

Agenda Item 8

Overview and Scrutiny – Communities Committee

24 June 2009

SB/PL



Discussion paper and position Statement on the Delivery of new affordable housing in East Devon

Summary

The purpose of this paper is to provide an up to date position statement on the delivery of new affordable housing within East Devon. The report highlights the difficulties being experienced currently, identifies the obstacles to delivery, and proposes some solutions to the barriers faced when trying to increase the amount of affordable homes provided in the district. It is hoped that this report will stimulate discussion and influence a fresh approach to affordable housing delivery to overcome the barriers, which have depressed our output of new affordable homes in the past two years.

Recommendation

To consider the issues and options set out in this discussion paper and identify those appropriate to take forward, to be worked up in more detail and implemented.

a) Reasons for Recommendation

To increase the output of new affordable housing.

b) Alternative Options

A number of options are explored in the report to contribute towards achieving our corporate objective.

c) Risk Considerations

By not addressing some of the issues in the report we will likely fail to meet our affordable housing targets.

d) Policy and Budgetary Considerations

The policy issues are explained in the report. Budgetary implications dependent upon the options selected for implementation, if any.

e) Date for Review of Decision

The delivery of affordable housing needs to reviewed annually.

1.0 Background

1.1 As stated within our Corporate Strategy the provision of affordable housing is one of our corporate priorities.

1.2 The East Devon Corporate Strategy 2008 has set targets for the delivery of at least 200 affordable homes per annum across the district from 2008 to 2011, with an aspiration to deliver up to 300 a year in 2011 to 2015.

- 1.3 The findings of the Exeter and Torbay Strategic Housing Market Assessment 2007 supports a need for an affordable housing development programme in the short term (next 5 years) producing 1,250 new affordable homes over the period to meet all identified and forecast housing needs. We have approximately 4,300 households on our Housing Register seeking housing in the district. This is a barometer of housing need, however, we must recognise that many households on the Housing Register are not in urgent housing need or have registered because they anticipate a higher level of housing need in the future.
- 1.4 Providing affordable housing is a complex and sometimes slow process, which has been made harder by the current economic recession. It necessarily involves large sums of money, market confidence, willing and able housing partners, land, combined with a strong desire to deliver.
- 1.5 To meet our current affordable housing targets as stated in our Corporate/Housing Strategies, will require a fresh approach as traditional methods of delivery are not achieving the desired outcome.
- 1.6 During 2008/09 we have only delivered 9 affordable homes. In earlier years we have provided up to 62 new affordable homes.

2.0 Current Situation

- 2.1 The ability to fund affordable housing schemes with our own capital funding was reduced following the abolition of Local Authority Social Housing Grant and the introduction of the pooling of Housing Capital Receipts. We have been increasingly reliant upon enabling affordable housing through the planning system and accessing funds from the Homes and Communities Agency (formerly the Housing Corporation).
- 2.2 We have one officer dedicated full time to the provision of affordable housing (Housing Enabling Officer) with some support from the Housing Strategy Manager, the Head of Housing and Social Inclusion, and colleagues in other services. We have a small budget for consultancy advice (£3,000) and no capital budget to grant aid/part fund housing development. We have secured some external funding through commuted sum payments in lieu of affordable housing.
- 2.3 Traditional methods of delivering affordable housing through the Local Plan have proven inadequate to meet known housing need, particularly in the depressed housing market. We are concerned about the ability of the planning process to deliver the number of affordable homes required as the current system is dependent upon private sector housing development being progressed, and sufficient funding being made available to deliver affordable housing.
- 2.4 Current planning policies relating to affordable housing in the Local Plan 2006 are Policy H4 and Policy H5 (affordable housing on exceptions sites). We have interim Supplementary Planning Guidance on affordable housing that whilst not formally adopted, and a little dated now, has been useful in explaining our housing and planning policy position. This document is available on the Council's website.
- 2.5 Affordable housing development economics are such that developers will claim that they are unable to provide the high proportions of affordable housing we demand at 'knock down' prices. Registered Social Landlords (RSL's) can only pay what the rental income stream will fund in loans (mortgage). So public subsidy in the form of grant from the Homes and Communities Agency (HCA) is typically required to bridge the gap between what the developer is seeking to secure to make the development viable, and what the RSL can afford to pay for the new homes.

