

Western Corridor & Blackwater Valley Sub-regional Strategy

Technical background paper: Affordable housing

Summary of conclusions and recommendations

- i. The theoretical maximum that the current affordable housing policies in the South East Plan could deliver for the sub-region would be an average of 1,796 dwellings per year;*
- ii. On this basis, need is likely to exceed even the theoretical maximum supply by a substantial margin. There is no realistic prospect of overall house-building being increased sufficiently to bridge the gap.*
- iii. The Regional Assembly, the Regional Housing Board and other key players need to develop a more holistic view of how affordable housing needs are to be met; one that considers the potential within the entire housing stock and not just in that part of it that will be planned and built during the Plan period;*
- iv. Centrally-set targets for affordable housing overall, or for the mix of types or tenures, at below regional level do not add value to the South East Plan. The Plan should instead include a requirement for individual local authorities to set their own local targets for these, having regard to both the regional provisions of the South East Plan and to local circumstances;*
- v. There should be a requirement in the South East Plan for individual local authorities to identify in their policy documents any local backlogs of affordable housing and the measures it is proposed to take to address them. Again, no centrally-set targets for this at below regional level should appear in the South East Plan;*
- vi. On the basis of current funding regimes, we estimate that subsidy averaging £65.61 millions per year would be needed to deliver the amount of affordable housing proposed for the sub-region in the South East Plan. This would represent slightly more than a quarter of current spending on social rented and key worker housing for the entire region, according to the latest Regional Housing Strategy. The Assembly should acknowledge the key role that public funding plays in the delivery of affordable housing, in this sub-region and elsewhere in the South East. Consideration of target levels of affordable housing should not be separated from consideration of its public funding implications and the likelihood of the necessary level of funding being available. The Assembly should work with the local authorities and other relevant organisations to improve our ability to understand and quantify this role, and should use its influence with the Regional Housing Board and Government to secure adequate funding for this purpose.*

1. Introduction

- 1.1 As part of the brief set by the Regional Assembly, the Western Corridor and Blackwater Valley local authorities are asked to advise them on the scale and types of affordable housing required in the sub-region, based on local evidence and including the levels of provision for social rented and other forms of affordable accommodation. They are also asked to advise on the setting of local targets for affordable housing, and on the meeting of the

backlog of affordable housing identified in the consultation draft South East Plan.

2. Potential supply of affordable housing

1.2 The sub-regional level of housing growth we have been asked to provide for is 4,490 dwellings per year, giving a twenty-year total of 89,800 dwellings. The South East Plan's affordable housing policy (H4) provides as an overall regional target that 25% of all new housing should be social rented and 10-15% other forms of affordable accommodation. This would provide a **theoretical maximum** of 22,450 social rented dwellings and 13,470 other forms of affordable accommodation in the sub-region over the twenty years (which could only be achieved if we applied the highest growth option and if **every** local authority was successful in securing the target level of affordable housing from **every** development – both of which are highly optimistic eventualities). This would represent an annual average of 1,123 social rented dwellings and 673 other forms of affordable development (total 1,796). Nor does it take any account of net losses to the affordable housing stock from Right To Buy. Thus, even the theoretical maximum amount of affordable housing that could be achieved through the current South East Plan policies would fall short of estimated need by a factor of around four times.

1.3 The amount of affordable housing a given development can support is relatively finite, before it becomes economically unviable either for the developer or the landowner. In many parts of the sub-region, local policies (which broadly reflect those in the South East Plan) are already pushing at those margins of viability. A requirement for higher percentages of affordable housing does not therefore seem likely to yield significant increases in supply. However, it would be a false conclusion to argue that a shortfall on the scale identified above could be wholly – or even largely – met by a corresponding increase in the overall level of house-building.

