

## **OUTCOMES FROM SECTION 106 AFFORDABLE HOUSING PROJECT**

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### **1. Background**

Members had previously approved the temporary appointment of an external housing consultant, specifically to identify affordable housing development opportunities within Fylde. These opportunities were to be worked up to an advanced stage and specific Housing Association partners engaged to deliver the projects. These would be available to meet Housing Need within the Borough with a priority being given to schemes within Lytham St Annes.

The project sought to enable affordable homes to be delivered which would be grant funded using existing Section 106 reserves of circa £2.4m as at Sept 2015. These funds have come from contributions from private housing developers, in lieu of their providing affordable housing on private housing schemes.

At the end of the project proposed development opportunities have been identified and detailed schemes worked up. Each scheme is considered to be achievable with land available; an Housing Association willing to commit to developing the site and a scheme design worked up ready to be submitted to Planning subject to funding being confirmed.

The project has specifically sought to identify 'Brownfield' development opportunities in order to make best use of available land resources and achieve localised regeneration as well as providing low cost homes for local people.

Part of the remit of this role was also to identify other funding sources to supplement Section 106 reserves held by Fylde BC. In addition to the schemes outlined below, another scheme for 22 units for Affordable Rent has also been identified within St Annes. This scheme will not require funding by Fylde BC and would be wholly funded by Places for People HA using its own Recycled Capital Grant Fund (RCGF) reserves.

Of the £2.4m Section 106 funds held by Fylde BC, Members have already approved £562,697 in grant subsidy to fund the YMCA 'Y-Pad' housing scheme in St Annes. This scheme will deliver 11 homes for young people in training or supported employment at affordable rents. Additionally, Members have also approved £75,000 additional funding toward 15 homes for Affordable Rent at St David's Road South. Additionally, Members have also agreed £105,000 from Section 106 reserves to fund the Compulsory Purchase of 93 St Albans Road. This dilapidated three storey Victorian house will be converted to three one bedroom flats for rent to local people in Housing Need.

Appendix 1 gives the latest position statement of S106 funds held by Fylde BC. The first column details overall funds, the second column details funds from Queen Mary's School, Clifton Drive South that can only be spent in St Annes. With St Albans and YPAD funding commitments there is £1,859,458.87 of which £994,303.43 are from the Queen Mary School development 03/0157 and can only be spent in Lytham and St Annes.

However, Members should also consider that in addition to the S106 funds currently held, a further £963,991 in Affordable Housing S106 funds is currently 'in pipeline' awaiting invoice to developers. These relate to private housing schemes across the Borough currently under construction where payments have been agreed as a condition of Planning in lieu of Affordable Housing being provided

‘on-site’. These are subject to completed legally binding S106 Agreements and await invoice by the Council, once development triggers have been reached.

## **2. Section 106 Affordable Housing Project**

The S106 Affordable Housing Project was delivered by way of a 6 month temporary appointment of a housing consultant with a particular background in the development and delivery of Affordable Housing. The appointee has over 25 years of experience working within the Affordable Housing sector and previously worked as a Senior Development Manager for 6 years with New Fylde Housing delivering new build and refurb homes across the Fylde Coast.

The objectives of this contract can be summarised as follows:

1. To develop a deliverable Affordable Housing Programme funded from existing and anticipated S106 monies held by the Council
2. Identify viable development opportunities
3. Liaise with Members and Officers
4. Involve contacts within the private sector to bring forward potential development opportunities
5. Co-ordinate the efforts of Partner Housing Associations to secure sites and act as a first point of contact with the Council
6. Liaison with the Homes and Communities Agency (HCA)
7. Consider other ways to secure other short term development opportunities
8. Work with local Members and communities as required

