PAPER B

Delivering Affordable Homes For Island Families

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The report of the Task and Finish group on Affordable Housing for the Policy and Scrutiny Committee for Regeneration, Housing, Planning and the Environment.

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EXECUTIVE SUMMARY

The supply of affordable and specialist housing and on the Isle of Wight is in crisis and the available means of delivery do not function. The task and finish group set out to examine current policy to see how the delivery of this housing could be best reflected in the Island Plan review. However through the early work it became clear that the primary issues to reflect upon were the barriers to delivery and how best to overcome them.

At the heart of the problem is the ratio between the cost of building and the return on that investment. The Isle of Wight faces a perfect storm where material costs are higher, skills are in short supply, land is overvalued and rent returns and sale values are lower than the mainland. As a consequence few organisations or developers are interested in investing in the delivery of specialist and affordable homes on the Isle of Wight. Without some form of alternative subsidy it is difficult to see how the needs of Isle of Wight families for affordable housing will ever be met.

It is therefore difficult not to conclude that without direct intervention in some form by the Isle of Wight Council the shortfall in the delivery of specialist affordable homes will continue. That would not be good for the Island economy or its population.

It is thus recommended that the Isle of Wight Council take a bold and robust approach to the delivery of specialist and affordable housing through planning policy in terms of compulsory purchase of land where homes are not being built and through establishing a delivery vehicle to fill the gap that the market is not willing or able to fill.

BACKGROUND

Affordable / Specialist Housing and its delivery is a complex and difficult issue with local authorities across the country struggling to meet the housing needs of their local community.

The council is required to identify its objectively assessed housing need, including the number of affordable / specialist homes through its Strategic Housing Market Assessment (SHMA) 2014 and updated through the Partnership for Urban South Hampshire (PUSH) 'Objectively Assessed Housing Need Update' (OAHN) in 2016. At time of writing the SHMA and OAHN assessments are being rewritten using new methodology set out by government in September 2017.

The number of completions (actual units built) of affordable housing have decreased significantly over the last six years, since the affordable housing element of Pan Meadows was completed. Changes to housing policy, national planning policy, lack of available larger sites and developer reluctance have all contributed to the decrease in delivery. However, in recent years the delivery has reached crisis levels with just 8.4% of the required number delivered in 2015/16 and 10.6% delivered in 2016/17.

The Task and Finish Group were therefore tasked with considering the councils approach to the supply of affordable / specialist housing on the Island and how this should be reflected within the Island Plan. It is important to note that the definition of what is 'affordable' whilst officially set out by government will vary dependant on where you live. For this report where possible when referring to Affordable Housing it will address what is affordable for Island families. For the purpose of this report the term 'specialist housing' is used in place of the more commonly used term 'Social Housing'.

SCOPE OF THE TASK AND FINISH GROUP

The scope of the Task and Finish Group was to look at the supply of affordable/specialist housing on the Isle of Wight and how the delivery of this should be reflected within the Island Plan. This review included the following aspects;

- To examine the Council's planning and associated policies for securing affordable/specialised housing.
- To identify any barriers that may prevent affordable/specialised housing from being provided through market housing developments.
- Maintenance of the stock and quality of affordable/specialist housing and the mechanism for setting the rent or price of such property.
- Review the approach to the financial viability of developments to require affordable/specialist homes to be provided.
- How national requirements for planning and development plans impact upon the provision and delivery of affordable/specialists housing at a local level.
- What information is required for on-going monitoring of the supply of affordable/specialist housing.
- What is meant by affordable/specialist housing, current numbers and predicted requirements.

METHODOLOGY

Considerable background reading documentation was circulated within the task and finish group and a meeting held to finalise a series of questions to be included in a questionnaire to be sent to a list of interested parties and stakeholders, including housing associations, house builders and council officers.

Once received, questionnaire responses were collated and assessed by the group. As a consequence a series of face to face meetings were arranged between group members and witness groups.

A further meeting was held to assess and compare notes from the meetings and conclusions drawn. These conclusions were then discussed with senior council officers prior to publication of this report.

FINDINGS

Rent Setting for Specialist Housing on the Isle of Wight

Until 2012 all housing associations were required to calculate rents the same way through a rent formula that reflected local costs and earnings. This produced what are commonly called social rents, which on average are around 60-65% of open market values.

This regime lapsed in 2012 and there was a policy shift towards reducing government grant and requiring housing associations to make greater contributions to the costs of building new homes. This was to be achieved through the charging of higher rents described as 'Affordable rents', which were up to 80% of market values. However, only housing associations who were development partners with the then Homes and Communities Agency were eligible to charge these higher rents.

