FINANCING AFFORDABLE HOUSING

Executive Summary

This report seeks Executive authority to pursue the delivery of affordable housing homes through financial mechanisms.

The Planning system seeks, wherever possible, to deliver affordable homes of up to 40% in any relevant development. However, the Planning system recognises that in existing developed areas it may not be economically viable to deliver affordable homes in new developments.

Officers have identified two key approaches to deliver new affordable homes in developments where economic viability may result in a lower or no provision of affordable homes. The two approaches outlined in this report are:- financial support by way of Grant from Homes England; and the use of a Special Purpose Vehicle and long-term index linked finance. Neither of these mechanisms require the Council to be the borrower.

The Executive would need to consider and approve individual proposals when they are provisionally agreed with a developer and a financial institution or Homes England where they involve Council land and/or funding. However to enable the process to be pursued the Executive is requested to authorise Officers to explore the use of these mechanisms with developers.

Recommendations

The Executive is requested to:

RESOLVE That

(i) Officers be authorised to explore alternative mechanisms to deliver affordable homes; and

(ii) each affordable homes proposal that requires Council land and/or funding (including as a guarantor) provisionally agreed with a developer be submitted to the Executive for approval.

Reasons for Decision

Reason: To support the delivery of affordable homes.

The Executive has the authority to determine the recommendation(s) set out above.

Background Papers:	None.
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1.0 Introduction

1.1 The Planning System has policies to enable the delivery of affordable homes where it is economically viable to do so. On Greenfield sites, it is easier to secure affordable homes but for “brownfield” sites, particularly those that are currently developed and in economic use and/or those with significant contamination it is often not possible to secure the 40% of the new homes as “affordable”.

1.2 In many cases where the Planning System does deliver affordable homes, developers provide shared ownership properties. Whilst meeting some of the local housing need this does not meet the significant demand for affordable homes to rent.

1.3 This report identifies two routes that the Council can follow to secure more affordable homes.

1.4 The first is by way of Grants from Homes England. The Council already identifies schemes that it brings forward as part of its Housing Revenue Account and secures Grant wherever possible. However, the numbers capable of being secured through this process are small. The proposal suggested here was used by Radian (now ABRI) Housing in Portugal Road where a development is currently underway and with whom discussion about the possibility of other sites in Woking is underway.

1.5 The second is the use of long-term index linked finance through a Special Purpose Vehicle which will finance the provision of the homes over say 50 years with the Council undertaking the management of the properties.

1.6 This report seeks Executive authority to pursue these mechanisms subject to individual approvals where the Council is contractually involved other than “normal” nomination agreements with registered providers.

2.0 Grant from Homes England

2.1 In September 2020, the Council achieved Investment Partner status with Homes England, the Government body responsible to accelerating housing delivery across all tenures. This status means the Council is pre-qualified to bid for funding towards our affordable housing developments, including successfully securing over £1.97 million of grant towards the Hale End Court Extra Care Housing scheme in Old Woking. The Council intends to bid for further grant funding on other small HRA developments to assist in delivering our housing ambitions.

2.2 Homes England’s expectation is that S106 affordable homes are delivered at nil grant. The funding prospectus states that “*If grant is requested for affordable homes provided under a S106 agreement, on a larger site developed as market housing, these homes will need to be additional to those that would be delivered under the S106 agreement alone, without grant*”. This condition is important when working in partnership with Registered Providers (i.e. housing associations).

2.3 Over seventy new affordable homes are set to be delivered at the former Lok’NStore and Parrington Autos site in Portugal Road through partnership working. Abri (formerly Radian) secured a planning consent for 72 one, two and three bedroom apartments, including the policy compliant level of affordable housing (21 for Affordable Rent and 8 for shared ownership). Following the planning decision, Abri secured further grants from Homes England and the entire scheme will now be delivered as affordable housing – an additional 43 homes for shared ownership. Whilst it was Abri’s intention from the outset to deliver a 100% affordable housing scheme, it was important that this was not tied in through the Section 106 agreement as this would prevent them accessing Government grant funding.

2.4 Following this success, the Council is in discussion with Abri about other site opportunities where this approach could be used to increase affordable homes and would welcome similar involvement with other active housing associations.

3.0 Long Term Index Linked Finance.

3.1 The concept of long-term index linked finance (sometimes referred to as income strip investment) is not new to the housing market but a proposal to achieve this through a Limited Liability Partnership (LLP) held by Charitable Organisations is new and offers a way of achieving affordable homes that would otherwise not be possible. The proposal is based on the Council providing a Loan Guarantee for the finance advanced to the LLP and being responsible for all day-to-day management and repairing liability and being able, at the end of the finance period, to buy the asset for a nominal sum, either directly or through a nominated company such as Thameswey Housing.

