

### **Housing & Land Delivery Board**

<b>Date</b>	15 <sup>th</sup> July 2019
<b>Report title</b>	Housing Affordability: Regional Definition
<b>Portfolio Lead</b>	Councillor Mike Bird, Leader, Walsall MBC
<b>Accountable Chief Executive</b>	Deborah Cadman, Chief Executive, WMCA
<b>Accountable Employees</b>	Gareth Bradford, Director of Housing & Regeneration Pat Willoughby, Head of Policy (Housing & Regeneration) Rob Lamond – Report Author
<b>Report has been considered by</b>	Homelessness Taskforce 20.06.19

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

The Housing & Land Delivery Board is recommended:

- To agree the broad approach to a new regional definition of housing affordability through a pilot programme, based on application of the new definition through the Combined Authority's Single Commissioning Framework (SCF) for its funding and investments. All investments made through this process will be subject to approval by the WMCA Investment Board and its governance process to ensure alignment with local plans and policy.
- For schemes not in the scope of the SCF where the WMCA has a brokering or influencing role, we encourage councils and other partners to adopt Option B in this report, with local criteria being applied in a flexible, non-prescribed way to compliment local plan policy and build confidence in the approach and evidence success for further development.

#### **1.0 Purpose**

- 1.1 The purpose of this briefing note is to update the Housing and Land Delivery Board on the work WMCA and the Homelessness Taskforce have been doing on a new Regional Affordable Housing Definition – as identified in the Housing and Land Business Plan for 2019/20. It is also to seek agreement to the recommended approach to defining affordability in the West Midlands that reflects the range of housing needs and ambitions across the region, ensures compliance with statutory local plans and provides

investor and developer certainty. Local councils, the private sector and housing associations across the West Midlands have been involved in shaping this work and the proposed recommendations in this report.

- 1.2 This report also outlines the broader work on affordable housing and homelessness in the region to set the new regional definition in context. It sets out the emerging evidence for the housing affordability crisis of the West Midlands and consequently leads to a proposal to trial a new regional definition – initially across WMCA land/investments through the Single Commissioning Framework – to demonstrate the region’s ambitious approach at the forefront of the housing affordability agenda.

## 2.0 Background

- 2.1 A comprehensive affordable housing programme has been operated by WMCA during 2019. A regional definition is a key plank of this programme. The programme includes:

- **Targeted conversations major Registered Providers** on how WMCA and its partners can facilitate delivery of key sites in association business plans that comply with the terms of the Single Commissioning Framework. This includes developing agreements to Memorandum of Understandings between WMCA and each RP and collaborative co-design/co-investment of specific schemes seeking WMCA support – conversations to date give us confidence this element of the programme can provide an additional 3,000 affordable units per annum in the long term
- Creation of a **new affordable housing delivery vehicle** with West Midlands Housing Association Partnership and National Housing Federation to unlock the delivery of new additional affordable supply which wouldn’t otherwise come forward on brownfield sites
- An **overall pipeline of priority sites for WMCA intervention** has been **identified by local councils** where there is clear market failure and where WMCA is working with project sponsors to increase overall supply to 16,500 new homes. A particular focus has been where upfront remediation and infrastructure costs are preventing sites coming forward and minimal levels of affordable housing provision being met.
- WMCA management of the **West Midlands One Public Estate Programme and WMCA’s own strategic asset review** – this is identifying a number of public owned sites where WMCA can secure greater affordable housing provision.
- A comprehensive set of **devolved affordable housing policy and investment asks** to HMG (submission Q3 2019) including greater control and oversight of national affordable housing funds at a regional level, whilst maintaining local councils’ responsibility for affordable housing policy.