A third option for rent levels are known as Intermediate rents. These are intended as restricted use rents for situations where households may be looking for shorter-term tenancies with a view to subsequent purchase or possible key worker housing. Intermediate rents are up to 80% of market value.

Social housing providers, registered and non-registered providers on the Isle of Wight set rents in a broadly similar fashion based on the process set out above but this will vary dependant on their own circumstances. Vectis Housing for example, don't charge affordable rents because in their view these are too high for many households on low incomes on the Island. The majority of their rents fit the 'specialist rent' bracket although they do charge some Intermediate rents for working households.

Providers of Affordable Housing on the Isle of Wight

The Isle of Wight currently has four registered providers of specialist and affordable housing. Sovereign Housing association, Southern Housing association, Vectis Housing and Island Cottages. Capture Housing are also a provider of affordable homes on the Island but are currently not a registered provider. They currently have a small number of properties but wish to grow and may become a registered provider in due course. The Isle of Wight Council have no housing stock of its own.

Some but not all of the registered providers engaged in the discussion process with the task and finish group. Some of the feedback received was consistent irrespective of whom engaged in the process however some providers also had different views regarding policy in particular relating to section 106 payments. Some providers felt that section 106 requirements were a barrier to delivering affordable housing whereas others thought section 106 arrangements were the only way of delivering homes.

A consistent theme was the providers had the view that there had been a lack of clarity from the council as to what they wish to achieve when delivering specialist and affordable housing and this had only recently begun to change in the last year. It was generally thought that the council had a lack of understanding of the providers and developers need to balance the need for affordable homes with the return the developers would receive for delivering those homes and that a better understanding of the ratio between build cost and return was necessary.

It was widely felt that the council housing department needed more direction and would benefit from the recruitment of an overall housing manager.

Barriers to delivery

Providers saw many barriers to the delivery of specialist and affordable housing. One area of concern was land availability and the lack thereof. It was widely recognised how important the strategic housing land availability assessment is in identifying the areas where homes could be developed. It was broadly felt that the council should do all it can in releasing its own land if unused, for development.

Undoubtedly the main barriers to delivery related to the ratio of build cost to return which is the main determining factor when considering scheme viability. This viability would have many elements to consider. The final viability assessment would often be affected by low levels of grant subsidy, access to funding and insufficient government subsidy in the form of Housing Benefit. One of the larger registered providers expressed a view that in the short term there would be additional pressures caused by the introduction of universal credit, but that these would lessen over time.

It is worth noting that despite the fact that developers believe there is insufficient government subsidy in the form of Housing Benefit, UK levels of housing benefit are 3 times higher than any other country in the EU. The average annual housing benefit spend in the UK was €520 per person in 2015 compared to a EU average of €159. A report by the National Housing Federation in 2017 concluded that on average private rents were £21 per week more expensive than their specialist let equivalents. The annual spend on Housing Benefit has risen to £25.1 billions. The delivery of more specialist housing for rent could therefore have the beneficial effect of reducing or at least not increasing the housing benefit burden.

It was widely considered that the new viability testing proposed in the recent government White Paper would give more clarity, it was also felt that it may prolong the development process as developers who would no longer be able to revisit the viability process would be more cautious in their original assessment.

All providers were agreed that build costs on the Isle of Wight are significantly higher than on the mainland and that this problem was exacerbated by a lack of labour skills, exaggerated expectations of land value from landowners, lower rental streams and lower sales values of finished properties compared to the mainland. In particular there was a view that aggregate costs on the Island are extremely high. Providers expressed a view that developments could be affected by supply-side materials shortages due to the Islands isolation. It was also felt that whilst there were a small number of capable local developers there are far too few developers on the Island capable of delivering larger sites and that if a new policy approach was taken on the Island to deliver more specialist housing that opportunities would exist for new market entrants.

That said, whilst larger sites are more attractive to large off-island developers they can generate local community opposition. Whatsmore, sites that have a large amount of specialist housing grouped together are not a desirable model. Where possible the delivery of a greater number of smaller specialist housing developments should be encouraged.

Providers proposed a number of ideas that the Isle of Wight Council should consider in support of driving the delivery of specialist and affordable homes. These included but were not limited to;

- Encouraging more small to medium size enterprises to deliver homes on the Isle of Wight.
- The release of council land for development to encourage registered providers to redevelop areas with high density housing.
- For the Isle of Wight Council to consider becoming a landlord once again.
- To encourage over shop space conversion to housing and to encourage change of use and upgrading of older hotel stock not located in prime locations into one and two bedroom flats, hostels with support facilities and properly controlled houses of multiple occupation.