However, as the project was underway it became apparent that identifying development opportunities to use existing and pipeline S106 reserves was only part of the issue. The other key component was the current volume of Affordable Housing units on private sector housing sites across Fylde without Housing Associations identified to take these units. Efforts were needed to identify Housing Associations with sufficient capacity to purchase affordable housing. Furthermore it was also necessary to assist in co-ordinating negotiations between Developers, housing associations and Officers to ensure effective delivery of both affordable homes to rent and Low Cost Home Ownership. To that end it was agreed early on that the role should also:

9. Work with the Housing Services Manager to review current arrangements to take forward affordable housing units on S106 sites and implement an approach that reflects the current scale of development within the Borough.
10. Develop an exit strategy for the project to assist the Council in managing S106 funds going forward

At commencement of this Project there were no Housing Associations in position to make financially viable offers to Developers for the Affordable Housing available. This was partly because there were only three HA's active within Fylde and limited financial capacity. Three other Housing Associations have been sought to actively work within Fylde. The Fylde Housing Association Partnership has now increased from 3 partners to 6. This has dramatically increased the financial capacity of the Partnership and the potential delivery of affordable homes.

In addition, the offers made to Developers by Housing Associations were significantly lower than anticipated, in large part due to future rent setting policy, introduced by Government in 2015. This was aimed at controlling future rent increases. This had meant that Housing Associations were obliged to significantly lower their offers which were untenable for Developers. This impasse effectively prevented affordable housing delivery, but also held up wider progress on-sites, due to Developers being unable to discharge planning obligations.

This has been addressed in ‘round the table’ negotiations with private developers, Fylde planners and housing staff. These resulted in agreeing to vary the ratio of Affordable Rented units and Low Cost

Home Ownership (LCHO) units, enabling higher capital values on the LCHO units to make up for the lower capital values delivered for Affordable Rent units.

This increase in the percentage of LCHO being delivered is also in line with Government efforts to encourage home ownership, particularly amongst first time buyers and those on limited incomes.

All six Housing Association Partners operating within Fylde are now actively engaged in development activity. All S106 units currently available on sites under construction, whether for rent or sale are either 'under offer' or have had 'offers accepted'. The first three schemes at Riversleigh Farm, Warton; Chain Lane, Staining; and Kirkham Triangle East, have all had offers accepted. These schemes are now due to begin delivering affordable homes to rent and buy from May 2016. All other sites are currently under offer with negotiations between Developers and Housing Associations ongoing.

#### **On-site and off-site delivery:**

The majority of affordable housing units will be delivered 'on-site'. However a minority of schemes are not suitable for affordable units to be delivered on site. These might be a block of flats or private sheltered housing for sale. Some others are in rural locations where there is insufficient demand in the immediate location or perhaps an absence of infrastructure to support affordable housing (eg shops, bus routes etc). In such instances, developers may be required to make 'off-site' affordable housing provision. This is normally achieved by S106 fund contributions towards the provision of affordable homes in areas of higher need. S106 funds may be used to meet all the Affordable housing required or part of the total required with some being delivered on site. Additionally, in the early stages of a large scale development, S106 funds may be taken in lieu, until infrastructure is put in place as the development progresses ie schools, roads, shops and transport links.

#### **Affordable Housing for Rent and Low Cost Home Ownership**

Initial priority was given to these 'on site' schemes to identify Housing Associations to purchase the discounted housing available via planning gain. The majority of the units are required for Affordable Rent but a significant amount of the units are also required for Low Cost Home Ownership, either Shared Ownership or Shared Equity (where units are sold at discounted values and the unsold equity remains 'in perpetuity').

### **3. Changing national situation**

The National Planning Policy Framework (NPPF) 2012 places significant weight on the need to support economic growth through the planning system<sup>1</sup> and seeks to boost significantly housing supply. Each Local Authority is expected to produce a Local Plan for their area. Local Planning Authorities are specifically required to have a clear understanding of housing needs in their area. NPPF paragraph 159 requires that they should prepare a Strategic Housing Market Assessment (SHMA) to assess their full housing needs, working with neighbouring authorities where housing market areas cross administrative boundaries.

