

## Agenda Item 8

<b>Executive Member</b>	Councillor Corinna Osborne-Patterson – Executive Member for Communities, Services and Housing		
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<b>Date</b>	27 March 2018		
<b>Ward (s) affected</b>	All	<b>Key Decision</b>	Yes
<b>Subject</b>	Affordable Housing - Alternative Methods of Delivery		
<p><b>Recommendations</b></p> <p>The Executive is asked to note that the delivery of affordable homes will remain at an average of 50 per year unless a new Local Plan is adopted releasing land for development and alternative delivery methods are considered where appropriate.</p> <p>The Executive is therefore asked to agree that:</p> <ol style="list-style-type: none"> <li>1. all Council assets considered for redevelopment are assessed for the inclusion of affordable homes</li> <li>2. the development of the new Local Plan gives regard to measures to maximise the delivery of affordable housing</li> <li>3. officers explore the feasibility of establishing a subsidiary of MOVA for the purposes of a housing company</li> <li>4. over the next 6 months, officers explore further opportunities with all appropriate, and interested, development partners with a view to establishing joint ventures for the development of affordable housing .</li> </ol>			
<p><b>Executive Summary</b></p> <p>The Affordable Housing Position Statement 2016 includes a specific action for the Council to consider alternative methods of delivering affordable housing, alongside continuing with the traditional delivery route through housing associations.</p> <p>The Statement identified that by continuing to use the traditional delivery route of affordable homes an average of 50 affordable homes per year will be developed. This level of performance has been assessed over a thirteen year period and informs the Council's current annual affordable housing target, which is also contained in the adopted 2009 Core Strategy.</p> <p>Increases in the average performance are unlikely to be achieved unless development sites are identified and released through the new Local Plan and/or the Council chooses to consider, alongside existing arrangements, different delivery models.</p> <p>This report considers how different types of delivery vehicles, such as housing</p>			

companies, joint ventures and partnerships could help the Council in delivering affordable homes.

The report sets out that it is those local authorities with significant land holdings that are generally the most successful developers of affordable housing. Whilst MVDC does not have an abundance of development assets, it does have a proactive approach and increasing experience in acquiring long term investment property under the Asset Investment Strategy. The fact that MVDC has established MOVA and has the infrastructure to operate that property company means that this can be built upon over time to actively enable an increase in the land supply for new homes, which could in turn be developed in partnership with others or through a housing company.

**Environment**

**A highly attractive area with housing that meets local need**

- Protect and enhance the natural and built environment and ensure our areas of natural beauty are well looked-after
- In consultation with the community, develop plans for how land is used in Mole Valley. We will set out proposals for residential, leisure, and commercial development, which balance residents’ needs with protection of the Green Belt
- Pursue policies that encourage the creation of affordable housing

The initiatives discussed in this report support the Council’s corporate priority to encourage the development of affordable housing. Critical to the ongoing delivery of affordable housing is the supply of sites that will be identified through the current Local Plan process.

**Prosperity**

**A vibrant local economy with thriving towns and villages**

The development of new affordable homes is critical to the Mole Valley urban and rural economy to ensure people on lower incomes, who live and work in Mole Valley, have access to homes in the area that they can afford

**Community Wellbeing**

**Active communities and support for those who need it**

- Improve opportunities for residents to live safe and healthy lives

The provision of good quality housing is essential for local residents to lead safe and healthy lives.

**The Executive has the authority to determine the Recommendations**

## **1. Introduction**

- 1.1 The Affordable Housing Position Statement 2016, includes a specific action to consider alternative methods of delivering affordable housing, alongside continuing with the traditional route through housing associations. It was also identified by the member working group on Affordable Housing in 2015, in the light of the 'Elphicke-House Report: From statutory provider to Housing Delivery Enabler: Review into the local authority role in housing supply' (2015) for the Department of Communities and Local Government.
- 1.2 The Statement identified that by continuing to use the traditional route of affordable homes delivery through the adopted Core Strategy 2009 and housing associations acquiring land and property and homes on section 106 sites, an average of 50 affordable homes per year will be developed. This level of performance has been assessed over a thirteen year period and informs the Council's current annual affordable housing target that is also contained in the adopted 2009 Core Strategy.
- 1.3 The overall performance indicates that, to enable an increase in the proportion of affordable housing delivered against a higher total housing delivery requirement (which will be required within a new Local Plan), new development sites need to be identified and released through the new Local Plan and the Council needs to look at alternative methods of delivery for affordable housing alongside existing arrangements. An increase in the requirement for overall housing delivery, both market and affordable, brings this issue into sharper focus.

