HIGHBURY GROUP ON HOUSING DELIVERY

BRIEFING FOR MEMBERS OF THE HOUSE OF LORDS ON THE LOCALISM BILL AND HOUSING DELIVERY

Given the lack of clarity within the proposals set out in the Localism Bill and the lack of a satisfactory evidence base for the Government's proposals, this briefing sets out key questions which could be raised in the debates. It is followed by a background paper, which incorporates points raised by the Government's own impact assessment for Affordable Rent published on 9th June subsequent to the Lords debate on 7th June. A note on the Highbury Group on Housing Delivery and its membership is included below.

Key Questions

1. Can Ministers provide a guarantee that housing benefit will be provided up to the level of rents chargeable based on 80% of market rent and that this level of benefit will be maintained in the longer term ?

2. Will Ministers explain how increasing the dependence on low income households on housing benefit is consistent with the Welfare to Work agenda ?

3. Will Ministers consider reintroducing a social rent programme at target rents should the new regime be shown to be unaffordable by either a) providers, b) the housing benefit budget or c) households on lower incomes in housing need ?

4. How do Ministers consider that households whose tenancies are not renewed will find appropriate affordable accommodation?

5. Are Ministers concerned that the combination of the measures in the Bill and the funding regime will lead to wide variations in the rent levels, length of tenancies and benefit entitlement for different households living in similar property within a neighbourhood. ?

6. Will Ministers include in the final National Planning Policy Framework a requirement for Local Planning Authorities to set separate targets for social rented provision, 'affordable rent' provision and intermediate provision which meet the needs identified in strategic housing market assessments?

7. Will Ministers confirm that the existing guidance on strategic housing market assessments will not be withdrawn?

8. Will there be a requirement for Local Planning Authorities to disaggregate targets for housing completions and affordable housing completions (disaggregated between social rented homes; 'affordable rent' homes and intermediate homes) at ward level to set a framework for checking conformity of neighbourhood plans?

9. Are Local Planning Authority planning policies relating to type of housing, tenure and affordability, bedroom size mix and density regarded as to be 'strategic' in terms of being matters to be determined by Local Planning Authority core strategies and not by neighbourhood plans ?

10. Will neighbourhood plans be required to demonstrate an evidence base for proposed policies?

11. Will neighbourhood plans be required to undertake an impact assessment which has regard to impacts on neighbouring areas and on people resident in neighbouring areas?

12. Will neighbourhood plans need to demonstrate that they are deliverable?

13 Will neighbourhood plans need to have regard to the national planning objective of seeking to achieve mixed and balanced communities?

14. Will the Government confirm that affordable rented homes provided under the new regime will need to be affordable by eligible households with regard to local incomes as in the current Planning Policy Statement 3 (housing) definition of affordable housing and will the Government confirm that affordable

rented housing should still meet a local affordability test ?

15. Will the Government confirm that it will support Planning Inspectors in challenging neighbourhood and LPA plans which do not contain policies on the provision of affordable housing, including specific policies on social rent provision, which are not supported by an adequate and up to date housing market assessment and will the Government require amendments to such plans to correct identified deficiencies?

16. How will the Government ensure effective co-operation between neighbouring authorities to ensure provision of housing and social infrastructure to meet needs arising in the wider area?

BACKGROUND NOTE

Introduction: The Highbury Group on housing delivery

The Highbury Group is an independent group of specialists from public, private and independent sectors from housing, planning and related professions which prepares proposals for Government and other agencies on responses to the current 'credit crunch' aimed at maintaining the output of housing including affordable housing.

