

WMCA Housing & Land Delivery Board

Date	15 th January 2020
Report title	Affordable Housing Supply that meets local needs
Portfolio Lead	Councillor Mike Bird, Leader, Walsall MBC
Accountable Chief Executive	Deborah Cadman, Chief Executive, WMCA
Accountable Employee	Gareth Bradford, Director of Housing & Regeneration Pat Willoughby, Head of Policy (Housing & Regeneration) Rob Lamond – Report Author
Report has been considered by	Housing and Land Delivery Steering Group Homelessness Taskforce

Recommendation(s) for action or decision:

The Housing & Land Delivery Board is recommended:

- To endorse the proposed regional definition of housing affordability to secure an increase in the delivery and accessibility of genuinely affordable homes in the region that meet local needs
- To agree the application of the proposed regional approach through the Single Commissioning Framework process, in order for the Combined Authority's housing and land investments and acquisitions to drive a more bespoke and locally informed approach that enables increased supply of affordable homes
- To note the excellent support and engagement we have received from a number of local authorities across the region in developing this approach

1. Purpose

- 1.1 The purpose of this report is to provide Housing and Land Delivery Board with an update on the implementation of the regional approach to housing affordability, and to seek agreement on the principles of the proposed definition set out in Section 5 and its application through the WMCA's Single Commissioning Framework.
- 1.2 The intent to define a regional approach to affordability was to secure an increase in genuinely affordable housing on developments across the West Midlands, and in particular to increase the accessibility of affordable housing to those residents most in

need. The proposed definition is expected to address the issues of affordability from both a supply and a demand basis. Through broadening the range of products, types of schemes and criteria used to establish what constitutes affordability *at a precise local level*, the definition seeks to tackle issues regarding access to genuinely affordable accommodation for local residents of the region and establish criteria more relevant to the specific locations and markets across the region.

- 1.3 The definition is a central element of the affordable housing programme managed by the Housing and Land Board that is seeking to address several key affordability challenges, including:
- The requirement to broaden the range and accessibility of affordable housing in the region as set out by the Homelessness Taskforce, to reflect local household incomes
 - The generic definition of affordable housing set out by the National Planning Policy Framework is failing to recognise local needs and conditions and secure an increased supply of affordable housing
 - The impact of housing unaffordability on employment, productivity and investment in the West Midlands, as evidenced by key employers and service providers in the region.

2. Background

- 2.1 Delivery of new dwellings for the West Midlands Combined Authority area in 2018/19 was 16,938, a 15.8% increase on the previous yearly total (14,628) and the highest total ever recorded in the region. Alongside this overall increase there has been a rise in the delivery of affordable housing in the West Midlands in recent years (3,801 units during 2019/19); however, 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, for example, Stratford-upon-Avon are very different to those of parts of Birmingham. Affordability has significant consequences for issues such as the cost of living, productivity, social mobility, and access to employment. The context for this situation is complex and multi-layered and requires a multi-faceted approach.
- 2.2 A comprehensive affordable housing programme has been operated by WMCA under the leadership of the Housing and Land Board throughout 2019. A regional definition is a key element of this programme. The programme includes:
- Targeted conversations with existing and new major Registered Providers to the region to increase their supply ambitions
 - Creation of a new affordable housing delivery vehicle with West Midlands Housing Association Partnership and the National Housing Federation
 - An overall pipeline of priority sites for WMCA intervention with positive planning conditions has been identified by local councils where there is clear market failure and where WMCA can accelerate and unlock sites to support the 215,000 homes ambitions.

- 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 (submitted in Q3 2019) including more investment in affordable housing in the region, greater control and oversight of national affordable housing funds at a regional level, whilst maintaining local councils' responsibility for affordable housing policy.

2.2 In addition, 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.**' One of the key priorities identified by the Taskforce is "Access to affordable housing supply which relates to people's incomes", with a regional approach to affordability being a central element of this approach to increase delivery of affordable homes and to reflect local conditions.