## **2. Progress towards Alternative Methods of Delivery**

- 2.1 The progress made on considering alternative methods of delivering affordable homes is explained below.

### **Training**

- 2.2 The Leader of the Council and planning, legal and housing officers have attended events on alternative methods of delivering affordable homes. As a result the Council is a member of the South East Housing Delivery Network and officers attend the twice yearly information sharing sessions.

### **Inter-Authority Event**

- 2.3 A joint event was held in 2017 with Elmbridge Borough Council for a group of multi-disciplinary officers, who could be involved in alternative methods of delivering affordable homes. Presentations were given by Local Partnerships (a joint venture between HM Treasury and the Local Government Association (LGA)) on the steps to consider before local authorities launch into setting up housing companies and by the Director of Wokingham Homes and Head of Finance at Guildford Borough Council on their experience of setting up housing companies and delivering multi-tenure homes.

### **Key Lessons Learnt**

- 2.4 Lessons learnt from training and the joint event was:

- A clear strategy should be in place prior to creating a housing company, one that establishes the clear business case for that vehicle ;
- alternative methods of delivery need an adequate staff resource with the correct skills and experience;
- a fundamental key to success for local authority housing companies is that the local authority owns significant amounts of land and or buildings that it can redevelop;
- local authority housing companies can face viability issues in developing affordable housing, just like the private sector, and not all develop affordable homes, instead they develop other tenures such as open market sale and or private rent for long term investment and corporate revenue purposes; and
- housing companies are only one vehicle for local authorities to consider in delivering more affordable homes, and in some circumstances it may not be the right vehicle, other options should also be considered.

### **Budget Provision**

- 2.5 Finance was made available in the 2017/18 budget to examine alternative methods of delivery and as a starting point the Housing Business Ready Model from the Housing and Finance Institute was procured.

### **Housing Business Ready Model – Housing and Finance Institute<sup>1</sup>**

- 2.6 During summer 2017 the Housing and Finance Institute led by Natalie Elphicke carried out a short assessment of the Council to test its housing business appetite. The assessment involved consideration of Council policy documents, a tour of Mole Valley and discussion with Executive members and officers. It looked at the Council's involvement in the housing market in the widest sense, not just affordable housing. A summary of the outcome of the assessment is given below.

- Comparative statistical analysis of the Mole Valley housing market indicates that the area has performed in keeping with long term national trends despite the perception of under performance on general housing numbers and affordable housing. It was felt that this message was not celebrated and was underplayed.
- The political commitment to ensure that new homes are provided in the area was evident from discussions with Executive members.
- Officers demonstrated confidence, capability and desire to deliver strong planned housing growth appropriate to the area.
- Detailed monitoring of the delivery of permissioned land and land capable of delivery was recommended along with monitoring the housing market.

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<sup>1</sup> A Guide to Shaping up Municipal Muscle for Housing Delivery – Housing Business Ready – The Housing and Finance Institute. Natalie Elphicke with introduction by Lord Bob Kerslake 2016

- Demonstrating successes, such as what can potentially be delivered by 'Transform Leatherhead' can help to increase the housing market attractiveness. Having good media coverage of successes makes it more likely for businesses to have confidence in the Council.
- Notwithstanding the sensitivities of the 'green belt' discussion, there were some examples observed where land is not any longer green belt in a purposive sense. Distinguishing between purposive green belt and redundant green belt may be helpful in considering whether there are additional land opportunities to explore in the area to meet housing need.
- The Council doesn't currently undertake direct delivery of housing. Good examples of partnerships with builders and housing associations were observed that have had good results. Emphasis was placed on the dialogue with Clarion Housing Association on their investment and development plans in the area and to see how that relationship can be further enhanced given the financial strength and capacity of Clarion's development function.
- It was noted that the new Local Plan review process was underway with the opportunity to identify and release appropriate sites to meet the overall housing requirement across all tenures. The assessment concludes that the Council has the leadership, capability and resources to work towards delivering higher planned targets, should those ultimately be required. However, some different approaches to land and planning may be required if the Council is to try to manage that delivery itself.

### **Other Initiatives that Support the Development of Affordable Housing**

2.7 While the above work has been undertaken the following initiatives also support the development of affordable housing including the ongoing traditional programme with local housing association partners.

