

Reviewing the Plan for Purbeck's future

Purbeck Local Plan Review
Affordable Housing Tenure Mix, January 2018



Thriving communities in balance
with the natural environment

Executive Summary

Affordable housing is defined in the National Planning Policy Framework¹. In planning terms it includes:

Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Social rented housing target rents are determined through the national rent regime. Affordable rented housing is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable). Intermediate housing is homes for sale and rent provided at a cost above affordable rent, but below market levels. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.

Concerns have been raised that the level of rent charged on affordable rented properties is not affordable in Purbeck.

Nationally there is also concern about the reduction in the amount of social rented properties and central government have pledged to make more support available for social rented homes through the Homes and Communities Agency. In Purbeck in the last 5 years less than 2% of new affordable housing delivered has been social rented.

The views of local Registered Providers have been sought on the possibility of requiring 10% social rented housing as part of the 40% or 50% affordable housing to be delivered. Most of the Registered Providers indicate that it would be possible to provide more social rented properties in lieu of affordable rented ones, but not at the same volume: the implied trade-off would be fewer affordable homes overall due to the financial impact.

In Purbeck the majority (93% over the last 5 years) of affordable homes are provided through Section 106 agreements which do not qualify for grant support. Therefore the only affordable housing developments that may qualify for grant support are those secured on Rural Exception Sites or through Community Land Trusts.

In order to deliver significantly more social rented homes they will need to be part of affordable homes delivered through Section 106 agreements, which potentially has implications for the overall amount of affordable homes delivered.

The recently announced increased funding for the Affordable Homes Programme and a broadening of the tenures which qualify for this support to include social housing, will make it easier to provide social rented homes on non-Section 106 sites, such as Rural Exception Sites.

The independent viability² study indicates that replacing even a small amount (10%) of affordable rented with social rented housing has a significant impact on the viability of development sites, especially in lower value areas around e.g. Wool (the rural centre sub-market) and Upton housing sub market areas. It is unlikely that development within the

¹ <https://www.gov.uk/government/publications/national-planning-policy-framework--2>

² [Viability Update & Sensitivity Testing, November 2017](#)

Purbeck Rural Centre would, in all cases, have the viability strength to support the inclusion of social rent into the tenure mix without increasing the proportion of affordable intermediate tenures or reducing the overall level of affordable housing.

In higher value areas the impact of social rented housing on residual land values is reduced and it is likely more sites would be able to absorb the additional cost more often, although this cannot be guaranteed in every case.

The study recommends that since viability at the strategic level of the study cannot take into account site specific opportunities or threats to viability it may be that the Council will need to encourage the inclusion of social rent on a site by site basis rather than as a blanket requirement.

The Strategic Housing Market Assessment has identified that Purbeck needs to deliver 149 affordable homes per year. Given that it can only expect to deliver a maximum of 40-50% affordable homes on market led developments and the Council is only planning to deliver 170 homes per year overall, then this need is clearly not going to be met.

It is already apparent that the Council will struggle to deliver enough affordable homes – even with affordable rented properties. Increasing the social rented requirement in lieu of affordable rented could reduce the Council's ability to deliver enough affordable homes even further. The Council will need to consider whether or not it would prefer to maximise affordable housing provision by requiring affordable rented properties; or if it is willing to accept the possibility of providing fewer affordable homes, but at cheaper rents.

This paper therefore recommends that the Council seeks views on this through the forthcoming Local Plan Review consultation.

Contents

Executive Summary	2
Introduction	5
Could the Council ask for more social rented housing from qualifying developments?.....	7
Potential impact of increasing social rented affordable homes	7
Viability Evidence	9
Number of Homes	10
Potential Policy Change	11
Conclusions	11
Recommendation	11

List of tables

Table 1 Affordable Housing delivered in the last 5 years	8
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Appendices

Appendix 1: Wessex Community Land Trust Project briefing note on rents	12
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Introduction

1. Affordable housing is defined in the glossary of the National Planning Policy Framework (NPPF)³ as:
 - Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.
 - Social rented housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime⁴. This is not a percentage of market rent, unlike affordable rented housing (see below) but follows a formula based around national average rent, relative county earnings, relative property value and a bedroom weighting. Additional service charges may apply to a service that all social rented tenants receive. One of the Registered Providers has indicated that traditionally this has ended up as around 60-65% of market rent.
 - Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).
 - Intermediate housing is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing. Locally low cost affordable homes for sale are often referred to as discounted housing.
 - Homes that do not meet the above definition of affordable housing, such as “low cost market” housing, may not be considered as affordable housing for planning purposes.
2. Whether or not a development qualifies for providing affordable housing is set nationally in Planning Practice Guidance (PPG)⁵. The threshold is 11 or more homes, but in designated rural areas and the AONB (everywhere in Purbeck, except for Upton and Wareham), councils are allowed to accept commuted sums in lieu of affordable housing from developments of 6-10 homes. Purbeck District Council is considering introducing the requirement for commuted sums from sites of 6-10 homes through the Local Plan Review.

