:

- Unlock stalled sites bringing forward either market or affordable housing provision.
- Fund affordable housing not covered by the Affordable Housing Programme.

The aim would be to consider proposals from both Registered Providers and Developers who can demonstrate that a small level of funding could bring forward an additional supply of housing. The Programme Prospectus is contained within Appendix One.

The success of the programme will determine forthcoming capital spend. If interest is not generated the scheme for 2013/14 and 2014/15 will be reviewed.

**Target: 50 units (based on an average of £20,000 to £23,000 per unit for HCA bids)**

**12.3 Utilising further Land assets** – There is the potential to develop a Development Programme for affordable housing through the Assets Disposal Team. Consideration could be given to the suitability of a site and the location. We could also consider development opportunities where sites are located adjacent to other and establish if they could be developed jointly through a partnering agreement. There are certain risks

associated with this as we would not be able to stipulate what we required on the land, however through planning conditions we could stipulate affordable housing.

**Target: 50 units per annum**

**12.4 Sub Regional approach** - Following the development and adoption of the Sub Regional Local Investment Plan for Housing (2011-2015), a working group has been exploring sub regional approaches to bring forward both market and affordable housing with the aim of delivering 1500 units of affordable housing by 2015 and the long term ambition of increasing housing supply by 10,000 units. At this stage the working group will look at the early actions to achieve the 1500 units, which will predominantly be delivered through local approaches and then explore new models to deliver the long term vision. We will look at best practice or new approaches across the sub region to establish if these could be replicated.

In March a meeting took place with the Registered Providers in order to establish how we can work together to develop local approaches to bring forward new supply. It was agreed that we would establish a working group to explore new approaches and initiatives, pooling our resources and expertise and could include:

- Incorporating housing supply into the Regeneration programmes which are currently in development for example Basford, Crewe and Macclesfield.
- Offering loan facilities to Registered Providers in order to increase their capacity to develop affordable housing. This approach has been taken forward in Warrington where the authority has borrowed funding which is then offered to developing Registered Providers. The Warrington model is as follows:
  - A loan is offered over a 25 years period
  - Fixed rate
  - Prudential borrowing from the Public Works Loan Board (PWLb) repaid by the RP. Alternatively the Council may optimise its treasury management to use surplus cash resources rather than investing them in the open market to maximise its return. Due consideration of the market conditions at the time the RP requires the funding will be taken into account.
  - Administration fee of £5,000 and margin of 1.25%
  - Two stage process to provide security on the loan. The first stage would involve placing a charge of 110% of the value of the loan on properties already owned by the RSL whilst the new properties are being built. Once the properties have been built then the charge of 110% of the value of the loan would be transferred. The reason for this approach is that whilst properties are being built they do not realise their true value

until completion. Alternatively for an existing property that is acquired a charge would be placed on this and other properties to achieve the 110% value.

- Interest cover of 105% would be required. This relates to the income from rents which would repay the loan and would need to be at 105% to take account of bad debt, voids etc to minimise the risk of non-repayment.
- RP pays legal costs

The Housing Sub Group of the LEP is also keen to promote a sub regional approach to securing additional delivery of housing across Cheshire & Warrington. They are particularly concerned with the economic impact of continued low build rates. Consequently it is likely that further research will be commissioned to understand and overcome problems in the sub region. The LEP are also considering a sub regional event for Councillors to highlight the issue.

**12.5 Government Initiatives** – The Government have announced a number of initiatives to try and stimulate the market including “Get Britain Building” which will provide support to building firms in need of development finance to unlock stalled sites which have planning permission for market housing. The Growing Places fund has been launched with the aim of supporting specific growth sites where infrastructure is a key barrier to new development. Both are loans which are repayable at certain points within the development programme. Freeing up public sector land and land auctions are approaches to utilise land in order to bring forward development. We need to take advantage of any initiatives which are proposed by the Government and therefore it is essential that we develop through the local Investment Agreement an established working relationship with the Homes and Communities Agency as well as with Developers who are struggling to deliver stalled sites. Experience also demonstrates that there has been some very tight timescales in relation to Government initiatives and the criteria can sometimes be onerous, therefore we need to work with Developers and assist them through the process.

There are currently 25 sites which have extant planning permissions and have not progressed due to a variety of reasons including the owner submitting new planning applications, change of use, wishing to sell the site or problems with the site.

## **14.0 Access to Information**

The background papers relating to this report can be inspected by contacting the report writer:

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Email: Karen.carsberg@cheshireeast.gov.uk

## APPENDIX 1.

# THE HOUSING CHALLENGE PROGRAMME PROSPECTUS

### **1. Introduction**

Cheshire East launched its Housing Strategy “Moving Forward” in 2011 which outlined our strategic priorities and approaches, one of which is to increase the supply of both market and affordable housing.

The demand for housing is increasing, driven predominately by demographic changes and the decline in housing development. Within the current economic climate the ability to deliver both market and affordable housing presents a significant challenge for Cheshire East, therefore the authority has taken the strategic decision to invest financial resources into a programme with the aim of bringing forward an additional supply of both market and affordable homes.

### **2. Objectives**

The objective is to unlock stalled development sites with planning permission or to bring forward additional affordable housing which do not have an allocation through the Homes and Communities affordable housing programme.

### **3. Type of funding available**

Grants – up to £150,000 where the applicant can demonstrate that the scheme would not be delivered by December 2014 without a financial injection.

For the financial year 2012/13 Cheshire East have allocated £1 million for the initiative.

Please note: It is the responsibility of the applicant to demonstrate that their application is State Aid compliant.

### **4. Decision making process**

Priority will be given to developments which will meet local housing needs and which can demonstrate value for money.

### **5. Eligibility Criteria**

- Private Sector organisations or Social Registered Landlords

- The land must be either in the applicants ownership (freehold) or long lease (over 100 years)
- Planning permission has already been granted on the development. (Preference will be given to those sites that have full detailed planning consent).
- The development can commence within 6 months of receipt of grant/loan and complete by December 2014.
- On larger development programmes the scheme must include affordable housing at a level outlined within with the Cheshire East Interim Affordable Housing Programme.
- Preference will be given to those sites that will deliver early completions.

## **6. Demonstrating value for money**

- Value for money will be demonstrated by assessing the number of units to be developed divided by the grant applied for. This will provide a unit cost that can be used to compare applications.

## **7. Financial Assessment**

During the assessment process Cheshire East will want to assess the financial position of schemes to ensure that:

- We can understand and consider the financial risks associated with the project.
- Establish why the funding is required.

Cheshire East will therefore expect a financial plan which outlines all the funding and the financial standing of the bidding organisations.

## **8. Additional evidence**

Cheshire East will expect the following documentation to be supplied with the application.

- Evidence of planning permission
- Layout plan
- Scheme drawings
- Project Plan outlining key tasks including start on site
- Certificate of title

## **9. Bidding Process**

The Bidding process will be as follows:

- Cheshire East will advertise the funding programme between August and September 2012.
- Bids will be accepted by Cheshire East between October and November 2012.
- Evaluation of bids will take place in December 2012.
- Successful bids will be announced in January 2013.
- Contracts will be signed and funding will be allocated in January/February 2013.
- Start on site.

Completion December 2014.