The group was established in 2008 as the Highbury Group on housing and the credit crunch and originally met at London Metropolitan University in Highbury Grove, Islington, London (thus the name). The group's name was changed in September 2010 and it now meets at the University of Westminster, 35 Marylebone Road, London NW1

It comprises the following core members: Duncan Bowie - University of Westminster (convener); Stephen Ashworth – SRN Denton ; Julia Atkins - London Metropolitan University; Bob Colenutt - Northampton Institute for Urban Affairs ; Kathleen Dunmore - Three Dragons ; Michael Edwards - Bartlett School of Planning, UCL; Deborah Garvie - SHELTER ; Stephen Hill - C20 Futureplanners ; Roy Hind - Bedfordshire Pilgrims HA ; Angela Housham - Consultant ; Simon Kaplinsky - PRP Architects; Seema Manchanda - L B Wandsworth; Tony McBrearty – Consultant; Kelvin McDonald - Consultant ; Dr Tony Manzi - University of Westminster; James Stevens - HomeBuilders Federation ; Peter Studdert – Planning consultant ; Janet Sutherland - JTP Cities; Paul Watt - Birkbeck College ; Nicholas Falk- URBED; Catriona Riddell – Planning Officers Society; Alison Bailey – consultant; Richard Donnell – Hometrack; Pete Redman – Housing Futures; Richard Simmons

The views and recommendations of the Highbury Group as set out in this and other papers are ones reached collectively through debate and reflect the balance of member views. They do not necessarily represent those of individual members or of their employer organisations. .

The key purpose of the group is to promote policies and delivery mechanisms, which

* increase the overall supply of housing in line with need
* ensure that the supply of both existing and new housing in all tenures is of good quality and more affordable by households on middle and lower incomes.
* support the most effective use of both existing stock and new supply
* ensure that housing is properly supported by accessible infrastructure, facilities and employment opportunities.

The Group made a submission to the House of Commons Localism Bill committee. Our first submission on the Localism Bill focused on three issues- a) the need for a national spatial planning framework which was linked to a national infrastructure strategy; b) the need for a structure for regional and sub-regional planning, and c) the relationship between neighbourhood plans and the Local Planning Authority led Local Development Framework. As there were no substantive amendments to the planning clauses of the Localism Bill at the Commons committee stage, the concerns reflected in this earlier submission remain valid. This new submission focuses on the combined effect of the proposals in the Localism Bill, the changes in the Homes and Community Agency's funding criteria and the changes in housing and welfare benefits on the supply and affordability of housing. It is important that these three dimensions of Government policy are taken together. There is a fundamental difficulty in that traditionally, the inter-relationships between planning policy, housing policy and funding and welfare policy have not been adequately understood.

Earlier papers by the Highbury Group, including the Group's submission to the House of Commons Localism Bill committee are available on the group's website:

http://www.westminster.ac.uk/schools/architecture/housing/urban-research-group/highbury-group-on-housing-delivery/highbury-group-documents

SUMMARY OF GOVERNMENT PROPOSALS

The group's focus is on the delivery of new housing, its affordability and effective use. Government policy which impacts on these issues, both in effect and proposed within the Localism Bill, can be summarised as follows:

1) Localism Bill proposals:

a) Abolition of Regional Spatial Strategies (outside London) including removal of national and regional targets for housing and affordable housing output, with targets to be a matter for local determination.
b) Introduction of neighbourhood plans by neighbourhood forums. At this stage it is unclear whether or not neighbourhood plans can adopt policies which impact on housing supply and may be in conflict with Local Planning Authorities policies, land allocations and targets where adopted. The implication is that where a Local Planning Authority (LPA) has no core strategy in place, a neighbourhood plan will become a component of the LPA's Local Development Framework.
c) Local residents registered on the electoral register will be able to determine through a ballot whether or not a development proposal proceeds.
d) The tenure status of new council and housing association tenants will be on a short term basis, with a minimum of two years, which will be subject to renewal on the basis of criteria determined by the local housing authority.
e) New council and housing association lettings, both in relation to newly provided housing and re-lets of existing vacant homes (but assumed to exclude re-lets to transfers and tenants re-housed for redevelopment) will be on the basis of rents above the current target rents, with a maximum of 80% of local market rent.
f) Local Authorities are being given more discretion in relation to maintenance of waiting lists, forms of provision for homeless households, and prioritisation of households for lettings in council housing, or nominations to housing associations or ALMOs (Arms length management organisations for council owned stock)

