



**LONDON BOROUGH OF HILLINGDON**

## **HOUSING OVERVIEW AND SCRUTINY COMMITTEE**

**2003/04 Report**

### **INNOVATIVE AFFORDABLE HOUSING**

#### **Members of the Committee**

**Cllr Keith Burrows (Chairman)**

**Cllr Josephine Barrett**

**Cllr Margaret Grant**

**Cllr Avtar Sandhu**

**Cllr Cathy Stocker**

**Cllr Mike Usher**

**Cllr Andrew Vernazza**



## **CONTENTS:**

Summary	Page 1
Recommendations	Page 2
Introduction	Page 3
Key Changes	Page 4
Delivery of Affordable Housing and Council Priorities	Page 6
Actions Required to Realise Opportunities	Page 6
Regional Planning Frameworks	Page 7
Current Mechanisms for the Delivery of Affordable Housing	Page 9
Choosing Housing Association Partners	Page 10

## **SUMMARY:**

The Housing Overview and Scrutiny Committee initially requested a review to establish whether there are any other schemes that will increase the supply of affordable housing in the Borough without requiring social housing grant and which will be available solely to Hillingdon residents.

The short answer to the Committee's specific question is - no there aren't. However, the more appropriate questions are how can existing mechanisms for producing affordable homes be made to deliver more; and how can the Council best position itself to deliver London Plan targets and maximise its access to substantially increased funding for affordable housing over the next 2 years?

Affordable homes can't be produced without public money simply because an affordable rent alone cannot support the acquisition or development costs of the home. Affordable homes for rent or sale can be provided with a combination of grants, private borrowing, and reserves. Grants can be from private sources such as employers as well as public funds, and reserves can comprise both surplus income from rented housing activity, and profits generated from market rents or sales.

The challenge for the Council is to create a development/procurement environment in the Borough that maximises resources from all these possible sources by encouraging co-operation and innovation.

The report that follows was prepared by consultants PRHC.

The report is presented primarily for members information and consideration, but with some recommendations for further action.

## RECOMMENDATIONS:

- Maintain a clear, public commitment to providing more affordable housing for rent and purchase, underpinned by reasons, tenure targets, mechanisms and timescales
- Support this by establishing effective cross-departmental working at both strategic and individual site levels, with targets, monitoring and review mechanisms
- Enhance the efficiency of the planning system and optimise the use of existing planning powers to deliver affordable housing paying particular attention to the findings of the *Barker Report*, the recommendations of the ODPM report *Improving the Delivery of Affordable Housing in London and the South East* and the *London Plan* published on the 10<sup>th</sup> February 2004.
- Ensure an effective well informed high level capacity to respond to the rapidly changing circumstances outlined in this report
- Create a new group of housing association partners with significant future development capacity and foster new working arrangements with them that enable the Council to rely on their creative response to the Borough's evolving needs
- Maintain a more proactive role in respect of regional forums dealing with affordable housing and housing supply generally.

## **INFORMATION:**

### **1. Introduction**

- 1.1** Our initial brief was to examine the Council's performance in maximising the availability of affordable housing in the Borough and to consider if there are other initiatives that could usefully be explored to further increase it.

Whilst it is important to explore all initiatives for increasing supply, in practice the level of affordable housing is primarily determined by the extent to which government chooses to provide subsidy and in the recent past this has done little more than scratch the surface of affordable housing demand in both rented and purchase sectors.

This had to change, and there are signs, which are explained later in this report, that the importance of housing supply to the national economy and social well-being is now recognised. The Council needs to position itself to take the maximum advantage of the new housing delivery framework as it evolves in response to this.

- 1.2** The way in which we have approached the task has therefore been influenced by two important factors:-

1. At a national and regional level significant changes are already taking place that affect the affordable housing delivery framework
2. A substantial amount of time and energy has already been expended by the Council in preparing policies and strategies within which affordable housing delivery sits

As a result we have deliberately avoided substantial analysis of what has happened to date and instead concentrated on what is needed to position the Council most effectively to take advantage of the opportunities that are going to emerge in the immediate future. At the same time we have not set out to restate the Council's affordable housing objectives and their relationship to other local policies in great detail, as that can be found in the Council's Housing Strategy and other supporting documents.

We have however attempted to state as succinctly as possible why economic and social conditions in the Borough are profoundly affected both by the priority the Council gives to ensuring an adequate supply of affordable housing, and by the effectiveness of corporate delivery mechanisms.

