

Supplementary Committee Agenda



**Epping Forest
District Council**

District Development Control Committee Tuesday, 26th April, 2005

Place: Civic Offices, High Street, Epping
Room: Council Chamber
Time: 7.30 pm
Committee Secretary: Simon Hill, Research and Democratic Services
Tel: 01992 564249 Email: shill@eppingforestdc.gov.uk

6.a Any Other Business (Pages 3 - 8)

In accordance with Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs 6 and 25 of the Council Procedure Rules, the Chairman has permitted consideration of the attached report regarding the provision of affordable housing on large development sites with the District.

This page is intentionally left blank

Report to the District Development Control Committee



**Epping Forest
District Council**

Date of meeting: 26 April 2005.

Portfolio: Housing.

Subject: Affordable Housing Provision on Large Development Sites.

Officer contact for further information: Alan Hall (01992 – 56 4470).

Democratic Services Officer: Simon Hill (01992 – 56 4249).

Recommendations:

(1) That, for the future affordable provision on large development sites where the tenure has not already been negotiated and subject to it representing no more than 25% of the overall affordable housing provided by the development, an element of shared ownership be sought (or New Build Homebuy, if introduced); and

(2) That, in order to enable the Council to be responsive to maximising the overall provision of affordable housing on developments when undertaking negotiations, and to have regard to the findings of the Housing Needs Survey, the Head of Housing Services be authorised to negotiate different ratios of rented housing to shared ownership on large development sites within this policy framework.

Background:

1. Under Planning Policy Guidance (PPG) 3: Housing and ODPM Circular 6/98, local authorities are able to negotiate an appropriate amount of affordable housing on large development sites, subject to there being sufficient housing need, evidenced by a Housing Needs Survey. At present, the Government's threshold for local authority districts outside London, above which affordable housing can be sought, is for developments of 25 properties or more, or on land in excess of 1 hectare, whichever is the lowest. However, the Government is currently consulting on a proposal to reduce the threshold to 15 properties or more, or on land in excess of 0.5 hectares.
2. Following completion of the Council's first Housing Needs Survey in 1999, the Council increased the amount of affordable housing it seeks on large sites from 20% to 30%. As a result of the subsequent Housing Needs Survey carried out in 2003, the Council is proposing, through the Alterations to the Local Plan, to increase the amount of affordable housing sought to 40%, where social housing grant is available (from the Council or the Housing Corporation). For social housing grant to be available from the Housing Corporation, the developer must provide free land for the affordable housing. In addition, the Council is proposing:
 - Only if social housing grant is not available, an acceptance that a lower proportion of affordable housing can be provided, although the same level of developer subsidy would be required;
 - A reduction in the threshold above which affordable housing is sought on development sites in urban areas, from 1 ha or 25 units to 0.5 ha or 15 units (as proposed in the Government's Consultation Paper on PPG 3);

- A reduction in the site threshold for affordable housing in rural areas to 2 dwellings;
 - An expectation that 50% of properties on developments in rural areas will be affordable housing; and
 - A requirement that the mix of affordable housing reflects the mix of market housing on sites.
3. The proposed Alterations were placed on first Deposit in June 2004. Responses to the consultation are due to be considered by the end of March 2005. Re-deposit is planned for June 2005, with adoption planned for June 2006.
 4. In September 1999, the former Development and Housing Committees re-affirmed the Council's policy that, based on the evidence of the Housing Needs Survey 1999, "affordable housing" in the Epping Forest District means "subsidised housing *for rent*" only.

Housing Needs Survey 2003:

5. The key findings of the last Housing Needs Survey were as follows:
 - The District's housing market excludes many families and single person households who are currently seeking access to local housing;
 - Any household with an income below £30,000 to £48,000 per annum (depending on location within the District) would struggle financially to access the smallest, acceptable quality units in the local housing market, i.e. one bed flats;
 - Around 99% of new households forming in the next year have incomes below £35,000;
 - The local relationship between house prices and incomes is such that around 88% of new forming households are unable to purchase in their own right;
 - The largest proportion of additional affordable units are required as rented properties, both for new forming households and existing families;
 - The private rented sector makes only a limited contribution to accessing affordable housing and this almost certainly underlies the problem of concealment that exists in the District;
 - Around 5,512 households plan to leave Epping Forest in the next five years. The single most common reason given by existing households moving outside the District was lack of affordable housing locally (39%); and
 - 665 new affordable properties *per annum* are required over the following five years to meet both the current and anticipated housing need over that period.

Housing Register:

6. As of 31 March 2005, there were 2,960 applicants on the Council's Housing Register. This can be compared with 1,478 in March 2002. As can be seen, the numbers of applicants on the Housing Register seeking affordable rented housing has exactly doubled over the past three years.