3.2 This approach is attractive to investors as the liability for repairs, maintenance and housing management usually sits with the tenant, along with the future residual value, allowing the investor to “strip” the income out of the asset. The investor benefits from relatively stable long-term income, which represents 100% of the investment’s return.

3.3 The benefit to the Council is that at the end of the lease term, it would have the option to acquire the freehold for a nominal sum. In the meantime, the Council will benefit from nominations to the affordable homes delivered throughout the term of the lease.

3.4 To enter into such a facility will require a detailed review and due diligence in respect of each transaction. However, it is important to establish an “in principle” position that the Council would consider doing so before incurring considerable expense in validating a transaction.

3.5 This opportunity has been explored, through an agent, and with a developer, without entering into formal legal and financial arrangements; this has been to establish what may be possible. The illustration in the report is based on an actual opportunity that has not progressed because Planning Consent was not obtained.

3.6 The identified development would provide 212 apartments for use as affordable homes. These homes would normally have been open market homes for sale. The mix of the apartments were:-

Unit Type	**Number**
Studio	25
1 bed 2 person	56
2 bed 3 person	55
2 bed 4 person	76
Total	212

3.7 Officers within the Council’s Housing department considered what rents levels would meet the forecast affordable housing need. They concluded that the rents would need to be at the lower of 70% of market rent or at the Local Housing Allowance (LHA) level to affordably meet the local need. These indicative rentals, at today’s prices, are presented below:

Unit Type	**Number**	**Gross Rent (Per Calendar Month)** £
Studio	25	720
1 bed 2 person	56	782
2 bed 3 person	55	957
2 bed 4 person	76	1,012
Total	212	

3.8 Based on the rentals above and allowing for the Council's normal planning assumption of 1% rental loss for voids and £2,334 per property for management and maintenance; the forecast rental income would be £1.77m per annum (£1,778,299), annually increased by inflation.

3.9 To secure the 212 units the estimated cost was £81,550,818 based on staged payments during construction. Allowing for capitalisation of interest during the construction period and a phasing in of tenants, say over three years, a funding total of say £86m was assumed.

3.10 The indicative funding cost at current rates was £1.55m per annum (£1,546,426), annually increased by inflation. These fund come from a financial institution and whilst a guarantee is required from the Council the Council does not undertake the borrowing.

3.11 The LLP structure is designed to benefit charitable organisations with an allowance paid to them of up to £100,000 per annum from the operational surplus with the balance remaining in the LLP to manage risk. In this illustration the net surplus would be circa £122,000 per annum.

3.12 The annual cost of the finance will be index linked, probably to CPI, and it would be important to link rental increases to the same index. A cap and a collar would apply to the index to avoid excessive increases and ensure a modest uplift and no reductions.

3.13 This mechanism would deliver affordable homes even where the Planning system would be unable to do so.

3.14 If the Executive support this approach then further work will be done to bring forward a specific project for approval. Such further work will also explore incorporating "Earn Your Deposit" into the proposal but this will be subject to financial institutions accepting the concept of sharing a proportion of the uplift in the value of the property with the tenants to enable them to leave and buy their own home.

4.0 Implications

Financial

4.1 There are no specific financial implications arising directly from this report. Each proposed housing deliver scheme will be subject to individual reports setting out the full financial implications.

4.2 Importantly the Council is not the borrower and does not own the LLP that undertakes the borrowing. IT does however have to be a guarantor and acknowledge the potential liability if the LLP failed to meet its obligations.

Human Resource/Training and Development

4.3 There are no additional human resource implications arising from this report.

Community Safety

4.4 There are no new community safety issues raised by this report.

Risk Management

4.5 There are no new risks created by this report. As proposals come forward they will include appropriate risk assessments.

4.6 The risk the Council would be taking in pursuing the approach through an LLP and financial institution is that of Guarantor. This risk is considered to be low but will need to be considered in each case. Importantly the risk is mitigated by the Council managing the housing stock as if it were the owner and there continuing to be a need for affordable housing of the type and the price range included in each proposal.

Sustainability

4.7 There are no new sustainability issues raised by this report.

Equalities

4.8 There are no new equality issues raised by this report.

Safeguarding

4.9 There are no new safeguarding issues raised by this report.

5.0 Consultations

5.1 There have been no external consultations in the preparation of this report.

REPORT ENDS