

Date of Meeting 14th December 2020

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Exemption applied: None

Review date for release N/A

Options and lines of enquiry to deliver more affordable / social housing

Report summary:

The TAFF met for the first time on 8th October 2020. The meeting's main agenda item focussed on the current business model of East Devon Homes, namely to provide housing to the general market, outside of the Housing Revenue Account (HRA) and to generate a profit to provide income to the Council's General Fund. It sat within the Council's investment and commercialisation strategies and recognised the constraints of the HRA. This led to a discussion about what the Council was now seeking to deliver – was it market housing, or was it indeed social and affordable housing, if the latter then the HRA being the appropriate mechanism for delivery. The Forum needed to consider what it wanted to achieve and then decide how it was going to achieve it. The Council Plan, Housing Strategy and Housing Service Plans all articulate the delivery of more affordable / social housing as a corporate priority. It was suggested that the Service Lead – Place, Assets & Commercialisation produce a list of options and lines of enquiry for the forum to consider at its next meeting. The resolution was:

That the forum recognised the clear desire to increase social housing and would look at options to facilitate this.

This report prepared jointly by the Service Lead – Place, Assets & Commercialisation and the Acting Service Lead - Housing sets out options and lines of enquiry to increase supply of social and affordable housing.

Recommendation:

That the Housing Company Task & Finish Forum

1. Recommend to Officers which options for social / affordable housing provision within the appended table to explore further.
2. Recommend a working group of Members to work with Officers, approaching and learning from other authorities who have grown their HRA stock in recent years before reporting back to this TAFF.
3. Recommend to Cabinet whether the Housing Company should be dissolved, remain dormant, or explored further for provision of market rent to provide an income stream to the General Fund

Reason for recommendation:

To enable options to be explored further to determine whether viable for this Council in delivering its objective of increasing the supply of affordable / social housing. Furthermore, to provide some direction in terms of the Housing Company itself. If dissolved, this does not prevent a Housing Company being set up again at some future time.

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Portfolio(s) (check which apply):

- Climate Action
- Corporate Services and COVID-19 Response and Recovery
- Democracy and Transparency
- Economy and Assets
- Coast, Country and Environment
- Finance
- Strategic Planning
- Sustainable Homes and Communities

Financial implications:

Originally the Housing Company was formed to generate income for the General Fund. The priority is now more clearly focused on the delivery of social housing which moves away from the purpose of the Company. Also new borrowing rules would require legal opinion on whether the authority could use PWLB monies to pass onto to a company for the purpose of yield for the authority. There will be funding implications for the HRA in the differing options that will need to be modelled to determine affordability.

Legal implications:

The report contains a number of potential avenues which could be explored to deliver more affordable housing. As there are no specific recommendations there are no specific legal implications requiring comment. However, any potential avenues that the Council may wish to pursue will need to be subject to further review and comment as appropriate. In terms of the Council's housing company, this was established for a specific purpose and if there is a desire to change that purpose this will also require further and more detailed consideration in relation to current legal and financial restrictions. Any decision to dissolve the housing company should be subject to a specific report to ensure that all of the legal implications and related changes to the Council's governance arrangements are addressed.

Equalities impact Low Impact

Climate change Low Impact

Risk: Low Risk;

Links to background information Click here to enter links to background information; appendices online; and previous reports. These must link to an electronic document. Do not include any confidential or exempt information.

Link to [Council Plan](#):

Priorities (check which apply)

- Outstanding Place and Environment
- Outstanding Homes and Communities
- Outstanding Economic Growth, Productivity, and Prosperity
- Outstanding Council and Council Services