## 2.2 WMCA Homelessness Programme

The WMCA, through the convening power of the Mayor, has established a cross-sector Homelessness Taskforce. The focus of the Homelessness Taskforce has been to contribute through joint working to the wider systemic issues which can support Local Authorities to achieve systemic and structural prevention. By engaging across sectors, the Taskforce is seeking to spread the commitment to collaborate to prevent and relieve homelessness and where possible to inform the WMCA’s emerging strategies and development programmes to **‘design in prevention and design out homelessness.’**

- 2.3 Key priorities for the Taskforce, distilled from the analysis of root causes, include:
- Access to affordable housing supply which relates to people's incomes
  - Tackling welfare-related poverty
  - Good employment which enables people to live and work
  - Access to information advice and guidance to make informed decisions and avoid crises
  - Establishing a regional voluntary commitment to collaborate to prevent and relieve homelessness across sectors

WMCA teams are working very closely to ensure a positive circle between WMCA affordable housing and homelessness programmes, alongside jobs and skills and public service transformation, and the work of the Taskforce and its members.

## 2.4 The New Single Commissioning Framework and Monitoring Delivery

In April 2019 we launched **our new landmark Single Commissioning Framework (SCF)** to govern the deployment of all devolved housing and land funds– the first of its kind in the country. It puts maximising affordable housing that meets local needs, development that shows high quality design and supports brownfield regeneration as key pre-conditions of any WMCA housing and land investment in a project.

The new single commissioning framework set a target for 20% as an absolute **minimum** level of affordable housing provision for WMCA to invest in a project but with a goal to secure much higher than that wherever possible. A minimum 20% figure was set by the CA Board as an ambitious but attainable target for development sites in the region, and thus was deemed an acceptable balance that wouldn't undermine delivery on brownfield sites but would secure significantly greater affordable housing than is currently the case. This puts the WMCA at the forefront of all combined authorities when it comes to securing a minimum level of affordable housing on sites it invests or intervenes in.

- 2.5 WMCA has commissioned West Midlands Development Capital (working alongside the WMCA Housing and Regeneration Team) to ensure consistent monitoring of every housing and land project WMCA is investing or intervening in, and to ensure that scheme delivery is not undermined. Our funding and legal agreements with project sponsors mean we can enforce compliance - for example funding drawn down once WMCA is satisfied affordable housing conditions have been met. To assist this, like our MMC and design requirements, we need to 'define' what we mean by affordable housing to inform decision makers and sponsors.

## 3.0 The Case for a Regional Definition

*“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.

(National Planning Policy Framework, Affordable Housing Definition)<sup>1</sup>

- 3.1 Greater devolution of affordable housing policy and investment to the region was a key ask of WMCA during the devolution deal negotiations of 2017, 2018 Housing Deal and 2018 Budget. WMCA Housing and Land Board committed in December 2018 to working collectively to secure increased local responsibility and control over affordable housing policy, funding and delivery from Central Government.

Solely delivering an increased quantum of affordable housing far greater than today will not hit WMCA's inclusive growth goals unless it is matched by the provision of genuinely affordable, accessible accommodation that is tailored and targeted to local needs and circumstances. The affordable housing programme must deliver a diversity of housing (for example family homes, shared living etc.) across various rental price points if it is to tackle key issues such as rising rents, waiting lists, homelessness and affordability.

- 3.2 The national affordable housing definition (see above extract from the National Planning Policy Framework) seeks to achieve this from a national perspective. It is simple and concise, giving certainty to investors and providers of affordable housing, the Planning Inspectorate when judging local plans, and councils when assessing planning applications. It also encompasses numerous 'types of affordable housing' developers can incorporate into their schemes. However, one of the acknowledged weaknesses of the national definition is it does not account for the particular environment and circumstances of a locality nor adequately addresses local needs.

- 3.3 An affordable housing working group including local councils, Homes England and the National Housing Federation (NHF) was established in 2018 to work up the terms of a potential 'affordable housing deal' which was discussed and agreed in principle at Housing and Land Board (see Annex A of April 2019 Board). *A key ask of the Board was a definition of affordable housing which took greater account of local circumstances but retained the certainty which the national policy provides and has been incorporated into statutory plans.* There was a particular concern identified that if a regional definition was too narrowly drawn or too high a bar to meet investors/developers would go elsewhere to focus on areas where the definition or policy was less expensive, easier to achieve, or less demanding.

