

HOUSING SCRUTINY SUB

COMMITTEE

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Investment Partner Framework 2013-17 including a review of the Council's response to the challenges of Affordable Housing delivery

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**Environment and Regeneration
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Appendices

Appendix 1 - Scope of Services

1. SUMMARY

- 1.1 This report considers the re-procurement of the Council's Investment Partner Framework that is due to expiry in November 2013. It also sets out the Council's response to the challenge of Affordable Housing delivery in light of changes to the funding arrangements for new affordable housing.

2. BACKGROUND

2.1 Investment Partner Framework 2013-2017

- 2.1.1 The primary purpose of re-procuring the Investment Partner Framework for the Council is to increase the level of affordable housing being developed in the Borough and deliver a range of additional services that are detailed in appendix 1 - Scope of Services - Investment Partner Framework 2013-17.
- 2.1.2 Additionally, the framework will establish a partnership to address a range of cross service delivery issues from allocations to housing management and assist in the continuous improvement of standards delivered to tenants and residents in the Borough.
- 2.1.3 The existing framework has an excellent track record of delivery and collaborative working and this is set out in section 2.2 below.

2.2. Existing Investment Partner Framework

2.2.1 The existing Investment Partner Framework was procured in November 2009 and due for expiry in November 2013. The framework consists of 5 housing associations:

- East Thames
- Circle 33 Housing Trust
- Network Housing Group
- London and Quadrant
- North River Alliance (inc. Islington & Shoreditch Housing Association, Christian Action Housing Association, Gateway Housing Association, North London Muslim HA, Providence Row HA, Spitalfields HA, Lien Viet, Tower Hamlets Community HA and Bangla HA)

2.2.2 All the Investment Partners have complied with the requirements of the framework to sign up to initiatives such as the housing charter that look to improve the quality of housing provision in the Borough.

2.2.3 In terms of the supply of new affordable housing, by the time of the expiry of the framework in November 2013, the Investment Partners will have delivered or will be delivering in excess of 300 new affordable homes on land previously owned by the Council. This will include up to 85 homes for specialist Extra Care housing.

2.2.4 This is in addition to a further 900 homes via section 106 arrangements (such as Tesco Highams Park), land acquisition from private owners (such as Papermill Place) or purchase and repair schemes.

2.2.5 The delivery of these homes has levered in significant funding from central government agencies such as the HCA and the GLA as well as the Investment Partners own reserves and private finance. This in turn supports jobs both in housing and construction.

2.2.6 The table below shows the number of units delivered or due to be delivered between 2010/11 to 2013/14, which corresponds with the length of the current framework, and the level of grant secured in the Borough. This is matched by a commensurate level of private finance and reserves invested by the partners:

Investment Partner	Social Housing Grant 2010/11 to 2013/14	Number of units (new build and purchase & repair) 2010/11 to 2013/14
North River Alliance	£35,220,248	394
East Thames	£22,033,764	411
L&Q	£16,213,250	394
Network	£1,976,000	55
Circle	£880,535	90
Total	£76,323,797	1344

2.2.7 In addition to housing supply, our Investment Partners were involved in delivering on the gang prevention programme working alongside the Community Safety Team, leading on the LSP housing partnership, assisting the Council with the LA new build scheme and many other local initiatives to improve the quality of life of residents across the Borough.

2.3 New Investment Partner Framework 2013-17

2.3.1 The new Investment Partner Framework will build on the success of the existing framework that expires in November 2013.

2.3.2 The draft scope of services is included as appendix 1 and cuts across a number of Council's key priorities including the regeneration of our borough, protecting the vulnerable and improving the safety of our community. This is in recognition that housing plays a key role in building communities within the borough and that the framework needs to deliver more than just new homes with a focus on good quality services to Waltham Forest residents from our partners. It may also be the case that we need to utilise our Investment Partners on specialist projects such as estate regeneration. Additionally, as the housing landscape continually changes we can work with them to better understand the impacts of changes in policy made at a national level but delivered locally and the economic climate to mitigate against any potential negative impacts to the Council and borough residents.

2.3.3 The key themes of the new framework include:

- Housing supply
- Quality of stock
- Housing management
- Community safety and engagement
- Regeneration of the Borough
- Furthering the Council's Sustainable Communities Strategy

2.3.4 This will deliver a range of benefits to residents and the Council including new affordable housing, community initiatives and improved quality of housing and housing management through the Framework that will require Investment Partners to sign up to specific standards and charters required by the Council.

