

AGENDA ITEM 10

**REPORT TO THE TEES VALLEY
COMBINED AUTHORITY CABINET**

21 DECEMBER 2017

**REPORT OF THE HEAD
OF HOMES AND COMMUNITIES**

PORTFOLIO: HOUSING AND REGENERATION

HOUSING INVESTMENT AGREEMENT

SUMMARY

Following discussions with the Secretary of State, Cabinet agreed in March 2016 to develop a Housing Investment Agreement with government. Since then, proposals for a housing agreement have been developed by working in close partnership with the Homes and Communities Agency (HCA), the constituent local authorities and registered providers. The objective is to draw in additional investment to unlock stalled housing sites, accelerate housing delivery and significantly increase the provision of affordable homes. Agreement in principle has now been reached that will secure the capacity, resources, funding and flexibilities needed to unlock these opportunities.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. Endorse the proposed Housing Investment Agreement with the HCA that will provide significant support in the delivery of our housing priorities, with a total commitment of up to £91 million of additional HCA investment over a three year period, ring-fenced to the Tees Valley, to unlock sites, accelerate delivery and significantly increase the supply of good quality affordable homes.
- ii. Consider the local delivery and governance arrangements which will best support implementation of the agreement; including a review of the remit of the Land Commission; and
- iii. Delegate responsibility to the Mayor and Portfolio Lead for Housing and Regeneration to finalise and sign the Investment Agreement on behalf of the Combined Authority and its partners.

DETAIL

1. Tees Valley has an ambitious Strategic Economic Plan to grow the local economy. An important part of this plan is to build new good quality homes and create sustainable communities across the region.
2. Building new homes is a key part of the plans for economic growth. Only by attracting and retaining people to the area, and playing our part in meeting the national housing crisis, will we continue to grow our economy. For this to happen we need to provide a high-quality and diverse range of housing so that communities can flourish. We need to address the issues of undersupply across the housing market and to be ambitious in our plans to accelerate the building of good quality homes that are of the right type and in the right places to achieve our economic goals.

Developing the proposition

3. Plans for housing are embedded within the constituent local authority Local Plans. Working in partnership with local authorities, significant opportunities have been identified across the Tees Valley to unlock stalled housing sites, accelerate housing delivery and significantly increase the provision of affordable homes. This work has focussed on existing sites with planning permissions and sites identified within emerging Local Plans. To support the delivery of these opportunities, and following a meeting with the Secretary of State, Cabinet agreed in March 2016 to seek a Housing Agreement with the HCA.
4. Following a meeting between the Tees Valley Mayor and Chair and Chief Executive of the HCA in June it was agreed to undertake an intensive period of work to develop a joint approach. At that stage, feedback from the HCA was that Tees Valley needed to do more to demonstrate our capacity to deliver. The HCA was unwilling to commit in full to the £100 million programme initially proposed by the Combined Authority, and instead proposed a model where tranches of funding would be allocated, as delivery is demonstrated.
5. Since that time significant work has been undertaken by the Combined Authority, HCA, the constituent Local Authorities and key partners, to develop the joint plan proposals. This has included a detailed assessment of individual housing sites across the Tees Valley, with local authorities and other partners identifying the barriers to delivery, and the scope to deliver more quickly with additional public investment. A further meeting between the Tees Valley Mayor and Chair and Chief Executive of the HCA in October confirmed an agreement in principle.
6. Based on an analysis of all Tees Valley housing sites and the delivery priorities of each Local Authority, including sites with planning permission and sites allocated under local plans, we have identified significant opportunities to unlock sites for delivery. The requirements for infrastructure investment and opportunities for the increased delivery of affordable housing have been identified, both of which will unlock and accelerate home-building in support of our economic growth. The housing agreement aims to support the delivery of these priorities.
7. Although the government's focus is on housing numbers, the proposed Investment Agreement also provides the platform for working with the HCA and key partners to regenerate communities, create jobs, support the SME sector, diversify market capacity, and promote innovation in the way we build homes and attract new sources of investment. It provides the opportunity to address underlying failures in the existing

housing market and create a sustainable and well-functioning housing market for the future.

Key housing outcomes

8. Based on Local Plans we need to build around 2,360 new homes each year to meet our ambitions for economic growth. This equates to over 35,000 new homes in the next 15 years. The key outcomes of the joint approach will aim to:

Provide much needed homes

Addressing historic and current supply shortfalls, the plan will help enable Tees Valley to build the right number of homes, that are the right type and in the right place.