Affordable Housing Completions:

7. The following table summarises the number of affordable properties completed over

the past 4 years, and planned for 2005/6. As can be seen, the numbers are far lower than the 665 properties per annum assessed as being required from the latest Housing Needs Survey:

	2005/6 (Planned)	2004/5	2003/4	2002/3	2001/2
Rented	31	83	7	0	27
Shared Ownership	4	18	0	2	2
Supported Housing	28	5	0	0	1
TOTALS	63	116	7	2	30

8. The main reason for the relatively low numbers over the period is because the Council reached its overall Essex Structure Plan planning target for dwelling completions a number of years ago. Therefore, there has been no land allocated for additional residential use within the Local Plan for some time and all new developments have been on windfall sites.

Housing Corporation Funding:

9. In order to maximise the amount of affordable housing that can be provided on development sites, social housing grant (SHG) is required from either the Housing Corporation or the local authority. The Housing Corporation makes funding allocations to housing associations based on investment themes set by the Regional Housing Board and identified by the Regional Housing Strategy.
10. Housing associations must submit bids to the Housing Corporation for funding and, increasingly, funding is being provided to the developments that require the lowest grant per property overall, within the Regional Housing Board's main investment themes. In addition to negotiating the provision of free land for the affordable housing, which is now a pre-requisite of the Housing Corporation, another way to reduce the overall grant requirement for a development is for some of the properties to be provided as shared ownership, since less grant is required.

Shared Ownership:

11. Shared ownership has been in existence for many years and is a good way of enabling people to access home ownership, with significantly lower monthly housing costs than if they purchased outright. Under the scheme, the applicant purchases a "share" of the interest in the property, for which they obtain a mortgage, and also pays a pro-rata affordable rent to a housing association on the remaining share. The applicant may then purchase additional shares over time, with the ability to eventually purchase the property outright. If they want to move, the housing association will usually buy-back their share, and sell-on as a shared ownership property to another applicant. The scheme is targeted at applicants who have insufficient income/savings to purchase a property outright, but sufficient to meet the mortgage/rent of shared ownership.
12. As a guide, the last shared ownership scheme completed in Epping Forest was at The Retreat, Chigwell Row in February 2005, providing 4 one bedroom and 14 two bedroom flats. The full market values of the properties were £185,000-£195,000 and £195,000-£210,000 respectively. Applicants were offered shares of between 35% and 50%, which varied depending on their financial circumstances. For a flat priced at £195,000, the Housing Association estimate that the monthly cost of mortgage and rent would be around £825 per month. If the same flat had been purchased outright, the Housing Association estimate that the monthly mortgage cost would be around £1,295 per month (57% higher).
13. The reason why shared ownership can be offered at a substantially lower monthly

cost to applicants than outright sale, is because the grant from the Housing Corporation subsidises the rented element. In the future, this subsidy should be greater, in view of the Housing Corporation's requirement that developers must provide free land to housing associations on large sites.

14. However, there are three main drawbacks to shared ownership:

(a) The monthly costs are significantly higher than for a fully rented housing association property. This means that the vast majority of applicants registered on the Council's Housing Register are not eligible, because they have incomes below the required minimum (note the Housing Needs Survey's finding that 99% of new households forming in the next year have incomes below £35,000 p/a);

(b) Because it excludes so many people on the Housing Register, the affordable housing provided is not able to be targeted at those in most need (as defined by the Council's Allocations Scheme); and

(c) Once a shared owner purchases sufficient shares to own the property outright (subject to mortgage), the property is effectively lost from the affordable housing stock, since it has become a full market property.

Low Cost Market Housing:

15. Under the Government's Circular 6/98, "low cost market housing" (LCMH) – which are open market properties sold to applicants at below market value - can be considered as affordable housing. However, local authorities rarely pursue such an approach for a number of reasons:

(a) The overall "subsidy" going into the development is lower than for a shared ownership scheme. This is because the Housing Corporation will not provide grant funding for LCMH; the developer will provide the same level of subsidy whatever the tenure (i.e. discount on the open market value for LCMH or free land for shared ownership - as required by the Housing Corporation). This results in higher monthly housing costs for applicants;

(b) LCMH is not as flexible for applicants as shared ownership. As can be seen above, applicants for shared ownership initially have the choice of the percentage share they wish to purchase (within minimum and maximum levels) and can then purchase additional shares, in their own time, up to 100% if they wish. Furthermore, most housing associations allow applicants to sell back shares to them in times of financial difficulty. In contrast, LCMH purchasers must pay the price requested by the developer.

(c) There is no definition of LCMH. Therefore, it is open to abuse by developers:

(i) Indeed, there was a recent development in the District whereby the developer, successful in obtaining planning permission on appeal - including a requirement to provide 30% affordable housing - proposed to provide LCMH and offer discounts of no more than 10% on the open market value. With open market values of around £250,000 per property, their view of LCMH was purchase prices of around £225,000, requiring a household income of around £75,000 p/a;

(ii) This was despite them working in partnership with a housing association prior to the determination of the planning application, and the housing association successfully obtaining grant funding for all the affordable housing to be provided as rented housing. It was only after robust discussions with the developer, and the threat of planning enforcement action on the basis that the properties could not reasonably be classed as affordable housing, did the developer agree to provide rented housing. However, the amount was significantly less than originally negotiated on the site. The

funding for the remaining rented properties had to be returned to the Housing Corporation and was lost to the District.