Another consistent theme was the belief that the Isle of Wight Council should do more to de-risk development sites by way of supporting applications for Government grant funding and support in delivering infrastructure on potential sites and to share risk through partnership agreements.

Right to Buy

Officers and providers expressed concerns regarding the ‘Right to buy’ policy. It was felt that a greater range of tenure models was needed to improve the supply of specialists and affordable homes and that ‘Right to Buy’ disincentivises providers from building more homes.

Nearly £3.5 billion in ‘Right to Buy’ discounts have been handed out to council tenants over the past six years in the UK leading to warnings that the current scheme has become unsustainable. Government increased the size of the discounts available in April 2012, as a result the average discount has increased by 132% to more than £60,000 in 2016/17 selling properties at almost half price. Councils across Britain have reported that this has led to a quadrupling in the number of ‘Right to Buy’ sales. This has led to many councils calling on government to increase the time available to spend ‘Right to Buy’ receipts and to allow councils to retain 100% of those receipts to build new homes as well as lifting the cap on the housing revenue account.

The current system only allows councils to keep a third of each ‘Right to Buy’ receipt to build replacement homes and prevents local authorities from borrowing to make up the shortfall. As a consequence only 1 in 5 homes sold under this scheme have been replaced since 2011.

Homes waiting to be built

Countrywide councils face the problem of homes that have been given planning permission not being built. In the last year there has been a 16% increase in the number of planning permissions granted that have not been delivered throughout England and Wales. Furthermore it is taking longer to build new homes, 40 months, on average, from schemes receiving planning permission to completion.

Councils are playing their part by approving 9 out of 10 planning applications countrywide. This is true of the Isle of Wight planning department. In 2015/16 the planning department received 1512 applications and approved 1286 of these. Planning did well in a number of areas including determining nearly 75% of all minor planning applications, well above national targets. However it fell short on the government target of determining 60% of major applications (It is pleasing to note that this situation has significantly improved during 2017/2018).

During this period the objectively assessed housing requirement has been 525 dwellings per year. Completions during this period amounted to 417 new dwellings built on the Isle of Wight. Of these just 35 were ‘affordable’ in planning and housing terms.

It is essential that the large schemes that are given planning permission are delivered in an appropriate timeframe. Developers should be encouraged to seek and follow pre-planning advice, and to undertake tree, environmental, archaeological and sustainability studies prior to, or in parallel with, submitting planning applications. They should also look to agree legal agreements in principle in parallel with planning submissions. Such activity would speed up the process of delivery.

Town and Parish Councils

In previous years there has been a lack of engagement between the Isle of Wight council and town and parish councils over the development process. However a number of parish councils have brought forward their own neighbourhood development plans. These plans will now help planners determine planning applications in these areas and as a consequence will help meet the needs of the local community.

Engagement with local stakeholders will be beneficial when delivering affordable housing. Developers should engage as early as possible with town and parish councils during the development of local plans. Developers, councils and residents should be encouraged to work together to create effective partnerships. Active involvement in communities and working with parish, town and the ward councillors at an early stage of the planning process is highly desirable.

An excellent example where partnership working has helped deliver affordable housing in conjunction with Town and Parish councils can be seen locally. Vectis housing has worked in partnership with Seaview and Nettlestone Parish Council and Tridos Bank in developing an affordable housing scheme.

Build Cost

Anecdotally there is a belief building costs on the Isle of Wight are considerably more expensive than the mainland. This matter was explored in detail. There is very little empirical evidence that relates only to the Isle of Wight. Organisations such as the 'Building Cost Information Service' a service provided by the Institute of Chartered Surveyors tend to group information about the Isle of Wight in with the rest of the south-east of England.

In 2008 GVA Grimley were commissioned by the Isle of Wight Council to do a study on Housing Development Viability Testing. This study made recommendations that formed an important part of the IW Council setting it's affordable housing target of 35% on larger sites and this included some work in looking into Building Costs on the Island.

In 2015 the BCIS completed a report into housing costs on small development sites. This concluded that building costs on smaller sites of 10 or fewer homes were 6% higher than the norm due to the lack of economies of scale. Given the nature of a large proportion of developments on the Island being small sites such as this, the problem is exacerbated.

