

North Somerset Council

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REPORT TO THE ADULT SERVICES AND HOUSING POLICY AND SCRUTINY PANEL

DATE OF MEETING: 15 JULY 2016

SUBJECT OF REPORT: AFFORDABLE HOUSING UPDATE

TOWN OR PARISH: DISTRICT WIDE

OFFICER/MEMBER PRESENTING:

MARK HUGHES, HEAD OF HOUSING AND DIRECTORATE GOVERNANCE

KEY DECISION: NO

RECOMMENDATIONS

That the Panel consider and discuss the issues raised in this report.

1. SUMMARY OF REPORT

This report sets out:

- The national housing policy changes affecting the delivery of affordable housing;
- The new Government Programme for affordable housing
- The implications for North Somerset.

2. POLICY

This information in this report supports the council's Housing Strategy, planning policies and Corporate Plan.

DETAILS

3. CONTEXT: THE PRESSURES ON AFFORDABLE HOUSING

3.1 There are a number of national housing policy issues that will affect the future delivery of affordable housing (AH) delivery.

3.2 **Welfare reform:** housing benefit reductions (the introduction of the cap on housing benefit for social housing tenant at the Local Housing Allowance level) and the introduction of Universal Credit have adversely affected Registered Providers (RPs') business plans and development capacity.

3.3 Rent reductions: RP development programmes had been predicated on rent increases of CPI¹ + 1% for ten years. However in 2015, as part of Welfare Reform, the Government introduced plans to reduce RP rents by 1% per year for four years from 2016. A reduction in rental income for RPs reduces their capital loan repayment capacity meaning less income to invest in new AH, particularly rented accommodation.

3.4 Right to Buy: Previously only Alliance Homes and other stock transfer RPs needed to factor the Right to Buy into their business plans. As part of the implementation of the Housing and Planning Act 2016 all RPs have reached a voluntary agreement to offer the Right to Buy. While the details are yet to be published it remains unclear how the replacement of homes sold under the Right to Buy will operate in practice.

3.5 Starter Homes: One of the most significant Government housing changes is the introduction of Starter Homes as an AH tenure. Starter Homes will be new homes for first time buyers under 40 years of age, and will be sold at a discount of at least 20% below the market level. No LA nomination or local connection criteria applies. Although the details are yet to be announced it is expected that there will be a requirement on developers to provide 20% of new housing development as Starter Homes. Taking the councils existing requirement of 30% AH (Core Strategy CS16); only the remaining 10% could currently be negotiated as an alternative AH tenure.

3.6 Planning policy: Changes to planning policy (NPPG²) have reduced the amount of AH developers are required to provide on some sites; introduction of a minimum threshold of 11 dwellings for AH contributions (unless site located in an Area of Outstanding Natural Beauty; or development exceed 1000sq.m.) and a mechanism called vacant building credit to aid redevelopment of brownfield sites by excluding the value of existing empty buildings and land from the requirement to provide AH.

4. NEW GOVERNMENT PROGRAMME FOR FUNDING AFFORDABLE HOUSING

4.1 £4.7bn of capital grant funding has been made available through the Homes & Communities Agency's (HCA) new funding programme, the 'Shared Ownership and Affordable Homes Programme 2016-21'. This will deliver an estimated; 135,000 Shared Ownership homes; 10,000 Rent-to-Buy (RtB) homes; and 8,000 homes affordable rented accommodation for supported and older person.

4.2 Alongside the traditional Shared Ownership (SO) product, two other part-rent/part-buy products can be funded aimed at meeting the housing needs of particular groups; Older Persons Shared Ownership and Home Ownership for people with Long term Disabilities.

4.3 Local Authorities cannot attach any local connection to SO units delivered through a HCA programme. The only prioritised group are members or former members of the armed forces. This will therefore limit the potential funding streams available to support community type affordable housing projects, for example Rural Exception Sites (under Core Strategy policy CS17) whereby local connection is imposed through planning law.

4.4 **Rent to Buy (RtB)** homes are allocated to eligible, working households at an intermediate rent (generally 80% of market value) for a minimum of five years, enabling the household to

¹ Consumer Price Index

² National Planning Policy Guidance

save towards a house deposit. After initial the 5 years the occupier can choose to purchase the property.

4.5 **Rented homes** - no grant funding available is available through the HCA's 2016-2021 programme for any general needs³, rented social housing.

5. IMPLICATIONS OF CHANGES

Delivery Year	Rented	Intermediate	TOTAL
2013/14	133	33	166
2014/15	142	12	154
2015/16	88	38	126

5.1 The table above sets out AH delivery rates over the past three years however going forward the picture is likely to be much different.

5.2 The welfare reforms as discussed above have encouraged many of our RP partners, particularly the larger ones to introduce mixed tenure developments including market rent, outright sale and more intermediate products as a mechanism to cross subsidise their rented development programmes and offset risk. This will inevitably reduce their level of delivery of AH. Combined with the lack of grant funding support from central government, RPs will be less able to deliver rented accommodation in particular.

5.3 While much of the detail is still to be published, it is expected that Starter Homes will have a significant impact on the delivery of traditional affordable homes. For example, a 100 unit development site delivering policy compliant AH (as per CS16) would deliver 30 units of AH comprising 25 rented & 5 shared ownership. Incorporating Starter Homes, the same site would be required to deliver 20 Starter Homes with remainder of the requirement (10 units bringing it up to 30% provision) delivered as an alternative tenure i.e. rent.

