

# Cheshire East Council

## Cabinet

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| <b>Date of Meeting:</b>  | 8 <sup>th</sup> November 2016              |
| <b>Report of:</b>        | Executive Director of Place                |
| <b>Subject/Title:</b>    | Housing Development Fund                   |
| <b>Portfolio Holder:</b> | Councillor A. Arnold, Housing and Planning |

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### 1. Report Summary

- 1.1 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 and contributes towards our five Residents First Outcomes. Affordable housing creates balanced, sustainable communities whilst driving forward improved health and well-being outcomes for modest-income households. Moreover, it provides the vital impetus for economic activity and raising aspirations. The provision of affordable housing equips an area with the long-term capacity for labour and economic fluidity that will attract and develop business growth.
- 1.2 Furthermore the inability to secure appropriate affordable housing can have a detrimental impact on our residents' lives, affecting their health and wellbeing and their children's ability to attain their educational ambitions.
- 1.3 Cheshire East has always explored and implemented initiatives to stimulate affordable housing growth. We have previously allocated sites within our ownership specifically for the provision of affordable housing and also allocated grant funding which has enabled us to work in partnership with Registered Providers and Developers to bring forward further supply. Through our initiatives we have facilitated the development of 77 additional affordable homes, with a further 41 either on site or due to commence shortly. These new homes have provided much needed rented accommodation for those who are not able to access home ownership.
- 1.4 We rely heavily on Registered Providers to provide us with affordable homes through their own development activity or through acquiring units secured through the planning process. The housing environment in which they are now operating in has changed and will continue to change significantly.
- 1.5 Government policy is now very much focused on home ownership. We have seen the introduction of Starter Homes and the withdrawal of subsidy for affordable rental units. The only subsidy available via the National Affordable

Housing Programme is for shared ownership and rent to buy products. This will limit the number of homes Registered Providers will be able to provide for rent.

- 1.6 The Council could take the decision not to provide any form of intervention and leave it to the market to address housing need. However market failure would have both financial and social implications for us, as outlined below.
- 1.7 Our social housing waiting list is currently managed at a level just below 7,000. On average we receive 517 new applications on a monthly basis. With a reduction in the level of rental units, there is the potential for the housing waiting list to increase, as we struggle to address need. This is likely to result in an increase in both families and single people presenting as homelessness.
- 1.8 We are already seeing a shortage in rental provision for single applicants and this is impacting on our ability to secure suitable accommodation for some of our Care Leavers and with our Corporate Parenting responsibility this is something which we cannot ignore.
- 1.9 The Housing Options team currently focus on preventing homelessness and use rented social housing as a mechanism to securing a home before a crisis situation occurs. This will become increasingly difficult and put pressure on the homelessness team if the level of rented provision declines. Research undertaken by Heriot-Watt University in 2007 demonstrated that the cost of taking a household through the homelessness route was £5,300 in comparison to an average of £826 per prevention. It is therefore more cost effective to be able to prevent someone from becoming homeless as opposed to them presenting in a crisis situation.
- 1.10 Bed and Breakfast costs are also likely to increase. With current expenditure at just under £100,000, we could see this rise significantly. Cheshire East can only recoup a percentage of this back through Central Government. For example the average Bed and Breakfast cost is £50 per night (£350.00 per week) however we are only able to claim the one bedroomed rate which in Crewe would be £90 per week, leaving a shortfall of £260 per week for the local authority to find.
- 1.11 It is crucial that we continue to explore ways in which to increase the level of rented accommodation across the authority. We currently have a development fund (formally the Housing Innovation Fund) in place which we have used to bring forward additional affordable housing. We are proposing to refocus the fund to enable the authority to utilise it for their own development activity and enable us to provide subsidy to Registered Providers or Developers to bring forward much needed rental provision.
- 1.12 The first year's allocation has been committed but we are now in a position to allocate a further £500,000. The revised policy (Appendix One) incorporates the following proposed changes:

- The ability for Cheshire East Council to access the funding in the first instance to progress Council-led affordable housing schemes before going out for expressions of interest to Registered Providers and Developers.
- That the Council may invite Expressions of Interest within the financial year in order for Registered Providers and Developers to apply for funding which will be considered against the criteria of the policy.
- Funding will only be allocated for schemes which will bring forward rental units as other funding is available for home ownership products.

