

# MAKING THE CASE AFFORDABLE HOUSING IN THE SOUTH EAST

COUNCILS AND  
COMMUNITIES  
IN PARTNERSHIP



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## Contents

|   |          |
|---|----------|
| <b>Introduction</b>                             | <b>3</b> |
| Funding gap is nearly £400m                     |          |
| Meeting aspirations                             |          |
| Considerable backlog                            |          |
| <b>1. The Regional Allocation</b>               | <b>4</b> |
| <b>2. The Regional Housing Strategy</b>         | <b>4</b> |
| Delivering decent homes                         |          |
| Removing barriers to delivery                   |          |
| <b>3. Delivering Affordable Housing</b>         | <b>5</b> |
| <b>4. Delivering More Affordable Housing</b>    | <b>6</b> |
| <b>5. Delivering Quality Affordable Housing</b> | <b>6</b> |
| <b>6. The Case for Additional Funding</b>       | <b>6</b> |
| <b>7. Conclusions</b>                           | <b>6</b> |
| <b>8. Figures and Tables</b>                    | <b>8</b> |

Front cover:

A cake made in the shape of eco-friendly affordable terraced homes, cut to illustrate the gap between Government funding and affordable housing targets in the South East.

# Making the Case

## Affordable housing in the South East



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### Introduction

Ensuring that everyone has the opportunity to live in a decent, sustainably constructed and affordable home is an objective we share with Government.

#### Funding gap is nearly £400m

Recent increases in investment by Government to deliver affordable housing have been welcome. However, the fact remains that we need nearly £400m of additional investment over the next three years, if we are to meet the need for affordable housing in South East England.

So the challenge we face in realising this objective in our region is enormous. The affordability crisis in the South East is more acute than in any other region outside London and continues to get worse.

In their report on the draft South East Plan independent planning inspectors concluded that the 'cost of housing is a major barrier to economic growth and has potentially serious social consequences'. It went on to add that 'delivery of an adequate level of affordable housing will be a vital component in achieving economic performance'.

#### Meeting aspirations

It is important to appreciate that affordability is not the same as affordable housing. For those who cannot afford to enter the housing market because the cost is in excess of eight times their income, a house that is affordable because of investment made by the public sector offers the best hope of meeting their aspirations.

Affordability problems exist across virtually the whole of the South East. Evidence from the Government's own advisors, the National Housing and Planning Advice Unit, shows that the problem of affordability cannot be addressed simply by increasing the number of houses built.

Housing completions in the region have increased in recent years as a result of concerted efforts by local authorities and the house building industry. In the past five years annual house building rates have increased from a low of 24,725 to a high of 34,563 in 2006, giving an average of 30,600 a year. And yet affordability (as judged by the housing price/earnings ratio) continues to worsen.

Greater commitment is required by the public sector to invest in the provision of affordable housing to meet the needs of the increasingly large proportion of households who can't afford to buy a home on the open market.

#### Considerable backlog

Our inability to deliver sufficient affordable housing in the past has resulted in a considerable backlog of unmet demand. This situation continues to be a significant cause for concern. Our most recent monitoring data shows that affordable housing completions in the region account for just over 20% of all new homes; at 7,100 in 2006 the number of new affordable homes being delivered falls well short of the 10,115 identified as being the minimum needed. Each year we are adding to the backlog of unmet need which, by definition, can only be met by the provision of affordable housing.

While the private sector is a major deliverer of affordable housing, an over reliance on the market brings with it the added concern that we are not building the right size and type of homes in the right locations. We are building too many flats when the need is for family sized homes and we are still not building enough homes for rent. With the number of homes available for the social rented sector accounting for only just over 50% of all affordable housing, the region is falling well short of what is required to meet the identified need.

As the affordability crisis in the region grows so the importance of the rental sector becomes all the more critical. Ensuring that this sector of the housing market meets the standards expected in the 21st Century is therefore as important as building more affordable homes.

The evidence base assembled by the region is unparalleled in its scope and detail. It has been subject to rigorous testing by the independent inspectors.

The inspectors concluded that the framework for delivering affordable housing set out in the South East Plan provides a sound and robust basis for guiding future public sector investment. More importantly they concluded that the best way to help those in genuine housing need is to increase substantially the level of investment in affordable housing.

## 1. The Regional Allocation

The funding available to the public sector to invest in housing for the three year period starting in 2008/09 was confirmed in December 2007, following the Comprehensive Spending Review.

Government has indicated that for South East England the sum available (excluding grants for investment in Gypsy and Traveller sites) for the next three years is £1,372m (see Figure 1).