2.3.5 A key proposed change from the existing framework is the expansion from 5 Investment Partners to up to 8 partners. This will enhance the durability of the framework and is anticipated will deliver a more diverse range of services whilst offering the potential to increase value for money to the Council and competitiveness of partners when bidding for Council opportunities.

2.3.6 As the value of Framework will likely exceed the current OJEU threshold of £3,927,260 and the Council must comply with the Public Contracts Regulations 2006 a full OJEU tender exercise will be required to procure the Investment Partners to the Framework.

2.3.7 An indicative timetable for the procurement of Investment Partners to the framework is set out below:

Action	Date
Scoping paper	August 2012
Strategic Procurement Board	September 2012
Drafting of tender documentation and Framework Agreement	December 2012
Cabinet approval	February 2012
Issue PIN and PPQ documentation for restricted OJEU route	March 2013
Evaluate and shortlist for progress to ITT	April 2013
Issue ITT	May 2013
Receipt of tender	June 2013
Evaluation and contract award report to cabinet	August 2013
Award Contract and submit OJEU award	September 2013

2.3.3 *Economic downturn*

The economic downturn continues to have a negative impact on development in the borough. Developers' access to finance and the reduction in sales values in the borough combined with the continuing lack of mortgage finance available to prospective house buyers have resulted in many proposed schemes becoming unviable. As a result, a number of new schemes, which would have delivered significant numbers of new homes in the borough, have stalled or new schemes in planning are including lower levels of affordable housing than anticipated. The Investment Partnership has assisted in a delivery pipeline continuing in spite of the difficult economic conditions by the formation of strategic partnerships and the investment capacity that Investment Partners bring into the borough.

2.4 **Affordable Housing delivery context**

2.4.1 In 2011, the government introduced the affordable housing programme with the inclusion of the affordable rent framework. The Homes and Communities Agency (HCA), now subsumed into the GLA, is the funding body for Affordable Housing as set out in the 2008 Housing and Regeneration Act. During its three year 2008-11 National Affordable Housing Programme, the HCA had a budget of around £8.4bn to spend on affordable housing throughout England.

2.4.2 Following the spending review and end of the 2008-11 programme, the government introduced the affordable housing framework with a budget of £4.4bn for its Affordable Housing Programme 2011-15, of which £2.2bn was already allocated for approved schemes, and at least £600m was expected to be spent in London.

2.4.3 In order to allow development to continue with these limited funds, the HCA released its Framework Document for 2011-15, which sets out how affordable housing can be funded during the next four years. The main product for delivering affordable housing was established as the new affordable rent tenure.

2.4.4 Affordable rent allows Registered Providers to charge up to 80% of open market private rents (subject to a local RICS red book appraisal) and then use the additional rent received to subsidise the build costs of new affordable housing even

- 2.4.5 The GLA has also allowed a percentage of re-lets (i.e. properties that become void and require new tenants) to be let at affordable rents, subject to an agreement with the GLA to use the additional funds to provide new affordable housing. These funds will not be ring fenced to a specific area, meaning that it will be possible to use the additional revenue to fund affordable housing in another part of the Country.
- 2.4.6 If nothing else, this creates uncertainty as developers and housing associations work out the value of affordable homes as part of any development scheme and the rate of subsidy available to support this. The original framework guidance set out that delivery of section 106 affordable housing must be on the basis of nil grant, however, recent discussions between Strategic Housing and the GLA has suggested this stance has softened and where additionality can be proven or a viability argument can be made, grant may be available to support additional affordable housing over and above that detailed in the section 106 agreement. Uncertainty remains over the level of grant available to support affordable homes as part of section 106 agreements. The Strategic Housing team is working to ensure that Investment Partners and RPs working in the borough seek to maximise grant allocations to support affordable housing particularly on section 106 sites.
- 2.4.7 The Government is currently consulting on proposals to make it easier for developers to renegotiate section 106 agreements agreed when economic conditions were more buoyant (defined as pre-April 2010). This was initially proposed as part of the "Laying the Foundations: A Housing Strategy for England" which was published in November 2011. The government has now started the statutory consultation process and this ends on the 8th October 2012.
- 2.4.8 Currently, planning obligations as part of a section 106 agreement can be renegotiated on a voluntary basis and a formal request can be made when the obligation is 5 years old. It is proposed that for all planning obligations agreed on or prior to the 6 April 2010, the relevant local authority can be asked to formally renegotiate the terms one month after the introduction of new regulations. The consultation is unclear on the timescales for the regulations to come into force but we are mindful that the renegotiation of any section 106 agreements within the borough could see a reduction in pipeline supply of affordable housing over the next 5 years.
- 2.4.9 The Government are also considering whether to do away with section 106 agreements for affordable housing altogether following recommendations within the Montague review that suggest affordable housing could be replaced with private rented housing. We anticipate a consultation on this to be released shortly.