The NPPF sets out definitions for Affordable Housing which are contained in Appendix 2 of this report.

The SHMA across the Fylde Coast was first published in February 2014 and updated in November 2014 following an updated analysis of housing need in light of the 2012 Sub National Population Projections. The SHMA forms part of the evidence base of the Emerging Local Plan to 2032<sup>2</sup>.

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<sup>1</sup> <http://www.planningguidance.communities.gov.uk/>

<sup>2</sup> <http://www.fylde.gov.uk/council/planning-policy--local-plan-/local-development-framework/evidence-base/>

The SHMA contains an assessment of a need within Fylde for approximately 370 dwellings per annum (dpa) and comments that the need for affordable housing remains high at 247 dpa.

The Housing and Planning Bill confirmed major recent policy announcements and is expected to change the main emphasis of affordable housing policy from affordable rented to low cost home ownership by encouraging the development of homes for sale. These will include the introduction of Starter Homes as part of Planning s106 agreements. Starter Homes will be included within the range of Affordable Housing options delivered by the Planning system, supplementing other forms of low cost home ownership such as Shared Ownership and Shared Equity. Affordable rented units can still be delivered but at a lower percentage and as part of a wider affordable housing provision.

As information emerges on the details of the Government's Starter Homes initiative a further information report will be brought to committee.

#### **4. Changing local situation**

Within Fylde BC Affordable Housing Policy there has generally been an expectation that on all house building schemes there will be a provision of 30% of affordable units. In 2015/16 a total of 8 new affordable dwellings have been built via a Section 106 agreement at Richmond Avenue, Wrea Green and in March 2016 a further 15 were delivered for affordable rent on the former Kwik Save Site, on St David's Road, St Anne's.

In October 2015 it became apparent that a major obstacle for Housing delivery on Fylde was securing take up by Registered Providers of Affordable Housing currently under construction. This was particularly urgent given the Government's re-focus of S106 affordable housing sites from rent to low cost home ownership.

There are currently 13 large scale private housing sites currently under construction across Fylde which are due to deliver affordable housing by way of Planning Gain. These sites are currently expected to deliver 444 units of affordable homes over the next 12 to 36 months.

There was a lack of progress in securing a commitment from existing Housing Association partners to make offers to purchase affordable housing on these sites. This was for various reasons. Recent Government changes around rent re-structuring has meant that Registered Providers have had to significantly reduce their offers for S106 rented units, due to lower long term rental incomes. These changes have resulted in wide-scale uncertainty within the Housing Association sector and have greatly increased the difficulty in securing offers for affordable housing units on private sector housing schemes. In addition the relative increase in affordable housing coming on site in Fylde has meant that the three existing Housing Association partners were unlikely to have sufficient capacity to deal with supply.

Additionally, the limited number of Housing Associations operating within Fylde have had insufficient financial capacity to acquire all the units available for rent and low cost home ownership.

These issues have been addressed by:

1. Bringing in additional actively developing Housing Association partners with capacity to acquire homes for rent and discounted sale.
2. Engaging with developers to take on board their views and agree a way forward.
3. Agreeing to significantly reduce the proportion of affordable rented units and increase the proportion of low cost home ownership units. LCHO units are sold at a much higher value.

This variation has enabled lower offers on rented units to be acceptable to developers without affecting overall economic viability.

An increase in the ratio of LCHO units is also in line with Government objectives to encourage home ownership, particularly amongst younger, first time buyers and those on restricted incomes. Fylde is quite fortunate, in so far as the current volume of private sector house building means that all sections of the community can be provided for, either by Shared Ownership, Shared Equity or Starter homes for those in a position to buy at lower than market values, or Affordable Rented properties for those in housing need who are unable to buy at even those discounted values.