- 2.6 Housing and financial markets are in crisis. Well respected economic commentators had forecast significant falls in house prices which have since occurred nationally. There have been some recent signs of the market stabilising, but house builders have responded to the recession by shelving developments across the country and housing completion rates across the country are forecast to be at the lowest since the Second World War. Significant job losses in the construction industry have already been announced with forecasts of up to 100,000 direct job losses, representing a third of the sector.
- 2.7 We have the will to deliver affordable housing, and significant Homes and Communities Agency funding is available across the region, but the 'credit crunch' and flat housing market have resulted in developers selling or 'moth balling' sites, which means that the delivery of new affordable homes through the planning process is slowing down. As builders are not building, we are losing the ability to provide affordable homes through the developer's contribution of 40% affordable housing on all qualifying sites. This trend is evident across the country and is reflected in a major under-spend of the Regional Housing Pot administered by the Homes and Communities Agency.
- 2.8 We have evidence to show that landowners are reluctant to part with land, preferring to wait until the market picks up again, and site viability is difficult to achieve. Even where we have offered to contribute land for nil financial return, sites have proven not to be viable without a significant injection of public subsidy in the form of grant. Financial uncertainty also contributes to a scarcity of mortgages and developers are fearful of an inability to sell on their newly built homes.
- 2.9 Those developers that are building homes in the current market are advancing arguments to reduce their affordable housing contributions on the grounds that the burden of providing affordable housing adversely affects their development economics to a point where the development viability is compromised, so much so that development is unprofitable.
- 2.10 It is difficult to make even intermediate models (shared ownership) work, and if they are viable, they are typically beyond the financial reach of many in need, or mortgages are not available to potential purchasers.
- 2.11 The Council's prioritisation of affordable housing is a response to the significant shortage across the district. As levels of need are likely to increase and market conditions likely to worsen, it is important to focus on the actual implications of declining delivery. As in the last housing market crash, repossessions are rising and there is evidence that the private rented sector is also becoming less affordable with private rents forecast to rise.
- 2.12 There are significant implications for the Council's housing advice and homeless prevention services, as we anticipate a rise in households in high housing need approaching us for assistance. This additional pressure and requirement to meet our statutory housing duties will have cost implications for the Council.
- 2.13 It might, therefore, be argued that affordable housing delivery is more important now than at any time in the past.

3.0 Affordable Housing Delivery Forecast

- 3.1 East Devon's Housing Register has approximately 4,381 applicants seeking a home. We have 6 households with a priority card, 648 households in the gold band (urgent need for housing), 2392 in the silver band and 1335 in the bronze band.
- 3.2 As an Authority we are unable to meet this need and have not been able to achieve more than 62 new affordable homes in any single financial year over the last five years. Over the next two years we are currently expecting to deliver about 276 homes; however this is subject to planning, funding, slippage and the market conditions. The development programme is attached as **annex 1** (and appears in Part B due to the sensitive business information contained therein).