2.5 What is being done to aid the increase of supply in the borough?

- 2.5.1 Project and initiatives undertaken by housing and planning officers to bolster the supply of new homes in the borough are as follows:

Affordable rent guidelines

Following the introduction of the Affordable Rent Framework, that has seen the Government allow Registered Providers to charge affordable rent as opposed to a social rent. These are defined as rents at 80% of market rent (inclusive of service charge). The Council responded by setting out guidelines for the provision of affordable rented accommodation within the Borough to ensure homes of this tenure are affordable to residents whilst also ensuring the viability of development.

The Council's approach to rent levels is set out in the table below. This was approved by cabinet in May 2011:

	1 bed	2 bed	3 bed	4 bed+
% of market rents	Up to 80%	Up to 70%	Up to 60%	Up to 50%

The table below shows a comparison between various rent levels that are or could be charged in the borough:

	Average gross social rent per week (RSR June 2010)	Affordable Rent Framework @ 80% of market rent – E17 post code	Affordable rent based on council policy @ 60% of market rent – E17 post code
3 Bed House	£108.36	£240	£180

The Council's adopted Core Strategy and also, Development Management Policies (Proposed Submission) states level of rent charged on affordable housing will be 'significantly lower' than market rents. National policy makes it clear that affordable rented housing is to be let to 'households who are eligible for social rented housing' and should not be counted as part of the intermediate affordable tenure. The proportion of social rented homes that are delivered as the 'Affordable Rent' product in relation to intermediate homes will be determined on a site by site basis with regards to a site's location and with reference to viability, and the level of rent charged for affordable rented homes should be in accordance with the Council's guidance, 'Strategic priorities for the supply of Housing in Waltham Forest', on this product.

The Council is clear that larger homes let at 80% market rents will not help us to meet our priority housing need in the borough. Based on research undertaken on behalf of the East London Housing Partnership, our guidance is that rents for property types must meet our definition of affordability, and this guidance, is based upon the assumption that rent payable should be no more than 33% of gross household income.

Development viability guidelines and process

Deferred Contributions

The level of affordable housing on section 106 schemes has been suppressed due to the current economic climate and the introduction of affordable rent with no grant support for section 106 delivery. For example, Sutherland Gateway could only deliver 11% affordable housing. As a means to ensure housing continues to

be delivered in the borough, the Council needed a mechanism so that when economic conditions improve any improvement in scheme viability could secure additional affordable housing on site. The deferred contributions approach provides a way of capturing this uplift and is detailed below.

All sites should make an affordable housing contribution, including mixed use schemes which are capable of providing an element of housing, subject to viability. The policy of the Council is to provide 50% of the housing proposed as affordable on site. In recognition of the challenging economic climate, the Council has established viability guidelines to enable affordable housing and S106 contributions to be captured when viability improves. This is done by having a reassessment part way through or at the end of the development period and, should viability improve, specifically identified units can be converted from private sale to affordable housing or, if this is not possible, a financial contribution is paid to the Council in lieu of on site provision. This falls in line with expectations in the London Plan and the HCA guidance "Investment & Planning Obligations: Responding to the Downturn". This approach has been agreed with developers or RPs on a number of sites, including the following sites where viability has been challenging:

- Billet Road (Banbury Park)
- Walthamstow Dog Track
- Walton House
- Sutherland Gateway
- Ruckholt Road

The Council will firstly seek that the affordable housing provision be made on site, then on a site which is nearby. The Council will only accept off site contributions where it is not practical to provide it on site or nearby. The Council reserves the right to investigate any practical reason why affordable housing cannot be provided on site. This usually involves a viability assessment to be carried out to evidence that affordable housing provision is not financially viable.

Where off site contributions are considered acceptable, the developer will be required, subject to viability, to pay a contribution that reflects both the land value and build costs for the number of affordable units that should have been provided on site applying the 50% target. This will ensure that, in accordance with national policy, the contributions are 'of broadly equivalent value' to that which would have been secured through on site provision.

