

## Housing & Land Delivery Board

<b>Date</b>	21 February 2019
<b>Report title</b>	Housing Affordability: Update and Proposal
<b>Portfolio Lead</b>	Councillor Mike Bird
<b>Accountable Chief Executive</b>	Jan Britton, Chief Executive, Sandwell Metropolitan Borough Council
<b>Accountable Employee</b>	Gareth Bradford, Director of Housing and Regeneration, WMCA Pat Willoughby, Senior Reporting Officer, WMCA Rob Lamond, Report Author, WMCA
<b>Report has been considered by</b>	This report was considered by the Housing & Land Delivery Steering Group on 1 February 2019, its contents agreed, subject to amendments, and approved for submission to this Board. The report has been amended in light of feedback from Delivery Steering Group.

### Recommendation(s) for action or decision:

The Housing and Land Board is recommended to:

1. Agree:
  - a) the approach to delivering the affordable housing workstream
  - b) the key elements of a potential affordable housing deal with Government.
2. Note:
  - a) The background evidence and progress on supply
  - b) the progress in developing a proposal for a Housing Affordability Deal with Government, and
  - c) that this paper has been considered, and the broad contents endorsed, for submission to the Housing & Land Delivery Board by the Housing & Land Delivery Steering Group. There was collective agreement that addressing the growing affordability challenge was critical to achieving full success.

### 1.0 Purpose

- 1.1 A report considered by the Housing and Land Board on 25 October 2018 set out the challenging ambition of WMCA to increase the supply, quality, range and delivery of

affordable homes, in terms of absolute numbers and as a proportion of overall supply to support the region's ambitions for economic and inclusive growth. The report outlined concerning trends relating to worsening housing affordability, lack of supply of dedicated affordable and social housing, and impact on citizens and the economy.

- 1.2 The Housing and Land Portfolio goals, projects and workstreams for 2019/20, agreed at the meeting of the Housing & Land Delivery Board in December 2019 and subsequently by WMCA Board on 11 January 2020, included key deliverables to “*increase the supply of affordable and social housing in the region*”, and “*submit an ambitious regional affordable and social housing deal to Government.*”
- 1.3 This report is an update on the progress to date in developing a WMCA proposal for the region to deliver collectively on affordable and social housing with Government, and a summary of the developments in housing policy and analysis supporting this approach.

## 2.0 Background

- 2.1 Housing affordability is one of the most prominent public policy issues of the age, with growing recognition that the UK is facing a mounting affordability crisis. Housing is also an important determinant of people's well-being, and it is something on which people, particularly those on lower incomes, typically spend a substantial proportion of their income. Changes in the price of obtaining a given standard of housing can therefore significantly affect living standards.
- 2.2 Recent months have seen several significant national policy announcements in relation to housing. The publication of the Social Housing Green Paper “A new deal for social housing” in August 2018, the announcement of a £2bn social housing fund available from 2022, and the lifting of the Housing Revenue Account cap for local authorities indicate an evolving housing policy environment. The Prime Minister has referred to housing as “the biggest domestic policy challenge of our generation”, and it is within this focus that several significant reports and analyses have recently emerged:
  - Unison published analysis of housing affordability for key workers in every local authority area in England, Scotland and Wales.
  - Shelter's Social Housing Commission published its report and recommendations to deliver 3.1million new social homes
  - The Smith Institute established an Affordable Housing Commission, chaired by Lord Best, to “examine the causes and effects of this affordability crisis, explore and propose workable solutions (big and small) and build consensus for change”.
  - In November 2018 a joint report from Crisis and the National Housing Federation assessed the “Housing supply requirements across Great Britain”, and concluded that the role of social housing, security of tenure and the need for regional approaches were key considerations in addressing housing need.
- 2.3 This body of evidence underlines the growing recognition that housing affordability is a real and growing issue both nationally and at a local level. Analysis for the West Midlands, as discussed at previous Housing and Land Board meetings, indicates that based on current trends that the WMCA's affordability ratio is on course to exceed the

national average by 2020. The private rented sector is also seeing significant price increases above the national average, meaning that both rental and purchase values are becoming unaffordable for a growing proportion of residents.