This will allow the economy to grow, provide much needed good quality and aspirational affordable housing, especially for low to middle income working households. It will also provide more people with the opportunity of home ownership, and release pressures on our social housing stock.

Make better use of land

The joint plan aims to tackle the viability and delivery challenges of key housing sites to promote more sustainable urban living and town centre revitalisation; deliver a more balanced approach to the use of land that ensures brownfield and public sector land is brought into use alongside greenfield development; and remove the blight of underutilised land and make Tees Valley a more attractive place to live and work.

Make better use of resources

The joint plan will enable Tees Valley to align HCA housing investment with the Strategic Economic Plan and underpinning Investment Plan.

It provides the platform to ensure that local investment in business growth, research, development, innovation and energy, education, employment and skills, culture, transport, enabling infrastructure and housing all combine to generate the maximum impact in making Tees Valley a successful and thriving place.

Build increased capacity

The joint plan enables Tees Valley to build the right levels of sector capacity for a sustainable and well-functioning housing market. Nurturing and growing SME contractors and developers; attracting new entrants to the Tees Valley housing market; facilitating growth in modern methods of construction and increased off-site manufacture; and investing in people and skills to create jobs.

Attract new investment

It is unlikely that the requirements of the Investment Agreement can be met solely through organisations currently active in the Tees Valley.

The joint plan will act as a platform to give a certainty and confidence that enables Tees Valley to actively attract new investment including new entrants to the Tees Valley market and long-term institutional investment. It will provide a springboard to create an attractive investment proposition for homes and communities, enabling Tees Valley to deepen long-term investment relationships.

Housing agreement: Detail

9. The draft Housing Investment Agreement (Appendix 1) provides additional funding, capacity and flexibilities to finalise and implement a joint action plan. In summary the key points of the agreement are:
 - To agree a joint Tees Valley housing investment and delivery plan to accelerate growth and the building of homes
 - HCA to provide capacity funding support of £250k per annum to implement the plan
 - Establish strengthened governance and programme management to support implementation of the housing investment and delivery plan via a Tees Valley Housing Delivery Board
 - Recognition of a requirement for significant infrastructure support. (The Tees Valley and partner councils have made proposals for £291 million in infrastructure funding to the Housing Investment Fund; although we understand this Fund is very significantly over-subscribed).
 - An additional £25 million per annum HCA affordable homes funding to at least double planned delivery to 1,350 homes and flexibility in the mix of affordable products
 - Establishing a Tees Valley Capital Land Acquisition Fund with an initial £15 million HCA commitment to acquire, assemble and de-risk land
 - £200,000 per year to investigate and develop investment strategies for Estate Regeneration and areas of low occupancy and poor quality stock.
 - Commitment to accelerate the delivery of homes from the baseline to 2,360, as identified through Local Plans.

The agreement in practice

10. Fundamentally, the housing agreement is about supporting the delivery of specific site priorities as identified by Local Authorities. It is Local Authorities who determine housing site allocations through their Local Plans and identify sites that require intervention to enable delivery. This in turn sets Local Authority priorities to support the unlocking and acceleration of sites and provide additional affordable homes.
11. Under current arrangements Local Authorities will then seek to work with agencies and partners to enable delivery. The housing agreement aims to strengthen this approach in securing the delivery of Local Authority priorities. The housing agreement does not aim to set the priorities and is only focused on supporting delivery.
12. The arrangements under the housing agreement are about enhancing current arrangements, using our devolution status to maximise the opportunities of Government funding programmes and strengthen collaborative arrangements in the alignment of resources, capacity and investment. The additionality of the housing agreement includes:

Capacity

Brokering deals to overcome barriers to individual sites and unlock opportunities takes significant time and effort. With capacity and resources increasingly constrained within Local Authorities the housing agreement addresses this by providing additional capacity and resources of £250,000 per annum to support Local Authorities in unlocking opportunities.