- 3.3 We have an ongoing programme of Rural Housing Needs Surveys working in partnership with the Rural Housing Enablers and Parish Councils. Once the local need has been identified we turn our attention to identifying a suitable site. In a number of our rural areas we have identified sites. After a long and difficult search we have planning permission on a 20 unit site in Colyton and our RSL partner has just started on site. We have advanced rural schemes in several other areas, but delivery is never quick.
- 3.4 There have been some opportunities where we have been renegotiating the Section 106 contributions at the request of the developer/applicant and have reconsidered housing tenure, open space and education contributions to achieve a viable scheme in the light of current economic conditions.
- 3.5 We have seen one of the selected RSL partners pull out of Cranbrook and several other RSL's have signalled a reduction in development activity within the district. This is a worrying trend as we are reliant on RSL partners being the main providers of new affordable housing.
- 3.6 Government are currently making available grant from the Homes and Communities Agency direct to Local Authorities. In the 2009 budget £100 million is being made available for local authorities to build 900 council homes. This is a modest amount of funding and several larger authorities have indicated that they will bid for the whole pot. We have submitted our 'pre-qualification' paperwork and plan to bid for funding for a handful of development projects including two bungalows for the disabled in Sidmouth, the first direct development of homes for the Council's own stock for many years. If we are successful we would either need to employ an in house team of specialists, such as architects etc or more likely commission outside expertise. This work typically involves spending time working up development proposals, which for a variety of reasons are aborted incurring architects and consultants fees in the process. At the moment our RSL partners do this work 'at risk'.
- 3.7 There are many conditions placed on the funding of a council building programme and if we are successful this will supplement our RSL development programme, not replace it. As an Authority we have very little of our own land suitable for development remaining, but there may be opportunities to work with developers/land owners who are reluctant to work with RSL's. However, there is no certainty that funding will be available in future years.
- 3.8 The messages we have been receiving recently from the Homes and Communities Agency is that they have funds available for spending this year, but in future years they expect their programmes to be dramatically reduced because of public spending constraints. Not wishing to be overly pessimistic, but having regard to the development economics explained above we may find ourselves in a situation where opportunities come forward which can't be delivered due to the lack of public subsidy, and we are forced to lower our targets and aspirations.
- 3.9 We have been working closely with our Planning colleagues in an attempt to overcome delivery issues by creating the Virtual Affordable Housing Team. Work has been undertaken on an interim planning policy to help us respond effectively to the flat housing market. In addition, the team has identified a site in Exmouth that would normally fall outside our planning policy, but has the potential for 14 affordable housing units, and could be advanced in much the same way as the 'exceptions policy' does in rural areas.
- 3.10 We have considered a departure site recently where some years ago a developer approached us with a site that had many planning issues against residential development. As the developer was persistent we attempted to advise on how the site might be packaged to overcome some of the policy objections. The site had the potential to provide 104 affordable homes (70% of the housing on site), with an RSL involved, but would represent a significant departure from planning policy. The principle behind this application was carefully considered by the Development Control Committee who weighed up the planning and housing case and decided against the grant of planning permission. Notwithstanding

the planning issues, this site alone would have provided one year's supply of affordable housing or half of our Corporate Strategy target.

4.0 Barriers to the delivery of affordable housing

4.1 There appear to be many barriers that hinder the deliverability of affordable housing, such as:

- a) A reliance on affordable housing land supply coming through the planning system.
- b) Existing planning policy does not align with the current housing needs in East Devon.
- c) Lack of adopted supplementary planning guidance on affordable housing.
- d) Local Plan thresholds, housing schemes less than 15 and 5 in rural settlements don't provide affordable housing. Many developers successfully avoid these thresholds.
- e) Policies preventing cross subsidy schemes on rural exception sites.
- f) Financial viability, even providing land at nil value we still struggle to deliver.
- g) No real incentive for land owners to come forward with land.
- h) Difficulties in securing funding from the Homes and Communities Agency.
- i) Expectation that Cranbrook would provide a significant amount of affordable housing by now (Annual Audit letter was critical for our over reliance on Cranbrook).
- j) Many Housing Associations / RSL's and funders are being risk averse.
- k) Failing housing market, leading to a reduced level of housing development/investment.
- l) Unable to match fund or provide Local Authority grant to facilitate off -the -shelf property purchases, or contributions towards schemes.
- m) A few case studies below highlight the difficulties experienced when trying to progress affordable housing schemes.
 - **Stowford Rise, Sidmouth** : This scheme is struggling to deliver 150 units of which 99 (66%) should be affordable homes. Even with EDDC land being provided at nil value the scheme viability is proving difficult, given the numbers we require and the standard to which new homes are to be built. We are hopeful of overcoming this issue by working closely with all partners to clarify costs and viability issues, securing HCA grant, obtaining a competitive construction tender and raising the land value to a positive position.
 - **Sidford Cross, Sidford** : This 10 unit 'off the shelf' scheme, has currently stalled due to a funding gap of £350k. This gap is the difference between what the developer wants to achieve and what can be offered by the RSL using HCA grant. As an Authority we do not have sufficient capital funding to fill the funding gap. The RSL has explored the maximum levels of grant and its own funding.
 - **Rural Scheme with Clinton Devon Estates**: This 14 unit rural scheme has again stalled due to a shortfall in grant funding. The original affordable housing model has had to change significantly due to the down turn in the economic market place. This down turn has had a knock on effect on shared ownership values compounded by the difficulties in securing mortgages. This has led to a funding shortfall of approximately £650k.

