

# **Cabinet**

**21 July 2004**

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## **REPORT**

**CLlr Cole-Morgan : Cabinet Member for Community & Housing**

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### **Assettrust Housing Ltd – Delivering affordable housing with no subsidy**

#### **Purpose**

This report seeks members support to form a partnership with Assettrust Housing for the development of additional affordable housing.

#### **Background**

Following the adoption of the Local Plan last year developers have been gearing up to bring forward a number of key sites for the development of housing which all include an element of affordable housing.

It is forecast that some 428 affordable housing units could be brought forward over the next four years – see attached appendix 1 for details. Of the two sites where negotiations for securing this housing have been completed one was predicated on the developer securing some grant funding to subsidise the capital cost. In the other case there is a "cascade" approach whereby the proportion of rented housing decreases if funding is not available.

Members will recall that last year the government amended the financial regulations which in effect meant that councils could no longer recycle capital receipts as part of their social housing grant programmes. Although Members have committed some £3.5m over the next three years as actual grant towards affordable housing, this sum is far short of being able to fund the units coming through the local plan process.

Discussions with the Housing Corporation have also indicated that over the next three years Salisbury is unlikely to receive sufficient allocations to support this level of programme, on average the district is likely to receive in the region of £1.5m per annum of social housing grant. This will only be enough to secure some 23 units per annum against a potential of 118 units per annum.

### **Alternative options to deliver affordable housing**

#### **Planning system**

The government has been strengthening the planning system in order to assist local authorities in securing the provision of affordable housing. Members, as a result of the Scrutiny Review recommendation, are aware that the Council has published a draft Supplementary Planning Guidance (SPG) that provides further detail and clarity to guides and informs developers on the council's requirement for affordable housing. In addition the SPG will support negotiations with developers for the delivery of affordable housing without

grant. However, as this has yet to be formally adopted it does not carry great weight of the sites coming forward have been secured either by purchase or options on the basis of receiving social housing grant. As a result it is difficult to negotiate the affordable housing requirement without any form of subsidy, since this could make the whole development unviable.

### **Assettrust Housing (AH)**

The council was introduced to AH earlier this year as a company which claimed to be able to deliver affordable housing without any grant. The Portfolio Holders for Community & Housing and Planning & Economic Development together with officers from Finance, Legal and Planning have met with AH to evaluate their model.

AH is a private company that wants to provide investment for 10,000 homes in the social sector over the next five years. Their stock will be managed through a series of partnerships with highly performing registered social landlords. AH are looking to develop sites where there are a minimum of 30 units for affordable housing, anything below this figure is not considered financially viable. Therefore the sites they are most likely to develop are those subject to a Section 106 Planning Agreement.

The AH offer is:

- Funding to secure the development of affordable housing on large sites;
- Rents will remain within Housing Corporation targets and only increased annually using the formula of rent + RPI + ½ %;
- All units will remain as affordable housing in perpetuity in accordance with the provisions of the S106 agreement;
- The council receives 100% nomination rights to all properties;
- A mortgagee in possession clause will be required, allowing a mortgagee to sell free from restrictions if there is a default in the mortgage (these are at present included in agreements with RSLs).
- Each site will be owned by a Special Purpose Vehicle (SPV) that is “bankruptcy remote” and legally ring fenced in order to protect it from being used as a guarantee against other projects. The SPV will only raise finance against its own assets;
- Tenants can be offered either an Assured Tenancy or an Assured Shorthold Tenancy – as is the case with any tenant of an RSL;
- Quality management through a high performing RSL.
- What proportion of rent/shared ownership? How flexible is this?

In addition AH can offer prospective tenants:

- High quality homes;
- High quality and responsive management and maintenance;
- Security of rent levels;
- Security of tenure with recourse to the Housing Ombudsman;
- Ability to increase or decrease shared ownership percentage;
- Financial incentives for good upkeep of their home and payment of rent – their proposal is that tenants will be given annual coupons equivalent to 10% of the increase in the value of their homes which they will be able to cash in if they decide to move to another property.

### **What does AH get out of this partnership?**

Strength, predictability and longevity of cash flows from this portfolio. AH aim, subject to market conditions, to refinance each SPV within a five-year period – this they openly admit is where they secure their dividend. However, if the market does not provide an opportunity

to refinance then the SPV income will continue as originally set up to pay back the loan within a 30-year period.

