



CAMBRIDGESHIRE AND PETERBOROUGH COMBINED AUTHORITY BOARD	AGENDA ITEM No: 2.1
26 SEPTEMBER 2018	PUBLIC REPORT

HOUSING STRATEGY

1.0 PURPOSE

- 1.1 Across the Combined Authority there is a target to build at least 100,000 new homes, including 40,000 affordable new homes and to accelerate their delivery by 2037.
- 1.2 The Housing Strategy being proposed seeks to address current and potential future housing challenges facing the area, both in the next few years and the longer term.
- 1.3 To support this, last year the Combined Authority received a commitment from central government for the receipt of £170m to bring forward 2,500 homes by March 2022. To deliver this there are effectively two sub programmes running. £70m is allocated to Cambridge City Council to deliver 500 additional affordable homes, the balance of £100m is allocated to the rest of the Combined Authority area to deliver an additional 2,000 homes. We will work with partners to deliver on this ambition.
- 1.4 The Combined Authority will provide strong leadership and use the additional investment and flexibility afforded through devolution to do this. We will take a strategic and collective view and make the necessary interventions and investments that will deliver the homes that are needed for the future success and prosperity of our communities.
- 1.5 The housing strategy will need to sit alongside the wider Combined Authority Investment strategy which is currently being developed.
- 1.6 In this context, the purpose of this report is to ask the Board to agree the approach to proceed with delivering the Housing Strategy for Cambridgeshire and Peterborough.

DECISION REQUIRED

Lead Member:	Portfolio Holder for Housing and Chair of Hosing and Communities Committee
Lead Officer:	Roger Thompson, Director of Housing and Development
Forward Plan Ref: 2018/09	Key Decision: Yes
<p>The Combined Authority Board is recommended to:</p> <p>(a) Agree the approach to delivering the Housing Strategy set out in the 31Ten report in Appendix 1</p> <p>(b) Agree the concept of creating a revolving fund of monies from within the £100m programme for housing investment, to run within and beyond the 5 year programme</p>	<p>Voting arrangements</p> <p>Simple majority</p>

2.0 BACKGROUND

2.1. The housing system faces a number of challenges that impact economic growth, social well-being and public service delivery:

- (a) Historically in most areas nationally, housing delivery has not kept up with demand. Most houses have traditionally been newly constructed, so the number and rate of new build properties is crucial.
- (b) Housing is barely affordable for many people.
- (c) Communities and housing schemes are not habitually designed to support the diverse aspirations of communities, healthy living and healthy ageing.
- (d) Large housing schemes controlled by national house builders tend to deliver a similar type of housing product for which there is a maximum demand or profit margin in a particular locality. They control supply, with the principal objective being to maximise profits.

2.2. The £170m investment to March 2022 is a much-needed intervention that will benefit thousands of residents. The challenges we will face over the next few years and beyond will require a fully flexible and at times bold approach.

2.3. With an aspiration to deliver 40,000 affordable homes over the next 20 years. The 2,500 affordable homes from the £170m programme will make a significant contribution, but will not meet all anticipated need in the next few years.

2.4. The Housing Strategy has been developed alongside consultants 31Ten who have provided a comprehensive Housing Strategy report, attached in Appendix

- 1.
- 2.5. As referred to in the 31Ten report (Appendix 1) market rents and house prices across the region are generally high when compared in proportion to local incomes, resulting in high levels of rental deprivation across much of the region and difficulty for average or lower income earners being able to afford to purchase their own homes.