Report in full

1.0 Background

- 1.1 The focus of the TAFF at this stage and following its October meeting is on exploring practical means of providing additional social / affordable housing stock. The Council Plan, Housing Strategy and Housing Service Plans all articulate the delivery of more affordable / social housing as a corporate priority. This TAFF can explore delivery models to deliver this, but in a way that involves the Housing Review Board who currently have this wider remit.
- 1.2 We are a Registered Provider and have to adhere to a whole raft of regulatory guidelines issued by the Regulator of Social Housing. Our core business is the provision of subsidised housing for households in housing need. The Housing Revenue Account is a ring-fenced landlord account and we have a duty to ensure that this account maintains a surplus and achieves value for money for tenants. We forward plan our finances and major activities through the HRA Business Plan, and produce an annual budget that sits alongside the General Fund and Capital Plan. We can grow our stock and have been doing so through property acquisitions. Some years ago we identified a number of infill sites and designed and built twenty five homes on four sites. Whilst doing this we lose stock through the statutory Right to Buy, this can be 20-30 homes a year. We do have generous land holdings as part of the HRA portfolio with landscaped areas, open spaces, big gardens, and have undertaken reviews of garage sites. It should be noted that before the Right to Buy scheme we held stock holdings of approximately 8,000 homes, whilst we are currently holding stock of 4098 homes.
- 1.3 Prior to 2003 the Council were delivering circa. 25 new affordable homes per annum through a small number of housing association partners. The Head of Housing & Social Inclusion was recruited to stimulate output and build relationships with housing associations wanting to develop in the district. Capacity was built with a dedicated Housing Enabling Officer and an assistant employed. The Head of Service also spent approximately 30% of their time on networking with developers, land owners, planners, housing associations, and the Housing Corporation (now Homes England) working up and negotiating schemes, securing funding and permissions. Working closely with our RP delivery partners we soon moved to an overall output of 250-300 new affordable homes per annum, because government policy and grant funding favoured this part of the sector. The aforementioned homes do not fall within the EDDC housing stock as they are owned and managed by our RP delivery partners. As a consequence our housing register reduced to circa. 2,500 households.
- 1.4 We operated an Affordable Housing Forum to coordinate and encourage partners to identify sites and develop schemes in the district. At this time planning policies were delivering 30% affordable housing and with affordable homes by design included, we delivered 40% affordable housing in Cranbrook phase 1. We had an active Rural Exceptions Policy with our development programme covering urban and rural communities. We initiated the first Community Land Trusts and supported them through the development process. National Planning Policy was more favourable to the delivery of affordable housing allowing us to adopt a tougher stance on viability and onsite numbers.

- 1.5 In recent years our enabling capacity has reduced with a key post not replaced, government policy has been compromised and watered down in favour of developers avoiding affordable housing provision, and fewer Registered Providers (housing associations registered with the regulator) are active in our district reflecting the difficulties of the market. It is remarkable that output has been maintained at a high level (356 affordable housing completions in 2019/20). There is no doubt that increased capacity allowing for greater intervention in the market and the rejuvenation of the enabling role will have positive benefits in terms of delivery of affordable housing units through Registered Providers.
- 1.6 Government policy and the majority of the national funding streams are directed to Registered Providers who have access to significant levels of low interest finance and the ability to call on their surpluses. This combined with the quite high affordable rents charged gives housing associations an advantage over councils, with many operating well established, highly competent, and skilled development teams, typically headed by Development Directors in charge of ambitious programmes.
- 1.7 There is room in the affordable market for councils to compete and deliver new build schemes. Many Councils created housing companies as a development vehicle, but properly resourced HRA and General Fund teams can deliver a pipeline of projects that can be tailored towards the housing need identified on the Housing Register.
- 1.8 We are about to undertake a full stock condition survey on our housing portfolio. This is an in-depth piece of work that will be undertaken by a specialist external agency and will take 12 months to complete. The data collected as a result of this will not only cover the fabric of the buildings and the components within them, but also energy data, EPCs and insight into which green energy technologies would reap the largest benefit for each dwelling. This will enable us to have a robust Asset Management Strategy and planned works programme. It will give us solid information to plan potential disposal and re-provision of underperforming assets and/or the redevelopment of sites and schemes no longer fit for purpose, both of which can lead to growth in overall stock numbers. Additionally it will clearly support the council's aspiration to decarbonise our housing stock and furnish us with the information required to be able to bid for monies via the Central Government's Social Housing Decarbonisation Fund (SHDCF) in 2022
- 1.9 It must be recognised that our HRA investment and funding has competing priorities and that we must reconcile any new build and acquisitions with decarbonisation, tenants' safety and improvement programmes to existing stock. We have some borrowing capacity to call upon, but this is not limitless as borrowing has to be repaid. The Housing Revenue Account Business Plan is being reviewed as new stock condition information is produced. This will allow us to more accurately plan future expenditure needs. To meet the carbon reduction targets we have set as a council over the next twenty years, it has been estimated that social housing providers will need to set aside £20k - £40k per unit so for us this translates into £82m - £164m of investment required. There is an argument to make regards how much we invest in upgrading poor quality housing stock to meet the carbon neutral agenda. It may make more financial sense and from a social impact perspective to divest ourselves of these buildings (via sale or demolition) and acquire /build new stock to replace them.
- 1.10 Therefore the most efficient mechanism of funding the growth of our social housing stock is via the use of our Right to Buy receipts. Although significant restrictions apply to the spending of these monies and the match funding element is onerous to the HRA, it is solely