2.3 Following a report to the Homelessness Taskforce, in July 2019 the Housing & Land Delivery Board agreed to:

- 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.

2.4 It is widely acknowledged by the industry and local councils that the existing NPPF definition does not reflect local needs and circumstances and in the West Midlands is not adequately securing an increased supply of affordable housing. Analysis has shown that 80% of market rates for both home ownership and rental markets remains beyond the reach of a considerable proportion of the population.

2.5 To assist in developing a bespoke regional approach, further independent research was commissioned to assess market conditions and how a new definition may be applied. This report sets out a summary of this further evidence of the variation of incomes and affordability across the region, both for home ownership and rental markets, and the proposed elements of a definition to be applied as a trial through the Single

Commissioning Framework, to demonstrate the region's ambitious approach at the forefront of the housing affordability agenda.

- 2.6 In addition, a collaborative working group of officers from local authorities and other partners has been established to ensure the continued development, co-design and implementation of a regional definition reflects local conditions and planning policies. In parallel, the Homelessness Taskforce remains a key partner in developing this approach and subsequent evaluation.
- 2.7 The existing National definition from the National Planning Policy Framework is set out below:

“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)¹

3.0 Regional evidence: housing sales

- 3.1 The most commonly used metric for housing affordability is the “House price to earnings” ratio, adopted by HM Government as their official measure of this issue. Published annually, this data compares the median average salary in a local authority area with the median average house price. Figure 1 below illustrates the ratio for each of the CA authorities, and the WMCA region as a whole, alongside the national average.

