

## **Affordable housing delivery 2018/19**

### **Purpose**

- 1.1 Regeneration and Housing Scrutiny Committee has asked for a report into the provision of affordable housing in the City.
- 1.2 The report outlines the principal issues affecting the provision of affordable Housing and actions being taken to increase affordable housing development in future years.

### **Recommendation**

- 2.1 To note the report.

### **Reason**

- 3.1 To ensure that Regeneration and Housing Scrutiny Committee is briefed on the issues relating to the provision of affordable housing within the City and has the opportunity to comment on the measures being taken to increase provision.

### **Supporting information**

- 4.1 The National Planning Policy Framework (NPPF) 2018 issued by Government defines Affordable Housing as:

*Affordable housing: housing for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers);.....*

- 4.2 The NPPF goes on to identify and define the following types of affordable housing:
  - Affordable Housing for rent
  - Affordable Private Rent
  - Starter Homes
  - Discounted Market Sale
  - Other affordable routes to ownership ie Shared Ownership.

- 4.3 The Council maintains a pipeline of sites where affordable housing will be delivered and uses this information to forecast delivery over a 3 year period. The forecast is based on discussions with developers, Registered Provider (RP) partners, planning officers and particularly Derby Homes.
- 4.4 In Derby, previous studies have indicated that the highest levels of need exist for affordable rented accommodation. This type of housing also meets the housing needs of the most vulnerable in society and is the least likely type of affordable housing to be provided without a level of subsidy. For this reason the Council's new build and acquisition programme concentrates on the delivery of affordable rented accommodation although small numbers of shared ownership homes are also provided.
- 4.5 The principle means for new affordable housing delivery across the City by a range of partners are highlighted below:
- Planning obligations via S106 agreements on larger housing development sites where a percentage of the new homes must be affordable subject to viability. These are predominantly provided through RP partners.
  - In house development by a RP usually incorporating grant from Homes England
  - In-house development of new affordable homes by the Council or its Arm's Length Management Organisation, Derby Homes (DH).
  - Acquisition of existing properties from the open market typically by the Council.
  - Purchase of new build properties by either the Council or a partner Housing Association, through a Development Agreement with a private developer
  - Low cost home ownership homes provider by a private housebuilder.
- 4.6 **Delivery through section 106 agreements (planning gain)**  
The vast majority of new affordable homes that are secured through S106 planning obligations are delivered by RP partners. It is a deliberate strategy employed by the Council not to compete with RPs on S106 sites to ensure that RPs will use their resources to invest in the City where it is financially viable for them to do so. This leaves the Council and Derby Homes to focus predominantly on sites that are less financially viable and would be unlikely to be delivered by other partners and the market generally.
- 4.7 On rare occasions the Council or Derby Homes will invest on a S106 site, but only where there has been no interest from RP partners.
- 4.8 Historically, S106 sites have made a significant contribution to the overall number of affordable homes provided in the City. Provision through this route is however very largely dependant upon the buoyancy of the local and national housing market with high levels obviously being achieved when numerous sites are coming forward and with higher average sales prices increasing the viability of sites and the proportion of affordable housing that can be afforded.

#### 4.9 In house development by a RP Partner

RP partners do build affordable housing usually employing a contractor where they have secured grant funding from Homes England. These have historically been on sites that the RP has acquired but as the lack of land supply becomes an increasing issue in Derby, the numbers of homes delivered by partner RPs, on sites brought forward by themselves, has reduced in recent years.

#### 4.10 Development by Council/Derby Homes

The Council increases its supply of affordable homes through its own development programme. On larger schemes the Council will typically procure a contractor partner or use a development agreement with a development partner. The Council owned 80 home Extra Care scheme at Parkland View was delivered through such a development agreement and is subsequently managed by Derby Homes.

4.11 On smaller sites of up to 20 or 30 homes, the Council will normally use Derby Homes as the 'in house' contractor. The majority of the smaller sites are on Council land and are small and 'difficult to develop' and would be unlikely to be financially viable for RP partners. These small developments not only contribute homes that meet housing need, but often bring vacant parcels of land back into use that can often be a magnet for low level crime and anti-social behaviour.

4.12 Examples of schemes delivered or currently under construction by Derby Homes include 6 houses at the junction of Wood road and Wayfaring road, Chaddesden, 11 homes at Perth Street in Chaddesden and 2 homes at Richmond Road, Arboretum.

The means of provision for the affordable homes expected to be completed in 2018/19 are outlined in the table below:

<b>Delivery method</b>	<b>Number of homes by year end</b>
HRA new build	3
Derby Homes Build	6
S106	34
Acquisitions	33
New build development agreement	14
<b>Total</b>	<b>90</b>

#### 4.13 New Measures to increase affordable housing delivery.

The Council has introduced a number of new initiatives and programmes to increase the delivery of affordable housing. Strong partnerships with affordable housing providers, housebuilders and developers remain essential to all of these. These new measures include:

- Provision of RTB receipts to RPs to help fund their developments
- Purchase of new affordable housing through development agreements
- Purchase of new affordable housing through S106 'additionality'
- Purchase of new affordable housing 'off the shelf'