The off site contribution will be based on the estimated cost to the applicant of providing the equivalent amount of affordable housing on site. This will be based on the following formula:

The open market value of the Section 106 units minus the maximum offer an RP would pay (less RP fees) minus additional developer costs.

All off-site contributions will be pooled and used to provide or improve affordable housing in the borough. As it may take a number of years to acquire adequate pooled funds to implement affordable housing development; the S106 agreement will secure a return of unspent funds to the developer after 10 rather than the usual 5 years.

Small sites contribution in DM3

Around 88% of the sites within the borough are classed as small sites delivering 10 or less units and under the previous policy arrangements these would not deliver any affordable housing contribution. By introducing a small sites contribution, we can pool the income to provide or improve affordable housing in the borough.

The London Plan (2011) policy 3.13 allows London Boroughs to consider thresholds for provision of affordable housing below the minimum threshold of 10 homes. 80% of the Borough's housing sites fall into this category, and could provide approximately 1,700 new homes, which will make a significant contribution towards affordable housing provision in the borough.

Therefore, in order to maximise the provision of affordable housing, the Council will require small sites (1-9 homes) to make a contribution to affordable housing provision in the borough. The Council may decide that it is not desirable or practicable to provide affordable housing on site for small sites and thus off site contributions may be considered more appropriate. When assessing the viability of small sites, the Council will require a simple financial appraisal which includes site acquisition costs, predicted sales values, expected build costs, build cost as a rate per square metre and anticipated profit levels.

The contributions are based on 10% of Residual Land Value (RLV) which would be introduced over a 3 year period, with 33% of the contribution being charged in the first year, 66% of the contribution being charged in the second year, and the full contribution being charged in the third year. Following a review on the impact of the contribution on land values and development pipeline, the contribution would move to 15% for the fourth year forward. The contributions will then be reviewed on an annual basis.

Site disposals

Strategic Housing and Property Services have identified a number of sites for disposal and delivery through the Investment Partner Framework up to 2015. These include:

Pump House
Garage sites
May Road
Francis House
Stanley Road Car Park
Sutherland Road
Weale Road (Extra Care)
Flaxen Road (Extra Care)

All disposals are subject to planning and have the potential to deliver up to 230 affordable homes for rent and shared ownership in the borough over the next 2 years. These disposals have assisted in continuing delivery of housing in the borough despite the subdued private sector market.

Garage strategy

Cabinet approved the garage strategy in November 2011. Officers from strategic housing, asset management and Ascham have progressed with the tender of 22 sites across two packages through our Investment Partner Framework. Network and East Thames will be working towards planning applications for the sites over the next 3 months and this will involve resident consultation. This has the potential to deliver up to 90 affordable homes subject to planning permission and resident consultation.

To facilitate delivery of the garage strategy, a number of sites are being disposed of at auction and the rolling programme of sites being put forward has begun with 4 sites sold to date and another 2 due to be sold by the end of September. The project team are identifying sites that could be sold through the Investment Partner Framework as opposed to disposed of at auction.

In addition, once £1.6m of receipt is secured we will begin a programme of public realm, surface parking and refurbishment works on the remaining garage sites. This will be subject to resident consultation on works to be carried out.

Options appraisal work

The Council works closely with Ascham homes to identify void properties that arise with major investment requirements and are deemed to be financially unsustainable to carry out void works.

This has led to a number of options appraisals being carried out to identify more efficient and sustainable ways to deal with major voids. POD carried out two recent options appraisals for Warburton Terrace and 275 Wood Street and found that not only could more suitable, new accommodation be provided on those sites but the number of homes could also be increased with little or no cost to the Council.

This is an important strand of delivery in the borough as not only does it provide the opportunity for new housing and regeneration but relieves pressure on existing asset management strategies that deal with investment in the wider stock in the borough.

LA New build

The LA new build project is now complete and has seen the addition of 22 council owned homes to the housing stock within the borough including family and wheelchair accommodation.

The project was funded by £1.88m from the GLA and a further £1.7m of prudential borrowing and Council reserves.

Not only did this project deliver much needed affordable housing, it addressed issues of ASB and crime on two under used garage sites in the borough highlighting the regenerative impacts of housing development on these types of sites.