1.4 There are a number of reasons for this. First, the level of increase would be so great that the environmental, transport and infrastructure implications would be totally unacceptable. Second, it seems highly unlikely that the housebuilding industry would be willing to accept the additional investment and risk involved, when the underlying result is likely to be a reduction in prices (and hence profitability) and a devaluing of their existing land-holdings. Third, there must be doubts as to whether the housebuilding industry could deliver such an increase in production, certainly in the short- to medium-term, given existing shortages of suitably skilled workers and the additional demands upon them posed, for example, by the 2012 Olympics, possible further expansion of Heathrow, CTRL, Crossrail and other major infrastructure projects.

1.5 A further – and even more important - consideration is that the planning process does not, by itself, create affordable housing; it simply creates the possibility of affordable housing, which in this sub-region generally requires the injection of additional subsidy from central or local government, a Registered Social Landlord or some other source if it is to be genuinely affordable. Current Government policy across much of the sub-region is that affordable housing provided through Section 106 should generally be developed without Housing Corporation subsidy. This makes it much more difficult to provide affordable housing and further constrains the number of units that a given site can viably deliver. In these terms, the supply of

affordable housing becomes less a planning issue and more one of public funding. Any target for affordable housing would need to have regard to its funding implications and to the likelihood of adequate funding being available from some source over the life of the Plan.

- 1.6 The policies in the draft South East Plan are likely to increase the total housing stock of the sub-region by about 18% over twenty years. Given the scale of the discrepancy between affordable housing need and its likely supply through the planning process, a strategy which looked at only 18% of the housing stock would be short-sighted and partial. The Assembly, the Regional Housing Board and other relevant agencies need to explore other ways – most probably outside of the planning process - in which parts of the remaining 82% of the stock could contribute to the supply of affordable housing.

3. Affordable housing targets?

- 1.7 Rather than having a single figure for affordable housing need, the sub-region's local authorities therefore believe that there need to be two figures: One would be an the overall target for affordable housing, to be met from all sources, which could be derived from local housing needs studies, Housing Market Assessments or some similar source. The other figure would be a target for the contribution to affordable housing from the planning process. This would be derived from the percentage figures in South East Plan policy H4, applied to the overall housing allocation for whatever area is being considered.

- 1.8 However, this latter calculation should be modified in the light of two factors – the first is that not all sites currently yield affordable housing. Some developments fall outside the size or other criteria set in Government policy. An allowance should be made for the proportion of the total housing allocation likely to fall outside those criteria for a site to provide affordable housing. The second modification would be to develop a more detailed understanding of the level of need and the likely availability of subsidy to support affordable housing, and the impact this would have on the yield of affordable housing from allocated sites. The sub-region's local authorities have attempted to make a start on this through their work on infrastructure costs, discussed in more detail below.

- 1.9 With regard to the level at which target figures should be set, the sub-region's local authorities are firmly of the view that this should be done at the level of the individual local authority, by that authority. This is the level at which need is identified and the level at which many of the policy initiatives to address need operate. The sub-region has no significance in affordable housing terms – it is not a basis for the collection of information on the subject; it does not relate to the housing markets identified by the Regional Assembly and we are not aware of any policy significance that separates out the sub-region in affordable housing terms. We can see no added value to be derived from a sub-regional affordable housing policy, or for top-down targets at a more local level.

4. Types of affordable housing

- 1.10 Many of the individual housing needs studies also give some indication of the kinds of affordable housing that are needed. A brief commentary on these, drawn from those studies, is given in Table 1 (below). The results lend

general support to the South East Plan's emphasis on social rented accommodation; there are also indications of a need for smaller units of accommodation, and for more accommodation for the elderly, from a number of parts of the sub-region. However, given the scale of the gap between the forecast level of need and the likely supply, the issue is less about trying to match supply to demand, and more about setting priorities from among the various categories of need. What also does not come across sufficiently strongly from the table is the greater cost and difficulty for most authorities of achieving social rented, as opposed to shared ownership, housing. Some authorities also drew our attention to a discrepancy between those types of property for which there was the greatest demand in numerical terms, and those that tended to reach the top of the waiting list, in terms of the severity of their needs.