5.4 Furthermore, the recent NPPG changes reduces the opportunities for the Council to negotiate AH contributions. While delivery of on-site units on sites of less than 11 is often unlikely, small sites often yield off-site financial contributions used by the Council to support AH delivery on other sites.

6. FUNDING

6.1 The council's main source of funding to support investment in AH is secured through S106 agreements for AH provision (commonly called 'commuted sums'). In accordance with planning policy, these payments are made to the council in exceptional circumstances where on site provision of AH cannot be met. The council also has some remaining capital received from the transfer of its former council housing stock to Alliance Homes.

6.2 Limited financial resources will mean that it is not possible in future to grant fund all schemes where funding is required or requested. Applications for LA grant funding will need

³ 'General needs' applies to general family housing and dwellings for singles and couples suitable for a broad spectrum of those requiring housing. This does not mean that the households allocated to it are not older or have someone in the household with a disability, but it is not specialist housing built for particular households e.g. frail OP, people with mobility issues.

to demonstrate that the proposal is the best use of public subsidy and meets the aims and ambitions set out within the council's Housing Strategy. In order to make best use of the limited resources greatest priority will be given to the following subject to value for money considerations:

- **Rented Affordable Housing**
- **Intermediate Housing:** where grant funding intermediate units (such as shared ownership) will secure or safeguard the delivery of rented AH.
- **Grant funding of specialist/ supported housing:** where this meets local priorities

7. CONSULTATION

Consultation is ongoing with our active RPs to discuss:

- Their updated projected development capacity within NS (incl. tenures);
- Site identification and bidding opportunities
- The amount of Recycled Capital Grant Funding (e.g. money from properties they have sold under the Right to Buy) which RPs have to maximise delivery, particularly for rented AH.
- Opportunities to work in partnership to bring forward the development of rented affordable housing.

8. FINANCIAL IMPLICATIONS

As set out above.

9. RISK MANAGEMENT

There is a risk that if not enough rented AH is delivered some households will spend longer on the HomeChoice register and some homeless household may spend longer periods of time living in temporary accommodation.

10. EQUALITY IMPLICATIONS

This report falls under the umbrella of our Housing Strategy for which a comprehensive Equality Impact Assessment was undertaken. A failure to provide enough AH especially will disproportionately affect groups such as lone parents, large families and people in receipt of a low income who cannot afford to buy or rent privately

11. CORPORATE IMPLICATIONS

The provision of AH supports the delivery of the council's Housing Strategy and Corporate Plan.

12. OPTIONS CONSIDERED

Not applicable

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BACKGROUND PAPERS

None

Appendices

Appendix 1 - List of types of affordable housing

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Affordable housing⁴ (AH) is defined as being for people whose needs are not adequately served by the commercial housing market and now includes Starter Homes (as defined by the Housing & Planning Act 2016). Eligibility is determined with regard to local incomes and local prices. The primary tenures within the AH umbrella and delivered within the district include:

1. Social Rent

Usually owned and managed by a RP, offered to those on the housing register. Rents known as target rents are set under a national rent regime and are normally well below market levels.

2. Affordable Rent Housing (ART)

Also let by RPs, rents are set at up to 80% (including relevant service charges) of local market rents in the private rented sector and are usually kept within the local housing allowance (LHA) levels⁵.

3. Shared Ownership

A form of homeownership. This is where you share ownership of your home with the shared ownership provider, usually an RP. You pay a mortgage on share you own and you also pay rent to the RP on the equity they retain. The purchaser may acquire further equity shares until they own the home outright. Some types of shared ownership properties, such as those specifically for older people or those developed as part of rural exception sites, will have restrictions on the maximum equity that can be obtained.

4. Shared Equity

Delivered in circumstances where viability issues prevent the developer from meeting the Councils policy compliant AH requirement. Conditions vary depending on site, however, usually allocated to those with a local connection at a discounted market rate (say 80% of OMV). Discount provided in perpetuity.

5. Starter Homes

The New Starter Home product will be for new build homes available at a discounted Open Market Valuation of at least 20%. This product will only be open to first-time buyers under 40 and on homes where the discounted price is less than £250,000 outside London; the discount will remain in place for a set period (likely 5 years). No local connection criteria.

Awaiting technical guidance on delivery to be published.

⁴ National Planning Policy Framework

⁵ LHA is a formula for deciding the amount of Housing Benefit (HB) allowable in each geographic area based on an average of the bottom 30% of the PRS market. LHA had only applied to those in the PRS, but is now being extended to the social housing sector. Its level has been frozen for a number of years.

- **Rent to Buy**

A Government scheme designed to ease the transition from renting to buying; homes provided to eligible, working households (i.e. those with a reasonable prospect of purchasing their home), at an intermediate rent (generally 80% of market value) for a minimum of 5 years enabling the household to save towards a house deposit. After the initial 5 years, if the landlord wishes to sell the property, the existing tenants have right to first refusal (landlord expected to sell & can only refuse in 'exceptional' circumstances). If tenants do not exercise the choice to purchase, the provider can retain the property as rented housing (at either affordable or market rate rent) or sell it on the open market. Not subject to LA nominations/ local connection.

Currently being promoted through the HCA's new funding programme although no delivery yet in the district.

- There are also a number of other government incentives, such as Help to Buy Equity Loans, that provide assistance to those trying to get on the property ladder.