2) Changes in the Homes and Communities Agency funding criteria:

a) The HCA capital budget for the 2011-2014 plan period is approximately 60% less than for the previous plan period.
b) Funding for social rented homes at target rents will only be provided in exceptional cases, for example for homes replacing demolished council estates.
c) Funding will be provided for new 'affordable rent' homes on the basis of rents up to 80% of market rent, with tenants having limited security, and tenancies subject to review.
d) In bidding for HCA funding, housing associations and other 'registered providers' should offer to convert existing social rented supply on vacation to the new 'affordable rent' regime and should estimate the number of homes this would apply to.

e) There is also some evidence that the HCA is encouraging Housing Associations to convert existing pipeline social rented schemes onto the new ‘affordable rent’ model before letting.

3) Housing Benefit and Welfare Benefit policy

a) The Government has imposed upper limits on benefits paid to private rented tenants through the Local Housing Allowance system. In higher value areas, these are significantly below market rents, especially in relation to larger homes. The impact of these limits has been set out fully in research by the Cambridge Centre for Housing and Planning Research *How will changes to Local Housing Allowances affect low-income tenants in private rented housing ?(*CCHPR, September 2010)

b) An overall welfare benefit cap of £500 per week per household is being applied. The cap will apply to the combined income from:

- The main income replacement benefits (Jobseeker’s Allowance, Income Support, Employment Support Allowance);
- Other means-tested benefits (including Housing Benefit and Council Tax Benefit);
- Child Benefit and Child Tax Credit;
- Other benefits (including Carer’s Allowance and Industrial Injuries Disablement Benefit.

This benefit is to cover all household costs including housing costs. There is no uplift for larger households.

4) The Government has introduced a number of other policies which impact on housing output:

a) The Government has replaced the Planning and Housing Delivery Grant by the New Homes Bonus. This is paid to local authorities on the basis on new homes completed within an area in the previous year, with an uplift for affordable homes completed. 2011/12 allocations have been issued. Future allocations will be top-sliced from the local government formula grant – the main grant support from central government to local authorities (previously known as the rate support grant). There is no ring fencing of the use of New Homes Bonus and a Local Authority is not required to spend its grant either on services or in areas which relate to new residential communities.
b) The Government is amending the Community Infrastructure Levy (the new form of taxation on development which can be introduced by local planning authorities but is not mandatory and can supplement existing planning obligations requirements) to require that a substantial proportion of the levy is spent in the neighbourhood in which the levied development takes place. The proportion has however not been defined. Each local planning authority in setting its CIL rate or rates is required to identify the infrastructure that the levy might fund, as well as being required to demonstrate that 90% of proposed developments will remain viable for the developer once the levy has been applied.
c) The Government replaced the previous system of direct funding for projects in growth areas (such as Thames Gateway) and growth points by a new regional growth fund. This programme however is focused on regions which are performing relatively poorly economically rather than on the areas of planned residential growth. Of the initial £450m allocations made in April 2011, no funding was made available in London, with only 1% of funding going to SouthEast region and only 1% to the East of England. Consequently in contrast with the predecessor regime this programme will not assist the provision of transport and physical infrastructure needed to support housing in the areas of the country in which demand is greatest.

The Implications and the uncertainties

a) The Government’s proposed incentive based regime

The Government’s view is that the system of incentives referred to above (New Homes Bonus and Community Infrastructure Levy including a neighbourhood component) will be more effective in delivering additional housing that the previous regional planning targets based regime. The Government also believes that the output of affordable homes can be increased, with the increased rent income for new ’affordable rent’ homes and from the reletting of existing LA and HA homes at higher rents making direct grant less necessary. It should be noted that the New Homes Bonus is payable in relation to homes completed in the previous year. It is therefore not necessarily focused on those areas where housing growth is required to meet unmet current needs and projected future demand. Moreover its use is not ringfenced to either housing expenditure or to infrastructure supporting new residential communities. It is therefore difficult to assess the extent to which the bonus will be used to support provision of new housing as opposed to funding unrelated local authority service provision.

b) The Homes and Community Agency's funding criteria

The Homes and Communities Agency in its funding guidance for the 2011-15 programme assumes that local authorities will provide land for new affordable housing free to providers, and that where affordable housing is provided as part of a private led development covered by a section 106 agreement, that no direct grant will be required. The HCA has not as yet published its evidence for either assumption. There is little record in recent years of local authorities or other public bodies such as central government departments making land available at no cost to developers, as public sector bodies generally seek to maximise receipts from asset disposals to fund their own statutory functions, while a large proportion of affordable housing schemes within private led developments have received grant to supplement developer contributions.