1.11 The choice between different types of affordable housing is further complicated by other factors, such as the availability of grant aid or other funding within a particular local authority area, which may determine the types of housing that are economically viable on a given site; or the physical characteristics of the site and the negotiating position of the developer, which may also influence what can or cannot be achieved, by way of different types of affordable housing. There is also the point that any S106 funding from a development may have rival calls upon it (for example, for transport or other infrastructure needs arising from the development). The determining authority would need to come to a view about the relative priority of these items, which may affect the affordable housing yield. It is not possible for a policy at a regional or sub-regional level to have regard to all these factors. Even at a local level, policy needs to be flexible and to be operated flexibly, to enable unforeseen opportunities to be seized as they arise. This requires a great deal of expertise from the local authority in understanding the economics of individual developments and a willingness by the developer to be open about their balance sheets, neither of which can necessarily be guaranteed.

Table 1: Summary of types of affordable housing needs from local studies

Authority	Nature of needs
Basingstoke	Recommended mix 25% social rented and 15% low cost market housing, provided latter is delivered at below the cheapest entry levels for market housing.
Bracknell	The majority of housing need can only be met by social rented accommodation. Shared ownership might assist a small fraction of need.
Guildford	Need for more accommodation suitable for smaller households. Need for significant amounts of accommodation for the elderly. Affordability is a major issue.
Hart	High demand/need for flats exceeds supply. 88% of new households cannot afford owner occupation. 70% assessed as needing rented accommodation. High demand for sheltered accommodation.
Reading	About 64% of need is for sub-market rental (of which, 37% would be social rented and 27% other sub-market rented) and 33% for shared equity housing.
RBWM	Less than 10% of needs could be served by intermediate (ie non-social rented) housing. About 82% of need is for 1-2 bedroom accommodation.
Rushmoor	Majority need social rented accommodation. Current models of shared ownership meet only about 7% of need. Priority is for 1-2 bedroom accommodation.
Slough	40% of anticipated needs are for social rented housing, and a further 16% for other forms of affordable housing.
South Bucks	The reality is that only shared ownership currently developed. There is a need for some general rented accommodation in the coming years, but land prices mean that shared ownership is the realistic option and the absence of capital funding can make it difficult to alter this. Most need for 1-2 bed accommodation.
South Oxon	About 75% of their need is for social rented housing, 25% other tenures. Main affordable housing need is for 2-bedroom accommodation.
Surrey	About 75% of new households unable to afford owner-occupation. Biggest need is for flats/terraced housing. Particular need for older peoples' accommodation.

Heath	
West Berkshire	Overall provision of 39-42% affordable housing needed. Not achievable with conventional RSL social rented housing. Need to consider cost-rented or shared ownership accommodation, as well as social rented.
Wokingham	The majority of identified need is for social rented housing.
Wycombe	Shared ownership will meet only about 3-4% of need. Vast majority need social rented. Heavy demand for smaller (1-2 bed) accommodation but priority cases for social rented housing tend to focus on family housing at present.

1.12 The overall conclusions to be drawn from the preceding paragraphs are: (a) that needs and priorities vary so much between individual authorities that sub-regional targets for types or tenures of affordable dwellings have little significance; (b) that the characteristics of individual sites or developers, or of public funding opportunities at the time a development is taking place, will often be more important determinants of the mix of affordable housing than any pre-ordained targets; (c) that demand so far outstrips supply that urgent local needs may often dictate priorities, rather than any need to achieve wider targets and (d) that we are advocating a more holistic approach to meeting affordable housing need, one which looks beyond the planning process and beyond just the new-build stock. Under this, some of the needs that might be used to justify a particular mix of affordable housing might be met outside the planning system. For these reasons, we take the view that individual targets for different types and tenures of affordable housing at a sub-regional level do not add value to the South East Plan and should not be included in it. There should instead be a general requirement in the Plan for individual local authorities to specify their own targets in their Local Development Frameworks and/or other policy documents, as appropriate.

