

Report of the Director of City Development / Director of Environment & Housing

Report to Executive Board

Date: Wednesday 20th April 2016

Subject: The creation of affordable accommodation to buy and rent in Leeds

Are specific electoral Wards affected? If relevant, name(s) of Ward(s): All	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. This report responds to the White Paper resolution agreed at full council on Wednesday 13th January 2016 which notes that, in the context of the Housing and Planning Bill and the Chancellor's Autumn Statement "This council remains committed to supporting the creation of affordable accommodation to buy and rent in Leeds".
2. Whilst the Government objective of extending home ownership is recognised, concerns remain that the impact of initiatives contained within the Bill and the Autumn Statement could have an adverse effect on the availability of affordable housing for rent and sale and through this reduce the housing options available to residents in the city.
3. The report outlines the measures proposed by government, summarises current activity to boost the supply of affordable housing for rent and includes a proposal to develop an approach through which the council builds affordable housing for sale as part of a comprehensive approach to investing in growth.

Recommendations

Executive Board is recommended to:

- i) Note the issues raised in relation to the future supply of affordable housing
- ii) Note the programme of delivery for affordable housing for rent and progress to date
- iii) Request that officers explore the feasibility of the extent to which local housing companies could support the building of affordable housing for sale and to report back to Executive Board in the Autumn on the outcome of this work.

1 Purpose of this report

- 1.1 The purpose of the report is to provide Executive Board with a response to the white paper resolution agreed at full council on Wednesday 13th January 2016.
- 1.2 It sets out the actions undertaken by Government in relation to affordable housing and introduces a proposal to develop housing for sale programme through which the council can help meet the requirements of low income households who want to purchase a home.

2 Background information

- 2.1 The government published the Housing and Planning Bill in October 2015. The Bill sets out the government's proposals to increase home ownership and boost levels of house building. The Bill is still in its legislative stage and is, therefore, subject to change as it completes its passage through both the House of Commons and the House of Lords.
- 2.2 Through the White Paper, the Council noted that the actions contained within the Housing and Planning Bill and reinforced by the Chancellor's Autumn Statement, concentrate on creating opportunities for people on higher incomes to buy property and in its view reduce the housing options available to residents who require affordable housing.
- 2.3 The White Paper expressed concern about the lowest paid households who are most in need of access to social rented properties, and whose options may be limited to higher cost private rented accommodation. As an example of the difference in cost between social and private rents, the average rent for a council home is £75pw, whereas a sample of rental prices for former Right to Buy properties currently available range from £127pw to £183pw dependent on the area.
- 2.3 The government has introduced a wide range of measures including the introduction of Starter Homes and a number of planning measures through which it intends to boost housing supply more generally. There are also new approaches which impact on existing social housing stock and tenants including the abolition of lifetime tenancies, potentially forcing the sale of "high value" council houses and proposals such as Mandatory Rents for "high Income" social tenants (often referred to as "Pay to Stay") which will significantly change the landscape in which social housing for rent is managed by the authority. The extension of the Right to Buy to housing association tenants has also been introduced which could, according to research from the Joseph Rowntree Foundation and Cambridge University lead to a reduction of 75,000 low cost homes to let nationally over the next 5 years.
- 2.4 This report focuses on those aspects of government policy which affect affordable housing supply.

3 Main Issues

The Housing and Planning Bill 2015

3.1 The Bill which received its first reading on 13th October 2015 has been presented as an historic step in promoting owner occupation as the tenure of choice and is clearly one of the most significant pieces of legislation affecting housing of the last decade.

The Autumn Statement

3.2 The Autumn Statement was delivered in November 2015. It contained a series of housing announcements, including the doubling of the housing budget to £2bn with the vast majority of this increase to support the building of 400,000 new homes, which are planned to be built by the end of the decade. Half of these will be starter homes, while 135,000 will be shared ownership. It also introduced a pilot scheme to allow tenants of housing associations to buy their own homes.