It seems appropriate that the 80%/20% tenure split (Affordable rent/Low cost home ownership) is revised more towards 60%/40% or even 50%/50%. This enables Developers to accept lower offers for Affordable Rented stock, keeping rent levels lower. At the same time this would meet Government objectives in encouraging home ownership for those who can afford to buy at discounted values. It also enables private developments to continue through to delivery by removing any obstacles in terms of providing Affordable Housing.

Section 106 funds which continue to be generated can also be used in a targeted, strategic manner by delivering high quality affordable homes, particularly focused on more marginal, brown-field sites. This provides local regeneration, whilst at the same time providing much needed affordable homes on a small scale in areas of priority housing need.

## **5. Outcomes of the S106 Project**

This project has successfully identified a number of deliverable development opportunities on brownfield sites in areas of strategic priority need. The process also rejected other potential schemes which were deemed undeliverable or represented poor value for money. The recommended schemes would use up all of the available Affordable Housing Section 106 reserves and enable funds to be spent comfortably within prescribed timescales.

The project also proposes a strategy for the ongoing use of Section 106 reserves as these are generated in future. The emphasis has been to use Section 106 reserves in a targeted manner on small scale 'in-fill' brownfield sites particularly where these schemes have a regenerative impact on local areas. Additionally, Affordable Housing S106 funds could also be used to bring redundant space above shops into productive use by converting to apartments. This could evolve into a rolling programme, activated as and when opportunities are identified and further resources are available. These refurb conversion schemes could also use joint funding using Heritage grant funds to facelift exterior Victorian facades whilst at the same time providing new homes and increase town centre economic vitality.

The project has doubled the number of Housing Associations actively developing and acquiring new homes for rent and sale within Fylde. This has been particularly difficult at a time when many Housing Associations are scaling back their activities due to severe financial constraints. This has significantly impacted on the number of sustainable offers being made to developers for affordable housing on private sector sites. This will result in more homes for affordable rent and discounted sale becoming available. These continue to be solely available to people in Housing Need with a local connection to the Borough, although this might change to some extent when Starter Homes become available. All housing associations operating within the Fylde Housing Association Partnership operate their allocations and sales in accordance with Fylde BC lettings and LCHO sales policies for new build and re-let properties.

The project has made a significant contribution to the delivery of Affordable Housing of various tenures both by enabling grant funded housing schemes. It has also enabled considerably more homes to be delivered on private sector S106 schemes currently on site within the Borough. By acting in an enabling capacity the Council has brokered negotiations between Housing Association's and Developers which have resulted in sustainable offers being made. This in turn will allow 'stalled' developments to be completed by enabling Affordable Housing planning obligations to be met.

In focusing on those sites already under construction, it has established a mechanism for dealing with the delivery of Affordable Housing on medium and longer term private sector schemes. The project has also led to a significant increase in the proportion of LCHO units to be delivered by way of S106 Agreement. This has been achieved whilst still ensuring a significant amount of affordable rented homes are delivered to Fylde residents on lower incomes and whilst maintaining a strong local connection criteria.

Moving forward with the Government focus on development of LCHO options the Section 106 funds can also be used to enable subsidy for affordable rented delivery on S106 sites to ensure a mix of tenures.

A report is presented elsewhere on this agenda seeking approval to fund Sunnybank Mill, Kirkham through S106 reserves.