### **2. Background**

- 2.1** Affordable housing currently has a more significant place within central government thinking than it has had for a quarter of a century. Foremost amongst the reasons for this is that in the South East housing has become unaffordable for a much wider cross section of households than ever before, which is having a knock-on effect upon the ability of employers, particularly in the essential services, to recruit and retain workers.

- 2.2** Research by both the London and South East Regional Assemblies indicates that growth in the numbers of households at either end of the economic spectrum is largely balanced by the loss of households in the middle and low-income sectors, fuelling the increase in property prices, the polarisation of communities and the pressure upon employers.

It is not difficult to see the economic and social impact that a steady drain of households from this middle sector will have upon an area and the SE Region as a whole, and this has led to a broadening of the definition of affordable housing to include a wider range of low cost homeownership models and the appearance of “intermediate renting” (More expensive than social renting, but cheaper than market renting).

This has had the effect of taking affordable housing out of the party political arena at a national level and enabling a broad approach to be developed upon which cross-party agreement is possible.

- 2.3** A succession of initiatives in recent years have been directed at the construction industry, the planning system and affordable housing providers to stimulate affordable housing production and to broaden the range of housing at affordable rents and for purchase.

None has been particularly effective, with the result that in the summer of 2003 the Treasury stepped in and announced a review of the issues affecting housing supply by financial analyst Kate Barker. Her preliminary report was delivered in December 2003.

- 2.4** What all this means for housing providers is that they are faced with the recent introduction of a substantial number of changes to the framework within which they must function, with more, perhaps far reaching changes on the immediate horizon once the final Barker report is published.

Whilst in some ways this amounts to a climate of uncertainty, it also means that there is reason for some optimism that there will be opportunities to grasp in the immediate future.

In the next section we set out some of the critical changes that have or are about to take place.

### **3. Key changes that are already taking place in the affordable housing supply framework that the Council needs to take into account**

- 3.1** For the past 15 years the channels through which affordable housing has been created have been relatively settled.

Affordable rented housing has been provided by housing associations using social housing grant (SHG) provided through the Housing Corporation’s Approved Development Programme (ADP) topped up by additional SHG from local authorities from their capital budgets.

Affordable home ownership has been provided by housing associations through shared ownership funded from the ADP and local authority SHG, and more recently through Homebuy and the Starter Home Initiative.

Local authority land has been released in lieu of SHG, but a diminishing supply of suitable land for affordable housing in public ownership has meant that privately owned sites have become a vital source of affordable housing land, and the use of s.106 powers to release it for that purpose has become a central plank of affordable housing delivery.

Alongside this, and on a relatively small scale so far, some sub-market rent and non-SHG funded low cost home ownership schemes have been developed

The processes through which resources were allocated and schemes were approved in the past, whilst sometimes tortuous, were well established and understood, and the number of housing associations developing schemes in each local authority area sufficient to ensure some degree of choice of partners was possible for authorities. The results however have not kept pace with demand or an acceptable rate for housing replacement.

### 3.2 Current uncertainty about the future of affordable development arises from:-

- The introduction of Regional Housing Boards and the role allotted to them in determining the allocation of resources with particular implications for areas with high costs
- A significant reduction in the number of associations receiving development allocations and the concentration of SHG on a smaller number of the most efficient HA developers
- The discontinuation of Total Cost Indicators leaving HAs to propose what level of grant they need
- The encouragement of consortium bidding for grant
- The allocation of grant on 2+ yearly cycles to approved partner housing associations
- Increased likelihood that housing associations will wish to buy land and commit to its development in advance of getting grant
- Earmarking some of the ADP for allocation to developers
- The Sustainable Communities Plan housing funds, and how this will be spent, particular that earmarked for key workers. The ODPM is keen on Homebuy, but the Housing Corporation has introduced a new SHG for intermediate renting.
- The introduction of possible more demanding form of Housing Association regulation arising from the role of the Audit Commission
- The encouragement of “modern methods of construction” even though demonstrably slower and more expensive, and as yet not entirely accepted by private lenders
- The impact of Supporting People costs being dramatically more expensive than expected with a curtailment of new supported housing provision
- The impact of financial and development resources being drawn into the four designated growth areas of Ashford, Stansted, Thames Gateway and Milton Keynes
- The greater diversification by housing associations to include market and sub-market renting and building for sale, running alongside post Places for People governance concerns
- Proposals to be added to the Planning and Compulsory Purchase Bill to allow developers to pay a charge rather than provide affordable homes under s106 agreements
- A raft of other suggestions for speeding up the planning process
- Proposals to create a right to shared ownership for LA and HA tenants

- 3.3** The Barker Review includes consideration of factors affecting the house building Industry and how it interacts with the planning system and sustainable development objectives, and identifies the constraints on the supply of housing which prevent the housing market functioning efficiently.