Empty Homes

There are 2,475 empty homes identified within the borough and the core strategy is clear that the Council will support initiatives to bring these homes back into productive use. Reducing the number of empty properties in the Borough can also result in improved environmental conditions and a reduction in the level of crime, anti-social behaviour and blight often associated with empty and derelict properties.

With this in mind, the Council has supported the work of two consortia to access funding to bring empty properties back into use. Waltham Forest Community Consortium lead by Causeway Irish Housing Association were awarded £945,000 to bring at least 15 empty homes back into use from the CLG community grants programme and the Revive consortium (including Shian Housing Association, ARHAG Housing Association, Bahay Kubo Housing Association, Causeway Irish Housing Association, Home From Home HA, Phoenix Community Housing Co-operative and Tamil Community Housing) received £1,254,000 to refurbish 56 empty homes across 6 London boroughs including Waltham Forest.

2.8 Delivery commentary

- 2.8.1 The continued slow down of private development in the borough has inevitably impacted on the supply of affordable housing through the Section 106 pipeline. The majority of new affordable homes in 2011/12 have been provided through RP-led developments and acquisitions and the Strategic Housing and Investment team has continued to support RPs in their efforts to acquire sites, from the Council or on the open market.
- 2.8.2 It is evident that RPs working in the borough have re-appraised their appetite for development risk and a number of RPs now appear to be taking a very different approach to developing new schemes in the borough. The Strategic Housing and Investment team has been approached by a number of developers and RPs seeking to flip planning consents with low level affordable housing provision to 100% affordable housing schemes. This is due to the suppressed private housing values in the borough meaning affordable housing schemes produce as much value to a landowner or developer as a private housing scheme.
- 2.8.3 The Strategic Housing and Investment team is working to maintain the aims of the Core Strategy in terms of mixed and balanced communities, particularly on larger sites, by insisting on an element of private sale to ensure that a range of tenures are delivered for residents to access.
- 2.8.4 The table below shows the number of new affordable homes in the borough delivered by RPs in 2011/12.

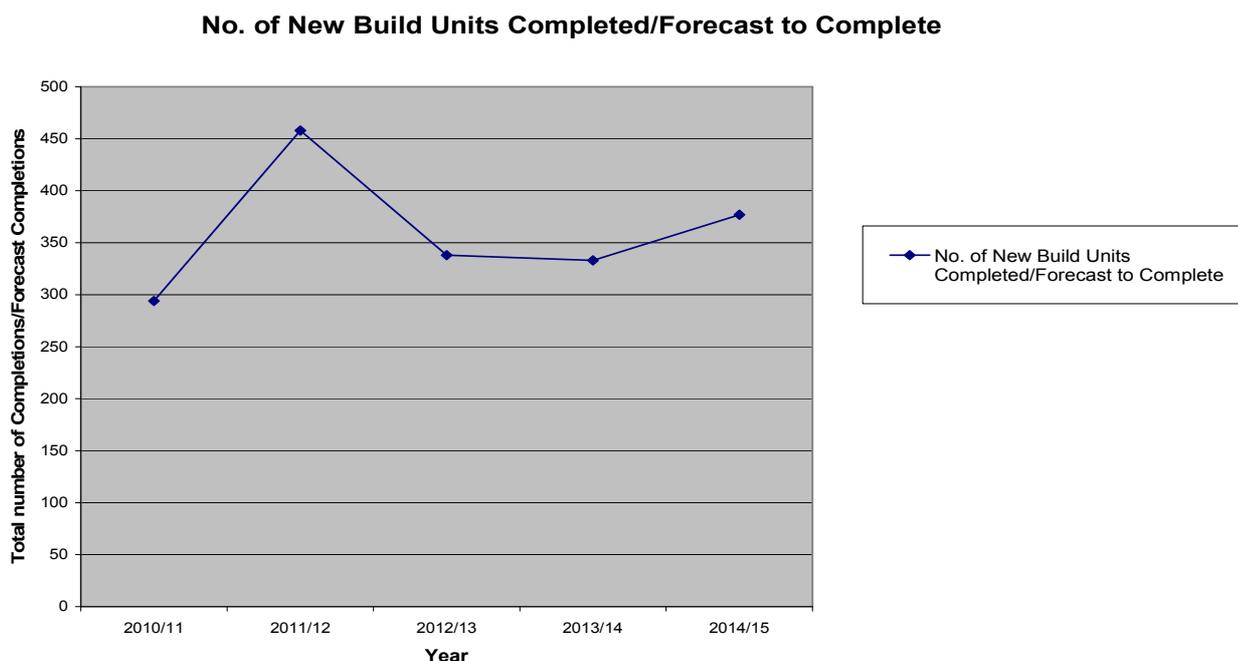
Provider	New completions	build
North River Alliance	208	
London & Quadrant	92	