Scheme	Tenure and unit size	Grant required
<b>Not requiring LA grant assistance</b>		
Westgate Road, nr Blackpool Airport. Baxter Homes and Places for People HA.	22 units in a mix of 14 houses and 8 flats – 9 x 2B4PH, 8 x 3B5PH, 8 x 2B3PF. All units for Affordable Rent	No LA grant required to be funded by recycled capital grant funding from the HCA
<b>LA grants already approved</b>		
93 St Albans, CPO. Progress Housing identified as Housing Association partner.	TBC when access can allow a scheme to be drawn up.	£85,000 plus £20,000 to cover CPO costs. Re-develop property estimated further grant required of £105,000.
Kwik Save. Additional funds requested. Scheme now let.	15 units all affordable rent. 7 x 2B4PH, 8x3B5PH.	£75,000
<b>LA grants sought (elsewhere on this agenda)</b>		
Sunnybank Mill, Kirkham. ForViva Housing and RP Tyson Construction.	23 units, 13 family houses and 10 x 2B3P apartments.	£920,000 GRANT REQUIRED
<b>LA grants proposed for future consideration</b>		
Church Road Methodist Church, Church Road, St Annes. Great Places HA and RP Tyson Construction.	10 units in a mix of 6 x 1B2P flats, 2 x 2B4PH and 2 x 3BH. All units for Affordable Rent.	£500,000 GRANT REQUIRED
Central St Annes affordable housing for redundant commercial space above shops	TBC. Indicative scheme indicates 7 x 1B2P flats	£350,000 GRANT REQUIRED

**Appendix 1**

As of 24/05/2016		Total Affordable Housing		Queen Mary		Other Sites
<b>S106 Income Received</b>		- 5,036,418.44		- 3,000,000.00		- 2,036,418.44
<b>Section 106 Expenditure:</b>						
New Fylde Housing	182,250.00					182,250.00
Richard Dunbreck Trust Singleton	300,000.00					300,000.00
F2F YMCA	299,999.57			299,999.57		
GPHG - re 451 Clifton Drive North	250,000.00			250,000.00		
NFH (Heyhouses) Pilling Ave development	416,000.00			416,000.00		
Explore first time buyers scheme	3,000.00					3,000.00
NFH - 50% payment towards purchase of 17 Hunter Road	21,500.00					21,500.00
NFH _ 2nd payment 50% towards purchase of 17 Hunter Road.	21,500.00					21,500.00
NFH - St Davids Roads Depot. First contribution of 50%	307,507.00					307,507.00
NFH - St Davids Road Depot, second contribution of 50%	307,506.00			297,000.00		10,506.00
Great Places- Former Kwik Save Site	300,000.00					300,000.00
106 project officer payment	12,680.72					12,680.72
	12,319.28					12,319.28
Great Places Housing Association	75,000.00			75,000.00		
		2,509,262.57		1,337,999.57		1,171,263.00
<b>S106 Monies Remaining</b>		- 2,527,155.87		- 1,662,000.43		- 865,155.44

<b>Commitments:</b>						
St.Albans Rd	105,000			105,000.00		
Ypad YMCA	562,697			562,697.00		
		667,697.00		667,697.00		0.00
<b>Monies Available for Future Projects</b>		<b>1,859,458.87</b>		<b>-994,303.43</b>		<b>-865,155.44</b>



## **Appendix 2**

Annex 2 of the NPPF defines affordable housing as:

Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.

Social rented housing is defined as:

“...housing owned by local authorities and private registered providers (as defined in section 80 of the Housing and Planning Regeneration Act), for which guideline target rents are determined through the national rent regime. It may be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency.”

Affordable rented housing is defined as:

“...housing let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable rent is subject to rent controls that require a rent of no more than 80% of the local market rent.”

It is evident that both Social Rented and Affordable Rented housing is provided at rents below the prevailing level of rents determined in the open market and therefore eligibility is restricted to those households who are unable to afford to pay a market rent without recourse to support through the housing benefit system.

Intermediate affordable housing is defined as:

“...homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing Definition. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.”

The definition of Affordable Housing concludes by stating that, ‘Homes that do not meet the above definition of affordable housing, such as ‘low cost market’ housing, may not be considered as affordable housing for planning purposes’.

The Housing and Planning Bill will add Starter Homes to this definition. Key differences between Starter Homes and pre-existing forms of Affordable Housing for sale (Shared Ownership and Discounted Open Market Sale ‘Shared Equity’) is that Starter Homes are age restricted; there is no local connection criteria and no maximum income restriction applicable.