Funding affordable homes

Under existing arrangements the delivery of affordable homes is reliant on registered providers identifying opportunities and applying for funding direct to the HCA. The result of this is that the delivery of affordable homes is dependent on registered providers and their appetite to develop, which at present is around £25m to 2022. The housing agreement commits an additional £25m per annum to the Tees Valley in a way that enables Local Authorities to direct resources to specific sites, attract new developers to the area and have a far more direct role in how and where affordable homes funding is delivered. Fundamentally, this housing agreement puts an additional £75m of affordable homes funding under greater direction of Local Authorities.

Land acquisition

Under existing arrangements Local Authorities work direct with the HCA on opportunities for land acquisition to unlock housing delivery. The housing agreement strengthens this by providing an additional £15m committed funding through a Tees Valley Capital Land Acquisition Fund to acquire, assemble and de-risk land.

Infrastructure funding

There are significant requirements across Tees Valley for infrastructure funding to unlock planned housing delivery. For Local Plan periods this is estimated at around £300m. Whilst the housing agreement does not provide this funding (most of which is currently going through the HIF bid process) it does provide for Government recognition that this funding is required to deliver our growth plans.

Subject to the outcome of the HIF process, the housing agreement provides the opportunity to work together and put forward a collective case for this funding as a Tees Valley wide priority.

Housing regeneration and renewal

Across Tees Valley issues of poor quality housing and areas of low demand persist, a consistent theme that partners are highlighting as one that needs addressing. The housing agreement makes a commitment to work collectively to understand how the needs of prioritised regeneration areas can be met. With the national focus on housing growth, the agreement does not provide for the scale of funds as have been available in the past e.g. the HMR Pathfinders. Nevertheless, the housing agreement provides additional investment and capacity to support local regeneration according to local priorities.

In addition, having been approached by the Northern Housing Consortium and local registered providers, it is planned to jointly commission some work in this area. Essentially, a preliminary piece of work that explores:

- The scale of the issue across the Tees Valley;
- The impact that areas of low demand and poor quality is having;
- Best practice solutions from elsewhere; and;
- Options for intervention and investment.

It is intended to commission CRESR (Centre for Regional Economic and Social Research) at Sheffield Hallam University to undertake a preliminary research piece specific to Tees Valley and it is hoped that this work will help build a stronger case to Government for additional investment and support for housing renewal, an area in which opportunities through current funding programmes are limited. It will also help support building a Tees Valley proposition for the £400m estate regeneration fund announced in the November Budget.

Supporting this, the housing agreement will provide £200,000 per year to investigate and develop investment strategies for Estate Regeneration and areas of low occupancy and poor quality stock.

Flexibility

Under current arrangements it is difficult for individual Local Authorities to secure flexibilities of funding against national programmes, which can often be a constraint in fitting such programmes to local needs, priorities and market conditions. Using our devolution status the housing agreement not only provides such flexibilities (e.g. mix of affordable homes, ring-fencing of affordable homes funds, ring-fencing of land acquisition funds, capacity funding, retention and reinvestment of land disposal income) it provides the vehicle to unlock further flexibilities going forward.

Working collaboratively on clear priorities

Successful housing delivery is dependent on a wide range of partners, many of which work across not only the Tees Valley but also nationally. The housing agreement provides the opportunity to enhance effective partnership working by bringing together a clear set of priorities for the whole of the Tees Valley and enabling partners to align their resources and investment in a more effective way. This will also enhance the ability to attract new investment and developers to the area.

Implementation

13. Extensive work has already been undertaken with individual local authorities to identify site priorities which require intervention and support to deliver. The next step will be to translate those priorities in to a joint Action Plan. The joint Action Plan will identify for each site the steps that need to be taken to unlock, accelerate and increase affordable homes provision.
14. The Action Plan will be jointly owned by the Local Authorities, HCA and the Combined Authority and will seek to utilise the opportunities presented through the housing agreement to implement it. To ensure a joined-up approach and monitor the delivery of the joint Action Plan it is proposed that governance arrangements are established.
15. The remit of the governance arrangements will be to support the delivery of the joint Action Plan. It will not determine the priorities within the plan but will seek to ensure that the opportunities of the housing agreement are maximised and escalate to Government where further flexibilities or funding is required to enable delivery.

Fundamentally, the governance arrangements are in place to support overcoming barriers to the delivery of the joint Action Plan.

