

EAST HERTFORDSHIRE DISTRICT COUNCIL

COMMUNITY SCRUTINY COMMITTEE – 27 JANUARY, 2009

REPORT BY EXECUTIVE MEMBER FOR HOUSING & HEALTH

8. AFFORDABLE HOUSING OPTIONS IN THE CURRENT ECONOMIC CLIMATE

WARDS AFFECTED: ALL

'D' RECOMMENDATION – Members are asked to indicate their support or otherwise to explore the following options:

- (A) to release Council land at below market value;
- (B) to place pressure on County to release land for affordable housing;
- (C) to appraise individual sites with a view to funding conversion of units to either social and intermediate rent or supporting RSLs. bidding to the Homes and Communities Agency (HCA) to do the same;
- (D) to relaxe the affordable housing requirement (currently up to 40% on eligible sites);
- (E) to consider whether the Council should purchase properties from the open market and become a stockholding authority;
- (F) to consider whether the Council should offer housing deposits and /or mortgages; and
- (G) to assist Registered Social Landlords (RSLs) to purchase land on which to build affordable housing.

1.0 Purpose/Summary of Report

- 1.1 The purpose of this report is to inform Members of the effect of the economic downturn on the building of affordable housing in the district and suggest options that could be explored to help maintain some level of affordable housing provision.

2.0 Contribution to the Council's Corporate Objectives

2.1 Promoting prosperity and wellbeing, providing access and opportunities.

2.2 Enhance the quality of life, health and well being of individuals, families and communities particularly those who are vulnerable.

3.0 Background

3.1 The current economic climate is having an adverse effect on the building of new homes, including affordable homes. This report examines the impact of this downturn on the Council's ability to facilitate the delivery of new affordable homes. It also suggests alternative ways in which the Council may wish to consider supporting the building of affordable homes in the short to medium term.

3.2 Members have become increasingly aware that residents of the district are experiencing difficulties with a range of housing issues as a result of the current economic climate.

3.3 There are fewer homes under construction, fewer mortgage products with less funding available and the borrowing terms are harder to meet. There are a greater number of unsold units on finished sites and an increase in repossessions.

3.4 Demand for open market or affordable housing remains the same. It is hidden by lack of finance. House prices have not fallen sufficiently to be considered affordable.

3.5 It was agreed at the Executive on 25 November 2008 to bring a report to Community Scrutiny outlining options for supporting the provision of affordable housing during the economic downturn.

4.0 Report

4.1 What is affordable housing?

East Herts definition of affordable housing is encapsulated in Policy HSG3 of the Local Plan as follows:

'housing provided, with subsidy, both for rent and low cost market housing for people who are unable to resolve their housing

requirements in the local private sector housing market because of the relationship between local housing costs and incomes'

The housing provided is social rented and intermediate housing. Intermediate housing includes properties at flexible levels of ownership allowing for subsequent 100% ownership and intermediate rent up to 20% below market rent levels.

4.2 How is affordable housing delivered?

- 4.2.1 The delivery of affordable housing units is dependent upon partnership working which includes: planners, landowners, developers, registered social landlords (RSLs), government agencies, lenders and potential occupiers.
- 4.2.2 In recent years, most of the affordable housing in East Herts has been delivered by private sector house builders in partnership with RSLs. Our planning policies require a percentage of affordable housing as part of the planning permission – generally up to 40% on eligible sites.
- 4.2.3 On rare occasions it is possible for 100% affordable housing to be delivered on a site if that site is both owned and developed by an RSL.
- 4.2.4 The Council has several documents that set out its planning policies which help determine the affordable housing provision in the district.
- 4.2.5 East Herts adopted the Local Plan Second Review in April 2007 and the Affordable Housing and Lifetime Homes Supplementary Planning Document in April 2008.
- 4.2.6 In September 2008 the Council also adopted the New Affordable Homes Commissioning Brief attached at Appendix 'A' (Pages 8.11 - 8.12). This document encapsulates:
 - East Herts affordable homes planning policies in summary.
 - Guidance on Housing Corporation (now known as Homes and Communities Agency (HCA)) standards for affordable housing to ensure the projects will attract their support and public funding.