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

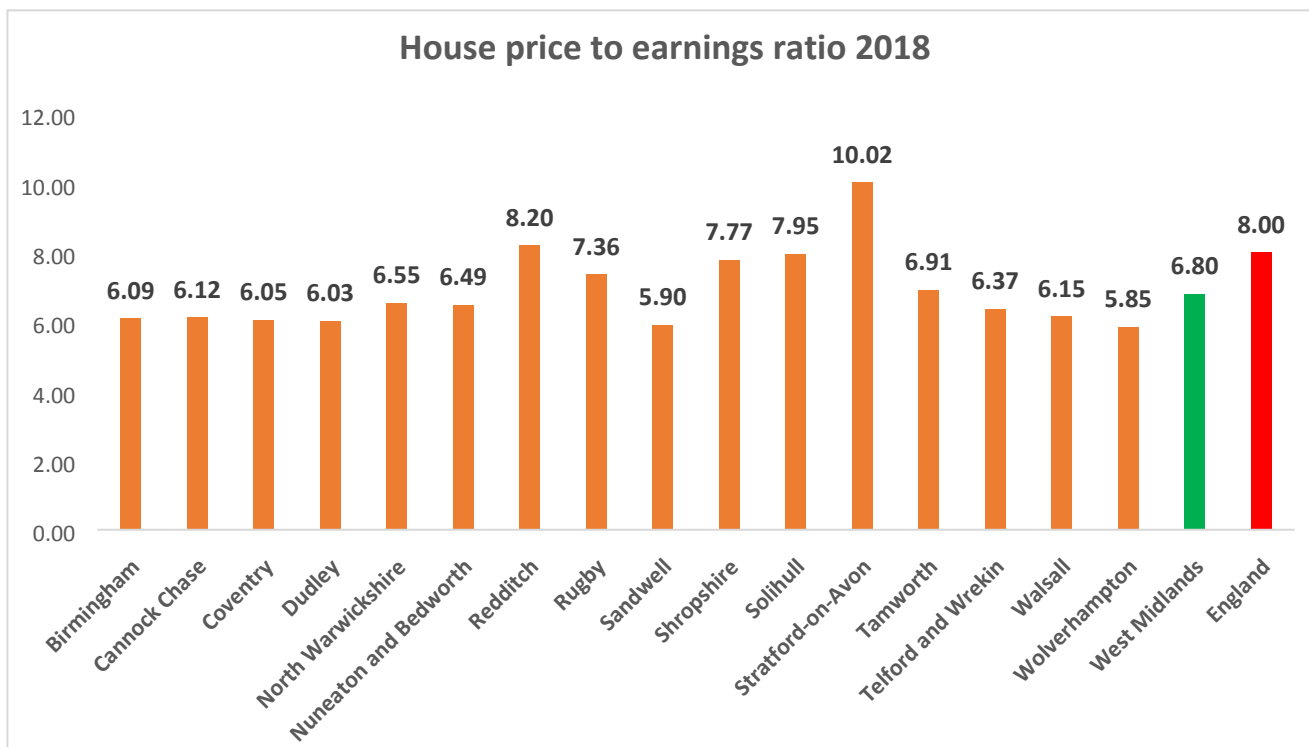


Figure 1: WMCA local authorities house price to income ratio, source

<https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/ratioofhousepricetoresidencebasedearningslowerquartileandmedian>

3.2 Whilst broadly demonstrating the differences at a local authority level, this measure is not sufficiently granular and takes insufficient account or weighting of local affordability considerations and problems. It means two very different communities across one local authority area will be measured by the same definition of ‘affordable’, regardless of considerable local variation in housing affordability. It should also be noted that this data refers to full-time employees only, and therefore does not reflect the full range of incomes, whether through part-time work, benefits or other means.

3.3 Loan to value ratio

The “Loan to value” ratio is calculated by applying a “mortgage cap”, as applied by most lenders, of 4.5 times gross earnings as the maximum amount to be borrowed by home purchasers. Figures 2 and 3 below show that, for both median and low-income households, the average house price is considerably beyond the amount available to borrow. This means that the average homebuyer would require a considerable deposit to purchase a typical home, adding to the unaffordability cycle of requiring to save a significant sum whilst renting or in other accommodation.

