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**Report to:** Planning Committee  
Cabinet

**Date of Meeting:** 8<sup>th</sup> February 2012  
1<sup>st</sup> March 2012

**Subject:** Future Housing Requirements – The Scope for Affordable Rent in Sefton

**Report of:** Director of Built Environment and Head of Planning Services

**Wards Affected:** All

**Is this a Key Decision?** Yes

**Is it included in the Forward Plan?** Yes

**Exempt/Confidential**

No

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### **Purpose/Summary**

To advise Members on the findings of a recently commissioned and completed study which has looked at the impact of Affordable Rent, both in terms of what such rent levels could be set at in Sefton and what implications it will have for the Council's current approved S106 affordable housing negotiating position.

### **Recommendation(s)**

It is recommended that:

Planning Committee:

- (i) notes this report; and
- (ii) endorses the proposed minor amendments to the Council's approved S106 affordable housing negotiating position.

Cabinet:

- (iii) Agrees the proposed minor amendments to the Council's approved S106 affordable housing negotiating position and that they be applied to all relevant planning applications received after the date of approval of this proposed policy change.

### **How does the decision contribute to the Council's Corporate Objectives?**

	<b><u>Corporate Objective</u></b>	<b><u>Positive Impact</u></b>	<b><u>Neutral Impact</u></b>	<b><u>Negative Impact</u></b>
1	Creating a Learning Community		√	
2	Jobs and Prosperity		√	
3	Environmental Sustainability		√	
4	Health and Well-Being		√	
5	Children and Young People		√	
6	Creating Safe Communities		√	

7	Creating Inclusive Communities	√		
8	Improving the Quality of Council Services and Strengthening Local Democracy		√	

**Reasons for the Recommendation:**

It is necessary in order to amend the Council’s current S106 affordable housing policy position.

**What will it cost and how will it be financed?**

**(A) Revenue Costs**

Nil

**(B) Capital Costs**

Nil

**Implications:**

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

<b>Legal</b>		
<b>Human Resources</b>		
<b>Equality</b>		
1.	No Equality Implication	<input checked="" type="checkbox"/>
2.	Equality Implications identified and mitigated	<input type="checkbox"/>
3.	Equality Implication identified and risk remains	<input type="checkbox"/>

**Impact on Service Delivery:**

Will support the delivery of affordable housing taking account of the recent national planning policy changes arising from the introduction of Affordable Rents.

**What consultations have taken place on the proposals and when?**

The Head of Corporate Finance and ICT (FD 1247/2011) has been consulted and has no comments to make on this report because the contents of the report have no financial implications.

Head of Corporate Legal Services (LD 612/11) has been consulted and has no comments to make on the report.

**Are there any other options available for consideration?**

No. This is necessary if we are to address changed national planning guidance as reflected in the recent changes to PPS3: Housing.

**Implementation Date for the Decision**

Following the expiry of the “call-in” period for the Minutes of the meeting of Cabinet.

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**Background Papers:**

The following papers are available for inspection by contacting the above officer(s).

Future Housing Requirements – Scope for Affordable Rents in Sefton, Richard Fordham and Company and Fordham Research, November 2011  
PPS3: Housing, June 2011

## Future Housing Requirements – the Scope for Affordable Rent in Sefton

### 1. Introduction/Background

1.1 Members of Planning Committee may recall receiving a report on ‘Planning Policy Statement 3: Housing – Changes to the Definition of Affordable Housing – Consultation’ on 4<sup>th</sup> May 2011. The report was noted and the suggested Department for Communities and Local Government consultation response was agreed.

1.2 Subsequently, Planning Policy Statement 3: Housing was amended on 9<sup>th</sup> June 2011 to provide technical amendments to Annex B: Definitions, to reflect the introduction of the new Affordable Rent regime. Accordingly, the definition of affordable housing rent now embraces Affordable Rents as follow:

Affordable Rented housing is:

*‘Rented housing let by registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is not subject to the national rent regime but is subject to other rent controls that require a rent of no more than 80 per cent of the local market rent.’*

1.3 In order to address the housing and planning policy implications of the new Affordable Rents regime a study was commissioned with Fordham Research and wholly funded (at a cost of £4,750) and supported by five local registered providers, namely: Adactus Housing Association, Cosmopolitan Housing Association, Liverpool Housing Trust, One Vision Housing and the Plus Dane Group.