to be used for the replacement of stock lost through the right to buy scheme. We receive approximately £2 - £4 million of RTB monies per annum and we currently struggle to maximise its potential. The council has clearly stated aspirations for maintaining / growing its property portfolio and also for the decarbonisation of our housing stock, reducing fuel poverty for our residents and this will be hard to meet whilst relying solely on an acquisitions programme. Acquiring new builds or developing ourselves would better help us fulfil these criteria.

- 1.11 To match increased development ambitions we need to properly resource our Teams as EDDC does not currently have the skill set or knowledge to deliver its own social housing development programme. From a standing start it would be very difficult for us to manage this effectively within a reasonable timescale. If we were to embark on a development programme we would suggest bringing in a specialist consultant to advise and work with us on how best we support this aspiration, how to take it forward in incremental steps to reduce risk exposure while building our internal expertise and experience. Development (Redevelopment) is a complex and resource heavy area of business, but it does offer a real opportunity to shape our stock holdings and position them for the decarbonised future and ensure financial sustainability.
- 1.12 There are a number of opportunities that can be explored further, set out in the table appended to this report. Members of the TAFF might like to add to these opportunities. No one single delivery mechanism is likely to be suitable but there are opportunities to proactively develop a range of delivery mechanisms set out in a development strategy involving a combination of development, redevelopment and acquisitions funded through active asset management generating receipts through disposals, RTB receipts and borrowing, enabling investment in providing new homes.
- 1.13 There would be benefits in a small focussed working group of Members and Officers, liaising with local authorities who have successfully used these mechanisms to add to their stock numbers to learn how our HRA could adopt similar. To facilitate more focussed discussions with other authorities it is thought at this stage prudent to focus on a manageable range of mechanisms, perhaps 3 or 4 to explore further rather than all those discussed below.

Opportunities for increasing HRA stock numbers

Mechanism	Advantages	Disadvantages	Progress to Date
<p>Active asset management – understanding the financial and non-financial performance of our stock to inform decisions.</p> <p>Undertake options appraisals on poorly performing vacant stock before re-letting, exploring opportunities to sell on open market and re-invest receipts in acquiring more / better performing stock e.g. disposal of a standalone unit on large plot, in a low demand location, might generate a receipt that could be used to purchase 2 dwellings in an area of greater demand or of a different archetype.</p>	<ul style="list-style-type: none"> • Greatest advantage is that you avoid investment in poor performing stock. • Over time the performance of portfolio increases. • Good approach to be used alongside others. 	<ul style="list-style-type: none"> • Growth in stock numbers is slow. • Risk that void periods increase whilst option appraisals are undertaken. • Data to inform decision making on performance can be onerous to obtain initially. 	<ul style="list-style-type: none"> • Stock condition survey will support in the data collection • Reviews on small number of buildings underway to check they are ‘fit for purpose’
<p>Consider opportunities to build on poor performing garage sites through options appraisals on all sites considering demand / current use, ability to secure vacant possession, income and investment data, along with site characteristics e.g. access, services, trees, levels etc.</p>	<ul style="list-style-type: none"> • Ensures efficient use of poorly used existing estate. • Land is in control of HRA. 	<ul style="list-style-type: none"> • Displacement of parking / storage can be problematic. • Involves HRA taking on developer role with risks and resourcing implications associated. 	<ul style="list-style-type: none"> • A review of garage provision was undertaken in 2012, with a further update given in 2019 – supporting documentation is available if required • 25 plots were explored and developed as a result of the review
<p>Consider opportunities to identify existing stock with large plot sizes. If become vacant investigate development potential before re-letting.</p>	<ul style="list-style-type: none"> • Land in control of HRA. 	<ul style="list-style-type: none"> • Opportunities for additional dwellings are likely to be limited. • Likely to be controversial in immediate neighbourhood. 	<ul style="list-style-type: none"> • The Property and Asset Management Team already subdivide large plots when re-furbishing houses prior to re-letting