5.0 Consideration of some options to increase affordable housing delivery

5.1 If we are to overcome these barriers we are going to have to consider possible radical changes that include a long term funding commitment, a change to planning policy, creating an affordable housing team etc. Listed below are a number of ideas for consideration and discussion:

- a. Do we need to solve this problem or will it all sort itself out in time? Is waiting for the results of the LDF (2010) / SHLAA (2009/10) an option?
- b. Should we consider an interim planning policy that reflects the current planning delivery difficulties? This could be time bound to reflect the housing market and protect against any precedents being set.
- c. Do we need to commit more internal resources? A specific cross-directorate affordable housing delivery team perhaps? Or should we dedicate our Housing Strategy Unit to this work? Should we ring fence capital resources from the sale of housing land/assets for the provision of affordable housing?
- d. To bring forward land for development, should we consider a review of unimplemented and recently implemented planning permissions together with recently completed developments? The proposal is to approach owners to consider disposing of their sites for affordable housing development.
- e. Should we consider encouraging Rural Exception Site housing through incentives such as allowing one preferential plot per development? This could be a short-term 'amnesty' offered to land owners only for the next 12 months.
- f. Should we undertake formal cascading arrangements with Section 106 contributions so that we can use this planning gain across the district if it has not been used for development of affordable housing after the first 3 years of the agreement?
- g. Where site viability is a genuine issue, could we reduce our affordable housing threshold to encourage at least some new stock to be built?
- h. Why do we appear to support the delivery of affordable housing, but not to fund it, should we have a fund set up for this so that we could operate a Market Requisition Programme to buy suitable off-the-shelf properties and/or land.
- i. Should we consider holding an RSL summit to listen to and debate the barriers faced by the RSL's and plan together for the future?
- j. Are phased developments, where the affordable housing element of a scheme is brought forward and built first, to be welcomed, despite the problems around creating 'mixed and balanced communities'? Phased developments may be our only opportunity to secure delivery in the current climate. If so, should we set a maximum site size where such an approach is deemed suitable?
- k. Researching and importing good practice from elsewhere. Who is currently able to deliver affordable housing and how?

6.0 Conclusions

- 6.1 As a housing authority despite our best efforts we are failing to provide sufficient housing to meet known housing need. The Committee is requested to consider how best to proceed bearing in mind the comments, barriers and options identified in this report. The delivery concerns have been highlighted in the Service Transformation exercise with some ideas on how we might better resource the activity, to increase capacity and output.
- 6.2 At the moment everything we try in terms of affordable housing delivery seems to be failing or stalling, and we can't manage a 'step change' in output using traditional methods of delivering affordable housing. We have discussed our concerns with the HCA and the Government Office for the South West. Both partners were sympathetic, confirmed that other authorities were facing similar problems and offered their ongoing support. They were unable to offer us a solution, but confirmed that we were considering the appropriate options/questions to 'restart' the affordable housing development programme.
- 6.3 Some of the above initiatives may bring our output back to earlier levels in 'good' years of 60+ new affordable homes per annum. We might even achieve 100 new homes in a more buoyant housing market, but to achieve the Corporate Strategy targets we need to do see an improved market, increase our capacity and operate in a supportive policy framework. We would also need our larger strategic development sites (Cranbrook) delivering significant numbers of affordable housing.
- 6.4 A corporate response is required with contributions from external partners; if we are to achieve anything near the targets we have set for ourselves and meet the housing needs of our communities.

Legal Implications

There are no legal implications set out within the report.

Financial Implications

There are no financial implications at this stage but there may be significant implications in the future depending upon the resolution of this item. The delivery of the Council's priority of affordable housing must be weighed against the current severe financial situation.

Consultation on Reports to the Executive

None.

Background Papers

- EDDC Corporate Strategy 2009.
- EDDC Housing Strategy 2008-2011.
- Homes and Communities Agency Local Authorities: Bidding Guidance for Social Housing Grant.
- Local Plan adopted July 2006.
- Affordable housing in East Devon - Interim Supplementary Planning Guidance to the emerging East Devon Local Plan, July 2004.