## 2. The Regional Housing Strategy

The Regional Housing Strategy (RHS) guides the allocation of this funding in accordance with the framework set out in the South East Plan and Regional Economic Strategy. The RHS is prepared by the Regional Housing Board; a partnership chaired by a member of the Regional Assembly and including representatives from the Government Office, SEEDA, the Housing Corporation and English Partnerships.

Responsibility for the Board was transferred to the Regional Assembly in the wake of the Barker report to ensure a stronger alignment between the allocation of public sector investment and regional priorities for housing.

The RHS is the region's response to the need to target public sector investment in the best way to meet the challenges identified by the region.

Its priorities are to:

- Increase the number of affordable homes
- Bring decent housing within the reach of people on lower incomes
- Improve the quality of both new and existing homes.

These priorities reflect the need to deliver the right type and size of affordable housing in parallel with improvements in the quality and energy efficiency of existing and new homes.

### Delivering decent housing

It is perhaps unavoidable that much of the housing debate focuses on the provision of new homes. However, the condition of our existing housing stock must be a key consideration for public sector investment.

Government has set local authorities a challenging target to ensure that council housing meets the decent homes standard by 2010. The funding required to deliver this target has already been agreed with the Government.

The significance of the rental sector in helping meet the housing needs of the region has been highlighted previously. A key issue is the need to improve the standard of rented accommodation in the private sector. This is all the more acute given the significant number of vulnerable households who live in non-decent properties.

If we are to meet the Government's targets we need to improve conditions in 42,000 properties by 2010, at an indicative cost of £47.5m per annum. We are working to use public sector funding to release the equity that exists in people's homes. This enables us to reduce the investment required from the public sector to meet the Government's targets.

Our approach means that we will be able to make a real difference to the quality of our residents' homes. In addition, reducing the scale of the public sector investment in private sector improvements will release funding for investment in the affordable housing programme.

## Removing barriers to delivery

As our understanding of the scale and extent of the housing problem in the region has grown, so the importance of using public sector investment creatively to remove barriers to delivery has become all too apparent.

Undoubtedly one of the biggest barriers to delivery is the lack of infrastructure. The Regional Infrastructure Fund (RIF) is a mechanism for helping to overcome this barrier. It enables the public sector to forward fund vital infrastructure that, in turn, enables new homes to be delivered.

With nearly 80% of our new building taking place on brownfield land and mainly on relatively small sites, the risk associated with remediation costs can be a significant barrier to delivery. The Brownfield Land Assembly Company (BLAC) represents an opportunity to break through this barrier.

By investing in small brownfield sites BLAC takes on the risk of remediating the land to the point at which it is ready for development of affordable housing.

Ministers have ignored the region's advice, based on sound evidence, that investing a small proportion of the region's money in this way will help remove barriers to delivery. Ensuring the timely delivery of infrastructure in order to unlock delivery of housing remains a priority.

Investing in these innovative projects represents an opportunity to address two of the key barriers to delivery in the region. In both cases the initial investment is recovered, enabling public funds to be reinvested in additional schemes. Levering in additional funds through the innovative use of public sector funds makes a positive contribution towards addressing the housing problem in our region.

Continued investment in improving the quality of our existing homes and new investment in innovative funding mechanisms that address barriers to delivery are essential parts of the region's overall investment programme. We will therefore continue to develop our proposals for RIF and BLAC and will press Government on the importance of these measures for delivering greater outputs.

Such is the scale of the housing problem in the region that the priority for the remaining funds

should be to deliver affordable housing through the Housing Corporation's programme. Accordingly, investment in the Open Market Home Buy programme should be limited to the minimum required to ensure delivery of the Government's Key Worker Programme in the region.

Taking these priorities into consideration, the funds available to invest in the Affordable Housing programme over the next three years will be £1,137.3m (see Table 1).

## 3. Delivering Affordable Housing

The evidence base assembled in the region has been tested by independent inspectors and has been found to be a robust basis on which to identify the region's investment priorities.

The draft South East Plan identifies that at least 35% of new housing provision should be affordable. This equates to a minimum requirement of 10,115 new affordable homes per annum.

If the Government is minded to accept the inspectors' recommendations for higher levels of growth in the region, the minimum requirement for affordable homes will increase to 11,200 per annum.

The South East Plan also identifies that 70% of all new affordable homes should be in the social rented sector, with the remainder available for low cost home ownership.