16. The Land Commission was established under the devolution deal with a remit to unlock brownfield and publicly owned land for development. The terms of reference for the Land Commission were agreed by Cabinet in 2016 and the first meeting held May this year.
17. The Land Commission currently brings together the council executive portfolio members for housing appointed by each Council, is chaired by the Tees Valley Mayor, and is attended by a senior HCA official. It is supported by an officer working group, chaired by the Chief Executive of Stockton Council and supported by the Combined Authority's Head of Homes and Communities. Rather than establish further governance arrangements for the housing agreement and joint Action Plan it is proposed that Cabinet review the current terms of reference of the Land Commission and its officer led working group with a report back to Cabinet in the new year.

FINANCIAL IMPLICATIONS

18. This is not devolution to the single pot, and the funding will remain with HCA, being drawn down by partners on the basis of proposals put forward under the Investment Agreement. The objective is to draw in additional investment and the joint approach aims to align this investment potential with our Strategic Economic Plan and underpinning Investment Plan.

LEGAL IMPLICATIONS

19. None.

RISK ASSESSMENT

20. Risk is identified as medium to high on delivery, given the challenges of securing a strong pipeline of deliverable proposals for housing growth. If a credible programme is not delivered, the risk is that we fail to draw down the available resources. This risk has been mitigated through the assessment of housing sites conducted by partners, and will be overseen by proposed strengthening of Tees Valley governance arrangements.

CONSULTATION

21. The approach outlined in this report has been prepared collaboratively through the Combined Authority working closely with the HCA, registered providers and constituent local authorities.

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PROSPECTIVE HOUSING DEAL AND INVESTMENT PLAN

TEES VALLEY COMBINED AUTHORITY AREA

AND

HOMES ENGLAND

1. OUR JOINT COMMITMENT

- 1.1 The Tees Valley Combined Authority (TVCA) and Homes England (the Partners) are committed to work together to drive an unprecedented acceleration in housing delivery to achieve Tees Valley's economic and housing growth ambitions.

2. OBJECTIVES

- 2.2 To bring together the **collective strength of our various funding and investment strands** within the TVCA area.
- 2.3 **Maximise Partnership working** between the TVCA, Homes England, Registered Providers (RPs), Local Authorities (LAs) and Other Government Departments (OGDs) **to unlock major sites for residential development.**
- 2.4 Collectively to become much **more proactive, targeted and interventionist** to influence the wider housing market, aligned to the Tees Valley Land Commission objectives. This can include land acquisitions, including targeted Other Government Department (OGD) land, use of loans and equity, creating more momentum and certainty in the Shared Ownership and Affordable Housing programme (SOAHP), and introducing new players to the market.
- 2.5 Tees Valley to play its part in helping Government and Homes England to increase the national supply of new homes to 250,000 per year by 2021. The Partners will do this by delivering **7,000 new homes, including 1,875 affordable units, by 2021 with this to be underpinned by at least £30m per year combined investment.**

3. HEADS OF AGREEMENT

Growth Target

- 3.1 **A 30% annual increase and acceleration of housing delivery** from the 2015/16 base of 1,800 p.a. to a target of 2,360 p.a (as the identified requirement in emerging Local Plans). This will deliver over 7,000 new homes by 2021; an additional 1,650 homes over that period across the five local authorities that make up TVCA.

Effective planning service

- 3.2 Promote a **strategic, joined up and consistent planning approach** to facilitate and speed up planning decisions across the Tees Valley demonstrating housing growth to underpin the economic ambitions of the area.

- 3.3 This will include a commitment of Partners to work together to **develop a clear, transparent and joint approach to planning and investment**, including a consistent approach to S106, CIL, viability assessments, etc.
- 3.4 Commitment of Partners to **pro-actively use their existing powers**, including CPO powers, Development Orders and any necessary new delivery or special purpose vehicles etc, where needed, to help provide infrastructure, reduce planning risk and unlock sites.

Pipeline of opportunities

- 3.5 TVCA to maintain a clear **pipeline of all opportunities** for residential development across the whole of the Tees Valley in the form of a Land Disposal Plan overseen by the Land Commission. Partners will work collectively to keep up to date a **categorisation of all sites** which shows clearly those with planning permission for residential development, or capable of achieving residential consent, and those with barriers to being brought forward with a prioritisation of the actions and investment needed to unlock each site.
- 3.6 **Identification of Growth Areas and Priority sites** that provide confidence to initial stages of delivering the ambitious long-term target, with an investment plan to unlock these sites, drawing on local and national public funding plus private sector investment.
- 3.7 **Maximising the use of public land** across the Tees valley. Where appropriate, Partners to take a long-term 'ownership' of strategic development/growth sites in order to capture land value uplift and ensure delivery.