All the indications are that radical proposals in relation to planning, environmental and the construction industry can be expected to add to the general mix of change already outlined.

**4. Where should the delivery of affordable housing sit amongst the Council's priorities?**

- 4.1** In the late 1980s 46% of new households could afford to buy housing. By 2002 this had reduced to 37%. These are national figures and in the South East the numbers are much lower and the drop even greater.

The impact of this is to polarise communities in areas of greatest demand for housing, as lower to middle income earners are forced to look elsewhere for homes, with a consequent effect on the labour market particularly affecting public services.

The supply of housing for rent at affordable levels has also declined over the same period, with a similar effect on low-income households and on levels of homelessness.

This all has a damaging effect on the local economy, environment and social conditions, and increases the demand on the already hard pressed services that the Council provides.

- 4.2** It would be naïve to think that simply giving higher priority to affordable housing at a local level can entirely address these problems as policy intervention at a national level is required to have any lasting impact. However, the Barker report is likely to lead to further substantial changes in national housing policy, and the Council needs to be positioning itself to take advantage of these changes and in the meantime to maximise its effectiveness in competing for its share of existing resources

**5. What should the Council be doing to position itself to take advantage of the opportunities that will arise?**

- 5.1** In reality there will still only be a very limited number of mechanisms through which it is possible to produce affordable housing, but competition for resources will be more intense, and resources will go where they can be used most effectively, and to some extent where they can be spent most quickly.

That means to the most efficient housing association developers in the local authorities with the most smoothly oiled planning and delivery mechanisms, working together in the most effective partnerships.

The key factors are likely to be:-

- The influence the Council has on the Regional Housing Board



- The suitability of the HA development partners that the Council selects – and the involvement of the Audit Commission may mean that associations that historically have been effective developers are denied access to future development funding because of poor performance in other areas of their work. Some of the Council’s partner associations are already affected by this.
- The house building climate that the Council creates through its planning and land use policies, and delivery mechanisms
- The degree to which the Council’s own limited financial resources can be used to lever in other funding

In a worst case scenario the Council would find itself failing to influence the Regional Housing Board and with an ineffective voice in regional strategic forums, in partnership with HAs that no longer have development allocations, and with planning and other internal processes that discourage housebuilders and developers.

**5.2** Our assessment of the affordable housing delivery environment in Hillingdon currently is that urgent attention needs to be given to measures designed to promote the Borough as somewhere that affordable housing providers can work with confidence:-

- The Council is represented in regional strategic forums and does influence the regional case for investment, but at a delivery level more could be done to promote the Borough’s capacity to bring about the development of homes within the Regional Strategy.
- Priority needs to be given across all services relevant to developing affordable homes to strengthening, resourcing and managing effective inter-service collaboration.
- Development control processes are not geared to overcome the disadvantageous position that affordable housing developers generally find themselves in. Nor are they designed to effectively promote the Borough as an attractive place to work for housebuilders and housing associations
- Finally, and very significantly, many of the Council’s current housing association partners have poor prospects of attracting social housing grant under the Housing Corporation’s more narrowly focussed funding regime

## **6. How effective in respect of affordable housing is the Council within regional planning frameworks?**

**6.1** Under the umbrella of the West London Alliance of six local authorities a Borough Housing Directors meeting takes place regularly and an Affordable Housing Sub-Group attended by a Development Project Manager takes place.

The Director’s Group is primarily concerned with making the case to Central Government for investment in the West London Sub-Region, whilst the affordable housing group is primarily concerned with the delivery strategy.

There is a danger that the new regional and sub-regional approach to resource distribution draws attention away from enhancing the affordable housing development climate at the most local level. From a Hillingdon perspective, once

the case for the overall regional investment pot has been made, it is still a priority to maximise the Borough's capacity to deliver homes within it.

Within the Development Department staffing resources are needed to make sure that this is done effectively at this local strategic level.

- 6.2** There is no reason to suppose that Hillingdon will not have access to its fair share of affordable housing within a regional context, but it will need a sustained input to ensure that LBH's interests are protected and that its case continues to be made. From time to time there will be factors that affect LBH more or differently from its West London partners, sometimes at a detailed level. Strategically the Director will lead that effort, but the input of the Development Manager and other staff at a sub-group level will also need to be prioritised and the officers involved clear as to their brief.