Family Mosaic	45
CBHA	40
Sanctuary	25
LB Waltham Forest	22
East Thames Housing Group	16
Metropolitan Housing Trust	10
Total	458

2.8.5 North River Alliance and L&Q have produced significant numbers of units in 2011/12. East Thames has also been proactive and sizeable pipeline of new schemes over the next two years. Network Housing Group and Circle is working well with the Strategic Housing and Investment team to build its pipeline in the borough and is actively looking to develop new homes through the acquisition of both Council sites and sites in private ownership.

2.9 Affordable pipeline and challenges

2.9.1 The target for 2012/13 is 380 affordable units. The chart below shows affordable housing completions for the period 2010/11 to 2014/15. The peaks can be explained in relation to the Government's affordable housing programmes (2008-11 and 2011-2015) where completions are often back ended as the pipeline supply chain increases capacity. It is likely the 2014/15 completions will increase as more sites are identified by RP's seeking to deliver on their AHP 2011-15 commitments and Council site disposals to Investment Partners feed into the pipeline.



- 2.9.2 2011/12 saw no single scheme exceeded 45 affordable homes with many much smaller than this.
- 2.9.3 A snapshot of 2012/13 shows larger schemes coming forward as well as the smaller ones. Tesco Highams Park and Papermill Place schemes are scheduled to deliver approximately 80 affordable units each.
- 2.9.4 There are a number of large regeneration sites including Walthamstow Dog Stadium, the Arcade site, Blackhorse Lane and Walthamstow Town Centre which are capable of yielding substantial numbers of new build housing. These have been included in current trajectories of supply but cannot be accurately forecast or relied upon to deliver the large numbers required in the borough although the council is starting to see a number of concrete proposals come forward in the Blackhorse Lane area as the opportunities within the Area Action Plan are recognised by developers and land owners.

3.0 Implications

3.1 Financial

- 3.1.1 The challenges to housing development activity in the borough may have an impact on the capital receipts the Council can realise through the disposal of Council owned sites. Section 106 contributions levied through new developments may also be affected. The levels of social housing grant to support new affordable housing provision will borough has been significantly reduced by the introduction of the new affordable rent framework.
- 3.1.2 The Waltham Forest Strategic Housing Market and Needs Assessment (2011) identifies that based upon current trends there is significant demand for affordable housing in the borough. The findings for housing requirements identify a total affordable housing requirement of over 80% of the total planned dwelling delivery in Waltham Forest. Development of new affordable housing will assist in meeting this demand and also help the Council in housing homeless households. When a homeless household makes an application to the Council, the authority is under a duty to carry out inquiries in order to satisfy itself as to what level of duty is owed to that household. If the Council has reason to believe that a homeless applicant may be eligible, homeless and in priority need (as defined under s189 of the 1996 Housing Act) then there is a duty under S188 of the 1996 Housing Act to ensure that suitable temporary accommodation is available to the household pending a decision on the application. Placing these households in private sector temporary accommodation can be costly, and therefore developing a supply of affordable housing will assist in managing this demand.

3.2 Legal

- 3.2.1 The Council's Investment Partner Framework will be procured through an OJEU competitive tendering exercise in accordance with the Public Contracts Regulations 2006 and the Council's Contract Procedure Rules. The length of the term complies with the EU restrictions on term which cannot exceed 4 years.

3.3 Human Resources

3.3.1 There are no human resources implications arising from this report.

3.4 Health Impact Assessment

3.4.1 New homes in the borough are built to higher quality and energy efficiency standards than many existing homes and thus will be more affordable to heat and run. Family-sized affordable homes will help to reduce overcrowding and homelessness and this has clear health benefits to residents who are in high priority housing need. In addition, residents with mobility requirements who are currently in unsuitable accommodation will benefit from the wheelchair accommodation that will be provided as part of new developments.

4.0 Conclusion

4.1 Officers across the Housing, Planning, Regeneration and Asset Management Departments will continue to work together to ensure that the Council is proactive in its support to developers and RPs to enable as many affordable homes as possible to be built in the borough.

5.0 Appendices

5.1 Appendix 1 - Scope of Services