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6077/2116950.pdf

⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/313355/14-05-07_Guidance_on_Rents_for_Social_Housing_Final_.pdf

⁵ Ref ID: 23b-031-20161116

3. Affordable homes are mainly secured either through Section 106 agreements as part of a market development or through Rural Exception Sites which are primarily affordable homes, with a small element of market homes if needed to make the development viable. Community Land Trusts can also work with Registered Providers to provide affordable housing.
4. Affordable properties are only available to households who qualify for them. To qualify to join the Council's housing register, applicants need to demonstrate that they meet the criteria set out in the Council's housing policy⁶.
5. Currently there are 428 members on the housing waiting list looking for rented accommodation, and a further 207 looking for shared equity opportunities.
6. The current adopted Purbeck Local Plan Part 1 includes the following policy for affordable housing tenure:

Policy AHT: Affordable Housing Tenure:

The tenure of affordable housing will be negotiated on a site-by-site basis to reflect identified local need, but is likely to be split as follows:

- 90% Social Rented/Affordable Rented Housing
- 10% Intermediate Housing to Rent or Purchase

Whilst this allows for social rented homes to be delivered it is not a definite requirement and inevitably due to financial benefits, the preference is to deliver affordable rented homes.

7. Through Local Plan Review consultations and general feedback from several town and parish councils and the public, Purbeck District Council has been asked to look at the possibility for requiring more social rented affordable housing from developments. This is because affordable rented properties are rented at up to 80% of market rent and that is perceived to be too high for many Purbeck households who qualify for affordable housing. Social rent is set according to a formula set out in the national rent regime as explained above.
8. To explore the issue, this background paper looks at whether or not the Council could stipulate a percentage of social rented housing from qualifying developments. This will require consideration of what effect it might have on development viability, and therefore overall affordable housing delivery, as well as whether or not registered providers are willing to provide more social rented properties.

⁶ <https://www.dorsethomechoice.org/Dorset-homechoice/uploads/DorsetCommonPolicyFinalPolicyv3.4.6.1Reviewprocamendsept2016.pdf>

Could the Council ask for more social rented housing from qualifying developments?

Potential impact of increasing social rented affordable homes

9. The National Planning Policy Framework (NPPF) and the PPG are clear that development should not be overburdened with planning obligations that threaten a site's viability.
10. Currently, affordable housing secured through Section 106 agreements is not supported through grant subsidy, unless there is a clear requirement for additional affordable homes over and above the policy level and a viability assessment supports the need for a grant. There are no examples of this being delivered locally.
11. However, central government does support affordable rented homes through the Homes and Community Agency. The HCA currently support affordable rented housing, but not social rented, through a grant subsidy from the Affordable Homes Programme on non-Section 106 sites.
12. The same restrictions do not apply to grants from the new Community Housing Fund which can also apply to social rented homes. However, the grant support and increased income from affordable rented housing still make such developments easier and more attractive to deliver, as social rented housing requires a higher grant subsidy to make up for the reduced capacity to borrow resulting from the lower income.
13. The Wessex Community Land Trust Project has provided the Council with a copy of its briefing note on rents (see appendix 1 of this paper). The note says that – very roughly – for every £1 less charged on rent, an extra £1,000 in capital funding is required. This can add up to quite significant amounts.
14. The Council contacted registered providers who operate in Purbeck prior to November 2017 to enquire as to whether or not it would be possible to provide more social rented housing in lieu of affordable rented housing and received 6 responses (including the Wessex Community Land Trust Project). Not all supported the idea but the general response was that it could be a possibility, but the following issues associated with viability could arise:
 - The Homes and Communities Agency (HCA) is increasingly less supportive of social rented tenure – it does not provide grant funding for such homes. With no grant, funding from elsewhere would be required, or the land value would reduce. In the case of a lowered land value, this could affect sites coming forward;
 - As grant funding is not available from the HCA for social rented properties, funding would have to be secured from the Council;
 - Poor viability would likely lead to fewer affordable homes overall;
 - Registered Providers may be discouraged to invest in new stock in Purbeck (particularly as neighbouring councils are not requiring social housing); and

