

CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting:	23 rd February 2016
Report of:	Executive Director of Economic Growth & Prosperity
Subject/Title:	Starter Homes
Portfolio Holder:	Councillor A. Arnold, Housing and Planning

1. Report Summary

- 1.1 Cheshire East are committed to providing appropriate housing solutions for our residents, part of which is ensuring that first time buyers have the ability to access the housing market. It is an ambition we share with the Government and one which David Cameron is personally championing. In December 2014 the Government announced its intention to consult on proposals to reform planning to support the development of 100,000 new high quality, Starter Homes for first time buyers.
- 1.2 The aim of the Government's policy is to advance equality of opportunity and to help prospective homeowners who are in the age group which has been disproportionately affected by the rise in the house price to earnings ratio over the last 20 years.
- 1.3 In August 2015 the Government announced a one-off £36 million funding package to help deliver the first wave of Starter Homes and on 12th October the Government released the prospectus. It was open to Councils across England and gave them the opportunity to bid for a share of £10 million of capital grant funding. The aim of the funding is to assist Councils to bring forward additional land which has not previously been considered for housing and make it viable for Starter Homes, by helping to fund preparation and site clearance work.
- 1.4 Cheshire East took advantage of the opportunity to put forward a bid for two sites in the local authority's ownership which had previously not been considered for residential use. On the 16th December 2015 notification was received that retrospective grant was to be made available to Cheshire East to undertake site investigation, survey, remediation and demolition works, which had to be undertaken and claimed by the 31st March 2016. Due to the time constraints Cheshire East would only be in a position to procure site investigation and ecology surveys.
- 1.5 This is an exciting opportunity for Cheshire East to demonstrate our commitment to deliver a Government priority, which could have the potential to strengthen our working relationships with them and position ourselves for future projects. It also provides an opportunity for the authority to use its land

assets to help local first time buyers to access the housing market and it also has the potential to provide construction opportunities for Small and Medium Sized Enterprises (SME).

2. Recommendations

- 2.1. To approve the Council's bid to the Homes and Communities Agency for the Starter Homes grant funding.
- 2.2. To grant approval to the Executive Director of Economic Growth & Prosperity to enter into the funding agreement with the Homes and Communities Agency in order to access grant funding to procure site investigations and ecology surveys.
- 2.3. To approve the commissioning of Engine of the North to undertake the pre development investigations to enable a delivery strategy to be developed.
- 2.4. To grant approval to the Section 151 Officer to confirm to the Homes and Communities Agency that Cheshire East have the resources to fund any viability gap and to use such resources to ensure that the Starter Homes Development is achieved in accordance with the agreement.

3. Other Options Considered

- 3.1. Cheshire East could take the decision not to enter into the Homes and Communities Agency agreement, but continue to show our commitment to the initiative by undertaking the site investigation work via Engine of the North. The results of the site investigation would then determine if the site is a viable option. If we pursue this route then the Council could not take the opportunity to be reimbursed for the expenditure incurred for the site investigation work.
- 3.2. Cheshire East could take the decision not to progress the Browning Street site, but this could have reputational issues with both the Homes and Communities Agency and the Department for Communities and Local Government (DCLG)

4. Reasons for Recommendations

- 4.1. The Local Plan creates a vision for the future which is to deliver jobs-led growth and sustainable vibrant communities. Affordable housing in Cheshire East plays a fundamental role in realising this ambition. Access to affordable housing creates balanced, sustainable communities whilst driving superior health and well-being for modest-income households. Moreover, it provides the vital impetus for economic activity and aspiration. The provision of affordable housing can stimulate spending and governmental yields, and crucially equips an area with the long-term capacity for labour and economic fluidity that will attract and develop business.
- 4.2. As such, Cheshire East has a robust strategy to appropriately grow our provision of affordable housing options, underpinned by a number of innovative policies. This will ensure that the housing composition in Cheshire

East has the diversity to cater for every element of society and engage the entire community in a mutual drive for greater prosperity.

- 4.3. Across Cheshire East affordability is an issue, residents are struggling to access the housing market. In Cheshire East the average lower quartile house price, which is the usual access point for first time buyers, is £122,500. Average lower quartile incomes are £18,559 which represents 6.6 times income levels in order to purchase a property. Starter Homes whilst currently not under the definition of affordable housing represents an opportunity for first time buyers to access the home ownership as the product is sold at a 20% discount.