## **2. Recommendation**

- 2.1 To approve the changes to the process for allocation as outlined in Appendix 1 in order to enable the allocation of the £500,000 already provided for within the capital programme.
- 2.2 To note that we will continue to use of the Right to Buy capital receipts to fund the rolling Housing Development Programme for the provision of affordable housing, with a maximum level of funding of £500,000 per annum or less dependent on the value of the actual capital receipts received in the previous financial year. This will be reviewed as part of the annual Budget Setting process.
- 2.3 To delegate authority to the Executive Director of Place in consultation with the Portfolio Holder for Housing and Planning to approve all grant allocations and enter into grant agreements with the recipients of funding in accordance with the policy and to make any future minor amendments to the policy.

## **3. Other Options Considered**

- 3.1. To withdraw the allocation of funding, however this would not demonstrate a commitment by the authority to assist in the development of affordable housing. With the reduction in subsidy available for rental units and the introduction of Starter Homes which will reduce the levels of affordable rented provision available through Section 106 agreements, this fund could provide much needed subsidy to bring forward rented provision.

## **4. Reasons for Recommendation**

- 4.1 Cheshire East Council need to facilitate the development of a range of housing types and tenures in order to meet the needs of our diverse community and ensure that residents have access to affordable, decent accommodation. There is a housing need for both intermediate products to assist residents into home ownership as well as rented provision.
- 4.2 The Housing and Planning Act 2016 has introduced Starter Homes as part of affordable housing provision. Whilst we have not yet received the technical details, it is expected that local authorities will need to allocate 20% of their affordable housing requirement to Starter Homes. This will require a revision of our current policy and will result in a reduction of rented provision through the Section 106 route.

- 4.3 The National Affordable Housing Programme is the mechanism in which Registered Providers can apply for subsidy from the Homes and Communities Agency (HCA) to assist them in their development activity. The new prospectus released recently is focused on the Government's ambition to promote homeownership and withdraws the subsidy for affordable rental units. The only subsidy now available is for shared ownership and rent to buy products. Whilst there is a need for options to assist residents into homeownership there is also a need to provide accommodation for those who will never be able to access home ownership due to low wages, insecurity of employment, poor credit histories or preference.
- 4.4 Prior to the allocation of funding to Registered Providers and Developers the Strategic Housing Service will consider council led initiatives for the development of affordable housing. Cheshire East Council has an ambition for growth and we are continually exploring new innovative ways in which to stimulate growth. Recent approval through the capital programme budget setting process has provided the opportunity to pilot the development of homes by the local authority. Through Engine of the North a scheme of family homes will be developed using modern methods of construction. If similar schemes come forward then the Housing Development Fund along with Section 106 contributions could help to fund future developments.
- 4.5 Access to housing in some areas is limited due to land availability. The Housing Innovation Fund can provide funding to purchase brownfield sites, which are not attractive to larger developers, in order to convert to residential use. This could provide further opportunities to take a scheme forward for residential development.

## **5 Background/Chronology**

- 5.1 Cabinet received a report in July 2014, which outlined two policies aimed at increasing the development of affordable housing. One of the policies focused around the utilisation of receipts from right to buy sales to reinvest in the development of affordable homes, following requests from Registered Providers to retain right to buy receipts. An annual allocation was agreed by Cabinet up to a maximum of £500k to demonstrate our commitment to Registered Providers and Developers to invest in affordable housing.
- 5.2 The Housing Innovation Fund was launched at the end of 2014, with a closing date for bids at the end of January 2015. 6 bids were received and evaluated, which resulted in four bids being awarded funding on a payment on completion basis. These projects are due for completion in 2017.
- 5.3 The uncertainty around housing delivery has led to the council reassessing the scheme. In particular it is felt that council led initiatives should be considered before any allocations to Registered Providers and Developers as we have more control over the process and can ensure that the funding is spent within the necessary timeframes or can be reallocated quickly.

5.4 The Strategic Housing Service are continuing to explore ways in which to increase the provision of affordable housing products and since the approval of the original scheme criteria, we are now working to bring forward two rural exception sites. We are piloting modern methods of construction and through the capital programme have been allocated a capital sum to develop volumetric housing for sale on an equity share basis. The Housing Development Fund can provide additional funding to contribute towards these new schemes and could also fund the acquisition of land to bring forward further provision. Consideration can also be given to the development of rental properties.

