

# **Cabinet**

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# **REPORT**

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

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## **Assettrust Housing Ltd – Delivering Affordable Housing with no Subsidy**

(Amended version from that dated 23 June 2004)

### **Purpose:**

This report seeks members' approval for the council to work with Assettrust Housing to develop affordable housing with no subsidy.

### **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 a provision of a minimum of 25%.

It is forecast that up to 521 affordable housing units could be brought forward through the Local Plan over the next five years – see attached appendix 1 for details.

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 allocated 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 a substantial 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.

In order to negotiate and deliver more affordable housing a basket of measures are needed. No one source can be the sole delivery vehicle for affordable housing. The council needs to develop a programme based on a range of mechanisms and vehicles.

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

The 'basket' of measures include:

- Planning System
- Local Authority grants
- Registered Social Landlord direct provision
- Private developers
- Housing Corporation
- Assettrust Housing

***Planning system***

The government has been strengthening the planning system in order to help local authorities provide more affordable housing. As a result of the Scrutiny Review recommendation, members are aware that the Council has published a draft Supplementary Planning Guidance (SPG) to guide and inform developers on the council's requirement for affordable housing. One of the principle objectives of this guidance is that affordable housing is to be delivered by developers irrespective of whether there is any subsidy. Attitudes and expectations of developers and land owners will now have to take account of this requirement as the 'subsidy' element should be reflected in the land value. This will primarily be on Greenfield developments where contributions will be greater in order to minimise grant input.

***Local Authority Grants***

The Council has allocated, in its capital programme, £3.5m over the next three years towards financing specific initiatives that deliver affordable housing. This funding is coming through the transitional arrangements in respect of Right to Buy receipts. Once this has been committed there is, at this time, no prospect of other capital funding for the provision of affordable housing being available.

***Registered Social Landlord (RSL) direct provision***

RSLs are well placed to deliver affordable housing. However, their reliance on grant to subsidise the capital costs has thwarted attempts to encourage more innovative solutions to delivery. A few have explored the use of private finance to develop affordable housing but to date there has been no extensive development of this approach.

The Council has invited its current RSL partners to put forward their proposals to deliver affordable housing without grant but to date none have taken the opportunity. However, the council was recently approached by a Hampshire based RSL that expressed interest in becoming a partner to deliver affordable homes without subsidy. The same scenario given by Assettrust for the Goetz site was also given to this RSL. The package they have submitted is financially less than that which can be offered to Assettrust. In addition the RSL claims to have put in their own resources, in effect a subsidy. Obviously the developer will be interested in the highest amount, but more importantly to the council, the RSL would be unable to use continually their own reserves as subsidy as this approach is not sustainable.

It is therefore likely that the council will continue using RSLs to deliver those sites which are more difficult to deliver and which have an allocation of social housing grant.

***Developers***

The current Housing Bill makes provision for the Housing Corporation to make direct allocations of social housing grant allocation to developers. So far no detailed guidance has been issued but a number of developers have made it publicly known that they will be bidding for such resources. As and when resources are made available the council may want to encourage the developers of the larger sites to submit bids.

***Housing Corporation***

The Housing Corporation has made it quite clear that the district of Salisbury is unlikely to receive an allocation to fund schemes arising from Local Plan sites. The Council has been lobbying the Housing Corporation and although recent research suggests that more consideration will be given to this area it remains doubtful that significant allocations are going to be made.

### **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. In addition the Deputy Portfolio Holder for C&H and the Head of Strategic Housing Services visited Assettrust to consider in detail their financial model.

AH is a private company that wants to provide investment for 10,000 homes in the social housing sector over the next five years. Their stock will be managed via a series of partnerships with highly performing registered social landlords. AH aim to develop sites where there are a minimum of 30 units of 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, subject to the property being vacant, if there is a default on the mortgage (this is typically 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.
- Flexibility in determining with the Council the mix of type and tenure for each scheme.

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 relationship?**

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 potentially 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 is a relatively new company and consequently has a limited track record. It has now purchased 110 rented and shared ownership homes in King's Langley, working with Three Rivers District Council. They are now a preferred partner of Peterborough City Council and have offers accepted on some 335 homes with a further 1,400 in negotiation.

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. They claim their experience in structured finance and commercial and residential property markets positions them perfectly 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, at the expiry of the condition within the S106 agreement, the rents clause is reviewed that tenants may be faced with higher rent rises. As the properties are secured in perpetuity there is to tenants no risk in losing their home unless they fail to comply with the terms of their tenancy agreement. Appendix 2 provides a detailed risk assessment.

The Council has also been in dialogue with AT's principal funder, The Royal Bank of Scotland. At the time of writing the council is waiting for a précis from RBS on the information they have received from AT in order to inform their judgement for investment.

**Conclusion:**

The Council's Housing Strategy needs to develop a 'basket' of measures that enable the delivery of affordable housing.

AH has put forward an alternative way for the council to have an extensive affordable housing programme. Such an opportunity would aid the negotiations with developers to secure affordable housing through current S106 agreements. 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 and the main benefit is that secures 100% nomination rights to any properties developed this way.

**Recommendations:**

It is recommended that Members agree to:

- i. working with Assettrust Housing Ltd who will use private finance to develop affordable housing in the Salisbury district.
- ii. delegate to the Affordable Housing Board authority to agree the individual schemes
- iii. review the process after two schemes have been delivered.

**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 implications:**

None at this stage.

**Council's Core Values**

: It is likely that this proposal will meet a number of SDC core values.

## APPENDIX 2

### Salisbury District Council – Risk Register Format

#### *Council Objective – Delivering more affordable homes - Assettrust*

<b>Risk identified</b>	<b>Gross Risk (Impact / Likelihood)</b>	<b>Further action proposed</b>	<b>Responsible officer</b>	<b>Retained Risk Profile (Impact / Likelihood)</b>	<b>Milestones</b>
<b>Political</b> No commitment	High/Low	Need to keep Cabinet updated on the options available to deliver affordable housing	HofSHS	High/Low	Review in 6 months
<b>Customer/Citizen</b> Unable to secure affordable housing.  End of 30 yr rent guarantee	High/Medium	Need to ensure good communication on access to housing. Seek clarification on likely rent determinations beyond 30 years. Seek to negotiate a cap rate for future increases.	HofSHS	High/Medium	Review in 12 months
<b>Managerial / Professional</b> Staff encountering difficult negotiations with developers.  Assettrust go bankrupt  Bank exercises Mortgagee in possession clause	High/Low	Continue to review financial options. Robust S106 agreements. Security of tenure through the use of Assured Tenancies. Dwellings are required to be in perpetuity. Negotiate with bank .	HofSHS	High/Low	Review in 12 months