5. Background/Chronology

5.1 The definition of a Starter Home is:

- A new dwelling
- Is available for purchase by qualifying first time buyers only (under the age of 40)
- Is to be sold at a discount of at least 20% of the market value,
- Is to be sold for less than the price cap (Greater London £450,000, Outside Greater London £250,000)
- Is subject to any restrictions on sale or letting specified in regulations made by the Secretary of State.

- 5.2 Starter Homes are included within the Housing and Planning Bill which is currently making its way through the House of Lords having had its second reading on the 26th January 2016. The Bill places a general duty on all planning authorities to promote the supply of Starter Homes, and provides a specific duty, which will be clarified in later regulations, to require a certain number or proportion of Starter Homes on development sites.

- 5.3 Under the current National Planning Policy Framework Starter Homes do not come under the definition of “affordable homes” and therefore there is no current requirement to accept these as part of the affordable housing requirement, however it is encouraged by Government. This does not preclude local authorities from bringing forward Starter Homes opportunities in addition to those presented for affordable housing.

- 5.4 The starter homes initiative is clearly a major government priority and they have demonstrated this by providing significant funding in the spending review as well as proposing significant changes to planning legislation and guidance to support its development. Cheshire East is in a good position to

take forward the opportunities that this presents and provide housing provision for our first time buyers.

- 5.5 Following the release of the Government prospectus, Cheshire East took advantage of the opportunity to put forward a bid for two sites in the local authorities ownership which had previously not been considered for residential use. Following submission, we have withdrawn one of the sites due to identified abnormalities on the site which would make it undeliverable for residential use. We are seeking approval to progress with the remaining site which will enable us to demonstrate our commitment to the Starter Homes initiative to Government.
- 5.6 The appropriate approval route has been considered and due to the terms of the agreement it is felt that a Cabinet decision is required. This is due to the fact that entering into the agreement will legally bind the authority to deliver the Starter Homes Development within the specified time frame, which could open the authority up to an unknown cost at this stage in the process. There is the a further requirement for the Section 151 Officer to provide an unequivocal statement that in the event that there is a viability gap, the Council has sufficient resources to fund the gap and that it will use such resources to ensure the Starter Homes Development is achieved in accordance with the agreement. The current viability gap has been identified as £76,000 as outlined within the financial section, but this could be reduced with an increase of properties on the site.
- 5.7 The grant agreement relates to 4 Starter Homes being developed on a former car park in Browning Site, Crewe, which has been declared surplus. It is estimated that the site could accommodate additional units, but this can only be determined following site investigation.
- 5.8 The Council will commission Engine of the North (EOTN) to undertake the pre-development work.

6. Wards Affected and Local Ward Members

Crewe Central – Councillor Irene Faseyi

7. Implications of Recommendation

7.1. Policy Implications

- 7.1.1. In March 2015 the Government published the response to their consultation on Planning reform to include Starter Homes and announced changes to national planning policy, which requires local planning authorities to work in a positive and proactive way with landowners and developers to secure a supply of sites suitable for housing for first time buyers. Local Authorities are required to look for opportunities to create high quality, well designed starter

homes through exception sites on commercial and industrial land that is either under-used or unviable in its current or former use, and which has not currently been identified for housing.

- 7.1.2. Whilst Starter Homes do not currently come under the definition of affordable homes, the expectation is that following the enactment of the Housing and Planning Bill, we will see further amendments to the National Planning Policy Framework which it likely to amend the definition of affordable homes to include Starter Homes.

7.2. Legal Implications

- 7.2.1 The Homes and Communities Agency agreement will open the Council up to a number of potentially significant risks. The Funding is conditional on the “Milestones” being achieved. The Funding is for the very start of the Programme but the Milestones go all the way to the practical completion of the Starter Homes by 31st March 2019. So if any of these are missed, CEC will be in breach of the Agreement and liable to repay the Funding, which if drawn down would be £45,000 plus administration fees.
- 7.2.2. The Agreement is onerous as it makes the Funding conditional on the delivery on successful delivery of the units and on time. Consideration has to be given to the potential risk of being able to deliver the site successfully as things do go wrong and this would enable the HCA to clawback the Funding
- 7.2.3. Most significantly the HCA could enforce the part of the agreement that compels the Council to build out the site irrespective of the cost to the Council (rather than claw back the Funding). This would be the case even if the Council decides not to draw down the Funding. As the agreement is worded, only the HCA have the ability to terminate the agreement and they could choose not to do this.
- 7.2.4. The Funding Pre-Conditions (at Schedule 4) contain a “Viability Gap” paragraph at 1.4. This is essentially a guarantee by CEC that it will fund the preparation of the site if the funding is not sufficient. If no environmental studies have been carried out this could be a very expensive blank cheque. For example, if CEC start site investigations and serious contamination is found, CEC will be obliged to remediate this problem. This sort of remediation work can be very expensive; Prior to entering into the agreement the Section 151 has to provide in writing an unequivocal statement that, in the event that there is a Viability Gap the Council has sufficient resources to fund the Viability Gap and that those resources will be used to ensure that the programme is achieved. As set out above this guarantee in effect not only covers the Viability Gap but also any unforeseen costs required to ensure that the Programme is achieved (i.e. that the site is built out).