Table: Affordable homes funded solely by s106 agreements: 2009/10

Region	Social rent funded by s106	Social rent Total	%	LCHO funded by s106	LCHO total	%
London	30	7080	0.4%	240	5680	4.2%
SouthEast	0	5940	0%	50	4450	1.1%
East	90	4700	1.9%	90	3150	2.9%
SouthWest	70	4050	1.7%	40	2280	1.8%
West Midlands	10	3210	0.3%	30	1730	1.7%
East Midlands	20	2250	0.9%	10	1490	0.7%
Yorks and Humber	20	1580	1.3%	10	1230	0.8%
NorthWest	0	2890	0%	0	1440	0%
NorthEast	0	1410	0%	30	620	4.8%
ENGLAND	250	33120	0.8%	510	22050	2.3%

source: DCLG Live tables. Table 1000

Planning obligation contributions not supported by grant funded less than 1% of social rented homes and just over 2% of low cost home ownership homes in 2009/10. In three regions, including the higher value SouthEast region, no social rented homes were provided through planning obligations without grant support.

c) Assessing housing outcomes

Calculating the extent to which the new policy and funding regime will impact on housing output is not an easy exercise and to a certain extent the Government proposals do represent a leap in the dark. Firstly, it is not known the extent to which the New Homes Bonus will be sufficient to persuade local planning authorities, and residents within neighbourhoods, to support provision of additional housing including affordable housing. Initial reactions would indicate that the bonus may be insufficient to persuade local authorities with development capacity to support additional homes, and there is no link between the distribution of resources and the areas whether there is either greatest demand or greatest development capacity. It is already evident that the abolition of regional housing targets has led many local planning authorities to revise down their housing completion targets, irrespective of the availability of the new homes bonus.

d) The impact of neighbourhood planning

The impact of the new neighbourhood based planning regime, including resident ballots on individual development proposals is unknown. Experience demonstrates that neighbourhood groups are often hostile to any additional residential development in their areas, and sometimes especially hostile to the development of social rented homes for lower income households. While Ministers have indicated that neighbourhood plans should not obstruct the delivery of agreed housing targets, it should be noted that with the abolition of RSS based targets, most local authorities in England have not yet adopted core strategies with housing targets at local authority level, and in the case of those that do, housing targets are not disaggregated to neighbourhood level, so that a test of neighbourhood plan conformity could be applied. It is also unclear as to whether neighbourhood plans could set policies on housing type, built form, density, tenure, affordability or bedroom size mix , or other qualitative factors, that are different from policies adopted by the local planning authority. The Government has not as yet issued any draft guidance on what matters should be regarded as strategic in terms of being reserved for policy decisions by the local planning authority, which are subject to consultation, public examination and demonstration of soundness in terms of evidence base and deliverability. These requirements do not appear to apply to neighbourhood plans, which can be determined primarily in relation to the interests and aspirations of the existing residents who prepare and vote on the plan, with no regard to wider needs or impacts being considered.

