

The Funding of Affordable Housing provided through the Planning Process

1. INTRODUCTION

- 1.1 In line with national planning policy, all new housing developments (above specified size thresholds) are required to make provision for an element of affordable housing as part of the development scheme. To date it has been the Council's practise to negotiate on the basis that the developer would be paid 50% of the land value (by a Registered Social Landlord (RSL)) for the land required for the affordable housing provision.
- 1.2 This paper sets out a recent change that has implications for this approach and asks Cabinet to consider a revision.
- 1.3 The paper also sets out contextual issues and explains the implications for future affordable housing strategy.

2. BACKGROUND AND IMPLICATIONS

- 2.1 A number of changes have taken place in recent months that have significant implications for new affordable housing building in the District, in particular:
 - a) **Abolition of the reimbursement of local authority social housing grant** (LASHG from the Housing Corporation). Historically grant funding for new building has come from the Council and from the Housing Corporation. The changes to LASHG have meant that any grant that the Council allocates is now a direct draw on its own budgets. The new Regional Housing Strategy sets out its priorities for allocating its own resources through the Housing Corporation
 - b) The new **Regional Housing Strategy** indicates that areas other than this District may be viewed more favourably for future regional funding. Furthermore, regional priorities for new provision do not match local priorities.

In spatial terms the Strategy focuses on the *Growth Areas* (Milton Keynes, Thames Gateway etc) and regeneration areas. While rural areas are signalled out for attention there is a concern that resources coming into these areas will be limited.

The Strategy also sets out the priority housing needs groups it wishes to assist. While it focuses on housing register applicants and homelessness there is a particular emphasis on key worker housing. Although there are key

worker housing needs in the District it has been considered to be a low priority relative to other housing needs. Traditionally, the Council has sought to provide mainly general needs affordable rented dwellings for housing register applicants.

The Regional Strategy is clear that if we are to maximise our chances of securing regional funding for the District the New Forest Housing Strategy must reflect regional priorities.

- c) **The Housing Corporation** is placing added emphasis on achieving value for money and keeping grant requirements per dwelling down. In general terms grant requirements for affordable rented housing are higher than for other affordable housing types. There is therefore added pressure to provide a greater range of affordable housing types in order to reduce or remove average grant requirements per dwelling across a development site.
- d) In December 2003 the Council received a letter from the Housing Corporation on behalf of the **South East Regional Housing Board**. A copy of the letter is attached to this report. This letter clarifies the Housing Corporation's National Investment Policy relating to affordable housing secured through Section 106 agreements. (Affordable housing on PPG3 sites). It states:

There is presumption against funding, through social housing grant, housing schemes where it should be possible to negotiate a S106 Agreement.....The assumption is that land will be passed on to an association [RSL] at no cost.

The implication of this letter is that on new schemes funding will not be available through social housing grant to pay a landowner/ developer anything for the land on which affordable housing provision is to be made.

Unfortunately the letter is a little ambiguous, in that it states that land should be transferred to an RSL at nil cost, and also that no-grant should normally be necessary. Even at nil land cost a small amount of grant would normally be necessary to cover all costs. A no-grant approach would require the developer to offer further subsidy towards build costs, or amend their affordable housing proposals. Fuller consideration needs to be given to this issue in consultation with the Housing Corporation.

It is probable that either approach (nil land cost/nil grant) is likely to meet resistance from developers and landowners, certainly in the short term. A greater element of subsidy than would previously have been from public sector resources will now have to be borne by them. It is likely that developers/landowners will seek to minimise their costs by seeking to provide affordable housing types that need less subsidy (e.g. shared ownership or key worker housing). Such housing may still meet planning policy requirements for affordable housing, but would not necessarily meet the Council's assessment of the priority local need. The likely outcome is that developers/landowners will press for a lower proportion of affordable housing achieved through the planning process to be homes for rent from an RSL. The implications of this will need to be given further consideration by the Council in due course.

The Housing Corporation's policy stance has no implications for affordable housing schemes other than those delivered by way of S106 Agreements. Other affordable housing schemes will still be eligible for grant subject to resources and Housing Corporation funding criteria. They will, however, have to reflect regional priorities in order to compete effectively for resources.

3. PROPOSED ACTION

- 3.1 The most pressing issue to deal with is the matter raised in the Housing Corporation's letter. As an interim measure it is recommended that the Council revise its current practise for negotiating land for affordable housing to one where a landowner/ developer is required to make land available to a RSL at nil-value. Where this approach would mean grant is still required (unless the Housing Corporation is prepared to provide this) funding would need to come from the Council's own social housing grant budget. If the Cabinet consider it remains appropriate to pay the landowner/ developer 50% of the land value then this is likely to have to be funded from the Council's own resources.
- 3.2 It is important to note that there will be a lead in time before this policy can realistically take effect. Where planning applications have already been submitted and negotiations on affordable housing contributions commenced, it would prove very difficult to apply the policy, in effect, retrospectively. Discussions will take place with the Housing Corporation where these circumstances arise. It will be very important to make developers and landowners aware of the Council's change in practise as early as possible.
- 3.3 It is proposed that new planning applications should be negotiated on the basis of nil-land value with immediate effect should Cabinet accept this report's recommendation. A letter will be sent to developers operating in this district whom may be affected by the change.
- 3.4 In the slightly longer term the Council will need to give further consideration to the type of affordable housing that should be provided, taking into account the regional agenda. How this issue is dealt with is best considered as part of the development of the New Forest Housing Strategy that is currently being discussed with the Portfolio Holder for Housing and stakeholders. An appraisal of ways to fund new affordable housing is also highlighted as a priority in the draft Community Strategy and work will commence on this shortly.

4. ENVIRONMENTAL IMPLICATIONS

- 4.1 None arising directly from this report

5 FINANCIAL IMPLICATIONS

- 5.1 None arising directly from this report if the recommendation is accepted.

6 PORTFOLIO HOLDERS' COMMENTS

6.1 Economy and Planning Portfolio Holder's comments:

"Once again we as a District are having to consider amend our policies not because we would wish to but as a necessity in response to national changes.

Regrettably I must concur with the recommendation, as set out in the paper, not because I believe that it is a good policy but because it is the only option open to us if we are to have any chance of continuing to provide affordable housing within the district at any where near the current level. Opting for a nil land value does not enable the District to provide affordable housing at zero cost but does reduce those costs to a level that is sustainable."

6.2 Housing Portfolio Holder's comments:

"Latest information received from the Housing Corporation is that they will not fund schemes where land is acquired at above the recommended level. We would be left to fund any schemes ourselves. This has not been budgeted for and is unsustainable in the long term. The Portfolio Holder for Housing, therefore, reluctantly agrees the recommendation."

7. CONCLUSION

7.1 Changes to funding and to regional housing priorities will have an impact on how and what affordable housing is delivered in the District in the future. There is risk that unless account is taken of national and regional agendas new affordable housing funding and provision will fall. It is therefore important to consider firstly, adopting the approach advocated by the Housing Corporation and secondly developing a strategic response to the current situation.

8. RECOMMENDATION

It is recommended that:

On planning applications received by the Council from this date, requiring an element of affordable housing provision in accordance with the Council's development plan policies, negotiations should be on the basis that the landowner(s)/developer(s) makes land available for affordable housing provision to a Registered Social Landlord at nil-value.

For further information contact:

Louise Evans
Project Leader Policy and Plans Team
Tel: 023 8028 5359
E mail: louise.evans@nfdc.gov.uk

Simon Maggs
Housing Development Manager
Tel: 023 8028 5122
E mail: simon.maggs@nfdc.gov.uk