3.3 Taken together the Bill and Autumn Statement confirmed a number of policy announcements which impact on the nature and delivery of affordable housing. These are set out below:

Starter Homes

3.4 The government has indicated that it intends to build 200,000 starter homes for first time buyers. The Bill defines the first time buyer as being under 40 and offers a 20% discount from the market price subject to a cap of £250,000 outside of London. The 20% discount only applies for 5 years and affordability will only therefore be aided for those buying these homes for the first time and will not be passed on to subsequent occupiers after 5 years who will have to pay full market price. The Bill requires English planning authorities to carry out their relevant planning functions with a view to promoting the supply of starter homes. Further, the Secretary of State may require a planning authority to only grant a planning permission for a residential development “of a specified development” if starter homes are provided.

3.5 Capping a starter home at £250,000 outside of London demonstrates the disconnect between national policy and local housing market conditions. In Leeds, £250,000 far exceeds the cost of entry level housing (1 or 2 bedroom flats or houses) across the city. If the Bill is to deliver the shift into home ownership and help people who cannot currently access it to get on the housing ladder then it needs to recognise regional variations and local housing markets. At present the provisions for starter homes only distinguish between developments which are either inside or outside of London. It does not represent the different markets outside of London nor the differences in incomes across the country. Further, to increase the affordability of the product outside London, it would be beneficial to link the starter homes initiative to mortgage support initiatives or deposit schemes.

3.6 The detail of how the Government intends local authorities to deliver starter homes is not yet clear. The consultation paper on changing the National Planning Policy Framework suggested that exceptions could be made to planning policy concerning employment sites, rural land and brownfield sites in the Green Belt to allow starter homes, potentially at 100% starter homes. Elsewhere, the Government suggests changing the definition of “affordable housing” to include a wider range of low cost options. If national planning policy is reworded to give preference to starter homes or give developers the option to choose, this would be at the expense of delivering a range of affordable housing options for rent or

sale to suit the needs and aspirations of neighbourhoods. Potentially, the starter homes initiative could break the established principle of affordable housing being provided as a part of new developments to meet objectively assessed needs.

- 3.7 Leeds' housing needs as set out in the Strategic Housing Market Assessment were subject to examination in preparation of the Core Strategy, adopted November 2014. This anticipates that for the period 2012 to 2016/17 the delivery of housing is expected to be 3,660 dwellings per annum and derived affordable housing need figure is 1,158 per annum across the plan period. A large proportion of households in Leeds are unable to afford market housing and this is why benchmarks are set for s106 affordable housing to enable Registered Providers to offer an affordable product to households on low earnings.
- 3.8 The Council's recent housing need assessment work has identified a variety of housing needs. Whilst an increase in home ownership may be desirable and attractive for many, there are others who cannot realistically access it. The Council would wish for a housing strategy which addressed the full range of need including the demand for affordable housing. Compelling Local Authorities into a "one size fits all" solution will not necessarily meet the housing need within any given region.

Planning Proposals

- 3.9 As a measure to boost housing supply per se under the Bill, all councils will be required to produce brownfield registers. Leeds is one of 15 authorities participating in piloting the development of the registers which is intended to bring forward underused land for new homes through helping the development industry to quickly identify suitable sites, speeding up the delivery of new homes. Leeds already has good track record of identifying and promoting housing development on brownfield land, evidence suggests that the planning system is not necessarily the cause of sluggish housing delivery as Leeds currently has a stock of outstanding planning permissions for 12,829 dwellings on 168 brownfield sites. There are other significant reasons which include:

- **Viability:** the speculative volume house building industry views brownfield sites as a risk and they do not fit with their standardised models of delivery. There remains an unwillingness for some volume builders to amend schemes and there remains a focus on prime areas and greenfield sites which may be more profitable to develop and where landowners are keen to realise their assets.
- **Capacity of non-volume house builders:** there are a large number of willing non-volume house builders operating in Leeds on brownfield sites (of the 111 active sites in Leeds 89 are on brownfield land). Small and medium sized builders are making brownfield delivery work, especially in a rising market as values increase, but require access to finance and skilled labour – at the current time these are seen as the greatest impediments to consistently delivering at volume across brownfield areas.
- **Land held by institutional investors:** The prospects of Private Rented Sector schemes in the city centre of Leeds are starting to release previously "banked" sites with a number of planning permissions, which remained undeveloped on asset registers.