The Homelessness Taskforce has also recommended the creation of a regional affordable housing definition to help tackle some of the root causes of homelessness.

- 3.4 Much work has been done since jointly by the taskforce, NHF, local councils, housing associations and WMCA on bringing this proposal together jointly including the evidence base and how it would work in practice. Some of the evidence is set out below.

#### **4.0 Problem Identification**

Despite increased delivery in recent years of affordable housing overall in the West Midlands (circa 2,000 units per annum), the region continues to experience a considerable under supply of affordable housing which is particularly concentrated in certain pockets of the region. Housing affordability is getting worse (house prices increasing at twice the national average), the issue is not equally distributed across the region (e.g. Coventry's house prices are increasing at some of the fastest in the country), and the house price to income ratios of Stratford-upon-Avon are very different

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

to those of parts of Birmingham. The context for this situation is complex and multi-layered and will be provided in more detail in an evidence document which we are preparing for submission to Government in Q3 2019. Some of the headlines are set out below.

#### 4.1 **Headline housing affordability statistics include:**

- **Housing rents**

Average private rental prices in the region have increased at above the national average for over two years

- **Housing benefit:**

Over 380,000 households receiving housing benefit in the West Midlands in 2018

- **Homelessness:**

A 30% increase in rough sleepers in the region between 2017 and 2018

Over 2,600 households are in temporary accommodation in the West Midlands

- **House prices:**

The average house price in the West Midlands is now almost seven times the average income, and is increasing at a rate twice the national average.

#### 4.2 ***Key constraints on increased supply of affordable housing that meets local needs:***

- Land supply constraints which hinder affordable housing delivery, especially on brownfield sites close to major new and existing transport corridors
- Nationally imposed funding formulas and rules (e.g. HMT imposed 80/20 rule for Homes England funding for land acquisition and enabling infrastructure) hinder ability for the region to attract the funding it needs and deploy bespoke solutions site by site
- National Benefit Cost Ratio assessments in business cases which take minimal account of local factors or wider benefits of growth. This prioritises greenfield/green belt land and brownfield supply in high value housing markets over formerly industrial sites in regions like the West Midlands
- Uncertainty over roles and responsibilities (Councils, Housing Associations, Homes England, Combined Authority) for affordable housing policy and delivery
- Lack of shovel ready projects to which funding can quickly be directed
- Lack of a single gateway/ interface on affordable housing in the region
- Insufficient resourcing to maximise chances of successful bids to HMG funds and necessary quality assurance

### 4.3 Building the Case for a Regional Definition

Various academic and practice reports are starting to show the challenges and weaknesses of a simplistic national affordable housing definition of average house price to income ratios – particularly that it takes insufficient account or weighting of local affordability considerations and problems. It means two communities across one local authority area will use the same definition of ‘affordable’, regardless of more local circumstances.

#### 4.4 Examples of challenges identified include:

- “The ratio (i.e. the HMG definition) provides no information on the distribution of outcomes across household types and income levels, it can be misleading as an indicator of changes in affordability over time even at the aggregate level and it is worrying that it is to be used as a central indicator in local authority housing needs planning.”<sup>2</sup>
- The 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.”<sup>3</sup>
- Shelter’s research concludes that affordable housing should be defined to “meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and local house prices.”<sup>4</sup>

**4.5 As housing supply is a multi-dimensional policy area, we cannot find clear evidence that a definition on its own will unlock significant new affordable supply. But as part of the coherent comprehensive approach to affordable housing and homelessness, a regional definition can send a strong message of our commitment to address well evidenced and clear housing affordability and supply issues.** Our option appraisal takes into account the need to build the evidence for a bespoke regional definition in a balanced way that doesn’t create conflicts with local plan policies, national policy or RP investment plans and builds buy in and support for a different approach.

