

Gloucester City Council

Meeting:	Cabinet	Date:	11th July 2018
Subject:	Delivery of Affordable Housing		
Report Of:	Cabinet Member for Planning and Housing Strategy		
Wards Affected:	All		
Key Decision:	Yes	Budget/Policy Framework:	Yes
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Appendices:	None		

1. Purpose of Report

- 1.1. The purpose of this Report is to provide a response to the following Motion approved by Council on 23rd November 2017:

“This council:

welcomes the announcement from the Prime Minister that the government will allocate £2bn to build additional homes for social or affordable rent;

agrees that it should work with partners to bid for a slice of the £2bn to build new homes for social or affordable rent in Gloucester;

further agrees that it should consider all options to facilitate the building of new affordable homes for rent within the City of Gloucester and it asks the cabinet member for housing and planning to prepare a report on how this can be best achieved, including reviewing any relevant measures contained within the Chancellor’s Autumn Budget;

welcomes the work by Gloucester City Homes and other registered providers to build new affordable homes in Gloucester;

welcomes the award of £1.25 million by the Homes and Communities Agency to Gloucester City Homes to begin masterplanning work on the regeneration of the Matson and Podsmead estates and resolves to work with all partners to deliver this ambitious project;

agrees to work with the city MP to seek his support in delivering more affordable housing in the city through promoting changes in legislation where necessary”.

2. Recommendations

2.1. Cabinet is asked to **RESOLVE** that:

- (1) the progress made in respect of funding bids made to Homes England be noted;
- (2) the Homes England investment secured by Registered Providers to deliver affordable housing in Gloucester be noted and welcomed;
- (3) the options being evaluated for inclusion in the City Plan to deliver the number of affordable homes required over the Joint Core Strategy plan period be noted, and;
- (4) the evaluation of a number of partnering models to deliver affordable homes be agreed.

3. Background and Key Issues

3.1. Prior to examining issues relating to the current delivery of affordable homes in Gloucester, it is perhaps worth setting this in context.

3.2. It is true to say that the housing market in Gloucester is more affordable than other areas of the County. The National Housing Federation's publication, Home Truths 2017, identified that when comparing mean house prices across each City and District, Gloucester is more affordable. See below for details.

Affordability of Housing in Gloucestershire Districts

	Average or mean House price	Mean Private Sector Rents	Average or Mean Earnings	Ratio of House Price to Incomes	Income required for 80% mortgage	% of HB claimants in employment	Long Term empty Homes
Cheltenham	£274,356	£780	£27,628	9.9%	£62,710	23	388
Cotswold	£382,104	£1024	£27,976	13.7%	£87,338	25	291
Forest of Dean	£213,284	£613	£25,199	8.5%	£48,751	21	534
Gloucester	£178,545	£573	£24,508	7.3%	£40,810	24	492
Stroud	£266,033	£722	£29,026	9.2%	£60,808	22	411
Tewkesbury	£261,229	£703	£26,099	10.0%	£29,709	25	210

Source: Hometruths 2017 (South West)

3.3 It is important to note that whilst the figures above relate to the average price for all homes, It is still possible to acquire a 2 bed property in Gloucester for approximately £100,000.

3.4 In 2016 the ratio between median house prices and median gross household (residence based) incomes was 6.59. This ratio has been on an upward trend since 2009 after falls due to the financial crisis.

3.5 However, as one of the key elements affecting affordability is the supply of homes for rent and sale, the continued supply of homes of all tenures remains a priority.

3.6 Cabinet will recall that the formation of Gloucester City Homes (GCH) followed a robust option appraisal looking at the best way to increase investment in the Council's housing stock and meet the decent homes standard. The appraisal examined several options including retention of ownership and management by the Council as well as a Large Scale Voluntary Transfer (LSVT).