1.13 Given the local authorities' position, that individual authorities should set their own targets for the level and mix of affordable housing, it follows that identifying the shortfall in provision, and the steps to be taken to address it, should also be a matter for the individual authority. In all of these cases, it is accepted that the South East Plan should provide a regional context, to which individual authorities would have regard in setting local targets. However, centrally imposed targets at a sub-regional or lower level represent an additional layer of prescription that does not add value to the Plan and does not have regard to the issues set out in the preceding paragraphs.

Appendix 1: Section 106: The role of grant

- 1.14 Affordable housing raises wider issues than just the wording of the policies in the Plan. Section 106 agreements open up the possibility of providing affordable housing, but do not by themselves make the housing affordable. If there is no subsidy, there is no affordable rent. Subsidy comes either from direct grant (from the Government or the local authority), by subsidy from housing association reserves, or as a deduction from the value of the land. The latest draft Regional Housing Strategy proposes to target funds on key locations (in particular the growth areas, and others, based in part on indicators of deprivation) and on larger strategic sites, of more than 200 dwellings. Large parts of this sub-region, and much of the development taking place throughout it, therefore may not have access to grant from the Housing Corporation, yet there is local evidence that genuinely affordable housing cannot be delivered in this area without grant.
- 1.15 Whilst the sub-region has serious problems in terms of affordability, there is not the same evidence of widespread deprivation. So, while areas like Reading and Slough are still likely to qualify, the rest will have to try and develop policies for delivering affordable housing without grant. In most cases, this means the subsidy coming out of the land value. Developers and landowners will be opposed to this. In the extreme, additional requirements may depress the value of land to the point where the owner decides not to dispose of it, or may tip the balance of land values to the point where other uses of the site become more attractive to the land owner. Considerable skill, time and effort may be required of the local authority to secure genuinely affordable housing without grant aid and, even then, the yield may be unavoidably lower.
- 1.16 A definition of *need* for grant purposes which focuses purely on a conventional measure of housing deprivation misses the point that, in areas like our sub-region, high house prices create a form of exclusion that has serious economic repercussions. This does not show up with a measure of the affordability of housing that simply compares average house prices with the average incomes of those who live in those houses. The people who live in the most expensive housing areas will inevitably be those on the highest incomes, simply because those on lower incomes cannot afford to live there. People in lower income jobs may nonetheless be vital to the working of the local economy, and their inability to live in the area could well be regarded as an important indicator of economic dysfunction, one that should take its place alongside conventional measures of deprivation as a basis for claiming subsidy.
- 1.17 In earlier submissions to the Assembly, the sub-region's local authorities illustrated the problems facing lower income groups in areas like this one. Looked at in terms of a conventional comparison between house prices and the incomes of residents, the study area did not differ markedly from the regional average – for the reason explained above. However, when the salaries of specific key workers were compared with the cost of entry to the housing market, it became clear that house prices were likely to be beyond the reach of even quite senior key workers. Even a household containing two key workers would struggle to get on the owner-occupied housing ladder in much of the study area (whereas a single key worker in some other regions could readily enter the housing market).

1.18 It is therefore not enough to have the appropriate policies in the South East Plan to secure housing through Section 106. If the housing provided is to be affordable, it also needs to be backed up by a grant regime that recognises the economic case for the sub-region, and the Assembly should be asked to use their influence with the Regional Housing Board to try and secure this. The following appendix makes a start at trying to quantify the sub-region's need for public investment in affordable housing.

Appendix 2: Measuring the need for public subsidy of affordable housing.