5.5 In April 2016 the HCA released the new prospectus “Shared Ownership and Affordable Homes Programme 2016-2021” which replaced the National Affordable Housing Programme. The new prospectus outlined the Government’s ambition to help residents into home ownership. The funding is therefore focused on bringing forward shared ownership and rent to buy units. Whilst there is a need for these products, there is no longer any subsidy for rental units. With the introduction of Starter Homes we will see a reduction in the level of rental units provided through Section 106 agreements and direct development by Registered Providers. With a waiting list of just under 7,000 it is essential that we explore all avenues to increase the level of rental provision. Through the Housing Development Fund we have the ability to offer subsidy to Registered Providers and Developers in order to enable them to develop rental units.

## **6 Wards Affected and Local Ward Members**

6.1 All Wards

## **7 Implications of Recommendation**

### **7.1 Policy Implications**

7.1.1 The housing offer in Cheshire East Housing is fundamental to the wellbeing and prosperity of the Borough, contributing towards the quality of Place. There are direct connections between the quality of the housing stock and health, educational attainment, carbon reduction and care for older people. Providing sufficient affordable housing of good quality is essential to maintain economic growth and vitality.

7.1.2 Housing is intrinsically connected to a range of strategic priorities emanating from national directives and Cheshire East’s strategic and service initiatives including the Local Plan Core Strategy, Cheshire East’s Business Plan and the Housing Strategy.

### **7.2 Legal Implications**

7.2.1 When awarding grants the Council must satisfy its public law duties. In essence this means that in making the decision the Council must have taken into account only relevant considerations, followed procedural requirements, acted for proper motives and not acted unreasonably. A grant policy is a clear

statement of the criteria that the Council is applying and is essential if the Council is to defend any challenge to its decision making process.

- 7.2.2 The proposed policy for the allocation of capital receipts for affordable housing provision deals with the allocation of grants awarded to Registered Providers and Developers against a set criteria. The proposed policy includes a requirement that the recipients of grant funding enter into grant agreements with the Council which will include provisions which enable the payments to be phased and use of funding to be monitored. Conditions can be imposed requiring that the recipient report back to the Council upon expenditure of the grant, however this scheme is based on payment on completion. The Grant funding process based on the application of the Council's grant policy satisfies the Council's public law duties and reduces the risk of challenge.
- 7.2.3 State Aid may apply if grant funding is awarded over the State Aid threshold and other than at market comparable rates.
- 7.2.4 State Aid 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). State Aid qualifying for approval via a block exemption or prior-approved national framework scheme may be implemented immediately on the basis that the benefit of the grant or loan funding will be used by the Registered Providers for the purposes of fulfilling their statutory duty, namely the delivery of social housing, it is believed that the aid is automatically legitimate without any need for prior notification on the basis of Article 2.1(b) of the European Commission's 2005 "block exemption" decision in respect of services of general economic interest (SGEI).

### **7.3 Financial Implications**

- 7.3.1 Approval was previously given for a maximum annual capital allocation of £500,000 or less dependent on the value of the Right to Buy capital receipts received. This will be reviewed on an annual basis as part of the annual budget setting process.
- 7.3.2 The allocation is supported from income derived from Right to Buy (RTB) receipts which are pooled centrally in the capital reserve. The RTB receipts are received annually by Cheshire East Council from the three Registered Providers – Peaks & Plains Housing Trust, Plus Dane Group and Wulvern Housing.
- 7.3.3 The RTB receipts are shared in accordance with the original transfer agreement and take account of net income foregone, i.e., the amount of money the Registered Providers will lose due to the loss of rent from the property.

- 7.3.4 Under the Council's Capital Receipts Policy, all receipts are pooled centrally in the capital reserve and are fully allocated in line with corporate priorities as part of the overall development of the capital programme.

#### **7.4 Equality Implications**

- 7.4.1 There are positive equality implications. The aim of the project is to provide affordable housing provision, including rental and products to support residents into home ownership.
- 7.4.2 Both rental and home ownership products have a clear criteria for allocation.

#### **7.5 Rural Community Implications**

- 7.5.1 Access to affordable homes in our rural communities is increasingly 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. The provision of affordable housing will provide an opportunity for residents within rural communities to reside within an area of their choice.

#### **7.6 Human Resources Implications**

- 7.6.1 There are no identified implications at this stage. Engine of the North will be commissioned to undertake any Local Authority lead development and their costs will be covered by the Housing Innovation Fund. Consideration will need to be given to required legal, finance and Planning support.

#### **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 person's mental and physical health.

#### **7.8 Other Implications (Please Specify)**

- 7.8.1 None Identified.

### **8 Risk Management**

- 8.1 N/A

## 9      **Contact Information**

Contact details for this report are as follows:

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