- 3.7 In 2005 the then Office of The Deputy Prime Minister accepted GCH on to the Decent Homes programme and the Council subsequently agreed transfer of responsibility for management to GCH in accordance with the first Arms Length Management Organisation (ALMO) Delivery Plan. The overall approved Decent Homes funding allocation by Government was £38.646 million. The conditions of funding were linked to the Governments Comprehensive Spending review process and that Gloucester City Homes continued to provide good or excellent services.
- 3.8 Following completion of the Decent Homes Programme, the Council carried out a further options review, Housing Futures, and considered the option of a co-owned vehicle to deliver increased investment in stock and new housing. However the Treasury were not persuaded that the retention of housing debt by the Council for a further 30 years would enable the new housing Registered Provider, GCH, to be seen as truly independent of the Council. It would still be treated as a quasi-public organisation and therefore unable to borrow independently to meet the funding gap in the existing stock.
- 3.9 Therefore, officers recommended a more traditional LSVT and to facilitate this transfer the Government agreed a write off of £52 million of housing debt.
- 3.10 Following the positive tenants ballot in September 2014, where 89.1% of the 63.7% of the tenants who voted, were in favour of transfer, the Council started the legal process of negotiating the transfer of its housing stock to GCH. The Transfer Agreement was signed in March 2015 with GCH making a number of commitments to tenants and the Council regarding service standards, investment in the stock and building 25 new homes per year for the first 4 years.
- 3.11 The Motion approved by Council on 23rd November 2017 referenced a £2bn fund to build new, affordable homes. However, the Government has announced a number of funding streams via Homes England and these include:

Programme	Funding
Shared Ownership and Affordable Homes Programme 2016 to 2021 available through bidding to HE Investment Partners	£2.7bn
Home Building Fund – loans to SMEs to build homes	£3bn
Housing Infrastructure Fund - Grants to local authorities for strategic infrastructure that unlocks new housing	£2.3bn
Accelerated Construction Programme – investment to accelerated delivery of homes	£1.7bn

- 3.12 Gloucester has submitted proposals against a number of these programmes and has had some limited success. For example, £3m of Homes England investment was secured by Rooftop Housing for the Black Dog Way scheme in addition to investment at several other sites across the City including Greyfriars and St Aldates. Furthermore, loan finance of £4.8m was secured for the development of

Bakers Quay by Rokeby Merchant and £1.25m of estate regeneration funding was awarded to Gloucester City Homes for the master planning and development options for Matson and Podsmead.

- 3.13 Whilst we are still in negotiation with Homes England for Accelerated Construction Programme bids for St Oswalds and Kings Quarter, applications for Blackfriars, including the Prison, and Quayside have failed, This is due to the fact that the value for money assessments that inform the investment decisions taken by Homes England are less favourable for Gloucester than some other areas of England. The reason for this is that the relatively low property values that developers can expect in Gloucester means that a higher investment is required from Homes England to make the scheme viable. Therefore, the value for money per home is less.
- 3.14 Recent discussions with Homes England have included a meeting between the Leader of Gloucester City Council and Sir Edward Lister, Chairman of Homes England. In addition the Homes England Chief Executive, Nick Walkley, visited Gloucester at our invitation on 18th May 2018.
- 3.15 These meetings have re-enforced our view that Homes England remain a potential investment partner for future schemes across the City, particularly with Registered Providers, i.e. Housing Associations, acting as delivery partners. However, it is becoming increasingly clear that Gloucester will need to look at alternative options for the delivery of affordable homes as Homes England support and investment is likely to be limited for the foreseeable future
- 3.16 For the avoidance of doubt, the Ministry of Housing, Communities and Local government defines affordable housing as follows:

Affordable housing is social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. From April 2012 affordable housing is defined in the [National Planning Policy Framework](#) (prior to this the definitions in Planning Policy Statement 3 apply).

Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.

Social rented housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency.

Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80 per cent of the local market rent (including service charges, where applicable).

Intermediate housing is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing

definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing. Homes that do not meet the above definition of affordable housing, such as 'low cost market' housing, may not be considered as affordable housing for planning purposes.