- It is easier to achieve social rent on sites allocated in a local plan, where the developer is effectively gifting the land for affordable housing via a Section 106 legal agreement. Such sites do not attract grant funding, but this lack of grant funding, plus the lower rents associated with social rented homes, mean that Registered Providers cannot afford to pay as much for sites. This can affect development viability.
15. The message the Council has received from Registered Providers is that it would be possible to provide more social rented properties in lieu of affordable rented ones, but not at the same volume: the implied trade-off would be fewer affordable homes overall.
16. The majority of affordable housing over the last five years has been secured through Section 106 agreements with only 8 (7%) out of 114 affordable homes having been delivered on Rural Exception sites.

Year	Section 106			Rural Exception Site	Total
	Social rent	Affordable rent	Shared equity	Affordable rent	
12-13		20	2		22
13-14		3		8	11
14-15		3			3
15-16		47	6		53
16-17	2	21	2		25
Total					114

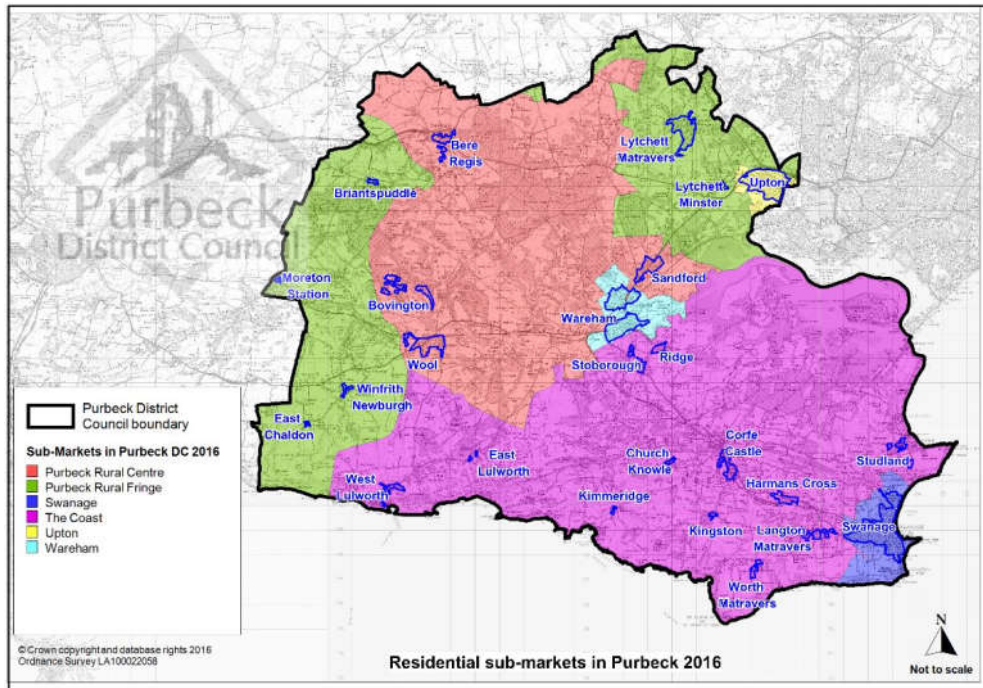
Table 1 Affordable Housing delivered in the last 5 years

17. Development viability is key to securing any affordable housing whether it be through a Section 106 agreement or otherwise. If the Council were to subsidise social rented properties on Section 106 sites, applying the average grant of £80,000 to the two social rented properties delivered in 16-17 it would have cost the Council £160,000 for just 2 homes, which is not feasible.
18. In the Autumn budget 2017 government announced increased funding for the Affordable Homes Programme and a broadening of the tenures which qualify for this support to include social rented housing. This will make it easier to provide social rented homes on non-Section 106 sites, such as Rural Exception Sites.
19. The increased support for social rented housing is unlikely to have much impact in Purbeck overall, as less than 7% of affordable housing delivered over the last 5 years has been on Rural Exception Sites, with 93% being delivered through Section 106 agreements where grant funding cannot be applied. However, a number of Community Land Trusts have recently set up in the District which may find the increased support helpful in the delivery of social rented housing. If the increased support for social rented housing should become applicable to affordable housing secured through Section 106 agreements then this may change.