7.3. Financial Implications

- 7.3.1. The financial figures submitted to the Homes and Communities Agency are outlined below, however these figures are based on estimates prior to any site investigation taking place. Whilst the HCA offered £105,000 in grant, in reality due to the time constraints we will only be able to contractually engage a contractor to undertake the site investigation and ecological works, which increases the viability gap from £16,000 to £76,000. There is currently no capital allocation to undertake the development activity, as the delivery route will be determined following completion of site investigation. Under the terms of the HCA agreement the S151 Officer has to confirm that the Council will fund any viability gap, which could be under or above the figures outlined.

Costs based on the development of 4 units	
Overall development costs	£533,000
Overall Gross Development Value (GDV)	£412,000
Land Value (negative; i.e land development cost)	-£121,000
Available DCLG funding	£105,000
Potential Viability Gap	-£16,000
Due to time constraints we are only likely to be able to claim site investigation and ecological surveys	£45,000
Minimum likely funding gap – potentially to be mitigated by increasing the number of units on site	-£76,000

- 7.3.2. Engine of the North will be directly commissioned to undertake the pre development work; and the costs will be covered by virement from capital scheme budgets within the Council's land development programme for housing and jobs.
- 7.3.3. Once site investigations are completed and a planning application is prepared (including an assessment of the site's capacity) a decision will need to be made about whether to develop this site through EOTN or whether a disposal is more appropriate. If the site is to be direct developed, a further capital funding bid will be required in due course to cover the cost of development, which is currently estimated at £412,000 (excluding pre development costs). Following Site Investigation if the project does not progress due to viability then the pre development costs will need to be written off to revenue.

- 7.3.4. Cheshire East can elect not to draw down the funding from the HCA or if claimed have the ability to repay it if it is felt after site investigation that the scheme is not financially viable due to abnormalities. If doing so the Council will have to be mindful that under the terms of the Agreement as stated in 7.2.3 the HCA could compel the Council to build out the site and incur the costs of the same.

7.4. Equality Implications

- 7.4.1. This scheme is only available to first time buyers under the age of 40, and therefore will exclude residents who do not fall within these eligibility criteria.

7.5. Rural Community Implications

- 7.5.1. No implications at this stage, however there is the potential to provide Starter Homes within some of our rural communities in the future, as access to affordable homes in our rural communities is increasing becoming an issue. Some residents are priced out of the communities in which they reside and are forced to seek more affordable homes in other areas.

7.6. Human Resources Implications

- 7.6.1. No identified implications at this stage. Engine of the North will be commissioned to undertake the initial pre development work. If the Council elect to pursue further opportunities to develop Starter Homes then additional skills and resources may be required.

7.7. Public Health Implications

- 7.7.1. The provision of decent accommodation can have significant health benefits for residents. Poor housing can impact on a persons mental and physical health.

7.8. Other Implications (Please Specify)

- 7.8.1. None identified

8. Risk Management

- 8.1. It was a condition of this grant funding stream that the sites included in the bid could not have been previously considered for housing, so very little due diligence has been carried out on this site. Therefore, it is impossible to assess the significance of this risk at present both in terms of scale and likelihood.
- 8.2 As outlined within the legal implications the agreement opens the Council up to risk. These risks have to be considered and one risk is that if we enter into the agreement but do not feel after site investigations that the site is financially viable then we will have to repay any funding which has been drawn down plus administration fees. This could equate to £45,000 plus admin fees. The most significant risk is that the Homes and Communities Agency could hold the council to the terms of the agreement which could result in the authority having to fund remediation works, cover any viability gaps and ultimately build out the site at the Council's cost rather than repay the funding.

9. Access to Information/Bibliography

9.1. N/A

10. Contact Information

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