4. **Establishing Gloucester's Affordable Housing Need**

- 4.1. Gloucester's affordable housing need has been established in the recently adopted Joint Core Strategy. Based on an affordability test where the cost of housing can constitute up to 35% of gross income and still be affordable, the following net annual requirement was identified:

Annual requirement for new housing Gloucester

No.s	Beds				Total	%
	1	2	3	4		
Market	53	135	171	104	463	70
Shared Ownership	9	6	8	7	30	5
Discount Home Ownership	6	3	4	2	15	2
Affordable rent	32	31	24	13	100	15
Social Rent	28	2	7	12	49	7

Source: Figure A2.2 SHMA Update Note 2015

- 4.2. In summary, the average number of new homes Gloucester requires on an annual basis is 657 of which 194 need to be affordable. During 2017/2018, 487 new homes were built in Gloucester of which, 64 ie 13% were affordable and of these, 41 were for rent.
- 4.3. Since 1990, the way in which affordable housing is delivered has been via Planning Obligations, also known as Section 106 agreements (based on that section of The 1990 Town & Country Planning Act). These are private agreements made between local authorities and developers and can be attached to a planning permission to make acceptable development which would otherwise be unacceptable in planning terms. The number and type of affordable homes required being shaped by the Local Plan, in our case, Policy SD12 of the Joint Core Strategy.
- 4.4. However, from 2012, the National Planning Policy Framework (NPPF) also invited developers to submit a Development Viability Assessment (DVA) that compares the total costs of the scheme, including profit, with the total value. Should the scheme prove to be unviable, i.e costs exceeding value, a case can be made for non policy compliant schemes i.e. fewer or no affordable homes
- 4.5. The model referenced in 4.1 above, also assumes that there will be significant 'churn' in the affordable housing stock with tenants moving on, for example, to home ownership. However, of the expected supply of over 1300 properties per year available to relet, in the past 3 years, an average of 390 relets per year were achieved via Homeseeker.
- 4.6. From 2006 to 2018, a total of 7336 new homes have been built in Gloucester of which, 1736 i.e. 23.6% are considered as affordable homes. This is clearly positive

although the figures do mask the fact that a high proportion of these properties are affordable for sale rather than for rent. In other words, developments are not providing the affordable homes in the proportions required in Gloucester and as evidenced in 4.1 above.

- 4.7. As previously discussed, many Section 106 sites have delivered less than these proportions with much of the shortfall made up by Housing Associations developing difficult sites and bringing forward 100% affordable housing schemes for examples the former Kwik Save site at Black Dog Way (95 homes) and the former Norville Factory Site (64 Homes). Both sites received significant public funding.
- 4.8. The recent Winnycroft Farm planning application whereby the developer successfully argued at Appeal that a scheme for 420 new homes was unviable with any affordable homes included, highlighted that developers can advance viability arguments even on greenfield sites.
- 4.9. Should this be the case on our JCS Strategic Allocation sites, working with partners to secure infrastructure funding and or affordable housing grant to ensure the right tenure mix is achieved will be vital.

5. Options

- 5.1. Given the constraints of a reduction in s106 affordable homes delivery and the evidenced difficult in securing Homes England funding, the Council has a reduced range of options available to it in order to address the supply of affordable homes. They can be broken down into the following key areas:
- 5.2. The use of **policy levers** and robust evidence to increase the delivery of affordable homes within the City. These include using the emerging City Plan to promote increases in the density of development both in policy terms and also through the revision of the Strategic Housing Land Availability Assessment. The City Plan also provides an opportunity for the City Council to lead by example in maximising the number of affordable homes on sites in it's ownership. Kings Quarter would be one such opportunity.
- 5.3. Notwithstanding the point made in respect of the availability of Homes England funding, work with **key partners** such as the Ministry of Housing Communities and Local Government (MHCLG) and GFirst Local Enterprise Partnership to promote development on priority sites in a timely fashion. .
- 5.4. Maximising the **use of public land and investment** to increase delivery of affordable housing through the use of **vehicles** such as Housing Companies and Joint Ventures. It needs to be acknowledged that the public land owner may be required to accept a reduced land receipt in order to deliver an SD12 policy compliant scheme. To this end, the Leader and Head of Place have recently had a productive meeting with a Housing Association that has a presence in Gloucester to explore mutually beneficial models.
- 5.5. It is worth noting that little capacity or expertise currently exists within Gloucester City Council to oversee the delivery of a **direct build and management** model.
- 5.6. Continue to work with partners to ensuring **empty properties** are brought back into use on a timely fashion, in particular sites or properties that are impacting on the city's regeneration.

5.7. Furthermore, the City Council will continue to work with **Richard Graham MP** to influence Housing Policy in Government in general and Homes England in particular to ensure that national initiatives meet the evidenced housing needs of the City.