Viability Evidence

20. As part of updating the Viability Study the Council commissioned additional sensitivity testing to determine the impact of adding social rented housing in to the affordable housing element of residential development.

Land values and house prices across the District vary considerably and for viability purposes it is divided into 6 housing sub-market areas.



21. Currently the affordable housing tenure mix is 90% affordable rented and 10% intermediate housing (shared equity etc.), irrespective of the overall amount delivered (40% or 50%).
22. The independent viability⁷ study indicates that replacing even a small amount (10% of the overall 40/50%) of affordable rented with social rented housing has a significant impact on the viability of development sites, especially in lower value areas around e.g. Wool (the rural centre sub-market) and Upton housing sub market areas.
23. It is unlikely that development within the Purbeck Rural Centre would, in all cases, have the viability strength to support the inclusion of social rent into the tenure mix without increasing the proportion of affordable intermediate tenures or reducing the overall level of affordable housing.
24. In higher value areas the impact of social rented housing on residual land values is reduced and it is likely more sites would be able to absorb the additional cost more often, although this cannot be guaranteed in every case. Moreton and Lytchett Matravers fall in to the middle value range.

⁷ [Viability Update & Sensitivity Testing, November 2017](#)

Affordable Housing Tenure Mix

25. Reducing the overall affordable housing by 10%, to 30% in the case around Wool for example, returns the viability back to levels significantly above the original overall level of 40%.
26. It is worth noting that the Council consulted on a proposal to change the affordable housing tenure mix during the 2016 Local Plan Review Options consultation to reflect the findings of the 2015 Strategic Housing Market Assessment. The proposal is to change it from 90% social/affordable rented:10% intermediate housing to rent or buy, to 77% social/affordable rented:23% intermediate housing to rent or buy. The sensitivity testing in the viability study does not take account of this potential policy change, which would be likely to have a positive impact on overall viability.
27. The study recommends that since viability at the strategic level of the study cannot take into account site specific opportunities or threats to viability it may be that the Council will need to encourage the inclusion of social rent on a site by site basis rather than as a blanket requirement.
28. Overall, the viability study does not reach a clear conclusion as to whether a requirement to include 10% social rented housing would lead to a reduction in the amount of affordable housing that could be provided on specific sites. The study does suggest that, in some cases, the inclusion of social rented housing would lead to a need to either increase the proportion of affordable intermediate tenures (above the current 10%) or reduce the overall amount of affordable housing provided on site. The Council is already considering increasing the proportion of affordable intermediate tenures (to 23%), as explained above.
29. The study also considered the impact of requiring higher levels of social rented (45% and 90% on sites of 11 and 500). Not unsurprisingly the impact on the viability is increased. This is most severe on larger development sites, where it has the potential to render sites unviable in the lower value areas if 40% affordable housing is expected.

Number of Homes

30. The Council's housing background paper⁸ discusses the Council's proposed approach to affordable housing delivery, in line with the Government's requirement at paragraph 159 of the NPPF to address all housing demand. The paper explains that the Eastern Dorset Strategic Housing Market Assessment (SHMA) identifies an annual need of 149 affordable homes over the local plan period. Following the Purbeck Objectively Assessed Need Update (October 2017) and the draft central government new methodology for calculating housing need, Purbeck is planning to deliver 170 homes per year overall. However, achieving 149 affordable homes would be unrealistic. This is because viability evidence shows development in Purbeck could support 40-50% affordable housing and if 149 homes were to represent 40-50% of the annual target, the annual target would be between 300 and 370. This would be vastly different from the Objectively Assessed Need Update (October 2017) and the draft central government new methodology for calculating housing need conclusions as to the district's objectively assessed housing needs and would not reflect the various factors that SHMAs should take into account.

⁸ [Housing Background Paper \(June 2016\)](#)

31. The result is that the Council believes it can justifiably plan for fewer affordable homes on the basis that it would be unviable to plan for more. Instead, the pragmatic solution is to plan to secure as high a percentage of affordable housing as possible from development.