e) The output from the new Affordable Rent programme

Subsequent to the Lords debate on 7th June, the Government published its own estimates of new investment to be generated by the proposed regime – *Impact Assessment for Affordable Rent (CLG 9 June 2011)*. The Government assumes that the initial 4 year programme of £1,586m grant will produce between 32,000 and 64,000 new affordable rented units and between 6,000 and 11,000 new affordable home ownership (shared ownership). This compares with an estimate of between 19,000 and 27,000 social rented homes and between 3,000 and 5,000 new affordable home ownership homes which could be produced from the available programme resources if used in a similar manner to the 2008-2011 programme. The impact assessment also assumes that between 14,000 and 20,000 existing social rented homes will be converted to the new affordable rent programme, with between 2,000 and 4,000 existing social rented homes converted to affordable home ownership. Under the new programme, taking the midpoint figures, there will be a net loss of 21,000 social rented homes, whereas an extension of the pre-existing programme would have produced some 27,000 social rented homes – a relative loss of some 48,000 social rented homes. It must be questionable whether the public benefit arising from 65,000 homes at rents of up to 80% of market rents with an additional 11,000 shared ownership units with a loss of 21,000 social rented homes is greater than an output of 27,000 social rented homes and 4,000 shared ownership homes.

f) The difficulty in predicting outputs

One of the reasons the Government assessment produces a range of estimates it is that it is difficult to predict outputs as not only are build and grant costs not known and will vary widely across the country, there are a number of factors which need to be considered. Firstly there is the issue of how many social rented homes in the current development pipeline will be let on a higher rented basis. This is an option which has apparently been encouraged by the HCA. The extent of such conversions depends on decisions taken by individual associations as to whether they wish to change the target group for whom they are providing, but also the extent to which they are bound by conditions of planning consents or s106 agreements. Some councils may be reluctant to see homes they supported for lower income households in effect moving up market, or making the initial tenants more dependent on housing benefit.

The second factor is the assumption as to what proportion of re-lets will be converted to the higher rent scheme. Some HAs will be more restricted than others in the proportion of re-lets required for transfer applicants who will clearly not be encouraged to transfer if this involves a significant rent increase, especially if they are transferring from a larger property to a smaller one. Some HAs may seek to provide new and relet homes at a range of rent levels between target rents and 80% market rents, depending on both their own assessment of different markets as well as their internal financial requirements. Some HAs may want to keep family homes at lower rents, while others will see a potential for generating higher rent income form larger homes though this will in some areas be constrained by housing benefit caps. While some Local Authorities may set rent policies for their own stock between target rents and the 80% market rent figure, it will be difficult to impose such policies on associations, especially where the effect would be to disqualify associations from obtaining HCA funding for new development.

While the default position of the Homes and Communities Agency in allocating resources is that rents will be at 80% market rents, in some areas such as Inner London, this will breach the Housing Benefit caps and in extreme case the £500 per week overall benefit cap. Consequently some providers will seek to charge rents at between 50% and 70% of market rent rather than at 80%. This is especially the case for larger family sized properties. The HCA will have to decide whether
to fund such schemes.

As costs of development vary between areas, some HAs will be attracted by the possibility of using rent income generated in higher value areas to support new investment in lower cost areas – a proposition that might also be attractive to the HCA in terms of generating maximum new homes at minimum direct public sector cost. (The term direct is used as clearly converting social rent homes to affordable rent homes adds significant indirect cost via the housing benefit budget). There is therefore a risk that this redistribution will shift resources, both HA increased income from receipts and residual HCA grant, to the areas where building is cheapest, which are generally not the areas of greatest need.

It should be noted however than in lower value areas of the country, the affordable rent regime may not be viable, as 80% of market rent may in fact be no higher than the existing council and housing association rents, so that while new tenants would have no higher rents than existing tenants, which has the positive outcome of not increasing demands on the housing benefit budget and worsening the poverty trap, the new regime will not generate funding for new investment and consequently for any new affordable housing to be provided, significant grant will still be required.

