

1. Background

13 Authorities have provided comments which have assisted the preparation of this draft paper on Affordable Housing. The paper looks at the new targets for affordable housing included in the South East Plan alongside the funding proposals and priorities set out in the Regional Housing Strategy. The extent to which these two documents interlink will be important if the Affordable Housing Strategy for the south east region is to be delivered. A clear approach to how policy is to be translated into implementation will be essential.

Authorities have confirmed that District Councils have all been involved in the process of reviewing affordable housing provision through the South East Plan. All have provided information to Principal Authorities and have been involved to one degree or another through Sub-Regional work in assessing future affordable housing needs and requirements.

A number of viability studies have been undertaken to examine the impact of affordable housing requirements. This includes Winchester, Test Valley, Oxford, Rother, Cherwell, Surrey and Horsham. These suggest that seeking 40% affordable housing on qualifying sites is achievable, particularly in areas where the market is strong. Circumstances clearly will vary from one place to another.

2. Quantitative Impact

Most Authorities see the requirement to provide 35% of total housing as affordable as opposed to 35% affordable housing on qualifying sites as a potential problem. A small number such as Oxford for example, have, however, indicated that they have a policy in place that is delivering this volume satisfactorily.

If 578,000 dwellings are to be provided 2006 – 2026 as currently proposed in the South East Plan, this would mean 189,000 social rented units (9450 per annum) and 57,800 shared ownership units (2890 per annum). This is broadly in line with previously identified needs (12,000 per annum) but is approximately twice the current rate of construction (6,700). In other words, the current rate of construction/provision would need to be doubled.

If 35% of total housing is to be affordable, the provision on qualifying sites would need to be much higher, as only some sites would be subject to this requirement. The percentage of sites that currently qualify varies greatly from one Authority to another, but using 25 dwellings and possibly a move to 15 dwellings as the general norm in accordance with PPS advice it is possible that approximately 50% (possibly rising to 60%) of total housing on average across the region would be delivered on sites that qualify.

If 35% of total housing provision is to be affordable, but only half of the total provision is on sites which 'qualify' the percentage on qualifying sites would need to double to achieve the same result, ie 70%. Viability studies to date have not provided guidance on the maximum percentage that can be achieved, but suggest that more than 40% may not normally be achievable.

The ability to achieve higher targets on individual sites will vary across the region. It may be possible to increase the percentage of affordable housing in strong market areas, eg Guildford, Winchester etc but a lower percentage is probably all that is achievable in weaker market areas such as Hastings. There is, however, no clear process in place which provides for such mediation across the region, nor any proposals that suggest how this would be developed and incorporated into the implementation plan.

3. Other Infrastructure

Most Authorities do not see an increase in the requirement to provide Affordable Housing as affecting a continuing need to collect contributions to other works etc that are required to meet demands emanating from individual development proposals. Such requirements will need to be set out and specified in LDDs in the future.

Authorities are aware, however, that an increase in the charge against sites for Affordable Housing may well affect the amount of money available for other things through the Section 106 system. The need to assess relative priorities, consider sliding scales and differing mixes of affordable housing provision etc have been identified by some Authorities as potentially necessary if viability is to be achieved.

If an increasing burden falls on the Planning system to deliver affordable housing, the danger will be that it is a case of robbing Peter to pay Paul with some other infrastructure no longer being fundable as a result.

4. Thresholds

Part of the problem is that in most Authorities thresholds are set for qualifying sites which accord with the PPS guidance. A number of Authorities have endeavoured to put in place lower thresholds through the Local Plan process with varying success.

It would undoubtedly assist the burden on large 'qualifying' sites if more sites contributed to affordable housing requirements. Some Authorities seem keen to go down this route, others are less enthusiastic.

Some Authorities have suggested that the threshold should be as low as two, particularly for smaller settlements/rural areas, and possibly thresholds of five in larger towns. With more sites contributing the increased requirement on qualifying sites above 35% could be moderated, but –

- (a) it may be necessary to consider accepting commuted payments rather than delivery in situ on very small sites;
- (b) small sites/conversions often have multiple ownership and other issues and unless owners can agree that a proposal is worthwhile they will not co-operate;
- (c) where overall provision is heavily dependant on small sites and conversions, eg in some greenbelt areas or very rural Authorities, this is likely to be very difficult and complicated. Innovative ways of using commuted payments may be required, eg Mole Valley's use of loans to support a Local Homebuy scheme.

5. Exceptions

As well as the quantitative impact set out above there are other factors that affect the ability of Authorities to achieve the new targets.