Potential Policy Change

32. During the options consultation the Council consulted on a revised Policy AHT: Affordable Housing Tenure to reflect the Eastern Dorset Strategic Housing Market Assessment 2016. The revised policy would be as follows:

Policy AHT: Affordable Housing Tenure

The tenure of affordable housing will be negotiated on a site-by-site basis to reflect identified local need, but is likely to be split as follows:

77% Social Rented/Affordable Rented Housing
23% Intermediate Housing to Rent or Purchase

33. To explicitly require 10% of affordable housing to be social rented Policy AHT would require revision as follows:

Policy AHT: Affordable Housing Tenure

The tenure of affordable housing will be negotiated on a site-by-site basis to reflect identified local need, but is likely to be split as follows:

10% Social Rented Housing
67% Affordable Rented Housing
23% Intermediate Housing to Rent or Purchase

Conclusions

34. The Viability Study does not reach a clear conclusion as to whether a requirement to include 10% social rented housing would lead to a reduction in the amount of affordable housing that could be provided on specific sites. However, it is possible that on some sites, introducing this requirement could lead to provision of a lower level of affordable housing overall. This would need to be considered on a site-by-site basis as part of the planning application process.
35. It follows that if it is already apparent that the Council will struggle to deliver enough affordable homes – even with affordable rented properties – then increasing the social rented requirement in lieu of affordable rented could reduce the Council's ability to deliver enough affordable homes even further. The Council will need to consider whether or not it would prefer to maximise affordable housing provision by requiring affordable rented properties; or if it is willing to accept the possibility of providing fewer affordable homes, but at cheaper rents.

Recommendation

36. This paper therefore recommends that the Council seeks views on this through the forthcoming Local Plan Review consultation.

Appendix 1: Wessex Community Land Trust Project briefing note on rents

The cost of developing an affordable housing scheme for rent is met mostly by borrowing against the rents; housing associations have multi-million pound mortgage facilities which they draw on for each new project. Frequently, though, these loans are not enough to fund the whole project and capital grant is needed. The rent-setting regime is independent of the cost of development so, where costs are high, it is grant that takes the strain.

Since the Comprehensive Spending Review of 2010 – the post-Credit Crunch SCR – the affordable housing sector has borne its share of public sector spending cuts through a new rent regime. Pre-2010, rents were set at about 60% of the open market rate⁹ whereas, post-2010, rents were set at ‘up to 80% of the open market rate for a similar property’¹⁰. Higher rents support more borrowing which means that less grant is needed. This has allowed the government to cut the subsidy provided to new affordable housing projects while still being able to call them ‘affordable housing projects’. The terminology for the old rent regime was ‘Social Rents’; for the new rent regime it is ‘Affordable Rents’. Generically, all such homes are called ‘affordable’. The use of the term ‘affordable’ in these general and more specific contexts can be rather confusing.

In practice, ‘up to 80%’ actually means ‘at 80%’ unless this exceeds the maximum payable locally in Housing Benefit (known as the Local Housing Allowance or LHA). Clearly, housing associations would want to avoid charging more than the LHA because, if a tenant were to become dependent on Housing Benefit, they might not be able to pay their rent. In Purbeck, the LHA for a 2-bed house is £153/week which means that, under the current rent regime, this could be what is charged; well above the affordable rate, as explained below.

A widely accepted rule of thumb for affordability is that a household should spend no more than 35% of its gross income on housing costs; opinions vary as to whether this can be as high as 40% or should be more like 25%. The forecast for a full-time living wage in 2020 provides a benchmark - £9/hour * 37 hours * 52 weeks = £17,316pa. 35% of this works back to an affordable weekly rent of £116/week.

This brings us to the opportunity for charging lower rents. The current rent regime – ‘up to 80% of the open market rate for a similar property’ – only applies if capital grant is drawn from what is known as the Affordable Homes Programme; the source of grant for most new housing association projects. This is channelled through a government agency known as the Homes and Communities Agency (formerly the Housing Corporation). If grant is channelled through the new Community Housing Fund¹¹, this condition does not apply. However, lower rents support less borrowing which means that more capital grant is needed – very roughly

⁹ This wasn't the actual formula but roughly indicates how much lower rents were then

¹⁰ The open market rate must be valued by a surveyor for a specific community and used by housing associations in their rent setting.

¹¹ Or even from commuted sums paid into councils by developers.

an extra £1,000 per home for every £1 reduction in rent. Clearly, there is a balance to be struck between reducing rents on some new homes or building more homes at higher rents.