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## Report of the Director of Neighbourhoods and Housing

### Executive Board

Date: 14<sup>th</sup> March 2007

Subject: Establishment of a Strategic Partnership to Deliver Affordable Housing

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Electoral Wards Affected:

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In

(Details contained in the report)

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### Executive Summary

This report seeks the approval from Executive Board to establish a Strategic Partnership which would use identified Council Land to make a significant contribution to the increase in supply of affordable housing in the City. This would be done through the establishment of a Strategic Partnership.

Approval is required from the Executive Board to utilise 77 acres of land, to be used by the Strategic Partnership for the delivery of affordable housing. It is proposed to deliver 375 units a year of affordable housing over 6 years via this mechanism. Approval is sought to invest the necessary capital receipt, from the disposal of this land, in order to achieve this outcome.

Any additional receipts, or receipts generated from shared ownership schemes developed on these sites will be returned to the Council to allocate against its capital spending priorities, including the further provision of affordable housing.

## **1.0 Purpose of the Report**

- 1.1 The purpose of this report is to describe the options for the establishment of a Strategic Partnership to make a significant contribution to the increase of affordable housing in the city. The report also demonstrates how the strategic use of the 77 acres of land will attract increased Housing Corporation grant funding and private sector funding. The Corporate Option Appraisal Process has been followed in order to determine the best option and advice from officers within Legal Services and taxation specialists within Corporate Services has been taken into account.
- 1.2 The report recommends Executive Board to agree that :
- A Strategic Partnership is the vehicle for delivery
  - 77 acres of Council land is utilised by the Strategic Partnership
  - 375 affordable units per year are developed using the required amount of capital receipts from the 77 acres
  - Any additional receipts over and above those needed to achieve the annual development and subsequent equity generated from shared ownership schemes, is returned to the Council to allocate against its capital spending priorities, including the further provision of affordable housing.

## **2.0 Background Information**

- 2.1 The Affordable Housing Plan – ‘Making the Housing Ladder Work’ was agreed by Executive Board on the 15<sup>th</sup> November 2006. It was recommended that the principles of the plan for delivering affordable housing in Leeds be supported, and the proposal to develop a Special Purpose Vehicle (SPV) in respect of identified Council land be developed as one of the key mechanisms to deliver affordable housing across the city.
- 2.2 The Affordable Housing Plan agreed by Executive Board in November 2006 identified the following issues that were affecting the housing markets across the city:
- The lack of affordable housing will compromise the economic strength of Leeds
  - Increasing difficulties of first time buyers in accessing home ownership
  - The mis-match of the demand of social housing and its supply
  - Vulnerable Groups like the elderly and disabled are experiencing problems in getting the housing they need in the areas they want to live
  - How poor quality housing in areas with high levels of deprivation can impede proposed regeneration initiatives
  - The need to create a range of high quality housing across the city for all the people of Leeds as well as the incoming population

## **3.0 Strategic Requirements**

- 3.1 The creation of a Strategic Partnership will respond strategically at a national, regional, sub regional and city wide level.
- 3.2 At a national level there is a requirement to increase the levels of affordable housing as set out in the ‘Homes for All’ strategy that was issued in 2003 and is further supported by the implications of the 2004 Housing Act.

- 3.3 Recently, the government has identified the need for additional affordable housing as one of its top priorities. It is creating Communities England, which will bring together The Housing Corporation and English Partnerships. This new organisation will be responsible for ensuring that Government targets for Affordable Housing are met.
- 3.4 The recently published Hills Review of Social Housing that was commissioned by the Government supports the aims and objectives already recognised by the Affordable Housing Plan in terms of the future delivery of social housing and the creation of opportunities for social housing tenants to achieve home ownership opportunities.
- 3.5 At a regional and sub regional level the Strategic Partnership will contribute towards increasing levels of affordable housing that will respond to the Regional Spatial Strategy, Regional Housing Strategy and the West Yorkshire Housing Statement. These aspirations are supported and endorsed by the Regional Housing Board. The proposed approach is not unique to Leeds. Indeed within the region, Sheffield has already developed a similar strategy which the Housing Corporation strongly supports.
- 3.6 At a city wide level this approach supports the Local Strategic Partnership in respect of delivering the 'Vision For Leeds' through the implementation of the Housing Strategy and the Regeneration Plan, as well as contributing to the City Growth Strategy.