### **AH track record**

AH does not have a track record in order to assess their performance and identify weaknesses in such a partnership. However, both the Housing Corporation and Office for the Deputy Prime Minister have endorsed this approach.

AH has recently been brought in by another local authority, not too dissimilar to Salisbury to provide the finance on a scheme that failed to secure resources from the Housing Corporation. The authority expressed many of the concerns we had raised but were satisfied that what AH were proposing was the most appropriate way forward that would see the development of a major affordable housing project.

There is some scepticism about how AH can offer what is seen as a golden opportunity that no other organisation has yet been able to do. Their response is that for the last two years they have accumulated a vast amount of market and housing data which provides them with a very accurate financially robust model. Their experience, they claim, in structured finance and commercial and residential property markets now leaves them perfectly placed to enter the market with this new model.

### **The risks to the council**

There is no financial risk to the authority. A potential risk is that in 30 years time when the rents clause is reviewed that tenants may be faced with higher rent rises. As the properties are secured in perpetuity there is no risk to tenants in losing their home, apart from in circumstances where a mortgagee exercises its power of sale free from restrictions. In the case of an RSL with backing from the Housing Corporation there is very little chance that units would cease to be affordable housing. Whilst it is acknowledged that the structures Asset Trust would set up would lessen the risk, this risk must still be noted. Appendix 2 provides a detailed risk assessment.

### **Conclusion**

AH has put forward an alternative way for the council to have an extensive affordable housing programme. Such a partnership would aid the negotiations with developers to significant secure affordable housing through current S106. Their robust approach, through the RSL partner, to tenant management will offer people more choice to build up an equity stake in their home to be cashed in if they decide to move. There is no direct financial risk to the council in agreeing to this partnership but it does secure 100% nomination rights to any properties developed this way.

### **Recommendations**

It is recommended that Members agree to:

- i. work with Assettrust Housing Ltd on funding suitable housing schemes
- ii. delegate to the Head of Strategic Housing Services authority to agree the individual schemes

**Background papers**

Assettrust Housing LTD – public relations document  
Assettrust Housing LTD – presentation of 13 January 2004  
Assettrust Housing LTD – presentation of 8 April 2004.  
Draft Affordable Housing SPG

**Implications**

**Financial:** None.

**Legal:** Agreement with Asset Trust to achieve affordable housing as set out above will have to be secured through S.106 agreements on developments.

**Human Rights:** None in this report

**Personnel:** None at this stage

**Community Safety:** None.

**Environmental:** None at this stage.

**Council's Core Values:** It is likely that this proposal will meet a number of SDC core values.

## APPENDIX I

### Potential sites coming forward 2004 – 2008

Unit figures are based on a minimum of 25% being affordable housing of the total housing for that development.

Year	Site	Units	Social Housing Grant £
04/05	Goetz site, Netherhampton Road	36*	2,500,000
04/05	Boscombe Down, Amesbury	138*	3,200,000
04/05	Old Sarum	189	4,000,000
05/06	Chatham Close Salisbury (not a local plan site)	29	2,100,000
05/06	Duck Lane, Laverstock	36	1,000,000
	<b>totals</b>	<b>428</b>	<b>11,800,000</b>

- denotes percentage already negotiated and agreed with developer.

## APPENDIX 2

### Risk Assessment for Assettrust Housing

	Trigger	Consequence	Priority for action	Manage risks by
<b>Political</b>	No commitment	Unable to deliver a key priority  Risk to reputation	High impact Low likelihood	Provide good communication on the options
<b>Customer / Citizen</b>	Unable to secure affordable housing  End of 30 yr rent guarantee	Pressure on rented housing market  Above inflation rent increases and whether properties remain affordable	High impact  Medium likelihood	Providing good communication on access to housing.  Seeking clarification on likely rent determinations beyond 30 yr period. Negotiate a cap rate for future rent increases.
<b>Managerial / Professional</b>	Staff encountering difficult negotiations with developers  Assettrust go bankrupt	Unable to deliver target.  Reduced effectiveness in achieving political priorities  Future access to nominations denied.  Security of tenure for existing occupiers	High impact  Medium likelihood	Continue to review finance opportunities.  Robust Section 106 agreement.  Security of tenure through the use of Assured Tenancies.  Dwellings are required to be in perpetuity.