- 3.10 There are far reaching powers contained within the Bill to grant “permission in principle” for new homes allocated in a Local or Neighbourhood Plan as well as brownfield sites identified on a brownfield register as suitable for housing. Measures in the Bill gives powers to create a nationwide Development Order that would extend permission in principle to sites allocated for development once Local Plans or Neighbourhood Plans are adopted There could be implications within this for Section 106, quality, house sizes and mix from this initiative although much will depend on the detail and what the technical consent will cover.
- 3.11 The Bill enables disputes in agreeing a Section 106 agreement to be resolved through the use of a mediator. The Bill also gives the Secretary of State the power to issue regulations regarding the enforceability of planning obligations regarding affordable housing, which includes starter homes, and to impose restrictions or conditions depending on the size, scale and nature of sites. This could enable for example a general exemption for small sites affordable housing contributions.
- 3.12 A late amendment to the Bill has been the inclusion of powers for the piloting of alternative provision for the processing of planning applications to be carried out by designated people set out in regulations by the government. The Secretary of State has made it clear that the determination of applications would remain with Local Planning Authorities and this is not a measure to replace local democratic accountability and control. The introduction of competition however into this area will raise a number of concerns for both members and officers in relation to the practicalities of how it might work given the low level of fees for many applications, the perception of local communities and the wider involvement of people in the process. With regard to affordable housing, negotiations with developers to agree affordable housing arrangements are often complex and time consuming; the effect of competition might lead to arrangements being rushed at the expense of achieving appropriate affordable housing. The Secretary of State has sought to allay fears by introducing these provisions through pilots in certain places and for a limited period and that the designated person could be another Local Planning Authority.

Custom and Self Build Housing

- 3.13 Within the Bill are proposals to increase custom and self-building. There is a new duty requiring Local Authorities to grant sufficient suitable development permissions on serviced plots of land to meet the demand for self-build and custom build. As yet there are no regulations prescribing the timeframe within which Local Authorities have to grant sufficient development permissions however Local Authorities are gearing up to maintain a register of self-builders and custom builders as required by the new legislation and the Leeds register is already live. It is recognised that custom and self build represents a valuable route to housing delivery and one which often has a innovative approach to design particularly in producing low carbon construction methods. Community custom build models can also help deliver affordable housing and engage communities in new ways to support development. The Bill requires that land must be set aside for this demand however which will have a further impact on the dwindling stocks of Council owned brown field land and does not recognise how local authorities seek to support the sector in a way that recognises local circumstances.

Activity to support growth in affordable rented housing

3.14 Against the backdrop of a shift in the government's philosophy and policy towards affordable housing, the authority continues to support and direct resources towards the delivery of affordable housing particularly for rent. Through the Housing Growth and High Standards Breakthrough Project, significant investment in housing for rent is being delivered by the council and its partners:

- a £95m programme of 1,000 new Council houses by 2018; to date this has delivered 350 new homes for rent (300 via the regeneration scheme in Little London, Beeston Hill and Holbeck), there are a further 220 units in construction and 210 properties in procurement.
- acquisition of long term empty properties for inclusion in the council's housing stock; this has delivered 55 units so far of a programme to deliver 120 properties
- supporting Registered Providers to build c650 units of affordable housing which represents investment to the value of c £81m into the city
- the delivery of new homes through the use of Right to Buy receipts through a grant funding offer to Registered Providers, a programme value of £14.6m currently
- a co-ordinated cross service approach to the delivery of mixed tenure housing for older people through the Older Persons Housing Prospectus and emerging Older People's Housing Strategy,
- working with self-builders and community based custom build groups across the city
- building bespoke properties for rent for families with specific physical housing requirements
- working with providers in the private rented sector who are developing new build housing for rent