The programme is therefore likely to a variety of outputs depending on the position taken by individual associations and the response to these proposals by the HCA. It should be noted that some local authorities may not support schemes at 80% market rents as they are not seen as affordable by lower income households. The London Borough of Islington has already adopted this position and other authorities in high cost areas may follow. It should also be noted that some Housing Associations will use the tenure flexibility proposed by the Localism Bill, with new tenancies being limited to 2 years. Other HAs may opt for longer term tenancies of say 5 years, while others may choose to stick with the existing target rent regime. Associations which do not obtain HCA funding under the new regime, will relet vacant properties at target rents as before. This means that within a neighbourhood, there will be tenants of similar properties with very different rent levels and tenancy lengths. This is a reversal of the approach introduced by the last Government to introduce consistency of rent levels between councils and housing associations through the target rents regime. While local authorities will be able to publish their own tenancy strategies, they will not be able to impose these on housing associations operating within their area. Homeless households and other waiting list applicants nominated to new HA tenancies will have very different rent and tenancy arrangements depending on the association and type of stock to which they are nominated. This is an inequitable arrangement.

g) Housing Benefit costs, the poverty trap and the welfare to work agenda.

The Governments Impact Assessment assesses the additional housing benefit cost of between £455m and £605m over a 30 year period arising from the initial 4 year programme. Given the Government's stated intention of achieving significant reductions in the overall benefit budget, the logic of introducing a new housing regime which makes housing less affordable for lower income households and significantly increases the revenue cost to the taxpayer seems highly questionable. Moreover by making rent payment so dependent on benefit, there is a significant increase in the 'poverty trap' for households concerned, given that taking on employment will lead to benefit reductions and inability to pay rent. This appears to be in direct contradiction with the Government's welfare to work agenda.
Moreover any reduction in housing benefit could lead to tenants being unable to pay rent and becoming homeless. As well as the negative consequences for the households involved, this will lead to significant additional costs being incurred by the taxpayer.

h) Private finance impacts

With a reduction in the availability of grant, there will be an increased reliance on private finance. However private funders will have less certainty as to the rent income generated by an association's overall housing portfolio as lettings will be at a range of levels and may of course be modified as schemes are developed and as new tenancies commenced and reviewed. The real challenge however is the extent to which private funders will be satisfied that an association's ability to repay a loan will be even more dependent on the continuation of housing benefit at current levels. Any reduction in housing benefit caps by either this Government or a future Government, which seems likely given the Government's concerns with the overall budget level, which will be increased significantly as a result of the new rent policy, will put a funders lending at risk. The Governments universal credit proposals with the termination of direct payment to landlords will significantly exacerbate this position.

i) The implications for delivery of existing planning targets

In theory a local authority can still require schemes to provide social rented housing at target rents or could finance such provision directly, for example through using its own resources or redirected funding such as the New Homes Bonus. However since the Government's assumption is that new provision of rented housing would be on an affordable rent basis, it is likely that the HRA funding regime as well as other centrally determined funding mechanisms will dis-incentivise such an approach. The New Homes Bonus is unit based and treats all 'affordable homes' as the same so there is no incentive for a Local Authority to support social rent as opposed to 'affordable rent' or low cost home ownership.
Local authorities are therefore likely to struggle to provide or assist the provision of any social rent housing. In most local authorities, adopted planning policies in accordance with the pre-existing Planning Policy Statement 3 (housing) will set separate targets for the provision of new social rented housing and for 'intermediate' housing (ie sub-market rented homes and shared ownership homes) and not just an overall affordable housing target. While the Government has included homes provided under the new 'affordable rent' policy as being 'affordable' in terms of the PPS3 definition (whether or not the homes are actually affordable by middle or lower income households in an area), this does not substitute for existing planning policy requirements for social rent.

However with the withdrawal of HCA funding for new social rented homes, most LA social rented targets are in fact now undeliverable. In a few cases, LPAs might be able to prioritise the provision of social rented homes at target rents within planning conditions or planning agreement, but this will generally require the co-operation of both developers and housing associations which may not be forthcoming. Consequently, many LPAs may feel obliged, irrespective of housing market assessments demonstrating a need for social rent, to waive social rent targets in favour of 'affordable rent' both in relation to adopted policies and in relation to individual development. It is important that this is restricted and that planning inspectors insist that LPA policies both in terms of plans and their application to individual development proposals, remain evidence based – ie where a need for social rented housing is identified, that such provision continues to be provided, irrespective of any government changes in funding regimes, tenure policy or 'technical' amendments to affordability definitions.

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