3.0 THE HOUSING STRATEGY

Issues in the Creation of the Housing Strategy

- 3.1. According to the recent Sir Oliver Letwin report (interim) into the rate of build in the housing market, without greater competition between developers or other market interventions, it is unlikely that 'build out rates' (the rate at which homes are built) will increase.
- 3.2. There is also existing and potential skills shortages, Letwin highlights a shortage of bricklayers, with 15,000 being required. The Royal Institution of Chartered Surveyors said 40-60% of construction employers had shortages in professions and trades.
- 3.3. Letwin indicates that the key driver of build out rates by the major housebuilders is the 'absorption rate', the rate at which new homes can be sold without affecting market prices. This is determined and at times limited by the limited type and tenure of houses being developed and the fact that there are limited opportunities for rivals to enter large sites and compete by offering different unit types and tenures.
- 3.4. Letwin considered forcing housebuilders to build houses more quickly or reduce prices that they sell homes at. However he concluded that this would create serious problems for the housebuilders, potentially the wider housing market and wider economy.
- 3.5. Letwin looked at smaller and mid-size sites and found that homes tended to be built faster, often by regional rather than national developers. However, he highlighted that this should not be pursued at the expense of breaking up larger sites.
- 3.6. Letwin's preferred option is the creation of a wider variety of the types of houses and tenures on each site to widen the market and pool of potential end users. This call for diversity is one of the strongest messages from his interim review.
- 3.7. Letwin frequently found that the demand for social and affordable housing was virtually unlimited in most of the locations he visited.
- 3.8. The Savills Housing sector survey 2018 indicated that the main priority for the sector should be delivering new homes rather than managing existing stock.

Key housing demands are particularly from working households, vulnerable households and homeless.

- 3.9. The Savills survey indicated that the biggest challenge to housing associations was considered to be access to land. 86% responded that this was in their top 3 barriers to building new homes, with 45% advising that this was their number 1 barrier.
- 3.10. The Savills survey indicated that lack of subsidy or grant was an issue for 54% of respondents, with 22% making this their number 1 barrier.
- 3.11. Access to finance was an issue for only 20% of respondents, less than market risk 27%, organisational capacity and skills 30%, construction industry capacity 30% and government policy 24%.
- 3.12. Housing associations have been looking to partnerships in order to increase their firepower and skills to secure additional access to land. An example of this in the Combined Authority area is the emergence of EVERA, a partnership of 4 Housing associations in order to bring larger and more challenging opportunities to market.
- 3.13. The Savills survey indicated that housing associations are intending to deliver a mix of affordable rent, social rent, shared ownership and market sale units in the next few years. Approximately 60% of survey respondents indicated an intention to develop market sale units.

Key Objectives and Principles in the Creation of the Housing Strategy

- 3.14. To accelerate housing delivery to support Economic Growth.
- 3.15. To create Prosperous Places where people want to live.
- 3.16. To expand housing choices and opportunity through promotion of steps to promote home ownership using alternative tenure structures, potential starter homes and more shared ownership schemes.
- 3.17. Promoting all Housing (not just affordable) that is in addition to the existing development pipeline and encourage accelerated delivery within adopted local plans.
- 3.18. Be creative, in using a range of financial delivery mechanisms that have not traditionally been a method through which public sector organisations have supported and delivered housing. This aims to create a revolving fund that will outlast the £170m programme that will help to meet the longer term target of an additional 100,000 homes by 2037.
- 3.19. An ambition to deliver 40,000 affordable homes within the same time period, to help address the affordability of housing, particularly for key workers, first time buyers and those in low and medium paid employment who cannot easily access the home ownership market without family or other third party support.

This will support more sustainable communities.

- 3.20. To support the spread of Community Land Trusts (CLT's) which support their local communities.
- 3.21. Ensuring that housing supports the most vulnerable by offering increased choice and affordability for those requiring specialist care.
- 3.22. Supporting infrastructure to enable new housing schemes through a co-ordinated approach, particularly regarding transport by making strong links across strategies and projects within the Combined Authority.
- 3.23. Encouraging best use of all property assets, bringing homes that are currently excluded from the market back into market use and supporting the creation of new homes from existing built assets not currently in residential use.
- 3.24. To consider using the combined authorities borrowing powers to help to accelerate schemes using financial mechanisms as referred to in 3.27, where it aligns to the overall Combined Authority Investment strategy.