(d) LCMH has the same disadvantages as shared ownership – the relatively high monthly costs exclude most Housing Register applicants and it cannot therefore be targeted at those in most housing need. Moreover, unlike shared ownership, the property loses its ability to be available to future occupiers as affordable housing, since the LCMH occupier can sell the property on straight away and make a profit.

Government’s Consultation Paper – “Homebuy: Expanding the Opportunity to Own”:

16. Earlier in April 2005, the Government issued its consultation paper “Homebuy: Expanding the Opportunity to Own”. Under the Government’s proposals, people wanting to gain access to home ownership would be given three options:

- **Social Homebuy** - Council and housing association tenants, who have held a tenancy for at least five years, would be given a discount of up to £16,000 to buy a share of the *property they occupy*. Shares would be at least 50%, with the remaining share funded by an interest free loan, with the share held by the former landlord. The Government is consulting on whether the buyer should pay rent on the rest and who should be responsible for management and maintenance;
- **Open Market Homebuy** – Key workers, existing Council and housing association tenants and housing applicants could buy a share of the equity in an *existing* home bought on the open market. Buyers’ shares would be at least 75%, with the remaining share funded by an interest free loan, with the share held by the provider of the loan. Receipts from subsequent sales would be recycled to provide additional loans; or
- **New Build Homebuy** – The same categories of people and approach as Open Market Homebuy, with applicants able to buy a share of the equity in a *new* home built by a housing association. The Government is consulting on whether, in some circumstances, the purchased share could be less than 50% and whether or not the buyer should pay rent on the remaining share (which would make the scheme the same as shared ownership, as described above). Receipts from subsequent sales would be recycled to provide additional loans.

17. The interest free loans for all three products, and discounts for Social Homebuy, would be provided by the Housing Corporation, at an estimated cost of around £30m per annum. Clearly, whether the proposals are introduced will depend on the outcome of the General Election. If introduced, it is proposed that they would commence from April 2006.

18. If introduced, it would be New Build Homebuy that would have an effect on the provision of new affordable housing on large developments sites (which is the subject of this report), and would effectively replace shared ownership, even if only in name.

Proposed Way Forward and Statement in Support:

19. In view of the Housing Corporation’s increasing desire to see some element of shared ownership within affordable housing schemes on large sites, in addition to the benefits to those applicants wishing to enter home ownership but unable to do so because of high property prices, it is recommended that a policy is adopted of generally seeking a proportion of the affordable housing on large sites as shared ownership. Otherwise, in view of the increased overall grant requirement for fully rented schemes, the District may lose out in the receipt of investment funding from the Housing Corporation for affordable housing schemes to other districts that do include an element of shared ownership.

20. However, bearing in mind: the increasing numbers of applicants on the Housing Register - many with very high housing needs; the fact that shared ownership excludes most Housing Register applicants and cannot be targeted at those in most housing need; and the loss of its affordable housing status over time, it is recommended that, generally, shared ownership properties should represent no more than 25% of the overall affordable housing provided on large development sites.
21. It must also be recognised that such an approach should only be used as a guide, since not only must the Council have regard to the Housing Needs Survey, characteristics of different developments vary, and the Council must be responsive to maximising the overall provision of affordable housing on the development, especially when negotiating with the Housing Corporation and developers. Sometimes, it will be more beneficial to provide higher levels of shared ownership, whilst other times it would be advantageous to provide lower levels. Therefore, it is important that the Head of Housing Services be given flexibility to negotiate different ratios of rented housing to shared ownership within this policy framework.
22. Should the three new Homebuy products proposed by the Government be introduced, it is suggested that the policy be sufficiently flexible to take account of this development

Other options considered and rejected:

23. Not to generally seek shared ownership from affordable housing on large sites; to seek an element of low cost market housing within the affordable housing provision; to generally seek a higher or lower percentage of the affordable housing provision as shared ownership; or not to take account of the Government's consultation paper on Homebuy.

Consultation undertaken:

24. Housing Association representatives of the Epping Forest Housing Association Liaison Group and the Housing Corporation were consulted on the contents of this report. Although no response was received from the Housing Corporation, the housing associations unanimously supported the proposals and confirmed that they were in line with feedback they were receiving from the Housing Corporation.

Resource implications:

Budget provision: Nil.

Personnel: Nil.

Land: Nil.

Council Plan/BVPP reference: "Meeting Housing Need".

Relevant statutory powers: Town and Country Planning Act; Planning Policy Guidance 3: Housing; Circular 6/98.

Background papers: Housing Needs Survey Report 2003.

Environmental/Human Rights Act/Crime and Disorder Act Implications: Nil.

Key Decision Reference (if required): None.