With sub regional allocations and Regional Housing Boards local development opportunities could be less important to Hillingdon, but access to housing will still depend on the quality of the case put to the RHB for nomination rights on new schemes.

- 6.3** The London Plan published on 10<sup>th</sup> February 2004 identifies an additional homes target for West London of 2,970 homes per annum of which the Hillingdon annual target is 440 (14.9%). Sub-regionally 50% should be affordable, of which 70% should be social housing and 30% intermediate provision – (mainly shared ownership and sub-market renting).

Applying those sub-regional percentages to Hillingdon, we get an annual London Housing Plan target as below

Open market housing	220
Affordable - Social	154
Affordable - Intermediate	66
<b>Total annual programme</b>	<b>440</b>

It must be remembered that the London Plan targets are based on a view that has been taken of Borough capacity to respond to existing and future housing needs, rather than what is required to meet the Borough's perceived housing need.

- 6.4** **However the Council's 2003 Housing Strategy, which predates both the regional approach to resource allocation and the London Plan, is not based upon capacity, but upon local needs and anticipated SHG and it projects the achievement of an annual affordable housing supply over the next 5 years as below:**

HA new rent developments	191
HA shared ownership	22
LBH new developments	62
<b>Total annual programme</b>	<b>275</b>

This is some 20% more than the London Plan affordable housing capacity target for the Borough.

- 6.5** In other words, the London Plan appears to assume a lower capacity than the Borough believes that it already has from which to justify its current baseline supply position.

If the Housing Corporation bases its future sub-regional allocations on agreed London Plan targets, which would be a reasonable assumption to make, then Hillingdon will not achieve its baseline locally, and will be highly dependent on sub-regional allocations outside the Borough to meet even its short-term affordable housing needs.

We suggest that it would be beneficial to review the basis used to determine housing capacity for Hillingdon on the London Plan to see if it could be enhanced at least to the level that was assumed in the 2003 Housing Strategy. The London Plan targets are meant to be exceeded where authorities can find ways to do so.

## **7. The Council's current planning mechanism for delivering affordable housing**

- 7.1** A recent ODPM research paper "*Improving the Delivery of Affordable Housing in London and the South East*" (August 2003) largely confirms our own view that the key to affordable housing delivery lies in the operation of three main factors – local authority resources, management, and corporate policy.

In reality there are only a very limited number of mechanisms through which it is possible to produce affordable housing and these already exist in most urban authority areas - Hillingdon is no exception.

Where the differences in affordable housing delivery arise, it is largely due to the level of corporate priority the LA has given to affordable housing provision and the extent to which it has produced a framework within which housebuilders, housing associations and major employers feel it is worth their while working creatively together to deliver it.

- 7.2** The Council's UDP defines affordable housing as *that which is accessible to people whose incomes are insufficient to enable them to afford adequate housing locally in the open market*".

The UDP objective is to try to ensure that at least 25% of all new housing is affordable, so where residential development of 25 or more dwellings is proposed, or on sites of one or more hectares, the Council will attempt to negotiate appropriate legal agreements with developers to obtain the highest acceptable proportion of affordable housing.

- 7.3** It is not clear how the Council intended this "best intentions" objective to be effectively delivered, nor indeed whether there is a clear corporate commitment to it at either member or officer level.

To be enforceable at appeal the s.106 policy needs to be clear about what is required. Phrases like "affordable housing" can lead to poorly located 1 bed shared ownership flats for example. Because of the vagueness of definition in the UDP of affordable housing the Council has in the past supported the use of SHG (from the Housing Corporation and the Council) to deliver rented homes within s.106 situations. The level of SHG applied in such situations needs to be considered carefully, to maximise the value of SHG available in future from the Housing Corporation.

The Corporation is now saying that there should be no presumption that SHG will be available on s.106 schemes. Obviously it is not possible to get 50% affordable housing without SHG in most cases, but as the availability of SHG often makes it hard to negotiate with the developer (who will assume that its available at the level of maximum public subsidy) it might be better to aim at a lower % of affordable housing and use the SHG elsewhere.

It may well be possible, through the preparation of the LDF, to set s106 planning policies that enable affordable housing to be secured without the use of SHG on appropriate sites.

- 7.4** To give priority to maximising affordable housing (for the reasons set out in section 3 of this report,) a much clearer delivery mechanism will need to be put in place. This would incorporate targets, monitoring and review mechanisms, and arrangements for cross-departmental working at both strategic and individual site levels.