(Extract from the sub-regional authorities' technical paper on Infrastructure)

Introduction

1.19 An adequate supply of affordable housing is an essential part of social infrastructure. It is equally essential to the healthy functioning of the local economy. Evidence of the need for affordable housing in this area, gathered from local housing need surveys and from the work of organisations like the Joseph Rowntree Trust, suggests that need substantially outstrips anything that could realistically be delivered through the planning system. This study limits itself to a consideration of the public subsidy implications of providing the amount of affordable housing that might be delivered through the current policy in the South East Plan. In this sub-region, planning policy by itself does not necessarily deliver genuinely affordable housing; it simply creates the possibility of providing it, if adequate subsidy is available. Subsidy-free developments will generally tend to result in schemes whose cost excludes many of those in greatest need of non-market housing, or a substantial reduction in the number of units.

1.20 The Government's most recent position on the availability of grant for affordable housing provided through Section 106 was issued by the Housing Corporation in July 2005. It states:

- *wherever possible, affordable housing in S106 schemes should be delivered without grant input from the Corporation;*
- *where grant is required, the Corporation expects to have early involvement in negotiations over the content of the S106 agreement, as it relates to affordable housing, and in particular, the expectations about the availability of Corporation grant; the Corporation's objective in negotiations will be that **the site delivers more affordable housing or a different mix than would have been possible without the input of grant** (their emphasis);*
- *We will seek to ensure that on S106 sites the development is sustainable in terms of ensuring that the tenures are properly integrated into a single site design.*

The Corporation announced its intention to use an "economic development tool" to assess S106 schemes to check whether grant is really needed.

Methodology

1.21 Notwithstanding the position of the Housing Corporation, we started from the position that subsidy of some kind, over and above what is currently provided by the developer, will be needed to achieve housing which is genuinely affordable. If it is not to come from the Housing Corporation, then alternative sources will need to be identified. We also recognised that a number of factors, other than just the number of units, influenced the amount

of public subsidy required for affordable housing. Development costs and land costs vary significantly by area; different tenures and different types of dwelling also have differing costs, and individual authorities will have different priorities for tenure and dwelling mix. We wanted a method of estimating subsidy costs that – as far as possible - took account of all these local factors. We therefore applied the following methodology:

- We started from the proposed total 20-year housing allocation for the district, and applied to it the proportion of affordable housing set as a target in the South East Plan (35 – 40%). This gave a theoretical maximum number of affordable dwellings that might be generated through current planning policy;
- We asked each housing authority for an indication of the mix of dwellings that best met their local priorities, in terms of tenures and dwelling types. For example, they may need 20% social rented flats, 30% shared ownership family houses, and so on. This enabled us to give a figure for the numbers of, say, social rented flats the authority might wish to provide over the Plan period. We recognised that this could only be a snapshot of current needs - one that might change, and also one that may reflect what an authority thought was achievable in their area, rather than what they might ideally want. However, even with these caveats, we believe it gives a better local picture than a standard region-wide formula;
- We then sought information about the level of subsidy required to provide different types and tenures of dwellings in that area, based on recent real-life examples from social housing providers. In some cases, no subsidy may be necessary;
- By applying these subsidy figures to the numbers of different types of dwellings to be provided, it was possible to calculate the subsidy cost of a specific programme of affordable housing provision.

1.22 The following is a worked example, based on information supplied by one of the authorities within the sub-region. The figures for individual authorities vary, in terms of the mix of house types and tenures and the public subsidy costs of delivering them. In some cases, authorities are already seeking a higher proportion of affordable housing than is provided for in the South East Plan. Where this is the case, the local authority's higher figure has been used. In cases where the local authority's current policy seeks a lower level of affordable housing, we have calculated the subsidy implications of them meeting South East Plan standards:

Total twenty-year housing allocation: (20 X 274 per annum) = 5,480

Proportion of this to be affordable: (5,480 X 35%) = 1,918

Suggested mix of house types and tenures:

- 70% social rented
- 20% shared equity
- 10% intermediate rented
- 90% flats
- 10% houses

We assumed the mix of dwelling types would be the same for each tenure type.