The average grant available through the current funding programme to support the delivery of new affordable homes in the region is:

|                         |         |
|-------------------------|---------|
| Social rented sector    | £53,750 |
| Low cost home ownership | £18,270 |

To deliver the split in type of homes that the evidence base has identified as being required, each £1m from the Affordable Housing programme needs to deliver:

|                         |          |
|-------------------------|----------|
| Social rented sector    | 16 homes |
| Low cost home ownership | 7 homes  |

With the level of funding available from the Government this means that the region has the potential to deliver 26,158 affordable homes over the next three years (see Figure 2).

## 4. Delivering More Affordable Housing

Comparing the scale of the funded programme against the identified need, it is clear that there is a substantial shortfall of 4,187 (against the 30,345 recommended in the South East Plan) in the number of affordable homes we can deliver over the next three years.

If the Government accepts the recommendations of the independent inspectors (33,600) this shortfall will increase substantially to 7,442 (see Figure 3).

Based on the average grant per home the estimated cost of the shortfall in the Affordable Housing programme is £199.9m at the South East Plan level and £324.8m for the figures recommended by the independent inspectors (see Table 2).

## 5. Delivering Quality Affordable Housing

The Regional Housing Board has a key role as a champion for ensuring that new affordable homes are completed to the highest possible standards; we believe that Level 3 of the Code for Sustainable Homes should be the absolute minimum for both new build and the refurbishment of existing homes.

Achieving higher standards is likely, in the short to medium term, to require a higher level of public sector investment. Based on the evidence currently available we believe that meeting this minimum requirement will add approximately £2,000 to the cost of each new affordable home delivered through the Affordable Housing programme (see Table 3).

## 6. The Case for Additional Funding

We believe it is important that funding commitments made previously towards improving the quality of the existing housing stock are honoured in full. We also believe that bringing forward new and innovative funding mechanisms that address barriers to delivery are vital in helping address the housing problem in the region. The fact that these mechanisms will recycle the initial investment means that we will ultimately lever in additional funding from the private sector.

Taking these commitments into account alongside the continuation of the Open Market Home Buy product, it is clear that the level of funding available to invest in the Housing Corporation's programme is insufficient (see Table 4). There is an overall funding shortfall of £260.6m for the South East Plan

targets, and £392.0m if the inspectors' targets are considered.

It is important to remember that the framework set out in the South East Plan represents a minimum provision for new affordable housing.

Also, in putting forward their recommendations for additional housing the inspectors focused most of the increased housing provision in the London Fringe, Western Corridor/Blackwater Valley and Central Oxfordshire sub-regions. By their very nature these parts of the region are some of the most pressurised; a fact that is reflected in higher development costs. This is, in turn, likely to mean we need higher public sector investment to build affordable homes in these areas.

We are concerned to note that the average grant to support social rented housing in the London region is nearly twice that available in our region. At the same time, grant available to support low cost home ownership in the region is the second lowest of any region in the country. This results in housing associations cross subsidising the rented sector from shared ownership, making the latter even less affordable for many prospective home owners.

Financial pressures in the region are likely to increase over the next three years in the run-up to the 2012 Olympic and Paralympic Games. With construction price inflation in the region running at 5-7% per annum the potential benefit of any efficiency savings realised by the Housing Corporation will do no more than maintain the current state of play.

## 7. Conclusions

There is a strong and robust body of evidence gathered by the regional partners that establishes the scale of the housing problem in South East England.

We cannot rely on the housing market as the way of delivering larger numbers of affordable houses. More importantly such an approach will not ensure that we deliver sustainable communities that have the right type and size of affordable housing in the right locations.

A failure by the public sector to invest in addressing the region's housing problem risks laying the foundations for societal problems in the future.

Additional public sector investment in the provision of affordable housing in South East England is likely to have a greater benefit for the economically active compared with other parts of the country. The region's economic performance is vital to the success of the national economy; investing in the continued growth of the region adds value to the rest of the country.

Failure by the public sector to rise to the challenges identified by the region will condemn our residents to the prospect of increased homelessness, overcrowding in homes getting worse and more people living in unsatisfactory living conditions, with detrimental effects on their health and children's performance at school.

Recent increases in funding provided to the region by Government have been much welcomed. However, while this has helped deliver higher numbers of homes, the need for affordable housing continues to be unmet.