### 5.0 Regional Definition Option Appraisal

#### 5.1 Key Assumptions

The options for a new Regional Definition that have been considered by the various working groups over the last 6 months are set out below - they all seek to achieve the following 4 key objectives:

1. Tackle some of the key underlying problems hindering supply of genuinely affordable housing in the West Midlands, especially affordable rent.

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<sup>2</sup> <https://housingevidence.ac.uk/publications/how-should-affordability-be-measured/>

<sup>3</sup> <https://www.parliament.uk/business/committees/committees-a-z/commons-select/communities-and-local-government-committee/inquiries/parliament-2015/dclgs-consultation-on-national-planning-policy-15-16/>

<sup>4</sup> [https://england.shelter.org.uk/\\_data/assets/pdf\\_file/0009/349695/Shelter\\_response\\_CLG\\_consultation\\_PPS3\\_Annex\\_B\\_-\\_affordable\\_housing\\_definition.pdf](https://england.shelter.org.uk/_data/assets/pdf_file/0009/349695/Shelter_response_CLG_consultation_PPS3_Annex_B_-_affordable_housing_definition.pdf)

2. Increased local accountability and oversight of affordable housing policy, funding and delivery, particularly allowing for more tailored approaches so that affordable housing meets local needs rather than a one-size-fits all national approach.
3. Maintaining investor and developer certainty about affordable housing policy and funding requirements so they can plan ahead and invest for the future in all types of affordable housing in support of our Local Industrial Strategy
4. Bringing more sites forward where the market is failing, especially brownfield, to increase supply of affordable housing that meets local needs

**5.2 Options for Regional Definition**

The key criteria for a more bespoke local approach are:

- General differences in income levels across region
- Specifically income levels in lower quartile income and rent levels
- Contribution to addressing the West Midlands productivity gap
- Establishing a living affordable rent in the West Midlands (no more, in rent or mortgage, than 30% of the current average gross household income)
- Local housing rent and sale prices

Option	Summary
<b>A</b>	<p><b>Status Quo – National Definition applied through Local Plans</b></p> <p>Retain the national affordable housing definition in how we apply ‘affordable housing’ across the West Midlands as is currently the case (e.g. local plans, Single Commissioning Framework, the new affordable housing delivery vehicle)</p>
<b>B</b>	<p><b>A new Regional Approach - Local Weighting + National Policy Definition but with identified local criteria that ‘should’ be applied</b></p> <p>Use average house price to income ratio as a start and the region then sets out suggested criteria and/or principles <u>to be applied</u> by decision makers when defining and agreeing affordable housing provision on development sites in a locality – similar to the approach advocated for the Regional Design Charter</p>
<b>C</b>	<p><b>Regional Definition+ - Begin with National Policy Definition and prescribed local affordability criteria that ‘must’ be applied</b></p> <p>Use average house price to income ratio as a start and the region then prescribes key criteria and/or principles <u>that must be applied</u> when defining and agreeing affordable housing provision on development sites in a locality.</p>
<b>D</b>	<p><b>A New Bespoke Regional Definition – Markedly different to the National Policy Definition</b></p> <p>A brand new regional definition that doesn’t use any part of the national policy definition and creates a clear differential between policy applied by HMG and that applied by the region.</p>

More detail on the scope of each of these options is set out in the table below in Annex 1.

## 6.0 Conclusions – A Balanced Approach

We have looked extensively at other affordability definitions currently operating across the UK and research on the pros and cons of different definitions in comparison to the average house price to income ratio used by National Government. We have engaged local councils, NHF, housing associations and members of the Homelessness Taskforce as well as the Housing and Land Board's officer working group.

This research and engagement has provided good evidence of the difficulties of the status quo – i.e. applying a one size fits all nationally prescribed affordable definition in a region such as the West Midlands where housing affordability is very localised in terms of its impact, factors which may alter it can also be quite localised (e.g. a new Metro route) and there are significant upfront costs of development on many sites (e.g. land remediation, transport infrastructure).