Affordable homes

- 3.8 **TVCA to commit to pro-active engagement with RPs to deliver a range of affordable homes**, including maximisation of delivery in 2017/18, consideration of use of public land to promote more affordable homes, buying further land to increase the number of affordable homes, maximising the contribution housing developers make to new affordable homes and understanding where effective planning decisions support RP's own delivery targets. This will underpin a **significant increase in affordable homes completed each year under SOAHP from around 310 homes currently (17% of all homes built in the Tees Valley each year) to circa 620 homes.**
- 3.9 Encourage **diversification within the RP sector**, to include the introduction of new affordable housing providers in the Tees Valley.

Brownfield land and regeneration

- 3.10 The Land Commission to identify and have **strategic oversight of all brownfield land** in the Tees Valley. This will include a review of all surplus Government land and oversight of the One Public Estate (OPE) and OGD programmes in the area.
- 3.11 The partners to work collectively to understand how the needs of prioritised regeneration areas can be met e.g. Estate Regeneration, and actions to **diversify the housing market** to, inter alia, help those on lower incomes, tackle issues of

long term empty homes and seek improvements to poor quality Private Rented Sector (PRS) stock.

Quality and innovation

- 3.12 **A commitment to embrace place-making, innovation and MMC/OSM** in order to deliver quality housing at volume and pace while still creating sustainable and adaptable homes for the present and future.

Governance

- 3.13 A Commitment to **establish clear governance and delivery arrangements in the form of a new Housing Delivery Board**, as a sub-group of the Land Commission, initially chaired by the Tees Valley Mayor to ensure delivery of this Agreement. The Land Commission will also have a governance role to hold all parties to account for delivery.

The over-arching intention is this agreement should be the basis for an **open and engaging relationship with Government** to enable discussion to focus on the actions, mechanisms and investment required to release land and bring identified sites forward for development.

4. THE ASK OF GOVERNMENT/HOMES ENGLAND

Infrastructure

- 4.1 Government and Homes England to **recognise the strategic importance of the Tees Valley priority ask set out in the Housing Infrastructure Fund (HIF)** of £291m, which will unlock circa **29,600 additional housing capacity**, broken down as follows:

Forward funding bid of **£249m for 20,570** new units.

Marginal viability bids of **£42m for 9,024** new units.

- 4.2 TVCA will, in return, commit to **aligning its investment** to housing infrastructure where appropriate, **including the alignment local transport funding** to support developments.

Affordable Homes

- 4.3 Homes England to work with TVCA and registered providers to **double the existing SOAHP** indicative allocation for the Tees Valley from **£25m to £50m (2018-2022)**;

- 4.4 To help achieve his, Homes England to provide **flexibility in the mix of affordable products** to allow partners to respond to the diverse markets of the

Tees Valley, with the CA to maintain an overview of the mix to support government priorities;

- 4.5 Furthermore, Homes England to provide **flexibility in the use of RCGF** to allow partners to recycle within Tees Valley, and across providers.

Targeted Land Acquisitions

- 4.6 To establish a **Tees Valley Capital Land Acquisition Fund (to 2020/21) of an additional £5m per annum** that will align with TVCA/LEP investment, and seek, where appropriate, prioritisation of Homes England funding to acquire, assembly and de-risk land to accelerate development;
- 4.7 The TVCA capital Land Acquisition Fund to **retain and reinvest added value income generated from site disposals within the Tees Valley**, to help deliver this plan;
- 4.8 The strategy to provide for **Partners to take a long-term 'ownership' of strategic development/growth sites** to capture land value uplift and give a greater certainty to delivery. This will include the Land Commission and Homes England agreeing disposal strategies for Homes England land to help achieve alignment with TVCA housing and economic ambitions.

Building Capacity

- 4.9 Support from the skills and capacity of Homes England, together with resource funding comprised:
- 4.10 £250,000 pa (2017/18-2020/21) funding to **create a Capacity Fund** for a team to focus on the assembly, de-risking and promotion of priority sites;
- 4.11 £200,000 per year to investigate and develop investment strategies for **Estate Regeneration** and areas of low occupancy and poor quality stock.