In addition more recent (BCIS) mean Base Construction Costs, have been used when working out build cost estimates for Isle of Wight. Based on this information current estimates are;

- Flats £/sqm 1,470
- Houses £/sqm 1,070
- Housing Association houses £/sqm 1,330 (housing association specification are often higher than market housing, due to inclusion of renewable energy provision, high levels on insulation, disabled accessible bathrooms and kitchens etc)
- High Street shop (A1) £/sqm 950
- Restaurant / café (A3) £/sqm 950
- Light Industrial (B1/B2) £/Sqm 950
- Hotel p £/Sqm 1,800

To arrive at an estimated construction cost, additional allowance must be made for;

- External Works 5% of build cost
- Contingencies 5% of build cost on green field sites and significantly higher on Brown field sites.
- Design and Project fees 10% of build cost
- Finance costs on the above

Sale Values (Return on Investment)

It is not only important to look at the cost of building properties on the Isle of Wight but also the sale value of the property as the differential between the build cost and the sale value is the main determining factor in persuading a developer to build new housing.

In October 2017 the Office for National Statistics published data regarding the selling price per square metre of homes across England and Wales during 2016. On average selling price per square metre in England and Wales was £2395. This figure varies considerably depending on where in England or Wales you are located however the figures demonstrated that the selling price per square metre for Isle of Wight properties was significantly lower than all other areas in south and central England.

For 2016 the sale value per square metre of properties on the Isle of Wight was £2188. In comparison sale value in Portsmouth was £2400, in Southampton £2647, in Havant £2747 and in East Hampshire £3545.

For comparable data to the Isle of Wight one would have to look to the south-west in areas such as Devon and to the North and East Midlands.

It is important to note that these values are the market value of properties and when considering affordable housing the return on investment value is by definition considerably lower than market value. This further narrows the gap between build costs and sale value.

The ONS also recently concluded that prospective buyers on the Island have to spend almost eight times their annual income on average to buy their home. Despite lower than average (for the region) sale values, this ratio of income to buying price remains high due to the Islands lower salaries.

The Isle of Wight Council currently has a target of 35% of all new homes being affordable. The charity ‘Campaign to Protect Rural England’ recently carried out research which suggested that the average rural authority needed 68% of new homes to be affordable. This figure is more reflective of the reality for the Isle of Wight also. However with developers arguing that even the 35% target is not achievable due to viability problems, it is unrealistic to set a higher target despite the need.

Recently officials from the Department of communities and local government ruled that a 20% profit was a reasonable margin for developer. This has a further impact on the viability of any developments on the Isle of Wight and the likelihood of delivering an appropriate percentage of affordable homes given current conditions looks impossible.

Pre-Fab Models

Increasingly throughout Britain companies have been set up to manufacture prefabricated homes which can be delivered relatively cheaply, quickly, in large quantities and to a high quality standard.

An opportunity could exist to create a prefabrication factory on the Island either from scratch or by partnering with an existing manufacturer to open their own factory on the Island to deliver prefabricated homes. However to make such an enterprise viable on the Island the factory would need to produce and deliver 100 plus units per annum.

To achieve this, an appropriate number of sites would need to be available on an ongoing basis. Such a model should only be considered after completion of the strategic housing and land availability assessment ‘SHLAA’, assuming that assessment clearly demonstrated that a level of available sites would come forward on a year on year basis to make the factory viable. The SHLAA may well show enough sites to achieve this but the fact that they may be many but small this may mean that such an option may only be viable if delivered as a council led programme.

There would be a number of benefits of having a factory such as this to deliver these units on the Island. These would include additional jobs and skills at the factory and a materials need that would impact positively on the supply-side. It would encourage new market entrants to complete the build process with a further positive impact on the Island's jobs market and skills availability. Most importantly it would have a significant positive impact on supplying a large proportion of the specialist and affordable homes required for Island families.

CONCLUSIONS

It is recognised that this report doesn’t address all the questions originally set out in the rationale for this report. However as the process developed it became clear that the key factor was to explore ways in which the Isle of Wight Council can help with the delivery of specialist and affordable homes.

Whilst national requirements for planning and building strategies have been explored, it has not been necessary to go into great detail on the subjects within the report, but that work has helped form the background understanding of the subject. If readers which to explore this area in more detail, the documentation and study materials are listed in this report in the ‘Supporting Documentation’ section.

Whilst there is a recognition that improvements have been made engaging with local town and parish councils there is still work to be done in engaging across generations in particular with the younger population and exploring their needs as well as with the growing elderly population. The councils extra care strategy is an excellent model to follow but a similar approach to addressing the needs of the young population is essential for the economic growth of the Isle of Wight.

‘Right to Buy’ has given many young families the opportunity to buy their own home and increase their stake in their communities. However the current ‘Right to Buy’ arrangements whereby councils can only retain 30% of the receipts from such sales to reinvest in replacing the homes sold under the scheme are unsustainable. The opportunity to retain 100% of ‘Right to Buy’ receipts would allow councils to begin to replace the specialist and affordable homes our community needs.