#### **4.0 Key Objectives**

- 4.1 The key objectives against which the various mechanisms have been reviewed are:
- To meet the strategic objectives of the Affordable Housing Plan in terms of increasing the levels of affordable housing and supporting the Corporate aims of the Council and the Local Strategic Partnership.
  - To meet the regional spatial strategy recommendation for a 30% requirement of all new homes to be made affordable across Leeds
  - To make a significant contribution to the need of 1889 affordable units per annum as identified in the 2006 Housing Market Assessment that will be required over at least the next six years (The Housing Market Assessment was carried out for Leeds CC by independent consultants who follow government guidelines in drawing together the information, this includes secondary data, a household survey and stakeholder consultation seminars).
  - Developing a strategic approach towards the use of Council land to maximise public and private sector investment
  - To contribute toward creating access routes for new and emerging households on to the new "Housing Ladder"

#### **5.0 How Will Affordable Housing Be Increased**

- 5.1 Having set out the business need, strategic context and key objectives, it is worthwhile considering how the Strategic Partnership will contribute in real terms to the overall strategic aim of increasing affordable housing across the city.

- 5.2 The initial feedback from the Housing Market Assessment is that 1,889 units of affordable housing are needed in the city each year for at least the next 6 years. Within that time frame the Council can expect to deliver:
- 625 units per year through S.106 agreements
  - 50 units through the Regional Housing Board funding
  - 375 units per year through the Strategic Partnership using the 77 acres of HRA land
  - 50 units per year through the ALMOs returning long term voids
- 5.3 The Strategic Partnership will make a significant contribution to increasing the affordable housing across the city. It can be seen that the Strategic Partnership and other initiatives will contribute 1100 units on a yearly basis. However there will still be a shortfall of 789 units per year. The Council will still need to consider other initiatives and funding routes in order to address this deficit.
- 5.4 The Council has entered into discussions with various low cost home ownership providers, Wimpey, Ikea and Redrow for example. Provision of affordable low cost home ownership provision is being pursued and the Council is actively encouraging this type of housing. In accordance with PPS3( planning policy guidance),the Councils view is that this type of low cost home ownership is not a replacement for affordable housing but needs to be sought in addition to more traditional affordable housing products.

## 6.0 The Options

- 6.1 Three options have been considered for the delivery model

**Option 1** – The Leeds Partnership Homes (LPH) Model

**Option 2** – A Strategic Partnership

**Option 3** - An Arms Length Company

- 6.2 A strategic option appraisal assessing how the delivery options have been assessed is available within the library of supporting documentation available on the website. This appraisal demonstrates what the various delivery models could deliver. The strategic appraisal has been tested against the key objectives as set out in 5.0 of this report. Similarly the legal and taxation advice in relation to the three options has also been considered and using this advice along with the strategic option appraisal, Option 2 is the preferred vehicle for delivery.
- 6.3 **Option 1** The Leeds Partnership Homes (LPH) model was considered, however the strategic option appraisal revealed that the Council would have limited influence and control as it would be an individual board member. As the Council is the provider of land this would not be acceptable.
- 6.4 **Option 3** An Arms Length Company was considered but the disadvantages were that there are onerous obligations and duties to fulfil including an obligation to file information and documentation with Companies House. The issue of taxation compliance and VAT complications were also considered less advantageous. Staff would need to be TUPED over to the arms length company and this can be problematic. The issue of the Council only maintaining a minority interest would be a disadvantage to the Council who are

the major provider of land. The Councils influence and control would be substantially reduced.