- 6.1 On the other hand the research and our engagement with partners has shown that if we draw a regional definition too narrowly or which is clearly at odds with the national default, it may be unhelpful in our discussions with investors and providers who have created investment plans on basis of national policy and legislation. The national definition gives certainty and remains how HMG decides funding bids for its housing and infrastructure funds, and is the basis of local council affordable housing policy.

## 6.2 A Proposed Way Forward

Our recommendation is to take forward a new affordable housing definition for the West Midlands but to do so in a balanced way that doesn't create conflicts with local plan policies, national policy or RP investment plans and builds buy in and support for a different approach. Therefore we propose we move the dial by applying the national definition in a **regionally bespoke way**.

- 6.3 To do so, **we propose that the WMCA as an organisation adopts Option C and applies a regional definition to the investments made through its Single Commissioning Framework** (i.e. where WMCA is investing in a site, or has a land or property interest) and to the additional affordable homes which are directly attributable to the operation of the WMCA Single Commissioning Framework, **acting as a trailblazer for the regional approach and demonstrating the applied value in practice**. This will require additional clauses to be incorporated into standard WMCA funding agreements to govern the additional component of affordable housing, and negotiation with Homes England to ensure the introduction of a new regional definition of affordable housing does not impinge on its ability to consider grant in support of this additionality. All such schemes would need to be compliant with Local Plan policy in order to proceed.

- 6.4 **For schemes not in the scope of the SCF where we have brokering or influencing role, we encourage councils and other partners to adopt Option B**, with local criteria being applied in a flexible, non-prescribed way to compliment local plan policy and build confidence in the approach and evidence success for further development.

Our analysis has indicated this won't cause significant disruption to investment in affordable housing but will definitely allow for the Combined Authority to demonstrate its leadership role by intervening in the market.



- 6.5 We will monitor impact and delivery with a view to building an evidence base for greater deployment of Option C. In time our aspiration would be that the regional definition is increasingly embedded into statutory local plans and thus is applied in Section 106 negotiations for example on development sites.
- 6.6 The longer term goal is to develop the evidence and analysis of the real impact of Options B and C, to build the case for a bespoke regional definition (Option D) in future. Option D would require significant commitment to develop the criteria, measurement, reporting and implementation of any bespoke definition; for example,
- Improvements are required in data availability for local level income to inform the metrics and analyses used. This could entail working in collaboration with the Office for National Statistics to co-develop new reporting tools.
  - The implementation of such a definition would require collective agreement and resources throughout the region to monitor, collate and enforce its application
  - The definition would require consistency of application from all sources e.g. investment from other Government sources (i.e. Homes England) unless further devolution of funding is agreed.

## 7.0 Conclusions and next steps

- 7.1 In conclusion, we recommend taking forward a **twin-track approach** to the new regional affordable housing definition. This combines the national default with specific local weighting and criteria within the WMCA Single Commissioning Framework which achieves the outcome of enabling us to define affordable housing in a more localised and bespoke way. In doing so, the Combined Authority will be piloting a new approach without confusing the market or investors or leading to challenges relating to compliance with local plan affordable policy. The organic, developmental nature of such a trial will allow the definition to be nuanced and reflect local needs.
- 7.2 Whilst there is uncertainty about the precise impact of a definition on its own on tackling the very difficult housing affordability issues, it is part of a package of affordable housing and homelessness measures and without doubt sends a clear and strong message to communities and housing providers that WMCA is taking the issue of regional affordability seriously and not just applying a national definition 'off the shelf'.

Subject to the above being agreed, the suggested next steps and milestones are set out below.