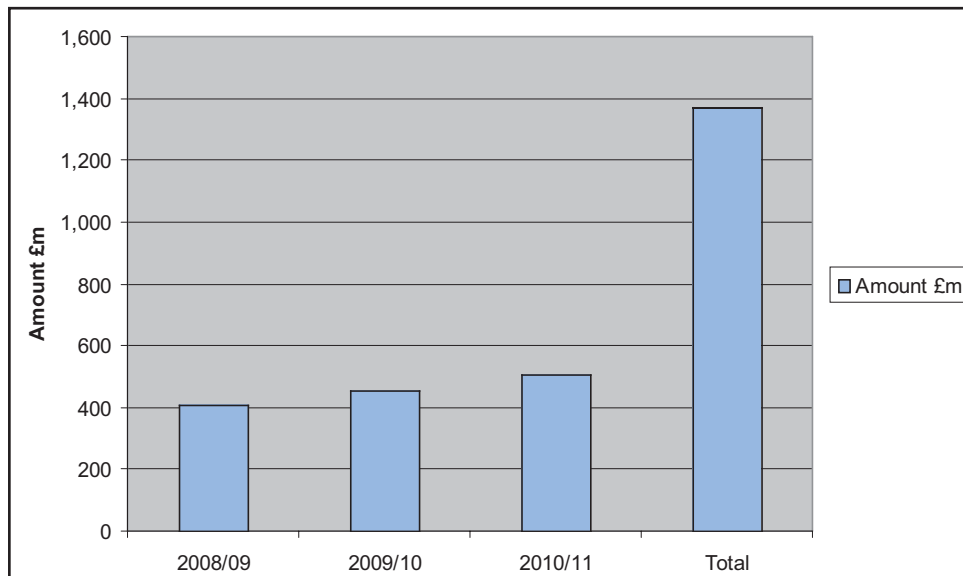
The need for action is clear; the time for action is now.

The cost of failure is too great to be contemplated.

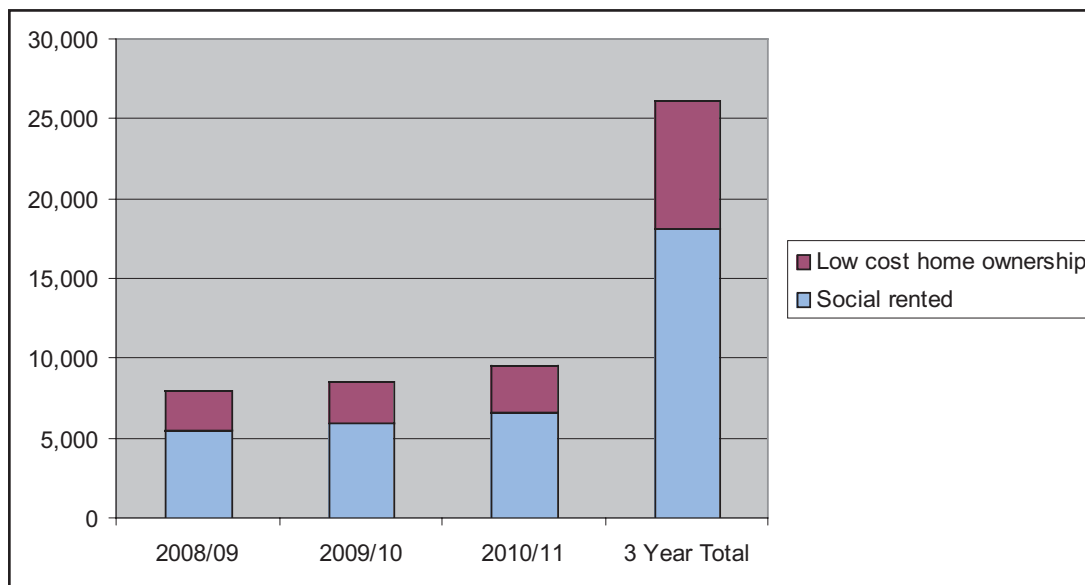
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## 8. Figures and Tables

