

Report to: **Executive**

Date: **9 March 2017**

Title: **Community Housing
Development and Funding Strategy**

Portfolio Area: **Assets / Cllr Hilary Bastone**

Wards Affected: **all**

Relevant Scrutiny Committee: Overview and Scrutiny Panel

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken:
Immediately, for after full Council for
recommendations

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That the Executive Recommends to Council:

- 1.** The endorsement of the Community Housing Strategy set out in this report, specifically approving;
- 2.** The apportionment of the £1.88m Community Housing Fund (CHF) as per section 3 of this report, including the forward funding of 3 FTE for 2 years.
- 3.** The delegation of acquisition for sites up to £250k for the delivery of community housing from the CHF grant, to the CoP Lead for Assets, in consultation with the Portfolio Holder for Assets and S151 Officer.

Executive Recommendation:

- 4.** That a response be sent to DCLG ahead of the 10th March 2017 deadline, as per the Community Housing Strategy set out in this report.

1. Executive summary

1.1. In December 2016, the Government released details of the first year funding allocations to local authorities of the Community Housing Fund. South Hams were awarded a proportionately high allocation of £1,881,000 based largely on housing affordability and proportion of second homes in the district. Half of these monies in the sum of £940k have been received in January of this year.

- 1.2. The Council is required to respond to DCLG **by 10th March** 2017 setting out in broad terms the intended use and allocation of these funds and this report reflects the recommendations of officers, who seek member approval to proceed.
- 1.3. A lack of affordable housing has a significant impact on the underlying vitality and sustainability of local communities. Whilst affordable rented homes provide a required safety net for those in greatest housing need, the Government recognises a wider range of options are required to help people into home ownership in areas where house prices are beyond an affordable level for those on low and medium incomes.
- 1.4. The Community Housing Fund (CHF) will provide welcome financial support to many existing and emerging local housing projects but there is a recognition that many community housing projects have wider delivery issues beyond funding. The Executive is therefore invited to consider whether it wishes to establish a direct development capacity to support and deliver such projects.
- 1.5. It is proposed to deliver up to 5 schemes of 10 – 20 houses per year, and allocate funding to cover; capacity building, site purchase, design work as well as direct grant awards to existing community housing groups, as set out in section 3.
- 1.6. The construction phase of the projects would be funded from borrowing via the Public Works Loan Board (PWLB), and each scheme would come before the Executive and Council for a decision on a case by case basis. To be clear, Members are not being asked to consider the borrowing funding in this report.
- 1.7. The programme would be ultimately self-funding, as a small return on capital would be generated through the construction and sale of houses, to reflect the risk the Council takes in this phase.

2. Background

- 2.1. Community Housing is defined by a set of requirements as follows:
- 2.2. *That the community must be integrally involved throughout the process in key decisions (what, where, for who). They don't necessarily have to initiate and manage the development process, or build the homes themselves, though some may do;*

A presumption in favour of community groups that are taking a long term formal role in ownership, management or stewardship of the homes, and

A requirement that the benefits to the local area and/or specified community must be clearly defined and legally protected in perpetuity

- 2.3. The CHF is specifically targeted at *community-led housing* projects as distinct from affordable homes provided by registered providers that are eligible for alternative grant assistance.
- 2.4. The funding can support either revenue or capital requirements and the funding criteria point to certain objectives and outcomes as follows:
 - 2.4.1. To increase overall housing supply
 - 2.4.2. To support areas affected by high house prices and/or proliferation of second homes, particularly rural and coastal settlements.
 - 2.4.3. To help deliver housing projects that are initiated or supported by local people or organisations (e.g. Community Land Trusts (CLT's); Parishes; Neighbourhood Planning groups; local trusts)
 - 2.4.4. To encourage community participation in the placemaking; development; ownership and management of local housing schemes
 - 2.4.5. To deliver permanently affordable or low cost homes that respond to local housing needs.
- 2.5. The role of Local Authorities in using the CHF to help achieve these objectives is not precisely defined. This might include acquiring suitable sites; capacity building; providing direct development support or gap funding.
- 2.6. The South West is an area that has a relatively high proportion of self-help housing groups and within South Hams there CLT housing projects currently in the pipeline at Totnes; South Brent and Harberton.
- 2.7. However such schemes are often under-resourced and as a result many stall or take years to come to fruition. Promoting this as a platform for delivering affordable housing carries with it an additional risk that vulnerable groups will be drawn into an over-commitment of their time and/or financial resources.
- 2.8. The paper attached in Appendix A sets out the case for the Council offering to partner with local community groups providing development support to help acquire suitable sites as well as facilitate, fund and project manage the development. This would be based on a collective custom-build model, delivering infrastructure and core buildings designed in partnership with a local community group or CLT.
- 2.9. The aim is that the Council would offer to derisk the development process and help deliver more projects, more efficiently and more securely. To achieve this the Council needs to build internal capacity to manage this programme and the CHF can contribute to that objective.
- 2.10. The programme will support the delivery of low cost housing, available in perpetuity and tailored to the specific needs of local people.