6. **Asset Based Community Development (ABCD) Considerations**

6.1. The provision of the right housing in the right places that is affordable for the occupants will support active citizenship.

7. **Alternative Options Considered**

7.1. The report identifies a number of options available to the Council, each of which will be pursued.

8. **Reasons for Recommendations**

8.1. The reasons for the recommendations are that arrangement of approaches are needed to ensure with City is able to develop the housing it needs.

9. **Future Work and Conclusions**

9.1. The lack of generally affordable housing has been an issue nationally and in the City for sometime and is illustrated across a range of statistics.

9.2. Affordable housing and, in particular, affordable rented housing provides an affordable and secure accommodation for those in housing need but supply has not been in line with JCS requirements.

9.3. There are significant implications for the Council in terms of the cost of interim and emergency accommodation if the supply of Affordable Homes does not increase.

10. **Financial Implications**

10.1. All the options identified in the report and recommended to Cabinet may have financial implications for the Council.

10.2. Any recommendation that may be taken forward will require full detailed financial appraisal before being approved to ensure it is affordable. The business case for each option must identify the full expenditure and the financial benefits that will pay for that investment.

10.3. The use of public land and or development of a Housing Company or Joint Venture would have significant financial implications and any decision would require a detailed financial appraisal of cost and potential benefits

11. **Legal Implications**

11.1. Until specific sites and projects are identified, only outline legal implications can be given.

11.2. The legal status of any land the subject of a proposed disposal would have to be considered. In general, there is a legal obligation to obtain best consideration reasonably obtainable upon the disposal of a freehold interest, or the grant of a lease for more than 7 years. Disposals at less than market value require the consent of the Secretary of State. Depending on the legal status of the land, there may be General Consents available. However, if General Consents have not been issued, or if the proposed disposal does not meet the criteria of a General Consents, specific consent will have to be obtained.

- 11.3. Where the disposal is of public open space (an expression which includes buildings located on open space), prior to disposal a notice of the intention must be placed in the local press for 2 consecutive weeks, and any objections considered.
- 11.4. If the Council has decisive influence in a project then it will be subject to EU procurement obligations under the Public Contracts Regulations 2015. Alternatively, it could take a more arms-length approach and provide grant or loan funding. Conditions in the finance document (together with use restrictions in any lease) could control future public use, but the Council could not have decisive influence over the construction and layout of any proposed development (except through planning and building regulation control).
- 11.5. Where land is disposed at an under value by a local authority to a registered (housing) provider, it is deemed to be financial assistance to that provider. Section 24 of the Local Government and Housing Act 1989 permits this, but section 25 of that Act (and the consents granted thereunder) requires the imposition of certain conditions upon the transfer, for example, that the development must commence within 3 years of the date of the transfer.
- 11.6. If a disposal at under value is made, or a grant or loan at below market investor rates is provided, state aid implications have to be considered.
- 11.7. The report refers to considering the use of vehicles such as housing companies or joint ventures. There are numerous issues to be considered before deciding whether a local authority should be a part of a joint venture company so it is vital that the council has clear objectives, knows what it wants its role to be (e.g. delivery or enabling) and decides on its appetite for risk so that it can be established whether the aims can be achieved through existing powers or if it is necessary to establish a new vehicle. Examples of issues relate to; tax (VAT and corporation tax), state aid, staffing (TUPE and pensions), compliance with Companies Act legislation and regulations relating to 'local authority controlled companies', procurement of the JV partner, financing the company, risk share.

12. Risk & Opportunity Management Implications

- 12.1. The Key risks to the City Council in respect of the delivery of affordable homes are:
 - i. Planning Obligation S106 development model will not deliver sufficient affordable homes to meet evidenced need.
 - ii. Reduction in economic growth linked to lack of suitable housing and the resultant reduced business investment and productivity growth in the City.
 - iii. An increased pressure on temporary and emergency accommodation.

13. People Impact Assessment (PIA) and Safeguarding:

- 13.1. The PIA screening stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

14. Other Corporate Implications

Community Safety

- 14.1 Well managed affordable housing delivers and promotes safe and resilient communities.

Sustainability

- 14.2 The aim of the action plan is to create more sustainable and mixed communities.

Staffing & Trade Union

- 14.3 There are no staffing or trade union implications associated with this report

Background Documents: None