- 6.5 The appraisal evaluation has revealed that option 2- the Strategic Partnership provides the Council with the most influence and control in terms of achieving the corporate objective of delivering greater affordable housing and also sets a clear strategic direction across the city for increasing affordable housing provision and maximising the levels of private and public sector investment in a consistent and co-ordinated manner.
- 6.6 These three options were considered by Asset Management Group who support the recommendation that a Strategic Partnership is the most appropriate delivery vehicle.
- 6.7 The Strategic Partnership once created would sit within the Council framework with a 'branded' identity . The Partnership would set the strategic direction for the future delivery of affordable housing across the City.
- 6.8 The Partnership in terms of membership will include key internal and external representatives from Neighbourhoods and Housing, Legal Services, Corporate Services and Development Department. The Housing Corporation and English Partnerships now known as Communities England, Government Office and the Chair of Leeds Housing Partnership would all be members.
- 6.9 The Partnership would maximise public sector funding through the Housing Corporation and would monitor and review the increased delivery of affordable housing through the planning process.
- 6.10 Leeds CC staff from the existing Housing Strategy Team would be seconded into a delivery team reporting to the Board of the Strategic Partnership. The team would ensure that affordable housing schemes would be delivered.
- 6.11 The strategic board would commission schemes to be delivered by a dedicated delivery team. High level monitoring would be undertaken by the team and reported to the Board. Registered Social Landlords (RSLs) partners have indicated a willingness to contribute revenue finance.

## **7.0 Financial Implications**

- 7.1 An exercise has been undertaken to identify council owned land suitable for the provision of affordable housing. Following this exercise sites to the value of £40m (77 acres) have been identified, however there would be decanting and demolition cost apportioned to these sites which would cost the Council in the region of £16m leaving a net council return of £24m. The list of sites is available for Members but due to the commercial nature is confidential information.
- 7.2 The Council could choose to allocate all or part of that receipt to meeting the existing capital programme, however, this would prevent the investment necessary to deliver against the affordable housing strategy

- 7.3 By choosing to utilise the 77 acres for the re-provision of affordable housing, a leverage of up to £12m housing corporation grant per annum over a 6 period could be attracted. Additionally this would attract £39m private sector investment per annum over the same time period.
- 7.4 The Strategic Partnership will require the necessary capital receipts generated by the sale of the 77 acres of HRA land in order to provide the 375 affordable housing units per annum for the next 6 years.
- 7.5 However, any additional receipts over and above those needed to meet the annual development and any subsequent equity generated from shared ownership schemes, within any development included in the 77 acres will be returned to the Council to allocate against its capital spending priorities, including further expansion of affordable housing.
- 7.6 To date 77 acres of land has been identified and valued by Property Services within Development Department. The gross valuation is £40.01m. An exercise was undertaken by Neighbourhoods and Housing to ascertain the cost of decanting and demolition costs relating to this site area and this equates to £16m, therefore the net value of the 77 acres is £24.01m.
- 7.7 Assumptions have been made in relation to the numbers of new units which can be built on these sites. These have been derived from the 05/06 average new build densities for Leeds, which were 50 units per hectare for houses and 96 units per hectare for flats. The average of these two figures is 72. Therefore 72 is the figure used for the purpose of estimating how many new units can be built, assuming a mixture of houses and flats.
- 7.8 On the 77 acres (31 hectares) this would equate to 2232 new units which could be built over the next 6 years (a mixture of houses and flats). This equates to 20% of the Housing Assessment requirements over the next 6 years.
- 7.9 There are 3 options which demonstrate what could be delivered on the 77 acres depending on whether the sites are developed for (Option 1) wholly affordable housing, or (Option 2) mixture of affordable and market housing or (Option 3) wholly market housing.
- 7.10 Option 1, Using the 77 acres this could deliver 2232 affordable units grant funded by the Housing Corporation. This would attract in the region of £74m grant and £237m private sector investment (This information is derived from the average grant received from the Housing Corporation on a pro rata basis for the 2006/08 programme). A capital receipt of £11.2 would be received (£5k per unit) and this would be needed to cover the costs of decanting and demolition.
- 7.11 Option 2, Using the 77 acres split into 38.5 acres for low cost home ownership and social rent, funded by the Housing Corporation. This would deliver 1116 affordable units. This would attract in the region of £37m grant and £118m private sector investment on the 38.5 acres for affordable housing. There could also be expected to be an equivalent amount of private sector investment on the other 38.5 acres. On the remainder of the site 38.5 acres for the open market development, affordable housing would also be delivered through the planning system. An additional 279 affordable units could be delivered based on a 25% requirement. Therefore the total number of affordable units would be 1395 delivered via option 2 and a capital receipt of £25.6m ( this is derived from £5.6m from the HC funded element of the site and £20m from the gross