3. Outcomes/outputs

- 3.1. Our target is to deliver up to 5 project sites each year, from year 2 of the programme. Each site would be expected to deliver 10-20 homes (i.e. 50 to 100 new homes pa).
- 3.2. Of the £1.88m funding available in 2017, the following allocation is proposed:
 - 3.2.1. Internal capacity building, (to include setting up an arms-length company, subject to prior legal advice and separate Council approval) constituting the appointment of a new development director, project manager and community facilitation officer, reporting to the Assets CoP. Allocation £300k, to forward fund the full time posts for two years, after which the programme will be self-funding.
 - 3.2.2. Up, to £900k for the acquisition of new project sites. Site values are anticipated to be up to £250k. It is proposed that delegated authority to purchase sites *specifically* for community housing up to that value is delegated to the Assets CoP in consultation with the portfolio holder for Assets and the S151 officer.
 - 3.2.3. Up to £400k for grant funding for community housing groups that don't wish to utilise the Council's Community Housing delivery model, and grant funding will be made on a case by case basis by the housing team, in accordance with agreed criteria to be developed by the Housing Team.
 - 3.2.4. Up to £300k for supply chain costs to cover: Site assessment and appraisals, planning advice, planning applications, design, contract preparation and administration.
- 3.3. The construction costs of each scheme would need to be funded direct from the Council, in the form of borrowing from the PWLB, as the CHF is insufficient to fund construction on any meaningful scale. This needs to be explored further and funding for construction would be brought to the Executive (and Council) for approval on a case by case basis and be based on a business case that delivers a return on capital (ROC) of 15% to reflect the risk the Council will take.
- 3.4. The programme value once construction starts (year 2 onwards) would be in the order of £10M-£15M.
- 3.5. Key targets for year 1 would be
 - 3.5.1. To identify up to 5 pilot projects (existing schemes)
 - 3.5.2. Build an internal development capacity of 3 FTE.
 - 3.5.3. Select support consultants (currently underway)
 - 3.5.4. Articulate the delivery model and partnership offer
 - 3.5.5. Acquire or secure options on 3-5 new project sites

- 3.5.6. Host a networking event for Parish/Town and Neighbourhood Planning Groups (April)
- 3.5.7. Support the delivery of existing CH initiatives through direct funding, landowner's agreements; design and development support; coordinating peer to peer learning etc.
- 3.6. This initiative will require close working between officers in the Assets CoP and the Housing Teams and the development of these proposals has been undertaken jointly.
- 3.7. The proposal to take community housing into a subsidiary development company should form part of the considerations of the LACC working group, but this will not delay the initial capacity building and community engagement phase of the programme.

4. Options available and consideration of risk

- 4.1. A lower risk option would be to simply distribute and monitor funding but this does not deal with delivery capacity issues and would limit the scope of this programme. It is the case however, that there will be an element of direct funding as part of the CHF policy offer.
- 4.2. Delivery and financial risk would be transferred from individuals and CLT's to the Council.
- 4.3. Subject to further legal advice and the recommendations of the (LACC) Joint Steering Group it is proposed to undertake this activity within an arms-length corporate vehicle set up for this purpose that would hold limited liability. SHDC would deploy professional project management resources and construction partners to mitigate delivery risk and these costs are included in 3.2.4 above.
- 4.4. Use of Council resources and capital to offset risk would be subject to an entitlement to a development profit of c.15% ROC that could be reinvested in the programme.
- 4.5. Funding would be supported by the CHF and future loan finance through PWLB.
- 4.6. This funding is not intended to support conventional delivery of affordable homes through registered providers but s106 reserves would enable the Council to continue to offer support for such schemes

5. Proposed Way Forward

- 5.1. That the Executive approves the commencement of a community housing development programme, that is appropriately resourced and able to deliver affordable, sustainable and locally managed housing schemes.
- 5.2. Approval to spend the CHF grant in accordance with section 3 and delegation in relation to acquisitions is approved.

6. Implications

Implications	Relevant to proposals Y/N	<p>Details and proposed measures to address</p> <p>The Council have been allocated this funding by central government in response to concerns over the number of second homes in certain areas and the impact this has on affordable homes for local people. If this funding is not put to good use the Council reputation could be tarnished and compromise future funding opportunities. Innovative use of this funding is likely to have a significant positive impact on housing within SH.</p>
Legal/Governance	Y	<p>Member approval is required to authorise the spending of the CHF in the terms set out in this report.</p> <p>The legal implications of subsidiary companies will form part of a further report to members.</p>
Financial		<p>The setting up of this development programme relies largely on the CHF grant which in year 2017/2018 is £1.88m to SHDC. The level of funding in future years may be uncertain but it is nevertheless clear that this will be strongly influenced by the Council's ability to deliver affordable homes from this programme in the future.</p> <p>The intention therefore is to use this funding programme to build capacity and secure sites for future development so that this becomes a self-financing activity that could return revenue to the Council in the form of profit on activities as well as meeting policy objectives.</p> <p>Future spending decisions to fund construction would require further approval.</p>
Risk		<p>All property development carries significant risk. It is capital intensive and complex requiring professional skills and expertise.</p> <p>A concern is that if this risk falls to community organisations who may not have such expertise things can easily go wrong (as recently demonstrated at Broadhempston CLT). This policy of direct development with community groups mitigates this risk.</p> <p>A primary consideration therefore in channelling resources into a direct development vehicle is to absorb that risk in house in a manner that can</p>

		<p>offset this risk with appropriate skills and resources.</p> <p>By not doing this the Council runs the risk of losing the funding and any subsequent further funding opportunities</p> <p>The Council accepts that by taking this risk through direct development, it will be take a 15% return on capital for each scheme approved. This will allow the programme to become self-financing.</p>
Comprehensive Impact Assessment Implications		
Equality and Diversity		N/A
Safeguarding		N/A
Community Safety, Crime and Disorder		<ul style="list-style-type: none"> N/A
Health, Safety and Wellbeing		
Other implications		

Supporting Information

Appendices:

Appendix A – Community Housing Briefing Note.

Background Papers:

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Cabinet/Scrutiny)	Yes