### 3.0 WMCA Progress

3.1 In the period following the October Board report significant progress, on tackling the issues identified by the Board, has been made on a number of fronts:

- Discussions with HM Government and stakeholders are ongoing, including very positive meetings in recent weeks with senior officials at the Ministry of Housing, Communities & Local Government (MHCLG), Treasury and Number 10 to press the WMCA case for an emboldened approach to addressing housing affordability, potential for greater devolution of affordable housing monies and the clear links to the local industrial strategy and housing deal. This will help to inform the WMCA's submissions to the forthcoming Comprehensive Spending Review and other funding bids/business cases (e.g. town centres).
- As agreed by the Housing & Land Delivery Board in December 2018, WMCA's Housing & Regeneration team have engaged with registered providers, both currently in the region and new national providers currently not active in the region to broker conversations on new supply partnerships and tangible 'early wins'. These discussions are commercially sensitive at this stage but further detail will be provided to Housing and Land Board in due course. Key ingredients include Registered Provider commitments to a) accelerating delivery of sites; b) unlocking stalled sites; and modular construction and other objectives of the Housing & Land portfolio.
- The West Midlands Housing Association Partnership (WMHAP) are also seeking to establish a Joint Delivery Vehicle with the WMCA to "*achieve a significant increase in the contribution of housing associations to the supply of affordable housing in the West Midlands*". Discussions are ongoing with representatives of WMHAP and the National Housing Federation to develop a full business case for this model, recognising that it will need to be considered in a manner which is consistent with other potential supplier partnerships.
- The WMCA team is linking in with the Mayoral Homelessness Taskforce, ensuring a joined up approach on issues of affordability and housing supply for vulnerable people. This work includes a "*Designing out Homelessness*" Mayoral event with Registered Providers held in November to encourage support for the Housing First approach to homelessness and the commitments to supply for affordable housing. In January 2019 the Homelessness Taskforce Members Advisory Group agreed that the Taskforce's five objectives, including "*Affordable, Accessible Accommodation*" be mainstreamed in the Combined Authority's strategies.
- Representatives from The Smith Institute "Affordable Housing Commission" have met with the WMCA Housing and Regeneration team to discuss local issues and opportunities, and have encouraged response to their forthcoming call for evidence.

#### 4.0 The emerging WMCA proposal

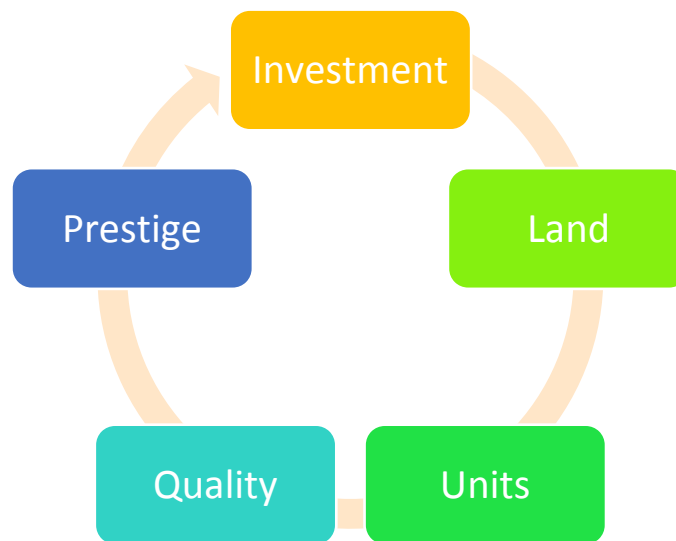
- 4.1 Building on the ground breaking Housing Deal announced early in 2018, WMCA is currently working with MHCLG to agree a further **Housing Affordability Deal**. This will be a very significant supply package at the heart of our Local Industrial Strategy. It will ensure that social and affordable housing is enabled to make its full contribution to address acute market failure house the workforce that the economy needs and tackle the growing affordability gap in the region. The core driver of this proposal is to increase the supply of housing to address issues of affordability and wider social and economic consequences, and to ameliorate rapid change in the region's housing market brought about by sustained economic growth.
- 4.2 A summary of the key elements of the Housing Affordability Deal proposal is annexed to this report for consideration and agreement by the Board. This was discussed at Delivery Steering Group on 1 February 2019 and the key elements were endorsed. The aim is to create a regionally bespoke approach that goes beyond delivery numbers, raising quality standards, securing placemaking and inclusive growth. At the heart of the proposal is the aspiration to establish a new regional definition for affordable housing and new regional design benchmarks, linking housing delivery directly to the Industrial Strategy and the principles of the social housing green paper in a local context. The diversity of the West Midlands, combining both major urban conurbations and predominately rural areas, provides the opportunity to develop a broad range of approaches to tackle varying needs. The focus will be on accelerating supply through land, brokering, planning and joint delivery approaches to radically improve the mix, choice, and quality of new affordable housing across the region. This will align and synergise with the many elements of WMCA's work: for example, the development of the One Public Estate programme will identify public sector land that can be brought forward for affordable housing delivery.
- 4.3 WMCA is proposing Accelerator Investment from HM Government to enable the region to radically drive up the supply of new affordable and social housing. A key element is new funding to ensure affordable housing can be delivered on sites where currently that provision is either unviable or below policy requirements, and therefore these sites are not currently coming forward. This funding, alongside unprecedented local and private investment, will help secure our ambition to treble the supply of new affordable and social homes within a decade (from a 2016 baseline). Alongside the proposal for investment to accelerate delivery, the WMCA proposal is also exploring opportunities to maximise existing powers and opportunities including procurement, local development orders and CPOs, where appropriate. Establishing the local expertise and capacity to deliver innovatively is central to this approach.