The de-risking of sites through local development orders, development briefs or use of compulsory purchase powers could help create the confidence and certainty that developers need when exploring viability.

Innovative approaches to delivery should be considered. A model for delivery has been developed in Devon where for example, a three storey house that includes a 2 bedroom maisonette and a one bedroom flat can be sold to a first time buyer, where the first time buyer can then rent the one bedroom flat out to help pay the mortgage.

It is hard to see how the Isle of Wight Council can help in the delivery of specialist and affordable homes without taking a more active and innovative approach. The gap between build costs and return on investment is far too narrow for developers to deliver the homes that we need. Only some form of partnership agreement or the setting up of an arm's-length property company will see this situation improve.

The task and finish group conclude that the Isle of Wight Council must take a robust and proactive role in delivering specialist and affordable housing either directly or working with partners or both. Nothing should be ruled out. There are an increasing number of innovative approaches being explored across Britain for delivery and the Isle of Wight council should be bold in their considerations.

RECOMMENDATIONS

The Task and Finish Group would suggest the following recommendations to the Policy and Scrutiny Committee for Regeneration, Housing, Planning and the Environment to consider and pass on to Cabinet to help inform policy development;

- The council should consider ways in which it can incentivise developers in the delivery of large schemes including making it easier to compulsory purchase land where homes remain un-built and to charge developers full council tax for every un-built development from the point that the original planning permission expires.

- The Isle of Wight Council should consider a policy of early pre-application consultation with residents, heritage groups, Town and Parish Council's and ward councillors to allow issues of concern to the local community to be addressed and encourage the local community to be part of the delivery of the affordable homes that these communities require.

- It is recommended that a standalone arm's-length property company dedicated to building specialist and affordable housing for Island families be created. It was encouraging to hear Sajid Javid (then Secretary of State for Housing, Communities and Local Government) in his speech of 5th March 2018 confirm the government's commitment to promoting 'Build to Rent'.

- If the Isle of Wight Council were to set up a housing delivery company any homes delivered by this company should have some protection from 'Right to Buy' unless councils are allowed to access 100% of 'Right to Buy, receipts to replace properties sold under that scheme.

- The Isle of Wight Council should wherever possible look to work in partnership with current providers of specialist and affordable housing to help with delivery through de-risking sites and releasing unused council land for development.

- The Isle of Wight council should explore the possible viability of having a factory to produce high quality pre-fabricated homes on the Island once the SHLAA has been completed and an appropriate volume of sites identified.

- The Council should avoid any new affordable housing developments for sale that are tied to 'Leaseholds' to ensure that new home buyers can have the protection, security and knowledge of future costs that 'Freeholds' offer.

- With the pending role out of fibre to the home across the Island that the new investment through Wight Fibre will offer, the council should do what it can to reduce future disruption to the road network and service delivery by facilitating fibre to homes for new build. Therefore it is recommended that fibre to the home should form an integral part of any housing development over 10 units that is within 200 metres of a fibre enabled cabinet.

Furthermore, the Task and Finish group recommend that the Isle of Wight Council should support the following proposals to change current legislation;

- Councils should be allowed to keep 100% of the receipts from homes sold under the 'Right to Buy' scheme to reinvest in the replacement of specialist and affordable housing.

- That the council should support the Treasury select committee's view that the government should abolish the housing revenue account borrowing cap to boost council house building.

SUPPORTING DOCUMENTATION

National Planning Policy Framework – March 2012

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/6077/2116950.pdf

Rent Setting – House of Commons Briefing Paper Number 01090 - November 2017

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Starter Homes for First-Time Buyers (England) – House of Commons Briefing paper September 2017

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Housing Our Ageing Population – LGA – September 2017

https://www.local.gov.uk/sites/default/files/documents/5.17%20-%20Housing%20our%20ageing%20population_07_0.pdf

The metamorphosis of Social Housing – Zurich Municipal – March 2017

https://newsandviews.zurich.co.uk/wp-content/uploads/2017/03/The-metamorphosis-of-Social-Housing-A-CEO-Perspective.pdf

The Housing Question – Civitas – March 2016

http://civitas.org.uk/content/files/thehousingquestion.pdf

Building Homes Faster – Civitas – May 2017

http://www.civitas.org.uk/content/files/BuildingHomesFaster.pdf

Island Plan – Affordable Housing Contributions – March 2017

https://www.iwight.com/azservices/documents/2779-Adopted-Affordable-Housing-Contributions-SPD-2017.pdf

Island Plan – Local Development Scheme – November 2017

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