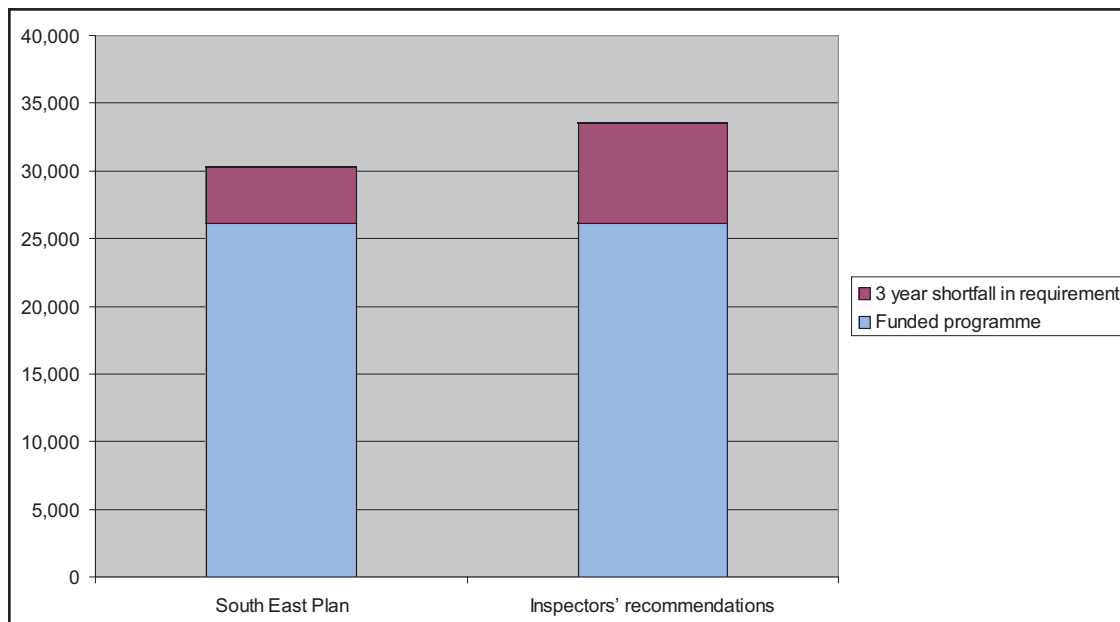
**Figure 1: Public sector funding for housing**



**Figure 2: Potential affordable housing programme**



**Figure 3: Shortfall in affordable housing**



**Table 1: Public sector housing funding breakdown**

|  | 2008/09        | 2009/10        | 2010/11        | 3 Year Total     |
|--|----------------|----------------|----------------|------------------|
| <b>Total CLG funding</b>   | <b>£407m</b>   | <b>£458m</b>   | <b>£507m</b>   | <b>£1,372m</b>   |
| <b>Regional Housing Strategy priorities</b>                      |                |                |                |                  |
| Local Authority Decent Homes                                     | £11.0m         | £11.0m         | £11.0m         | £33.0m           |
| Private Sector Renewal   | £20.0m         | £30.0m         | £30.0m         | £80.0m           |
| RIF  | £0m            | £10.0m         | £15.0m         | £25.0m           |
| BLAC   | £0m            | £5.0m          | £6.2m          | £11.2m           |
| Open Market Home Buy   | £28.5m         | £28.5m         | £28.5m         | £85.5m           |
| <b>Sub Total</b>   | <b>£59.5m</b>  | <b>£84.5m</b>  | <b>£90.7m</b>  | <b>£234.7m</b>   |
| <b>Funds Available to invest in Affordable Housing Programme</b> |                |                |                |                  |
|  | <b>£347.5m</b> | <b>£373.5m</b> | <b>£416.3m</b> | <b>£1,137.3m</b> |

**Table 2: Estimated shortfall in affordable housing programme**

|                                     | South East Plan | Inspectors' recommendations |
|-------------------------------------|-----------------|-----------------------------|
| Three year shortfall in requirement | 4,187 homes     | 7,442 homes                 |
| <b>Estimated cost of shortfall</b>  | <b>£199.9m</b>  | <b>£324.8m</b>              |

**Table 3: Estimated cost of higher standards**

|   | South East Plan | Inspectors' recommendations |
|---|-----------------|-----------------------------|
| Three year requirement  | 30,345 homes    | 33,600 homes                |
| <b>Estimated cost of Level 3 for all new affordable homes</b> | <b>£60.7m</b>   | <b>£67.2m</b>               |

**Table 4: Funding shortfall**

|   | South East Plan | Inspectors' recommendations |
|---|-----------------|-----------------------------|
| Programme provision required                              | 30,345 homes    | 33,600 homes                |
| Programme capable of delivery with available funding      | 26,158 homes    | 26,158 homes                |
| Shortfall in programme                                    | 4,187 homes     | 7,442 homes                 |
| Funding shortfall to meet provision                       | £199.9m         | £324.8m                     |
| Funding required to deliver Code Level 3 across programme | £60.7m          | £67.2m                      |
| <b>Overall Funding Shortfall</b>                          | <b>£260.6m</b>  | <b>£392.0m</b>              |
| <b>Additional Funding Required</b>                        | <b>19%</b>      | <b>29%</b>                  |

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A cake made in the shape of eco-friendly affordable  
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