4.4 The table below sets out some of the key “asks” and “offers” to Government in relation to the proposal.

<b>WMCA ask from HM Government</b>	<b>WMCA offer to HM Government</b>
Increase in devolved funding to WMCA dedicated to housing affordability	Delivery of more homes in total and significantly more affordable homes and increase build out
Agreement to a <b>minimum</b> 20% affordable provision, or higher dependent on Local Plan policy, on WMCA land and investments	A minimum of 20% affordable housing, or higher dependent on Local Plan policy, on all schemes utilising this funding
Dedicated gap funding to increase the proportion of affordable housing delivery on key sites which are stalled/unviable	Addressing viability gaps to increase affordable provision to 20-35% using gap funding provided in line with Local Plan policy and thereby unlock and accelerate the delivery of sites
Inclusion of HM Government land in One Public Estate approach and support for affordable housing provision on such land	Bringing together One Public Estate land from councils and other public agencies to maximise assets and opportunities under West Midlands procurement
Joint liaison with providers, where required	Investing WMCA assets, for example building above and around key transport hubs
Recognition of the opportunities and importance of brownfield development to drive productivity and regional growth	Focussing on Brownfield land and redevelopment, protecting Greenbelt and green field land where appropriate
Supporting the development and application of the West Midlands Regional Design Charter (e.g. on Government land).	Leading a step-change in quality, design and attractiveness of affordable housing
Access to a full range of Government funding, assets and support	Reduced public spend per affordable home in the region
Supporting devolved and holistic approach to housing, infrastructure, transport etc. to deliver inclusive growth, avoiding ‘bidding pots’	Maximising benefits of existing and future Government investment – HS2, Metro, CWG, Local Industrial Strategy, Addressing market failure to assist geographical rebalancing of the economy

Maximising existing powers and freedoms in the region to transform pace, quality and quantum of housing.	An exemplar region for housing innovation, with WM making major contributions to national targets and established as a national leader for quality and use of Advanced Methods of Construction
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- 4.5 Many of the elements included in the table above are also fundamental preconditions to unlock major private sector investment into the region's housing delivery. Interventions to bring forward land supply, delivering a joined up and strategic approach to development, and providing expertise and capacity in strategic housing delivery will attract both private and public finance.
- 4.6 The model proposed would embed a "virtuous circle" of return on investment, as the benefits from new developments flow through the utilisation of brownfield land to deliver both quantity and quality of housing, raising the reputation and prestige of the region and thus attracting further investment and development.