1.4 Part of the way through the study Fordham Research was dissolved (and will ultimately be going into liquidation). Subsequently, with the approval of the five registered providers, it was agreed that Richard Fordham would complete the study in a personal capacity trading as Richard Fordham and Company. Hence the consultants referred to in this report as completing the study are ‘Richard Fordham and Company and Fordham Research’, subsequently abbreviated to RFC/FR.

1.5 A copy of the study can be viewed on the Council website under:

[www.sefton.gov.uk/planningstudies](http://www.sefton.gov.uk/planningstudies)

## **2. Basis of the Study and Key Findings**

### **The Brief**

- 2.1 The key components of the brief for the study of interest to Members can be summarised as follows:
- (i) To undertake an assessment of what level(s) of rent might be viable for homes to be set at using the new Affordable Rent tenure in Sefton, in order for these homes to meet at least an element of local housing need. In this regard a key issue for registered providers is whether to set Affordable Rents at or below the 80% of the median rent figure for Sefton; and
  - (ii) To provide clear advice as to how planning policy should treat Affordable Rent, particularly with regard to decisions around the affordable housing element of proposed developments and how these should be reflected in S106 agreements relating to affordable housing provision.

### **What is Affordable Rent?**

- 2.2 Affordable Rent is designated as a new social tenure. Its standard 'price' is set at 80% of the median market rent of a property but this proportion is downwardly flexible in terms of Government wording. However, in RFC/FR's dialogue with senior officials at the London office of the Homes and Communities Agency (HCA) it is seemingly not so in practical terms, at least currently anyway.
- 2.3 For the purpose of the report RFC/FR have applied the concept of Affordable Rents across the Borough. In this regard, it is important to note that Affordable Rent will replace social rent in the new 4-year spending round funded by the HCA working with CLG. In practice RFC/FR conclude that: *'It [i.e. Affordable Rent] is now the only practical choice where newbuild HCA funding is involved'*, although other sources of subsidy for affordable housing do exist including S106 contributions and using the capitalised value of future rental streams to cross subsidise development. The source of Affordable Rents may be from grant-supported newbuild, or from relets of social rented units. It is intended that Affordable Rents should help to reduce Housing Registers.

### **Affordable Rent and the Level of Housing Need in Sefton**

- 2.4 The study has modelled the impact of the new Affordable Rents regime, hypothetically set at different levels (i.e. 80% downwards to 50%), on the basis of the two main areas within the Council area of Sefton (known as Broad Rental Market Area or BRMA). The two BRMAs are
- (i) Greater Liverpool BRMA (part within Sefton and referred to as 'south Sefton' subsequently in this report): includes properties in the following areas: Bootle (including Netherton); Crosby (including Seaforth, Waterloo and Blundellsands); Litherland; Maghull; Lydiate; Aintree; Melling; Thornton: Parish of Sefton;

(ii) Southport BRMA (referred to as 'north Sefton' subsequently in this report) includes properties in the following areas: Southport (all PR8 and PR9 postcodes); Formby; Little Altcar; Hightown; Ince Blundell

2.5 The analysis of the impact of Affordable Rents has been facilitated by updating the local authority's 2008 Strategic Housing Market Assessment survey analysis with regard to affordability (taking account of household and financial changes), compared to estimated Affordable Rents for various sizes of properties in Sefton. This was then linked to the assessed current and future need in Sefton derived, in large part, from the 2008 Strategic Housing Market Assessment, as updated.