- 4.14 **Provision of RTB receipts to housing associations.**  
Cabinet has approved the payment of RTB receipts to Registered Providers to enable them to provide additional affordable housing giving us 100% nomination rights through our 'choice based lettings service', Homefinder. Current rules prevent the Council from allocating these to Derby Homes even though it too is a Registered Provider along with the Council. These rules are currently under review by central government.
- 4.15 To this end, Cabinet has recently agreed to part fund, through RTB receipts, the construction of new bungalows at the War Memorial Village, Allenton. In addition, negotiations are being finalised in relation to a second housing development on the edge of the City Centre.
- 4.16 **Purchase of new affordable housing through development agreements.**  
The Council continues to develop relationships with small to medium developers in the City, enabling us to enter into development agreements to purchase schemes that typically have planning permission, but have not commenced construction. We currently have such a scheme for 14 homes which is about to complete, with 2 more schemes at an advanced discussion stage.
- 4.17 **Purchase of new affordable housing through S106 additionality.**  
The Council has recently started to introduce a clause in S106 agreements which gives the Council an option to purchase additional affordable homes from developers on sites where viability issues prevented the full 30% affordable housing target from being achieved. This enables us to invest in additional affordable housing whilst not compromising the viability of a site for the developer, which may otherwise delay it's build-out. Cabinet has recently authorised the purchase of 20 homes at a site in Mickleover through this route.
- 4.18 In partnership with Derby Homes, the Council is also developing new approaches to increase its own supply of affordable homes as listed below;
- Acquisition of individual homes that are on the market
  - Purchasing and appropriating land for affordable housing development
  - Land banking for our future programme
  - Increasing new build rates and Council Capacity generally
  - Use of the reserves to support housing regeneration opportunities.
- 4.19 **Acquisition of individual homes that are on the market.**  
In order to increase our stock quickly and to use the RTB receipts that we have available, the Council has commenced a programme of individual acquisitions. This allows us to target house types that are in short supply within the existing stock such as 4 and 5 bed roomed houses. The programme does also include smaller house types that are considered to be in high demand.

#### 4.20 **Purchasing land for development.**

With the lifting of the debt cap, the HRA is now in a stronger position to acquire new development sites to be used for affordable housing purposes. The HRA has recently acquired the Aida Bliss site which is likely to have a capacity of 60-110 houses and apartments. Other land acquisitions are in the pipeline. Availability of funding is no longer the primary restraint on the delivery of new affordable homes. Availability of land and the ability to deliver new homes through the varied routes above on a financially sustainable basis – that is that the net rent (rent less expenses to manage and maintain) is sufficient to pay interest and repay loans over time – are the prime restraints.

#### 4.21 **Land banking for our future programme.**

The HRA can now afford to land bank sites that may not be developable in the short term, but which are likely to be developed in the future. The Beaufort Business Centre site in Derwent has recently been appropriated into the HRA utilising HRA funding. It cannot currently be developed because of flooding concerns, but will be suitable once later phases of the OCOR flood defence works are completed. The costs of demolition and making good can all be met in part through the use of RTB receipts at a rate of 30%.

#### 4.22 **Increasing Council capacity in services that facilitate development**

With the lifting of the debt cap and Government assurances in relation to future rent increases, we now have the funding and confidence to increase capacity for affordable housing development and acquisitions. We are exploring how the HRA and Derby Homes can support an increase in capacity in key areas across the Council that facilitate development. Key services involved in the development and acquisition of homes include Planning, Strategic Asset management and Estates, Legal, Finance and Strategic Housing.

#### 4.23 **Use of reserves to support housing regeneration opportunities**

We are also exploring the potential for a mixture of HRA and possibly Derby Homes reserves to support regeneration proposals. Such a model would enable both the Council and Derby Homes to take a key stake in regeneration schemes, ensuring that significant affordable housing is provided on sites with marginal viability, where a reduced level or no affordable housing would otherwise be achieved.

#### 4.24 **The provision of new affordable housing has a significant lead in period of usually between 18 months and two years. The additional financial freedoms provided by the lifting of the HRA debt cap has therefore yet to feed through into the number of affordable housing completions for 2018/19. It is projected that the benefit of these additional finances will begin to be realised in 2019/20 but because of the considerable lead in period for the construction of new homes, it is likely to be 2021/22 before the full benefit is achieved.**

### **Public/stakeholder engagement**

#### 5.1 N/A

## Other options

6.1 N/A

## Financial and value for money issues

7.1 The Housing Revenue Account (HRA) is the funding source for the provision of affordable housing. The HRA is a ring-fenced fund that replenishes itself from the rental income generated from HRA owned properties. The HRA requires long term management and is the subject of a 30 year business plan each year to ensure its long term viability. The recent change to the rules around the HRA referred to in paragraph 4.20, has removed the borrowing limitations for the fund which will allow for a significantly higher level of future investment if the availability of sites allows.

## Legal implications

8.1 As contained in the body of this report.

## Other significant implications

9.1 All the homes delivered through the different initiatives outlined in this report will be let to homeless people, or to people who are registered on the Council's Choice Based Lettings system.

9.2 All the new homes provided, generate New Homes Bonus and Council Tax income for the Council.

This report has been approved by the following people:

<b>Role</b>	<b>Name</b>	<b>Date of sign-off</b>
<b>Legal</b>	Olu Idowu	6 March 2019
<b>Finance</b>	Amanda Fletcher	7 March 2019
<b>Service Director(s)</b>	Greg Jennings	13 March 2019
<b>Report sponsor</b>	Greg Jennings	13 March 2019
<b>Other(s)</b>	Karen Brierley	6 March 2019
	Rosie Watson	8 March 2019
	David Enticott	8 March 2019