## 5.0 Next steps

- 5.1 The WMCA Housing and Regeneration team are in ongoing dialogue with HM Government officials regarding the emerging proposal and the investment required so early agreement to the overall principles and approach is helpful. It is intended that the proposal will also form part of the CA's submissions to HM Treasury as part of the Comprehensive Spending Review process, subject to any further developments. Further reports will be provided to Housing and Land Board as this process continues.
- 5.2 In developing the proposal WMCA officers have held or have forthcoming discussions with a range of registered providers, membership bodies and organisations. This dialogue is ongoing and will include further partners in due course.

- 5.3 It is important to note that the discussions with providers are in regard to regional supply agreements, and therefore provide additionality and complement the affordable housing targets set out in local plans. The proposal to HM Government will focus on a regional approach to collective delivery, not locally set planning policy.
- 5.4 Work is continuing on the development of a “regional definition” for housing affordability, linked more closely to local income levels and market prices. Engagement with the Homelessness Taskforce, and discussions with the Office for National Statistics are ongoing to develop more meaningful analysis of the regional and local variations in affordability. Further detail on the measuring housing affordability is included in Appendix 2.

## **6.0 Financial Implications**

- 6.1 There are no direct financial implications as a result of this report but further consideration will be given to funding implications as negotiations progress with Government.

## **7.0 Legal Implications**

Section 113A(1)(a) of the Local Democracy, Economic Development and Construction Act 2009 gives the CA a power of competence appropriate for the purposes of carrying-out any of its functions. Part 4 of The West Midlands Combined Authority Order 2016 (2016 No 653) confers that the functions relating to any Economic development and regeneration in the constituent councils are exercisable by the CA. Part 3 of The West Midlands Combined Authority (Functions and Amendment) Order 2017 confers functions corresponding to the functions of the Homes and Communities Agency has in relation to the combined area.

The principles for the provision for Affordable Housing will be incorporated and reflected into the relevant grant funding agreements and Legal will advise further when instructed on specific funding agreements.

## **8.0 Equalities Implications**

There are no immediate equalities implications in relation to this report. However, individual strategies and delivery schemes will need to take into account local area needs and local stakeholder needs to ensure the schemes benefit local residents, including harder to reach groups. To that effect equality impact assessments will need to be conducted to understand demographics, key inequality issues and how investment can help address key inequality gaps. Engagement and consultation with key equality stakeholders is also crucial.

## **9.0 Inclusive Growth Implications**

The proposals themselves are neutral when it comes to inclusive growth. However, implications will arise as investments are made and strategies are devised – in terms of who benefits from those investments and in who is involved in shaping and contributing

to them. As such, any programmes should be devised with the responsibility to deliver inclusive growth. The Inclusive Growth Framework and burgeoning Investment Toolkit can be used as a guide to shape this process.

Current governance arrangements are satisfactory for building a strategic picture, but the shaping and delivery of specific programmes will need to involve a wider variety of stakeholders in order to be inclusive.

## **10.0 Geographical Area of Report's Implications**

The subject of the report covers the whole of the WMCA area.

## **11.0 Other Implications**

11.1 None.

## **12.0 Schedule of Background Papers**

12.1 Report to Housing & Land Delivery Board in October 2018.



## Appendix 1: Housing Affordability Update

### Key elements of the emerging deal/proposition

***Our Goal: A new housing offer that enables people to come to the West Midlands, live in a decent home, grow up here, thrive and make their mark in an environment that gives people what they need.***

The proposed approach is based on principles of quantum, pace and quality, to deliver the Nation's most ambitious social housing delivery plan and to radically improve:

- Supply
- Choice
- Mix (including new products)
- Build Out
- Scale
- Quality
- Brownfield focus

The key to success is to use new monies to increase affordable offer on sites which are currently stalled due to viability problems.