The mix needs to be related to the priority needs of the area and the design should deliver minimum service charges and be in an acceptable location, and meet Housing Corporation Scheme Development Standards, Secure by Design etc. The rented / key worker / shared ownership ratios need to be spelt out, (all rented on small schemes, s/o and key worker as well on larger schemes) and off site contributions linked to local costs and grant rates using the HC methods.

The capacity to negotiate effectively with developers and provide competent HAs to exploit s.106 as well as SHG will be crucial in getting the right kind of affordable housing as well as maximising the numbers.

## **8. Choosing housing association partners**

- 8.1** One major priority both for the Council and the sub-region is to get the best value in terms of new homes built from whatever resources are allocated to the sub-region. This includes numbers, development efficiency and quality, and potentially applies to housing association and private sector developers and potentially the ALMO. Because the numbers of developing HAs will have been substantially cut and the majority of development will be funded through the new partnering system rather than the traditional ADP, there will be competition for the services of those associations. Both the sub-region and the individual LAs need to prioritise the selection of the right HA partners, otherwise they will find it much more difficult to get the best out of sub-regional allocations, and possibly even find that they are unable to deliver the programme.

That is the broad reason for needing to choose the right partners, but as well as this each LA in the sub-region will want to have access to the most creative input to the development of individual sites and schemes. That will be provided by those HAs that continue to receive development funding and who are motivated to want to work in Hillingdon.

Clearly this does not guarantee an increased supply of affordable housing, that will only come from increased levels of subsidy to provide it, but working with the right housing association partners will maximise the affordable housing that can be produced from the resources available.

- 8.2** The new inspection regimes for housing associations is in its infancy, so at present there is a mixture of assessments available to local authorities under both new and old systems.

The two mechanisms that will be available in the future will be the Housing Corporation Assessment (HCA) and the Audit Commission Inspection reports. Inspection reports will feed into the HCAs, but only a minority of associations have had audit commission inspections undertaken to date. Therefore some HCAs still rely on inspections undertaken under the old regime.

**8.3** Associations will receive four green lights if they are assessed as being well governed, well managed, financially viable and have met their development targets. Associations that do not achieve four green lights under the new regime are unlikely to receive future development funding support. As the number of associations receiving funding will reduce significantly in the future it is vital that the Council chooses its affordable housing development partners very carefully. Some associations may have four green lights but still not be appropriate development partners as their capacity to undertake further development is limited, either because of demands for expenditure on their existing stock to meet the Decent Homes Standard, or because they are close to their borrowing limits or no longer have adequate surpluses to provide the internal development subsidy that all grant funded schemes require.

**8.4** At present the Council has six main housing association partners:-

- Acton HA
- Airways Housing Group
- Apex Housing Solutions Ltd
- Paradigm Housing Group
- Ealing Family HA
- Notting Hill Housing Trust

Of these, five have 4 green lights, however only 2 have been inspected under the new regime and both received critical reports. One other, whilst a good performer, has little new development capacity remaining.

Only two of the six can be regarded currently as good short to medium-term prospects as development partners.

**8.5** There are 6 other associations with more than 100 homes each in the Borough. They are:-

- Inquilab HA
- Metropolitan Housing Trust
- North British HA (Places for People Group)
- Peabody Trust
- Sanctuary HA
- Warden HA (Home Group)

Of these only 2 have been inspected under the new regime and have both received critical audit commission reports, although 4 currently are awarded 4 green lights.

The problems at Places for People have been well documented and resulted in their exclusion from current development allocations.

The development programme of the Peabody Trust, one of the most innovative providers of affordable housing is also threatened both by the escalating costs of innovative forms of construction and the refurbishment demands of its aging stock. This has led to only an amber light being awarded in respect of the association's financial viability.

- 8.6 Of the remaining associations with smaller numbers of homes in the Borough only 3 figure in what could be termed the most likely to benefit substantially from future grant availability. They are:-

Family HA

Thames Valley HA

Shepherds Bush HA

Of these only Thames Valley HA seems to be particularly active on the development front in Hillingdon at present with the provision of accommodation for staff of the Hillingdon NHS trust.

- 8.7 An exercise to attract and develop new working relationships with a wider range of those associations benefiting under the new grant funding regime should be undertaken as soon as possible.
- 8.8 However, this alone will be insufficient, as attention must also be paid to the creation of an attractive affordable housing development environment in the Borough. This is needed, as competition for the services of those associations will be intense.