2.6 Importantly, the latest work effectively partially updates the 2008 Strategic Housing Market Assessment and concludes at paragraph 4.43 that:

*'Overall net [affordable] housing requirement has increased from 2,398 in 2008 to 2,692 in 2011'*

Furthermore, it also concludes that:

*'In the case of Sefton, the reason for the increased net-need figure is a fall in the supply of affordable housing (from 1,664 units per years to 1,377 units per year).'*

2.7 Of particular importance, the study has further concluded at paragraph 7.15 that:

*'The housing needs position remains as it was [i.e. the current Sefton affordable housing position], and so there is no ground to alter the 30% target, subject to viability. That figure was derived from the Fordham Research 2008 SHMA and its 2010 enhancement, and is a conservative figure in the context of the level of housing need.'*

### **3. Key Findings of the Study**

3.1 The study has addressed the following and provided appropriate advice, as set out below.

#### **The Scope for Affordable Rent in Sefton**

3.2 The study has applied Affordable Rents calculated at 80% of market rent down to 50% of market rent. When this was applied to local housing need, it showed that lowering Affordable Rent levels, not surprisingly generated extra numbers of households able to afford the tenure without state support. However, the number of households able to afford Affordable Rent was still well below the local annual affordable housing relet rate. The analysis has focused upon households who can afford either 80% market rent, or feasible discounts below that, whilst recognising that households dependent on subsidy can and will occupy both tenures.

3.3 For those households able to afford Affordable Rent from their incomes there is a significant difference between the north and south of Sefton. In south Sefton the analysis shows that there is no case for reducing the Affordable Rent levels below 80%, as few would gain from reducing it below that level. In the north, despite its higher income levels, the study analysis suggests that reducing Affordable Rent

levels to 70% might be necessary to assist households who can afford to pay for the housing but not at the 80% level.

- 3.4 Whilst noting the above, the study importantly acknowledges that such a situation cannot be achieved at present given current policy restrictions and other development commitments, but suggests that if the situation were to change in the future it may be better if Affordable Rents in north Sefton were set at 70% of market rents. In particular, the study specifically comments at page iii (i) of the Executive Summary that:

*'The analysis done in this report suggests that in north Sefton it would be preferable if Affordable Rents were provided at 70% of market rent rather than 80%. This is not true in south Sefton. A 70% of market value Affordable Rent in north Sefton would enable more households on the Housing Register to pay for their housing themselves, and thus avoid benefit dependency.'*

This is because, in broad terms, north Sefton Affordable Rents are higher than social rents whilst in south Sefton they are very close to each other.

Importantly, it concludes by stating that:

*'That conclusion has no immediate policy implication.'*

It does note, however, that if the situation:

*'...should change during the period 2011-2015 or for consideration after that, it would be better if Affordable Rent were provided at 70% in the north of Sefton.'*

- 3.5 Notwithstanding the above, the study firmly concludes that the majority of renters, either in the private rented sector or in social renting will require subsidy to access any form of housing, and this also has implications for S106 affordable housing as set out below.

### **Implications for S106 Affordable Housing Provision in Sefton**

- 3.6 Drawing on the above, the study has examined possible affordable housing policy wording changes arising from the introduction of Affordable Rents and the findings of this study.
- 3.7 The study notes that the Council's current agreed affordable housing position is as summarised below. This draws heavily on the UDP Policy H2 on affordable housing and the findings of the 2008 Strategic Housing Market Assessment and, in essence, refers to 30% affordable housing split on a basis of 80% social rented housing and 20% intermediate housing, namely:

*For developments of 15 units or more we would normally expect 30% affordable housing, measured by bedspaces. This should be split by 80% social rented and 20% intermediate, the latter at an affordability level (for rent or sale) set halfway between the cost of social rented property and the local equivalent second hand property. We round up the affordable housing total to the nearest whole number*

*equating to 30% minimum and we also round up the social housing element vis-à-vis the intermediate element.*

*Clearly this is all subject to economic viability and where a developer seeks to depart from the policy position on this basis, we would ask for a full financial appraisal to be submitted etc.....*

*Our affordable housing requirement applies to all parts of the Borough with the exception (from 13th October 2010) of Bootle (i.e. the wards of Derby, Linacre and Litherland), where we will not be seeking affordable housing through the S106 process for the foreseeable future.*

3.8 The study notes that the vast majority (about 70% of those on the Housing Register) who are unable to afford market housing cannot afford housing without subsidy. The study also notes that Communities and Local Government (CLG) and the HCA have stressed that there will be 'strict value for money' tests on schemes for Affordable Rents in order to minimise any additional Housing Benefit expenditure. It is further noted, arising from this, that S106 Affordable Rent housing in Sefton would be likely to *'require a larger ongoing subsidy via benefits'*.