3.15 The ability of the Council and its partners to continue to deliver however is impaired by recent announcements including the reduction in social rents. The requirement to reduce rents by 1% each year until 2019/20, will when compared to the level of resources assumed in the Council's Housing Revenue Account Financial Plan, equate to a loss of £20.5m in cash terms over the 4 year period (and assuming that from 2020/21 rent increases of CPI +1% will resume, a loss of £283m of income over the 10 year period (to 2024/25). This reduction in income will need to be managed including maintaining inflationary increases in the amount provided to maintain homes and funding the investment strategy agreed by Executive Board in March 2015 all of which will restrict the Council's ability to deliver the number of new homes for rent required.

The affordability of home ownership

- 3.16 Alongside the Council's ambitious programme to deliver affordable housing, there is a requirement for affordable housing for sale which remains inaccessible for households on lower incomes in many of the city's housing markets. The table below shows the affordability of market housing in Leeds

	High-priced areas	Mid-priced areas	Low-priced areas	City Wide
<i>Average house price</i>	£324,083	£195,701	£125,307	£181,812
<i>Income needed to afford average priced home</i>	£111,753	£67,483	£43,209	£62,694
<i>Deposit required to secure mortgage</i>	£64,817	£39,140	£25,061	£36,362
<i>Approximate years to save deposit</i>	17.3	10.6	6.8	9.9

Sources: www.Rightmove.co.uk; Axcion income data 2013

- 3.17 It illustrates that even in low market areas in the city, the income needed to afford an average price property is over £43,000 which is above the average income in the city which is presently c£36,000 per annum (for households with one full time and one part time earner). Market analysis tells us that a joint income of £38,400 is needed to afford entry level housing in Leeds – defined as 1 or 2 bedroom flats or houses - and a deposit of £23,000 would be needed to secure a mortgage on this type of property. Alongside this, there are only currently 12% of households who earn the income required for a home based on city-wide average figures illustrated above.
- 3.18 Households earning below average income (between the 25th income percentile and the average) can afford property prices of around £100,000, which is the entry level price in the lowest market areas. However, there is a lack of availability of property at this price across the city and further cheaper family homes and products such as shared ownership is required to meet this need.
- 3.19 In terms of younger first time buyers under 40 years of age, living in private rented housing or at home with their parents, market research (by the Halifax and the English House Conditions Survey), shows that demand is high within this demographic group. Applying this research to Leeds would equate to c3000 households in this category alone seeking affordable housing to buy (and this excludes a proportion who it might be expected would be in a position to access the government's Help to Buy scheme).
- 3.20 The mismatch between incomes and prevailing house prices in the city plus recent research looking at younger households shows a need and aspiration for affordable housing which the market is not meeting. Looking at the supply of entry level housing, the Core Strategy provides that developments should include an appropriate mix of dwelling types and sizes to address needs measured over the long term and has a target of 60% of all new homes built to be 1 and 2 bed and that 40% should be 3 or 4+ bed. Statistics show that in 2014-15, of the 1,979 new homes built in Leeds, only 36% were 1 and 2 bed homes falling significantly short of the Core Strategy target.