valuation of the remainder of the site) would be received under this option. The ALMO decanting and demolition costs have been estimated at £16m, which would result in a net capital receipt of £9.6m for the 77 acres. The necessary receipts and commuted sums (relating to city centre developments over 166 units) will be utilised to deliver the target figure of 375 units a year.

- 7.12 Option 3, Using the 77 acres for all open market housing then 2232 new housing units could be built of these 558 would be affordable through the planning system, based on the current policy of 25% requirement. Decant and demolition cost would equate to £16m leaving a net capital receipt of £24m.
- 7.13 Option 2 would be the preferred delivery mechanism for the 77 acres, as it would deliver a significant number of affordable units (1395) whilst generating a capital receipt (£9.6m after decanting costs). Option 2 would also allow the Strategic Partnership to decide which sites are suitable for open market disposal and which are suitable for 100% affordable housing (responding to individual site assessments).
- 7.14 An attached appendix demonstrates a typical site example and what could be delivered under the 3 options. The appendix also demonstrates the outcome of 3 different site areas; Scenario A is 40 acres, Scenario B 77 acres and Scenario C 120 acres. .
- 7.15 By transferring less than the 77 acres identified, the strategic appeal of this approach would be diluted. The Housing Corporation and Government Office have indicated that by having an overarching strategic commitment to the delivery of affordable housing and by identifying future developable land, a greater level of grant will be forthcoming. The levels of private funding from the Registered Social Landlords for schemes would increase in parallel.

## **8.0 Risk Assessment**

- 8.1 The risk of not establishing a Strategic Partnership and delivering affordable housing has been assessed and as well as all the issues which would affect the housing markets across Leeds ( listed in Para 3.1), the following has also been considered:
- Loss of funding from the Housing Corporation, £12m per annum for the next 6 years
  - Loss of private sector investment, £39m per annum for the next 6 years
  - Loss of addition affordable housing units, potentially up to 375 units per annum for the next 6 years.
  - The inability of the Council to respond to the need for an additional 1889 affordable units required each year for at least the next 6 years
- 8.2 The establishment of a Strategic Partnership is also considered to be the least risk for the Council. A Strategic Partnership gives the Council greater influence and control ensuring that decisions are taken in line with Council objectives and regeneration priorities.
- 8.3 The work carried out to date identified suitable sites for the provision of affordable housing has been a worthwhile exercise and should the Strategic Partnership not proceed alternative uses for the land will be considered.
- 8.4 On approval to establish a Strategic Partnership, the standard council risk assessment will be followed using recognised project management techniques.

## **9.0 Delivery Arrangements**

- 9.1 It is proposed that the Strategic Partnership would be guaranteed the 77 acres of land that has been identified. The Strategic Partnership would determine the best option for each site, as the sites become available, and working with specialists in the fields of Planning, Development, Procurement, Finance and Legal, oversee the transition from available land to the agreed outcome.
- 9.2 There would be a Strategic Board that would take responsibility for these processes. This Board would be made up of key internal representatives from Housing, Asset Management, Development Department and Corporate Services, the Board would also include an elected Council Member and representation from Communities England and the Government Office. At this stage, for taxation purposes, it would be an advantage for the Council to be the lead partner.
- 9.3 Beneath the Board there would be a delivery team that would report to the Strategic Board. The team would be responsible for the day to day work involved with the development of the sites focused on the delivery of affordable housing.
- 9.4 Work is being undertaken to establish the costs in revenue terms for the establishment of a Strategic Partnership. It is anticipated that £100,000 will be the maximum revenue cost. Staff will be seconded into the Strategic Partnership and part of the staff revenue costs will be covered by existing staffing structures within the Housing Strategy Team. RSLs partners have also indicated a willingness to contribute to revenue costs in order to secure development opportunities.