- The development of a new Local Plan provides the opportunity to review and renew the planning policies for affordable housing and the potential to release sites for residential development. Together this may provide for an increase in the delivery of new affordable homes. There is a specific opportunity for sites that may be released as a result of the new Local Plan where the Council has sole or part ownership, such as the Leatherhead By Pass site and or where Clarion Housing Association has an option.
- Revisions to the National Planning Policy Framework are expected and following consultation it is possible that the government will adopt a policy whereby for Local Plans that have been assessed as viable and adopted, it will not be possible for planning applicants to claim that affordable housing is not financially viable on residential sites.
- The development of the Council's property investment strategy has led to the Council setting up an investment property holding company Mova Holdings Limited and Mova Property Limited and recruiting additional experienced commercial property staff. Residential development is already under consideration for the regeneration of Leatherhead with the first

development project at Claire House and James House. This places the Council in a good position to consider alternative ways of delivering affordable homes alongside market housing. Mova Property Limited has recently acquired a residential unit in Dorking as part of the acquisition programme for emergency accommodation units.

- The government has announced £9bn towards the development of new affordable homes that local housing associations will be able to access through Homes England, while the Council holds £4m to invest in new affordable housing.
- Work continues to identify rural exception sites and hopefully bring them to fruition; however such sites typically progress relatively slowly. Efforts are also being made to encourage rural and urban communities to develop Community Housing Trusts for small scale developments using enabling funding from the Department of Communities and Local Government. This initiative has recently been promoted at Surrey events in Guildford and Leatherhead.

### **3. What could Alternative Delivery Methods Offer?**

3.1 There are a range of alternative methods of delivery for housing and affordable housing that the Council could use and be external to a Housing Revenue Account (that delivers and holds traditional council housing stock and offers the Right to Buy). A key reason for some form of local housing delivery vehicle/company is that it can help the Council to do things it could not do in the traditional way. To be successful a vehicle should offer a combination of delivering something new and performing existing activities differently and more efficiently.

#### **3.2 Potentially a vehicle could:**

- develop additional affordable new homes for rent and shared ownership;
- develop different tenures such as private rent and open market sale;
- buy existing properties for affordable housing or other tenures;
- hold and manage housing stock and the Council could decide on the model for property management and maintenance and tenant liaison that would need to be assessed for effectiveness and efficiency;
- include an asset management and land assembly plan that would need to be informed by conversations with stakeholders such as housing associations, land owners and developers; (Mole Valley has a limited supply of land in its ownership suitable for housing and an asset management strategy with one or more strategic partners could deliver housing and financial benefits in a longer term programme.)
- be enabled to carry out regeneration work to assist with Transform Leatherhead and other regeneration opportunities that may present in the district; and

- bring other benefits such as employment and apprenticeships (it is estimated that every new home built adds two jobs to the economy), revenue through Council Tax and New Homes Bonus, enhance the image and reputation of the Council with the successful adoption of new approaches and over time this could help to attract additional public and private investment into the district.

## Delivery Vehicle Structures

3.3 There are a number of possible structures for a delivery vehicle. The relevant options are described below.

- **Single wholly owned company for ownership** – the company has no role in developing homes, properties would be purchased by it and the company would then manage the assets and the tenants and collect revenue to pass to the Council as shareholder, and or to re-cycle for future acquisitions.
- **Single wholly owned company for development** - the company would take on a development and delivery role, but would not be stock holding and would not normally generate revenue streams. Arrangements for the ownership and management of the rented accommodation and tenants would be needed.
- **Wholly owned companies for development and/or ownership** – the companies would carry out a developer role and take a long-term stake in the management of the assets developed where the accommodation is rented, shared ownership, long leasehold and or commercial premises if schemes are mixed use. To ring-fence risk, the developer and ownership roles would be undertaken through separate companies. It would be possible to develop affordable housing through this route and the Council could invest its capital subsidy to deliver these homes, however, overall schemes would need to be financially viable, state aid compliant, and provide returns for the company.
- **Joint venture company (public or private)** - the Council would engage a developer to work with on either a bundle of projects or single project of sufficient size and value to justify the transaction and set-up costs. This type of approach has been used by other councils where they wish to bring in the resources of money and expertise of a developer partner, but without losing control through a traditional development agreement. Current local authority examples are Slough, Watford, Haringey, and Surrey. If the Council set up a housing company, it would not then be prevented in the future from entering into joint ventures, when it would make more sense, either itself or through a wholly owned company.

## Delivery Vehicle Conclusion

3.4 Given that the holding company Mova Holdings Limited and its subsidiary, Mova Property Limited, have already been established for long term commercial investment purposes, the most relevant models for the Council are (a) subject to tax

advice, incorporating one or more new subsidiary company(ies) under Mova Holdings Limited or incorporating a new company, (b) a contractual joint venture (which is likely to require an OJEU procurement) or (c) a new joint venture company, in which the Council is an equal or majority shareholder together with its development partner.