3.9 It is also clear from the study that only a fraction (i.e. 7%) of those on the Housing Register can afford Affordable Rent at 70% of market rent or higher. Further about 5% can afford shared ownership on a 40/60% equity basis. Linked to these, the study notes that the two groups overlap: about half of those who can afford Affordable Rent at 70% or more can also afford shared ownership.

3.10 Given the above, the study recommends at paragraph 7.13 that:

*'Given the quite likely effect of increasing public subsidy through Affordable Rent, it might be more sensible on S106 sites to confine them to social rented housing and shared ownership (and other forms of affordable housing mentioned in PPS3), but most prominently shared ownership.'*

Furthermore:

*'Clearly most of those on the [Housing] Register in Sefton require public subsidy to afford housing and social rent is much cheaper in subsidy terms than Affordable Rent. On the other hand shared ownership is relatively economical in terms of public subsidy. In short we would not in general recommend that S106 affordable housing schemes should deliver any Affordable Rent housing.'*

3.11 On the basis of the above, the study suggests that the wording of the first paragraph of the Council's affordable housing policy position should undergo minor change to the following:

*'For developments of 15 units or more we would normally expect 30% affordable housing, measured by bedspaces. This should be split by 80% social rented and 20% Shared Ownership (and related tenures listed as affordable housing in PPS3, of which the most common is Shared Ownership). We round up the affordable housing total to the nearest whole number equating to 30% minimum and we also round up the social housing element vis-à-vis the intermediate element.'*



- 3.12 Furthermore, the study also notes that where Affordable Rents are exceptionally allowed through the S106 process, they will generate more money than social rent. As a land use it will therefore, in principle, attract a higher value. However, the study importantly notes that this increased land value should not be taken up by the landowner/developer, as a fundamental purpose of Affordable Rents to create extra value to deliver more affordable housing, will be lost. Given this, the study states at paragraph 7.9 that:

*'It is therefore important that local authorities should state very clearly, when sanctioning Affordable Rent proposals, that the land values should be the same as for social rented housing.'*

### **Informal Consultation on the Study**

- 3.13 We have informally consulted the Sefton Housing Market Partnership on the study (over a 4 week period) and have received two consultation responses as follows:

#### **(i) Home Builders Federation**

*Affordable Rent, Social Rent and Intermediate all qualify as affordable housing under PPS3. We would be wary, therefore, about developing a policy that becomes too inflexible by specifying that S106 monies should be ring-fenced solely to subsidise the supply of a specific tenure, in this case Social Rent. The Council may find that this too inflexible and acts as a barrier for RSLs (and possibly the Council itself) from delivering a viable scheme.*

*We think Fordham is putting too much of a policy spin on the affordable housing viability assessment. The purpose of the report is to provide evidence to demonstrate what percentage of affordable housing across the district is viable, not to prescribe what particular tenure of affordable housing should be supported. That would be a matter for the Council.*

Comment: Neither RFC/FR nor we agree with these comments. In order to maximise the delivery of affordable housing subject to economic viability, precision is required in defining what affordable housing is necessary. The priority need in Sefton is for social rented housing and our policy position clearly reflects this. In this regard, RFC/FR have separately commented as follows:

*[The HBF] first states that a set of three sub-tenures all qualify as affordable housing (correct). They then warn against having a policy on S106, which simply identifies one of these sub-tenures as appropriate for provision on S106 sites. [This] warning is not consistent with CLG Guidance, which does not say that all forms of affordable housing must be treated as one for policy purposes. Quite the contrary: the sense of PPS3 is that councils should be sensitive to what the market can bear as well as to providing what those in housing need most require.*