This gave the following **dwelling mix:**

Social rented: $(1,918 \times 70\%) = 1,343$, of which:
 Flats: $(1,343 \times 90\%) = 1,209$ Houses: $(1,343 \times 10\%) = 134$
Shared equity: $(1,918 \times 20\%) = 384$, of which
 Flats: $(384 \times 90\%) = 346$ Houses: $(384 \times 10\%) = 38$
Intermediate rented: $(1,918 \times 10\%) = 192$, of which
 Flats: $(192 \times 90\%) = 173$ Houses: $(192 \times 10\%) = 19$

Average subsidy by property type: We asked the local social housing provider for recent evidence of the subsidy needed to deliver different types and tenures of affordable dwelling. In this example, the housing association was able to give us an average current subsidy cost for different tenures, but not differentiated by dwelling type. Thus, a development entirely of flats might require rather less subsidy than is suggested here, whilst a scheme consisting of a higher proportion of family housing might require more. Ideally, we would like to develop a model that differentiated between houses and flats. Site characteristics would also determine the cost (and thus subsidy needs) of the scheme. Their average costs were:

Social rented: £50,000 per unit
 Shared equity: £26,000 per unit
 Intermediate rented: £16,000 per unit

Overall cost of programme by property type: From the above, we can calculate the cost (at present prices) of carrying out this authority's specific programme of affordable housing provision, as follows:

Social rented: £50,000 X 1,343 = £67,150,000
 Shared equity: £26,000 X 384 = £9,984,000
 Intermediate rented: £16,000 X 192 = £3,072,000

Total subsidy cost of 20-year programme: = £80,206,000
Average annual subsidy cost (at present day prices) = £4,010,300

1.23 The results for all the Western Corridor & Blackwater Valley authorities are shown in Table 3.1. They show the estimated **annual average** subsidy required to deliver affordable housing over a twenty-year period. In one sense, these are maximum figures, in that they indicate the subsidy costs if all sites delivered the target level of affordable housing set in South East Plan policy. However, as other evidence submitted to the Regional Assembly shows, the need for affordable housing in the sub-region, as shown by local housing needs surveys, substantially outstrips even this theoretical maximum supply from planning. A programme to meet those needs completely would therefore have correspondingly greater financial implications than those shown in Table 3.1.

1.24 As table 3.1 shows, to deliver the full provision of affordable housing required by the South East Plan for this sub-region, in a way that addresses local needs and priorities and under current funding regimes, would require public subsidy averaging £65.61 millions per year. By way of comparison, the Housing Corporation provided £331 millions for social rented housing and a further £178 millions for key worker housing across the **entire region** over the **two** years 2004 to 2006 (Regional Housing Strategy 2006, Figure 5.1) or an average of £254.5 million per year. Forecast future expenditure is higher – for 2006 to 2008, the proposal is £477 millions for social rented accommodation and £195 millions for key worker housing – or around £336

millions per year (Figure 5.4). As the Regional Housing Strategy recognises, in relation to the South East Plan's 25% social rented target:

It will be extremely difficult to meet this target through newbuild with current levels of funding for affordable housing. Further increases in funding are therefore critical to meeting the region's housing needs.
(Paragraph 3.3.4)

Table 3.1:
Affordable housing: public subsidy requirement (annual average 2006 – 2026)

Local authority	Annual average subsidy needs (£m) at current prices
Basingstoke (Part)	13.88
Bracknell Forest	5.84
Guildford (Part)	0.96
Hart	1.12
Reading	12.89
Rushmoor	4.60
Slough	4.01
South Bucks	0.98
South Oxon (Part)	De minimis © 2-3 dwellings p.a. Included with Oxon figures
Surrey Heath	2.75
West Berkshire (Part)	7.14
Windsor & Maidenhead	4.01
Wokingham (1)	2.75
Wycombe (Part)	4.68
Total	65.61

Note to table 3.1

1. The figure quoted for Wokingham is based upon the delivery of 40% affordable housing, in line with the South East Plan. However, they currently operate a *no public subsidy* policy for affordable housing, based solely on developer contributions and a lower overall requirement of affordable housing (26%).