<b>Date</b>	<b>Activity</b>
<b>July 2019 onwards</b>	Ongoing engagement with local authorities, Homes England, housing associations and trade bodies
	Amendments to WMCA funding agreement process/documentation
	Amendments to monitoring data for SCF agreements to capture impact & affordable delivery
<b>Ongoing</b>	Reporting of SCF affordable housing delivery
	Development of local income data/measures
<b>March 2020</b>	Review/ annual output

## 8.0 Financial Implications

8.1 There are no direct financial implications for any work arising as a result of approving the recommendations within this report. Incorporating enhanced standards into proposals which WMCA are developing through the Single Commissioning Framework may result in a higher level of subsidy being required by the Combined Authority where the initial proposal refers to a lower standard. Investment decisions will, however, continue to be evaluated on a case by case basis to ensure the adequacy of outputs and verify affordability

## **9.0 Legal Implications**

9.1 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.

## **10.0 Equalities Implications**

The proposals within the report are likely to have a positive impact on equalities. An equality impact assessment will be conducted to ensure that key equality principles and considerations are incorporated within any affordably housing strategy to help address inequalities and promote inclusion and equality for a wide range of groups.

## **11.0 Inclusive Growth Implications**

The proposals for an Affordable and Social Housing Agreement are focused on improving accessibility to and affordability of housing, factors which have considerable bearing on inclusivity. Failure to ensure that prosperity benefits communities across the region will contribute to the challenges continuing in the future.

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

The proposed approach to housing affordability is intended to encompass the whole geography of the WMCA area, including the 3 LEPs and non-constituent Member authorities.

## **13.0 Other implications**

## **14.0. Schedule of Background Papers**

## Annex 1: Options for West Midlands Affordable Housing Definition

	A) Status quo	B) New Regional Approach	C) Regional Definition+	D) A new bespoke Regional Definition
<b>Summary</b>	<b>National Definition applied through Local Plans</b>	<b>Local Weighting + National Definition but with identified local criteria that ‘should’ be applied</b>	<b>Begin with National Definition and prescribed local criteria that ‘must’ be applied</b>	<b>Markedly different to the National Policy Definition</b>
<b>Features</b>	Retain the national affordable housing definition in how we apply ‘affordable housing’ across the West Midlands (e.g. local plans, Single Commissioning Framework, the new affordable housing delivery vehicle)	Use average house price to income ratio as a start and the region then sets out some suggested criteria and/or principles that should be applied by decision makers when defining & agreeing affordable housing provision on development sites in a locality – similar to the approach advocated for the Regional Design Charter	Use average house price to income ratio as a start and region prescribes key criteria and/or principles that must be applied when defining and agreeing affordable housing provision on development sites in a locality.	A brand new regional definition that doesn’t use any part of the national policy definition and creates a clear differential between policy applied by HMG and that applied by the region. Based on a robust & comprehensive analysis of the full range of local incomes.
<b>Application</b>	Housing defined as affordable via NPPF (20% below market rate for both sale and rented) remains the measure of delivery	Local criteria (e.g. income range, demographics) are applied where relevant and agreed by local councils in assessing development	Key criteria are included in local council decision making to complement/enforce application of genuine affordability at a local level	The region defines a set of measures, agreed by all local authorities, to reflect local conditions. Applied to the regional market, the range of housing types, tenures & values reflects local needs & market conditions.

<p><b>Pros</b></p>	<p>Consistent approach Widely understood</p>	<p>Combines national definition with application of local conditions specific to each circumstance Flexible &amp; iterative model Conforms with existing local plan policy Unlikely to disrupt investment</p>	<p>Combines national definition with application of local conditions in all circumstances Demonstrates local leadership and collective approach <b>Potential to pilot on WMCA land and funded sites</b></p>	<p>The West Midlands demonstrating leadership and accountability for tackling key issues Regional consistency &amp; ownership of the issues A trailblazing model that fundamentally addresses local conditions.</p>
<p><b>Cons</b></p>	<p>Does not reflect vital local conditions e.g. income variation Inflexible and “one size fits all” Not currently delivering results required</p>	<p>Potential inconsistency in application Variation from standardised approach</p>	<p>Requires agreement across all partners Goes beyond Local Plan policy and therefore likely to conflict Lacks local discretion once applied</p>	<p>Significant resourcing required for application, measurement, enforcement Variation from national approach will require strong leadership and collaboration with the market to prove concept</p>