*Our report indicated what targets are likely to be viable but also what types of affordable housing would suit given circumstances (e.g. the 70% point for Affordable Rent as and when it becomes possible to choose your percentage of market rent). In that way we suggested that social rent is the obvious choice for*

*S106. If there are viability constraints, then the negotiation will bring them out. It may be that the Council will be faced with a choice between a sub-target level of social rent versus a target level of Affordable Rent (since they will cost the same). That then will be a decision for the Council, a properly policy related one. Our report simply noted the best policy choice in principle, not one related to any particular site.'*

*(ii) A local Property Development Surveyor raised 'a slight concern that applying Affordable Rents at 70% market rents will have a decidedly negative impact if adopted on sites in Southport'*

Comment: RFC/FR are not currently proposing a 70% Affordable Rents threshold at this present time so it is not a problem, although as indicated below they may be considered in future post the current 4-year HCA spending round.

- 3.14 Finally, we have informally consulted the North West office of the Homes and Communities Agency. Most of the comments that they have raised are technical/detailed comments that do not affect the findings of the study. However, they do raise the following important point regarding the scope to charge Affordable Rents up to 80% market rents, namely:

*'..whilst there is a clear push to maximise capacity, the HCA will consider (and has accepted) Affordable Rents below this level. It would therefore be wrong to state that the HCA practice does not allow Affordable Rents below 80%. Section 3.10 and 3.11 of the Framework provide more information about the circumstances where lower rents may be appropriate.'*

Comment: RFC/FR comment as below:

*'Our comment on the report is based on the quite specific information obtained from the Head of Affordable Housing at the HCA, that only 80% was considered with no 'up to's' as the Ministers had indicated. We are glad if there are some below 80% cases and would be interested to know where and under what circumstances they were allowed but the Head of Affordable Housing at the HCA was quite adamant that only 80% was to be considered.'*

- 3.15 This is an important point but in no way undermines the findings of the RCF/RF study. It clearly provides the opportunity, in future, for the Council to enter into a dialogue with the North West office of the HCA and relevant registered providers about the possibilities of setting Affordable Rents at lower than 80% market rents on appropriate schemes in appropriate locations in Sefton. Given that most registered providers have contractually agreed their development programmes with the HCA, based on 80% Affordable Rents, it is clearly too late to negotiate lower Affordable Rent levels for the current 4-year spending round funded by the HCA. As and when opportunities to negotiate lower Affordable Rent levels arise for the north of the Borough, this is a stance the study endorses.

#### **4. Officers' Comments on the Study**

- 4.1 This is an important study in what is a new and complex area of affordable housing provision. Whilst the issue about what level of Affordable Rents are appropriate is important to Sefton, the reality is that there is no real flexibility because of existing 4-year contractual commitments with the HCA to allow such rents to be set at less than 80% median market rent for a property, certainly for the foreseeable future at least. However, it is a matter that may merit discussion with the HCA and registered providers in the future. More importantly from the planning perspective, the advice that the study offers with regard to the suggested relatively minor changes to the Council's current affordable housing policy position seems a sensible way forward.
- 4.2 Essentially from the affordable housing policy perspective RFC/FR are firmly reinforcing the Council's current affordable housing policy position (and the priority given to social rented housing) subject to economic viability (and endorsing the current assessment of need) with only minor amendments with regard to intermediate housing. In essence, their study is suggesting that: (i) S106 affordable housing provision should not normally include Affordable Rents and (ii) that changes to the affordable housing negotiating position should only be made with regard to intermediate housing, which they suggest should now be subject to a slightly broader definition.
- 4.3 Given the above Members are requested to endorse this study, its key findings and the suggested minor changes to the Council's current S106 affordable housing policy position. Furthermore, subject to Cabinet agreement, the amended policy basis be used to inform S106 negotiations on relevant planning applications submitted after the date of approval of this proposed policy change.