## **10.0 Implications for Council Policy and Governance**

- 10.1 The establishment of a Strategic Partnership to deliver additional affordable housing is a key component of the Affordable Housing Delivery Plan. The Plan is complementary to the Vision for Leeds, the Corporate Plan, Leeds Housing Strategy, the City Wide Regeneration Plan and the Corporate Asset Management Strategy.

## **11.0 Legal and Taxation implications**

- 11.1 Detailed information from Legal Services and the Senior Taxation Officer have been provided as part of the process for considering the most appropriate legal and tax efficient mechanism. These documents are available for members to review on the website.
- 11.2 Legal Services advised that in relation to establishing an appropriate legal vehicle the Council has powers under the Local Government Act 2000 to do 'anything' which it considers is likely to achieve the promotion or improvement of the economic, social or environmental well being of its area. These powers include power to incur expenditure, and to enter into arrangements or agreements with any person, and to co-operate with, or facilitate or co-ordinate the activities of, any person, and to provide staff or services to any person. Consequently these powers will include entering into contractual arrangements to establish the Strategic Partnership, and then participating in that Partnership. The Director of Neighbourhoods and Housing considers that the establishment of a Strategic Partnership model could make a significant contribution to increasing affordable housing across the City, hence promoting and improving the economic and social well-being of the Council's area and of those persons resident or present in the area who will benefit from housing of this nature. It is to be noted that



the Council needs only to consider the Partnership arrangements 'likely to achieve' well-being. The 2000 Act does not require the Council to be certain that well-being will result from these arrangements. It is also notable that neither the 2000 Act nor the government guidance are prescriptive about how well-being or its promotion or improvement are to be measured. The guidance states this is a matter for the local authority itself, 'taking account of their local circumstances'. It follows therefore that again the Council has a broad discretion in deciding how to assess economic and social well-being in this context, and the contribution which these arrangements will make. In deciding whether or how to exercise these powers, the Council must have regard to its community strategy (Vision for Leeds).

- 11.3 The senior taxation officer has reviewed the proposals and has commented on the taxation implications for the options. This concludes that based on the information provided, the strategic partnership option appears to offer greater VAT efficiency.

## **12.0 Conclusion**

- 12.1 The establishment of a Strategic Partnership is an integral part of the Affordable Housing Delivery Plan, the principles of which have been supported previously by Executive Board.
- 12.2 Following Corporate Option Appraisal guidance and legal and taxation advice, it is concluded that the best model for the Special Purpose Vehicle is the Strategic Partnership.
- 12.3 The transferring of 77 acres of HRA land to a Strategic Partnership will demonstrate that the Council is committed to increasing the supply of affordable housing in the City. This will, in turn, attract greater levels of Housing Corporation grant and allow significant private sector investment to be levered in.

## **13.0 Recommendations**

- 13.1 The Executive Board is asked to agree to:
- Support the establishment of a Strategic Partnership, as described within this report, with the purpose of increasing the supply of affordable housing in the city
  - Approve the transfer or utilisation of the 77 acres of Council land to the Strategic Partnership or other social housing partners for the purpose of developing affordable housing schemes across the city
  - Approve that the necessary capital receipts generated from the sale of the 77 acres of Council land is made available to the Strategic Partnership to deliver 375 affordable housing units per year for the next 6 years
  - To note that any additional capital receipts over and above those needed to develop 375 units per year and any subsequent equity generated from shared equity schemes, resulting from the development of the 77 acres, is returned to the Council to allocate to its capital spending priorities, including the further expansion of affordable housing.
  - To delegate arrangements for the establishment of the Strategic Partnership to the Director of Neighbourhoods and Housing.