Key Components of the Overall Housing Strategy

- 3.25. Consider more direct action (Combined Authority to take an active investment approach), enabling action (Combined Authority distributing funds including loans, grants, infrastructure) and collaborative action (working with partners to support increased and accelerated delivery).
- 3.26. Patterns of transport infrastructure investment will signal opportunity and a need to be aligned to wider economic and property development initiatives. This includes potentially significant garden village housing opportunities that could offer a step change in the volume and speed of new houses of all types and tenure being made available in future years. This may include opportunities in strategic land and land value capture models that may help subsidize the infrastructure or additional housing.
- 3.27. The Combined Authority needs to be prepared to take the initiative on more direct interventions as typically referenced in the toolbox below and in the 31Ten report (See Appendix 4.2) and to take and manage the associated risks and returns from those activities.

A flexible multi toolkit approach



3.28. With an entrepreneurial spirit, along with well managed and selected housing investments, there is the potential over time for returns and profits to be re-invested into creating a larger and growing revolving fund with the capacity to magnify its impact on the housing market.

Strategy for the £100m Housing Fund to March 2022

3.29. With specific reference to our strategy for the future progress of the £100m fund to enable an additional 2,000 affordable units, we are setting ourselves a target to achieve the 2,000 affordable units through the provision of £60m of the £100m as direct grant. This is based on an average grant of £30,000 per unit. This mirrors the current average level of grant that has already been committed on the early wins schemes.

3.30. All future grants will have a clawback mechanism in the grant agreement, so that if scheme financial performance improves from the data in the original grant application, say for example by an increase in the final sales value of market units in a scheme, then an appropriate amount of the grant will be returned to the fund for future investment into more affordable housing. For budgetary purposes, at this time we are making no allowance for any such clawback, so such re-payments will be treated as windfall funds as and when they are received.

3.31. Table 1 below shows our projected targets for starts of grant funded units and toolbox scheme units between now and March 2022.

Target Unit numbers and Grant Drawdown Projection for £100m fund					
	current	By 31.03.2019	Yr 2019/20	Yr 2020/21	Yr 2021/22
Grant Affordable Housing (See Note) Unit Numbers (per period) Target 2000 units	289	211	600	500	400
Grant allocated from £60m (per period)	£9.1m	£6.4m	£18m	£15m	£11.5m
Toolbox Investment housing Unit Numbers (per period)		158	75	120	150
Toolbox drawdown status, initial max available £40m	£0m	£32m	£39.5m	£40.5m	£42m
Cumulative of the £100m Fund allocated	£9.1m	£46.93m	£72.93m	£87.93m	£100m
Cumulative Target Total Housing unit numbers	289	658	1333	1953	2503
<p>Notes: Net Toolbox drawdown by 31.03.2019 of £32m potentially comprises Haddenham £6.5m loan, circa £2.5m for a 'pilot' office to residential conversion opportunity and £23M for future housing scheme loans. Yrs 2019/20 and beyond is an estimate assuming more new schemes alongside the commencement of re-payments from the first round of schemes back into a revolving fund, and no additional funding being provided from any other sources.</p> <p>Affordable Housing definition is currently that defined in the Ministry of Housing, Communities and Local Government National Planning Policy Framework (July 2018)</p>					

3.32. We are suggesting that £40m of the £100m would be potentially allocated to a revolving fund to be invested into a variety of toolkit opportunities. This could potentially become part of a wider Combined Authority Strategic Investment fund.

3.33. If there are opportunities to increase the capital in this revolving fund, either from legacy projects like the Horizons infrastructure fund or additional lending if in line with the Combined Authorities overall investment strategy. We should positively consider this as it will enable more projects to be delivered.

Operational Criteria to be used in Decision Making of Grant Funding Applications

3.34. It is proposed that our approach to housing delivery and consideration of schemes being proposed to receive housing grant from the £100m will be assessed using the following criteria:

- (a) Amount of grant required per affordable unit (bearing in mind that the average budget rate of grant that we are targeting is £30,000 per unit).
- (b) Prospects for the recovery and subsequent recycling of any of the grant upon completion of the development. This will add value for money and provide funds to invest again into more homes.