Consider General Fund (GF) sites suitable for housing development	<ul style="list-style-type: none"> • Land can easily be transferred from GF to HRA at market value. • Allows HRA to forward plan pipeline of schemes based on future lease expiry dates. • Receipts would allow investment in new assets for the GF. 	<ul style="list-style-type: none"> • Opportunities for additional dwellings are likely to be limited. 	<ul style="list-style-type: none"> • One example currently being considered (location commercially sensitive due to existing commercial tenants).
Explore opportunities for funding through Homes England		<ul style="list-style-type: none"> • Would likely need to demonstrate track record of development delivery 	
Work in partnership with commercial developers to deliver and retain the social / affordable element	<ul style="list-style-type: none"> • Benefit from developers development expertise. • Benefit from potentially large numbers of acquisitions. 	<ul style="list-style-type: none"> • Established relationships already exist between developers and housing associations. Why would a developer rather deal with EDDC? 	<ul style="list-style-type: none"> • We have successfully done this in the past however Live West now have key strategic links in place with most of the high volume developers in the area
Acquire land allocated for residential development	<ul style="list-style-type: none"> • Planning obstacles already overcome. 	<ul style="list-style-type: none"> • Limited supply. • Competing against housing developers will drive prices up which will make social / affordable unviable. 	
Acquire land speculatively	<ul style="list-style-type: none"> • Allow long term pipeline to be established. 	<ul style="list-style-type: none"> • High risk if planning is not forthcoming. • Potential for conflict between HRA and EDDC Planning Authority 	
Acquire individual units when they come to market through estate agents	<ul style="list-style-type: none"> • Generally a ready supply. 	<ul style="list-style-type: none"> • Very market dependant. • Pepper potting of units. • Second hand stock therefore possibly requiring investment. • Not necessarily the types of units that the HRA would 	<ul style="list-style-type: none"> • Current successful acquisition programme in place – securing approx. 8-10 buildings per quarter

		<p>ordinarily choose to develop / acquire</p> <ul style="list-style-type: none"> • Time intensive dealing with individual acquisitions 	
Acquire bulk units direct from developer	<ul style="list-style-type: none"> • Ability to acquire large numbers • Modern units 	<ul style="list-style-type: none"> • Developers already have established relationships with HA's for affordable units, so unlikely to be keen on further social units within a development as will impact on market sales 	
Acquire flatted schemes / existing HMO's	<ul style="list-style-type: none"> • Allows for smaller 1 or 2 bed units to be acquired 	<ul style="list-style-type: none"> • Second hand stock therefore possibly requiring investment • Limited availability of suitable properties 	<ul style="list-style-type: none"> • Successful completion of the Sailors Rest – 9 flats for temporary accommodation • Currently proceeding to purchase a further 7 flats at 51 St Andrews Road Exmouth
Acquire rural exception sites	<ul style="list-style-type: none"> • Sites can be secured at more favourable values 	<ul style="list-style-type: none"> • Competition with others 	
Redevelopment of existing stock through estate regeneration projects which involves creating a different stock profile (sizes / tenures)	<ul style="list-style-type: none"> • Might produce better outcomes – social and financial, than investment through component replacement alone 	<ul style="list-style-type: none"> • Very long term project • Not in all instances can density be increased – and HRA might not wish to increase density 	