Proposed elements of the package include:

- Securing a devolved Housing Affordability Deal for the region
- Trebling supply of affordable and social housing in the region (2,000 in 2016) to 6,000+ per annum by 2026
- Delivering an additional 1500 new homes every year from 'new providers'
- Delivering an additional 1500 new homes every year from 'existing providers'
- Creating and unlocking a pipeline of site opportunities across a range of sites, packaged into portfolios, creating certainty for providers across many years
- Creating expert capacity deployed into the region to support delivery, resourced by WMCA, local authority officers and secondments from Registered Providers, and financed from the allocation secured
- Across the region, a majority of all new affordable and social housing to be delivered on brownfield land, an ambition to be set in the new regional Spatial Investment and Delivery Plan
- A new affordable housing delivery approach from WMCA and registered providers to bring forward sites identified in the pipeline, at pace, using new expertise in WMCA, funding, land assembly, CPO, infrastructure development.
- An extensive and tailored programme to support local councils, where requested, to increase the delivery of council housing by exploring flexibility on borrowing, recycling of right to buy receipts and creation of new local housing companies.
- A new refurbishment programme to enhance existing social housing stock to improve standards and increase density of development.
- All new housing under this plan to meet the highest standards of design and, wherever appropriate, to be built using advanced methods of construction.



**West Midlands**  
Combined Authority

## Appendix 2: Defining housing affordability

The HM Government definition of affordable housing as stated in Annex 2 of the National Planning Policy Framework (NPPF) is “housing for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers)”, under four sub-headings: affordable housing for rent, starter homes, discounted market sales housing, and other affordable routes to home ownership (e.g. shared ownership).

For both affordable rent and discounted market sales, the NPPF sets out a margin of 20% below market value as the minimum discount that should be applied.

Whilst this is the most commonly applied definition of affordable housing, a House of Commons briefing paper notes that “there is a good deal of ambiguity in the way the term “affordable” is used in relation to housing”. As local housing markets have continued to change and diverge across the UK, the requirement for more nuanced, local approaches has become more pressing. As the (then) Communities and Local Government Select Committee reported in 2016, “Where the need exists, it is vital that homes for affordable rent are built to reflect local needs. The definition of affordable housing should better reflect individual and local circumstances.”

### Examples of other definitions in use

- **Manchester City Council:** “To be classed as affordable a property must cost no more, in rent or mortgage, than 30% of the current average gross household income of a Manchester resident of £27,000 (both earned or through benefits). This equates to up to £675 per month for rent and up to £121,500 (excluding deposit) to buy a home.”
- **Shelter** suggest Living Rents should be benchmarked to the 30th percentile of local earnings: a “genuinely affordable rent” would be set at a third of this level, meaning that a typical low income household would pay around a third of their income on rent.
- **London** has a Living Rent scheme which is funded by the Greater London Authority and is an intermediate product. These schemes provide tenants with an option to rent at a living rent rate (not market) and then the option to purchase at a later date.
- An affordability study carried out by St Basils, assessing housing need in **Birmingham** using data from 2015 found that an **annual income** of:
  - £10,800 was required to afford the lowest cost **market rental option**, a shared property (without subsidy)
  - £14,928 was required to afford the lowest cost **social rented option**, a bedsit property
  - £18,240 was required to afford the lowest cost **‘Affordable’ rented option**, a 1 bed property.

The analysis also noted that for home ownership (excluding new properties), the problem is not the property price but mortgage availability – saving for deposits whilst renting.

In order to address this challenge and deliver the right homes in the right places for the region, there is a need for a fundamental shift in approach to housing affordability in the West Midlands. Central to this is an assessment of what “affordability” means at local levels, and the mix of types of housing product, tenure and design that can provide elements of the solution to this issue.

Housing affordability for house sales is currently commonly measured by the house price to earnings ratio, published by the Office for National Statistics at local authority level. However, whilst this ratio does give an overall indication of average affordability, it does have clear limitations. Price and income variations at lower geographical levels are not available, and the income element of the ratio is calculated by using average income for full time employees – therefore not taking into account self-employed, part-time or unemployed income levels. This measure is also limited to sale prices only, and does not include rent prices.

Additionally, local circumstances include much more than the current market prices and rents. Levels of income, and the variation of factors across age groups, employment types, geographical location and access to services all play a major role in determining how affordability is perceived.

Therefore the complexity and variation of household circumstances - wages, composition of household and numbers earning, tax, child care, benefits, location etc. – is not currently reflected in affordability measures used.