- (c) Confirmation from the applicant (and registered provider if not the same) of the affordable need that will be being met by the completed development.
- (d) Ensuring a reasonable geographic spread of schemes where possible throughout the Combined Authority area. Previous data 'on need' indicated that every part of the Combined Authority area currently has a need.
- (e) Satisfaction that a scheme is capable of being unlocked and delivered within the project timescale (understanding issues like land ownership, restrictions, planning, construction/contractor appointment, certainty of projected cost, third party consents required) as a result of the grant investment.
- (f) Extent of additionality (affordable homes enabled by grant and other units resulting from a scheme that becomes viable, that would otherwise not proceed without the grant).
- (g) Any degree of acceleration as a result of a grant.
- (h) Any other public subsidy being committed to a scheme.
- (i) The ability of the grant investment to achieve affordable housing compliant planning applications, especially where this may be a barrier to achieving a planning permission for a scheme at all.
- (j) Schemes that promote the small and medium sized enterprises (SME) construction industry within the Combined Authority region, helping to promote local employment and skills within the local work force.
- (k) Other community benefits, both on and off site.
- (l) An over-riding concept of achieving value for money and
- (m) in spreading some benefit across all the different geographies of the Combined Authority will be applied.
- (n) Consistency of the use of data within the application.

4.0 FINANCIAL IMPLICATIONS

- 4.1. The £70m programme to deliver 500 affordable homes by Cambridge City Council is 'ring fenced' and being delivered by Cambridge City with drawdowns as their programme progresses.
- 4.2. On the £100m programme, the intention is to use approximately £60m to deliver the target of at least 2,000 affordable homes to be started by March 2022. The balance of £40m is to be used to invest into other financial mechanisms and toolkit schemes to deliver new housing, as part of a revolving fund which we will seek to gradually grow over time through astute financial investment to re-invest into more housing schemes.

- 4.3. Once the 2,000 unit affordable housing target has been met in the £100m programme, any remaining funds will be used as part of the revolving fund.
- 4.4. To consider using the combined authorities borrowing powers to help to accelerate the number and volume of housing toolkit schemes as part of a revolving fund, but keeping that in alignment with the overall Combined Authority Investment Strategy that prevails at any point in time. The overall Investment Strategy should be cross referenced with the proposed Strategic Investment Fund (SIF) in the 31Ten Housing Strategy Report.
- 4.5. The legal implications needs to be approved by the Monitoring Officer

5.0 LEGAL IMPLICATIONS

- 5.1. Implementing the Housing Strategy will require the creation of a Combined Authority Devco and potential subsidiary companies for the different forms of intervention, activities and strategies being actioned. For example; 'Infrastructure Co' for the delivery of infrastructure to enable housing schemes, 'JV Co' for joint ventures, 'Lending Co' for loan activity etc...
- 5.2. Further work is currently underway to review the requirements for the incorporation of the appropriate Devco company or companies to support the anticipated toolbox activities.

6.0 GOVERNANCE AND CONTROL

- 6.1. The £100m programme will be controlled by the CPCA Board and the Cambridge City £70 programme will be monitored by the CPCA Board.
- 6.2. Other 'toolbox' housing scheme activities will be controlled and monitored by the CPCA Board.

7.0 EQUALITIES & HEALTH AND SAFETY IMPLICATIONS

- 7.1. Any equalities or health and safety implications will be addressed as they arise in the implementation of the strategy.

8.0 NEXT STEPS

- 8.1. Undertake work required to understand and enable the creation of Combined Authority Devco and any necessary subsidiaries, to support the Housing Strategy in the most efficient and effective way
- 8.2. Report schemes being proposed for grant funding to October Board
- 8.3. Progress toolkit schemes and entrepreneurial opportunities to deliver Additional Housing, to report initial opportunities to Board before 2018 Calendar Year End.

9.0 APPENDICIES

9.1. Appendix 1: 31Ten CPCA Housing Strategy Report

<u>Source Documents</u>	<u>Location</u>
<p data-bbox="204 327 986 398">Sir Oliver Letwin's independent review of build out rates – interim report published 25 June 2018.</p> <p data-bbox="204 573 815 607">The Savills Housing sector survey 2018</p>	<p data-bbox="1034 327 1378 528">www.gov.uk/government/publications/independent-review-of-build-out-draft-analysis</p> <p data-bbox="1034 566 1378 685">www.savills.co.uk/research_articles/229130/246728-0</p>