- 3.5 Contractual joint ventures can be more appropriate, as is the case, for example, with the joint venture arrangement for the North Leatherhead By-Pass site with Barratt Homes, where the Council and another landowner have jointly assembled the site.

### **Partnering as a Means to Delivery**

- 3.6 Clarion Housing Association and other local housing association partners have significant access to borrowing and to public sector subsidy from Homes England for affordable housing, a depth of expertise across the residential development sector, experience in developing multi-tenure schemes and access to range of property consultants through framework agreements. It is also possible for the Council to complement Homes England funding with the capital grant it holds specifically for the development of new affordable housing with local housing associations.
- 3.7 It may make sense for many property developments for the Council to partner with a housing association that has greater experience in residential development and to share and reduce risk. In particular, where the Council may struggle through a housing company to ensure a housing scheme is financially viable with the required affordable housing, by partnering with a housing association, which can access public subsidy from Homes England and the Council, it may be possible to deliver the required number of affordable homes and possibly more.

### **Conclusions on Alternative Methods of Delivery**

- The delivery of affordable homes will remain at an average of 50 or fewer per year unless a new Local Plan is adopted releasing land for development and alternative delivery methods need to be considered where appropriate.
- Local authority housing companies are generally successful where the local authority owns significant land holdings. Whilst MVDC does not currently own these significant land holdings, there is an appetite to look at opportunities to increase that asset base to exploit for the development of affordable housing.
- The Council's current proactive approach and increasing experience of acquiring property for long term investment could be built upon to actively enable an increase in the land supply for new homes, which could be developed in partnership with others or through a housing company.
- Some local authority housing companies develop other tenures (or mixed tenures) than affordable housing which offer higher and or long term returns and this is an option for the Council.
- A key risk is of the Council delivering homes through a company and incurring excessive cost and risk with relatively little delivery. Risk can be

mitigated by continuing to work with housing associations, as now, and where appropriate in partnership to share risk. Plus where specific circumstances are right for the Council, subject to further tax advice, the setting up of a housing company, either on a standalone basis or as a subsidiary of Mova Holdings Limited for development and possibly a separate subsidiary for management could be a viable option for MVDC.

#### **4. Financial Implications**

- 4.1 There are no direct financial implications to this report. Should specific proposals be brought forward for recommendation a full financial and risk assessment will be presented.

#### **5. Legal Implications**

- 5.1 There are no direct legal implications to this report. Should specific proposals be brought forward for recommendation a full legal assessment will be presented.

#### **6. Options**

There are three options the Executive is asked to consider.

##### **Option 1**

Approve the recommendations contained in this report to overall improve the delivery of affordable homes.

##### **Option 2**

Do not approve the recommendations contained in this report and request further work to be undertaken.

##### **Option 3**

Do not approve the recommendations contained in this report.

#### **7. Corporate Implications**

##### **Monitoring Officer Commentary**

The Monitoring Officer confirms that all relevant legal implications have been taken into account

##### **S151 Officer Commentary**

The Section 151 Officer confirms that all financial implications have been taken into account

##### **Risk Implications**

##### **Option 1**

Approve the recommendations contained in this report to overall improve the delivery of affordable homes - approval of this report will ensure that officers have the authority to pursue and evaluate alternative methods of delivering affordable housing including through a housing company using the Mova Property Holdings structure.

Should specific proposals be brought forward for recommendation a full financial and risk assessment will be presented.

### **Option 2**

Do not approve the recommendations contained in this report and request further work to be undertaken – should further work be required it can be reported back to Executive and is unlikely to impede progress, which will generally be reliant on development opportunities being released through the new Local Plan and the Council potentially acquiring assets for development/redevelopment.

### **Option 3**

Do not approve the recommendations contained in this report – if the recommendations are not approved the Council will limit its options to potentially deliver affordable homes.

### **Equalities Implications**

There are no equalities implications to this report.

### **Employment Issues**

There are no employment implications to this report.

### **Sustainability Issues**

There are no sustainability implications to this report.

### **Consultation**

The Executive has been consulted on this report.

### **Communications**

A press release will be prepared on this report.

### **Background Papers**

- A Guide to Shaping up Municipal Muscle for Housing Delivery – Housing Business Ready – The Housing and Finance Institute. Natalie Elphicke with introduction by Lord Bob Kerslake 2016
- Housing Delivery Vehicles Tool Kit, Local Partnerships (Jointly owned by the Local Government Association and HM Treasury) December 2017
- Are you Housing Business Ready? Report Back to Mole Valley District Council - The Housing and Finance Institute June 14, 2017