Differing market conditions have already been referred to, but other factors affecting viability will occur where 'exceptional' costs arise. This will almost always be the case on brownfield sites where decontamination may be necessary, and where existing use value provides a much higher bench mark than on greenfield sites. Equally other factors such as flooding issues will arise in particular areas.

Sheltered housing is a particular complication. Most Authorities have found that it has not been possible to secure affordable housing through the Planning system on sheltered housing sites with appeal decisions often ruling this out. Sheltered housing is a special form of housing because of the inclusion in many schemes of common areas and the requirement for service charges etc. Authorities seem to be unsure about how to proceed in such cases, but if sheltered housing does continue to be excluded in the way that it has in the past, this will effectively represent a top slice off the total provision leaving a smaller number of sites to deliver the 35% of total housing completions.

6. Transitional Arrangements

There is also the question of transitional arrangements to be considered. Typically at any one time land with planning permission will represent two to three years supply and on many other allocated sites, purchase will already have taken place or contracts will have been signed. On such sites existing policy and prevailing targets will have been used.

Most Authorities therefore anticipate transitional problems arising even though changes have been well signposted. If part of the housing supply 2006-2026 already has in place lower targets, or can only deliver lower targets as a result of land purchase prices paid an under delivery against the targets will occur particularly in the first five years of the Plan period with a consequential requirement for a higher level of delivery in the ensuing 15 years.

7. Funding

The Regional Housing Strategy recognises that funding is going to be a problem. It states that 'some fairly hard decisions need to be taken about how to distribute the limited resources available' (para 531) and that 'uncertainty over the level and timing of subsidy to be made available can make the delivery of affordable housing problematic' (para 442). Cascade or fallback mechanisms are identified as needing to be put in place including varying the split between social rented and intermediate housing etc.

Some Authorities appear to be optimistic that funding will be sufficient particularly those in growth areas and/or where consents are available. Others are very uncertain about what funding will be available and how this will affect the ability to deliver affordable housing particularly in non-priority areas. It is likely that a good proportion of future Affordable Housing will come forward on large strategic sites (often greenfield) and funding appears likely to be available in these instances. It is elsewhere that problems may materialise.

Most Authorities have in place or are moving towards a requirement for free land to be provided for affordable housing. RSLs can fund part of the build and other costs from reserves or through loans secured against the funding stream from the rent. This will not, however, cover all the build costs. The Planning system appears to be expected to bridge the gap by requiring contributions towards build and other costs as well as land. It is unclear whether the existing viability studies have been prepared on this basis.

The bidding process for funding is an additional complication which at the very least engenders uncertainty.

8. Conclusions

Delivering 35% of total housing provision 2006-2026 as Affordable will require a doubling of current rates of provision, and without substantial increases in funding through the Housing Corporation will rely heavily on the Planning system (and the use of capital receipts where housing stock has been transferred).

Unless thresholds are removed or substantially reduced the burden on qualifying sites will be higher than 35% if they are to compensate for sites where no provision is made. The need for higher percentages will be compounded because many of the sites coming forward in the first five years will have affordable housing arrangements which reflect current policy.

Achieving higher percentages may be possible on large strategic sites (usually greenfield) where funding appears to be available, but lower percentages are likely to be necessary where –

- (a) brownfield land with high alternative use values are involved;
- (b) other exceptional costs such as decontamination or flooding need to be addressed;
- (c) where Authorities are heavily reliant on small sites; and
- (d) where other infrastructure provision is essential.

The position concerning sheltered housing remains unclear, but if excluded could have a significant impact particularly in retirement areas.

If existing South East Plan targets are to be achieved against the back cloth of current funding arrangements Authorities may need to secure very high percentages of affordable housing on large strategic sites (possibly in excess of 50%) if flexibility is to be provided to allow lower percentages on sites and in areas where 35% is not achievable (sliding scales).

In addition, if the delivery of 35% of total housing as affordable is to be achieved, Authorities are likely to need to -

- (a) put in place much lower thresholds or no thresholds at all;
- (b) considering LDDs to allocate sites exclusively for affordable housing or use their own land holdings to subsidise the process; and
- (c) prioritise infrastructure provision which includes how affordable housing is to rank in its other requirements and how this may need to vary.

Circumstances will vary from one area to another and from one site to another, but there is an expectation that the increase in land value upon granting planning permission for housing will enable the Planning system to both achieve the continuing expansion of infrastructure provision that is sought in connection with individual development proposals, and also deliver a large increase in affordable housing with less subsidy. Hopes may be justified by future experience, but at this stage it is not clear that the expectations will convert into achievement without:-

- (a) substantial increases in Government funding; and
- (b) radical changes to the implementation arrangements.

AWS/scb