- Information about the required tenure and property mix taken from the Housing Need Survey 2004/5.
- 4.2.7 These documents are used by landowners, developers and RSLs when considering a planning application for residential schemes.
- 4.3 What is happening?
- 4.3.1 The housing service has a target to provide 200 new affordable units each year on average over a 5 year period. It is anticipated that approximately 180 units will be provided during 2008/09 with 89 provided by the end of December 2008. It is also looking increasingly unlikely that this target will be met for the year 2009/10 and beyond, a point which Councillor Parker has made clear to Members during various discussions concerning the Housing Strategy.
- 4.3.2 Some housing developments that would have delivered affordable housing during 2009/10 are already dormant. At the time of writing there is an expected pipeline of just 94 units of affordable housing for 2009/10 and beyond.
- 4.3.3 It has become apparent that landowners and developers etc, are adopting various survival strategies that will in turn affect the delivery of affordable homes.
- 4.3.4 Some private landowners are retaining their ownership, rather than selling the land cheaply, and are awaiting an upturn in land values. In some instances this is because landowners will have acquired sites by borrowing capital and need to recoup this investment. As a result, the availability of cheap land which could be purchased for the development of either market or affordable housing has not been forthcoming.
- 4.3.5 Both landowners and developers are delaying submitting or have withdrawn planning applications.
- 4.3.6 Developers of some of the larger sites are constructing to a point where the units will be weather-tight and leaving the site dormant until the market recovers. This could be due to the fact that the construction is funded with borrowed capital that still requires repayment.
- 4.3.7 In some cases developers have decided to rent out unsold properties.

- 4.3.8 Some developers have offered their unsold units to RSLs who in turn would offer the units as social rented accommodation. However, it is believed that no RSLs operating within East Herts have chosen to accept this offer. This is generally due to the smaller size of the units and the inferior build quality when compared to social housing standards.
- 4.3.9 Developers are creating incentive schemes. These include allowing buyers to purchase a property at 75% of the open market price with no rent or interest on the remaining balance and returning 25% of the market value of the property when the property is sold or within 10 years.
- 4.3.10 This is allowing them to sell two bedroom two bathroom units for around £145,000 rather than the open market value of around £195,000. There is some interest in these types of product. However, this is hampered by the lack of affordable mortgage products and the general uncertainty around individuals' job security.
- 4.3.11 RSLs have had to reconsidered the terms and conditions upon which they base offers to developers. They require higher grant contributions to make their offers for affordable housing financially viable. Each project will have a higher level of borrowing to compensate for the loss of income from the shared ownership market. In October 2008 RSLs across the country had 9,955 unsold shared ownership units.
- 4.3.12 Some RSLs have reduced their exposure to new development for prudent business reasons relating to costs.
- 4.3.13 There are fewer schemes for RSLs to work on, for all the reasons set out above, yet any new project requires increased risk and financial exposure which the RSLs are unwilling to take on. Executive received a report in October 2008 with some innovative schemes but the level of risk and financial exposure was deemed too great so the projects were turned down.
- 4.3.14 Currently the government is exerting pressure on the major banks and building societies to improve lending capacity but this does not appear to be filtering down to individuals or RSLs.
- 4.3.15 Other government initiatives include:
- i. £200m into Mortgage Rescue,

- ii. £300m into HomeBuy Direct,
- iii. £13m into a National Clearing House where developers could bid to the Homes and Communities Agency (HCA) to convert unsold stock to social housing,
- iv. Funded alterations to Income Support for Mortgage Interested (SMI) and £15.85m for debt advice.

4.3.16 The HCA has also announced it is considering providing affordable housing themselves, using the land previously owned by English Partnerships. There is limited ownership of such land in East Herts

5.0 Options for Assistance

Against this backdrop there are some options open for the Council to support the provision of affordable housing as set out below:

5.1 Releasing Council land

There may be sites in the Council's Asset Management portfolio which could be offered at below market price to RSLs in return for 100% affordable housing and nomination rights from the Council's Housing Register. There would be a loss of a Council asset, and loss of a capital receipt for that asset. The extent of this loss would be dependent on how far below market value the asset was disposed at, taking into account the falling land values. However, it is understood the Council does not have a large land holding.

5.2 Releasing County land

Members also have the option to put pressure upon County to release land for affordable housing. Currently their approach is to obtain outline planning permission for residential development on these sites and provide the required 40% affordable housing in line with our planning policies. The sites are then sold at the market price.