The development of a low cost housing for sale programme

- 3.21 The council can support strategic economic growth by supporting the functionality of the housing market across price levels. As government policy and funding is shifting towards owner occupation, the council has an opportunity to position itself as a deliverer of new homes for sale at or below average prices to provide at a price point which is affordable to households at or below average incomes which the market is not currently servicing.
- 3.22 It is recognised that there is insufficient delivery in the Leeds market for new accommodation which is affordable to people on lower incomes. . As the market is failing to deliver sufficient numbers of entry level housing for smaller households, the council will explore opportunities to build low cost homes for sale to meet the needs and aspirations of lower income households who cannot currently access home ownership due to their income.
- 3.23 There are a large number of investment models being developed by local authorities around the country and research and dialogue is ongoing to learn from these approaches. These take a variety of forms including Local Housing Companies, joint venture arrangements with developers and in-house development programmes funded through prudential borrowing.
- 3.24 Though the models take different forms, their main objectives are to build low cost housing for sale to support purchasers for whom the average house price is unaffordable and whose needs therefore remain largely unmet by the market. They seek to address the needs of those households for whom products such as Starter Homes remain unaffordable. This could include delivering units at below the average price and offering products such as shared ownership or equity loan. In time this could represent a route to continued investment and delivery of new homes by the Council and potentially generate further resources for a further affordable housing for rent programme.
- 3.25 There is also interest at a City Region level in developing a Local Housing Company approach and an emergent piece of work on a potential Housing Investment Fund via the Northern Powerhouse. As these progress, the opportunity to work alongside regional partners through these initiatives can be considered.
- 3.26 Members are requested to approve further detailed work and an option appraisal to deliver new build housing for sale by the council is developed and brought back to Executive Board.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.2 The Executive Member for Communities and the Executive Member for Regeneration, Transport and Planning have been consulted on the content of this report via the Members Steering Group linked to the council house growth programme. The last meeting was in March 2016.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 An Equality and Diversity / cohesion and integration screening document is attached to ensure due regard to equality issues. The focus of the report is the future provision of affordable housing, which has a beneficial impact for socio-economic equality groups. The report recognises the need to provide a range of products to support people to their own home, through the provision of low cost home ownership models.

4.3 Council policies and the Best Council Plan

- 4.3.1 The content of this report directly supports the priorities of the Council as set out in the Best Council Plan and the Council's vision and in particular, 'A Strong Economy and Compassionate City' ambition. Further, this work will also contribute to the Best Council Plan priorities and outcomes by 'providing enough homes of a high standard in all areas' so the people of Leeds can 'live in decent, affordable homes within clean and well cared for places.'

4.4 Resources and value for money

- 4.4.1 There are no direct resource implications arising out of the proposals in this report

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 There are no legal implications associated with the recommendations of this report.
- 4.5.2 There is no exempt or confidential information contained within this report.
- 4.5.3 This report is not classed as a key decision and subject to Call In.

4.6 Risk Management

- 4.6.1 The council has a corporate risk in relation to housing growth to recognise the importance of meeting the housing supply targets outlined in the Core Strategy. Failure to meet these targets could have a number of consequences for the council including insufficient homes for the resident of Leeds, reduced income via the New Homes Bonus and increased demand for social housing.
- 4.6.2 Any risks linked to the council delivering new build housing for sale will be identified, managed and mitigated as part of a wider option appraisal of the new build housing for sale proposal.

5 Conclusions

- 5.1 In the context of a shift in government policy which proposes fundamental changes to the nature and delivery of affordable housing, there are concerns that the needs of households in the city which are on average and lower incomes may not be met. Products such as Starter Homes alongside a raft of planning proposals introduced by the Housing and Planning Bill may do little to deliver accessible affordable housing and may limit housing choice. Despite this the Council and its partners continue to direct investment towards new affordable housing supply and the Council is seeking to identify a route to continue delivery

across tenures and meet a gap in the market for affordable homes for sale to meet the need and aspirations of lower income households.

6 Recommendations

6.1 Executive Board is recommended to:

- i) Note the issues raised in relation to the future supply of affordable housing
- ii) Note the programme of delivery for affordable housing for rent and progress to date
- iii) Request that officers explore the feasibility of the extent to which local housing companies could support the building of affordable housing for sale and to report back to Executive Board in the Autumn on the outcome of this work.

7 Background documents¹

7.1 None.

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.