5.3 Utilising newly built empty homes

Currently officers are exploring the option of identifying the unsold newly completed units on private developments with a view to working with the preferred partner RSLs to convert them to private sector leasing units.

5.4 Individual site appraisal

Another option is to consider each dormant private sector housing site on its merits with a view to supporting a bid to the HCA by an RSL to convert open market units to social and intermediate rent. The Council could consider funding some of these projects. However, earlier in the report Members were advised the local RSLs declined such units when the developers offered them initially due to their size and quality. This is unlikely to change.

5.5 Relax affordable housing requirements

- 5.5.1 Pressure will be applied by developers to relax our Planning Policy that requires up to 40% affordable housing on eligible sites. Each case could be considered on its merits but caution is required.
- 5.5.2 The developer may wait until the market picks up before the site is built out and the compromise becomes unnecessary and a precedent may be set which would be difficult to reverse in the future.
- 5.5.3 Members should consider that any planning approvals given now are unlikely to be built within 18 months to two years by which time the housing market may have recovered.

5.6 Council purchases existing properties

- 5.6.1 The Council could consider purchasing units from the open market using the Council's Future Social Housing Grant budget.
- 5.6.2 However, the cost per unit would be high, at about £200,000 per unit, minimum. In comparison the Council allocates an average of £32,000 per unit for affordable housing provision using the Schedule of Rates.
- 5.6.3 In addition, if the Council were to acquire properties in this way we would again become a stock holding Council requiring us to operate a Housing Revenue Account (HRA). The number of properties the Council is able to hold in the General Fund is limited by Government regulation. If this limit is breached the Council may be required to re-open the HRA.

5.6.4 Should Members wish to pursue this option, advice would be required from the Department of Communities and Local Government.

5.6.5 Significant revenue and capital resource implications would also occur due to the need to both manage and maintain this housing stock.

5.7 Council deposit fund and mortgages

Another option would be to consider setting up funding streams to finance deposits on open market units and/or offer local authority mortgages.

5.8 Assist RSLs to purchase land

5.8.1 Members may wish to assist RSLs in purchasing land from the open market with a view to developing the sites for affordable housing. It is understood that the market value for sites in the district are still relatively high and the RSLs would also need to access grant funding for the actual build cost of the units which may not be forthcoming from the HCA.

5.8.2 Given the Council's Future Social Housing Grant of approximately £750,000 per annum it is unlikely that this will result in any significant impact on affordable housing provision in the district. Value for money would have to be a consideration.

5.9 Fund tenure changes

5.9.1 East Herts has already authorised the conversion of some tenure changes on existing sites. The conversion was necessary because the mortgage product was withdrawn by the lenders and therefore, 12 units were converted from fixed equity shared ownership to more viable options. The Council may be approached to agree to further conversions in the future.

5.9.2 In recent months the HCA have themselves funded similar initiatives. However, new development schemes are being negotiated on different terms to avoid this issue.

6.0 Consultation

6.1 No consultation undertaken, however, appropriate opportunities are regularly taken to discuss the effects of the current economic climate with stakeholders

7.0 Legal Implications

7.1 Legal implications will depend on the assistance options that are to be explored. Most will have considerable contractual implications.

8.0 Financial Implications

8.1 Financial implications will depend on the assistance options that are to be explored. Most will have considerable financial implications.

8.2 It may be appropriate for Members to consider prioritising options in the context of available resources.

8.3 There is a capital allocation of £682,000 remaining in the budget for this financial year and a further £750,000 in 2009/2010 and £750,000 for 2010/11. There is no provision thereafter.

9.0 Human Resource Implications

9.1 Human resource implications will depend on the assistance options that are to be explored. Most will have considerable workload implications for property, financial, legal and other sections.

9.2 The Housing Development Manager works part-time at 28 hours per week. Any new initiatives would need to be researched and achieved within these existing resources.

10.0 Risk Management

10.1 By their very nature the initiatives are new. There is less experience and so the risks are greater.

10.2 Detailed risk analysis of any supported assistance options will be essential at a time when most informed stakeholders are holding back from property commitments because of future uncertainty.

10.3 There is a risk of creating unsustainable communities if any of the options pursued look likely to result in the provision of large numbers of affordable housing units on any one site.

Background Papers

Files held by Housing Development Manager

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