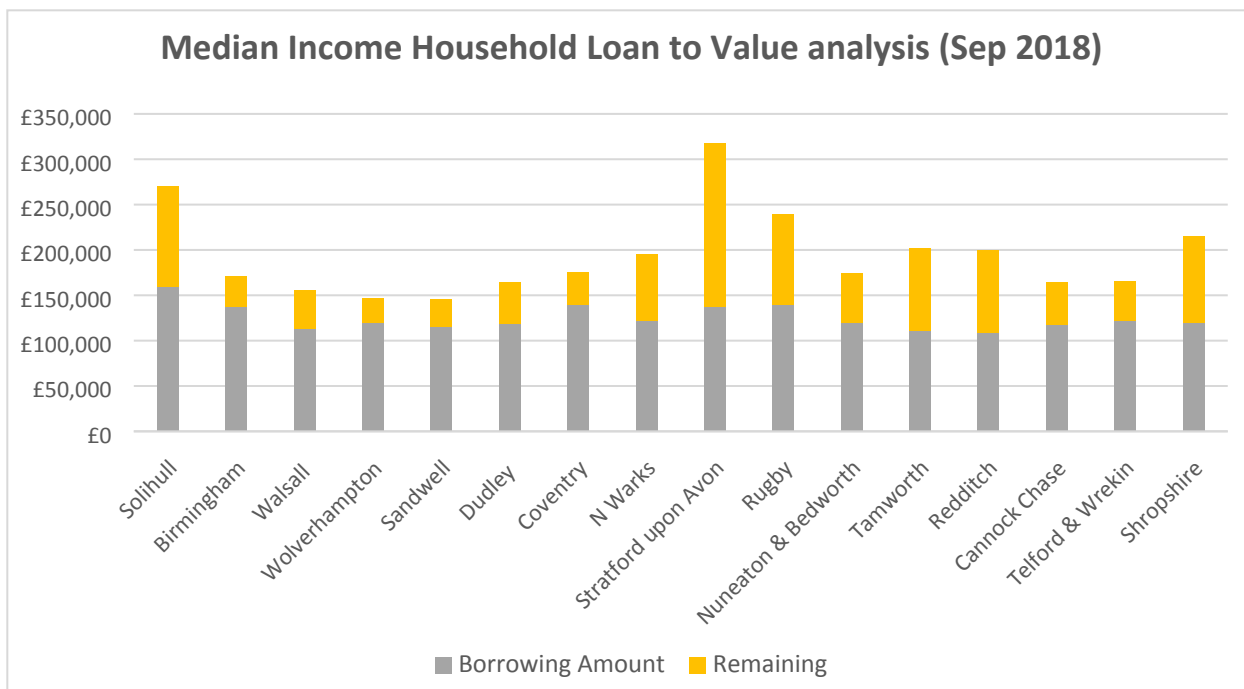


Figure 2: WMCA local authorities Median Income Loan to Value analysis, source Avison Young.

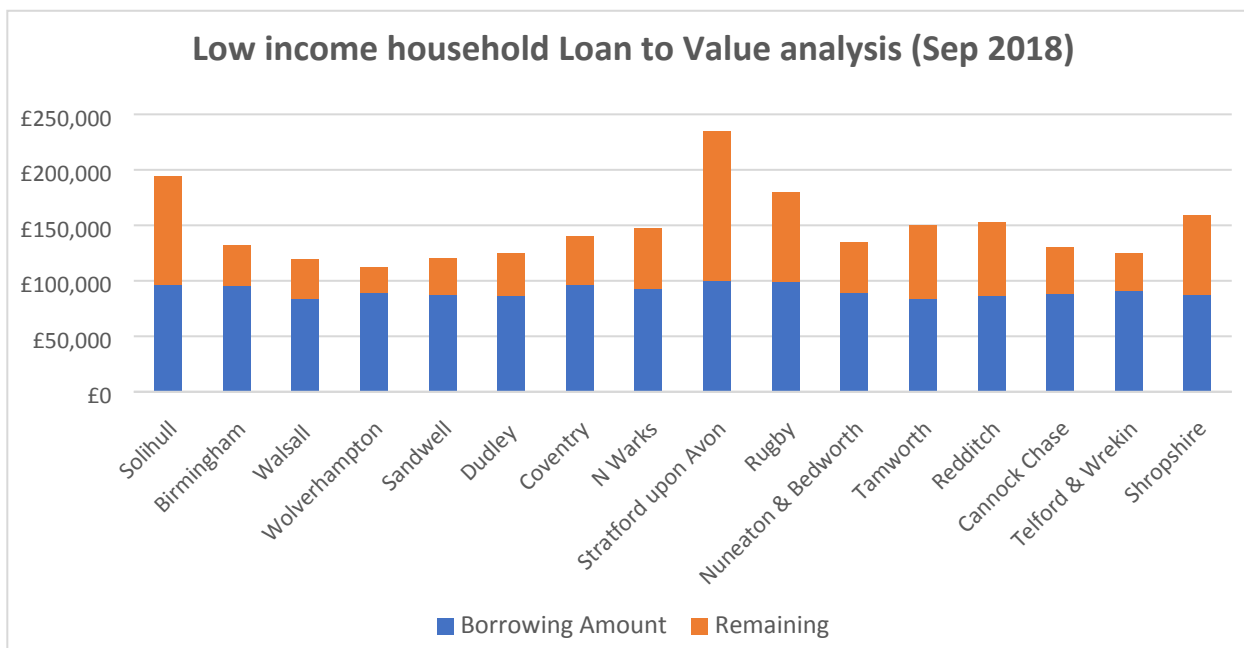


Figure 3: WMCA local authorities Low Income Loan to Value analysis, source Avison Young.

3.4 The housing market therefore remains out of reach for many residents of our region, hindering the region’s continued economic prosperity and productivity. This is further demonstrated when assessing the impact on “key workers”, i.e. those working in roles that are recognised as vital to the infrastructure of the community in the health service, education or community safety. Figure 4 below shows the local analysis of how attainable first-time mortgages are for four such roles, using income and housing data from 2018.

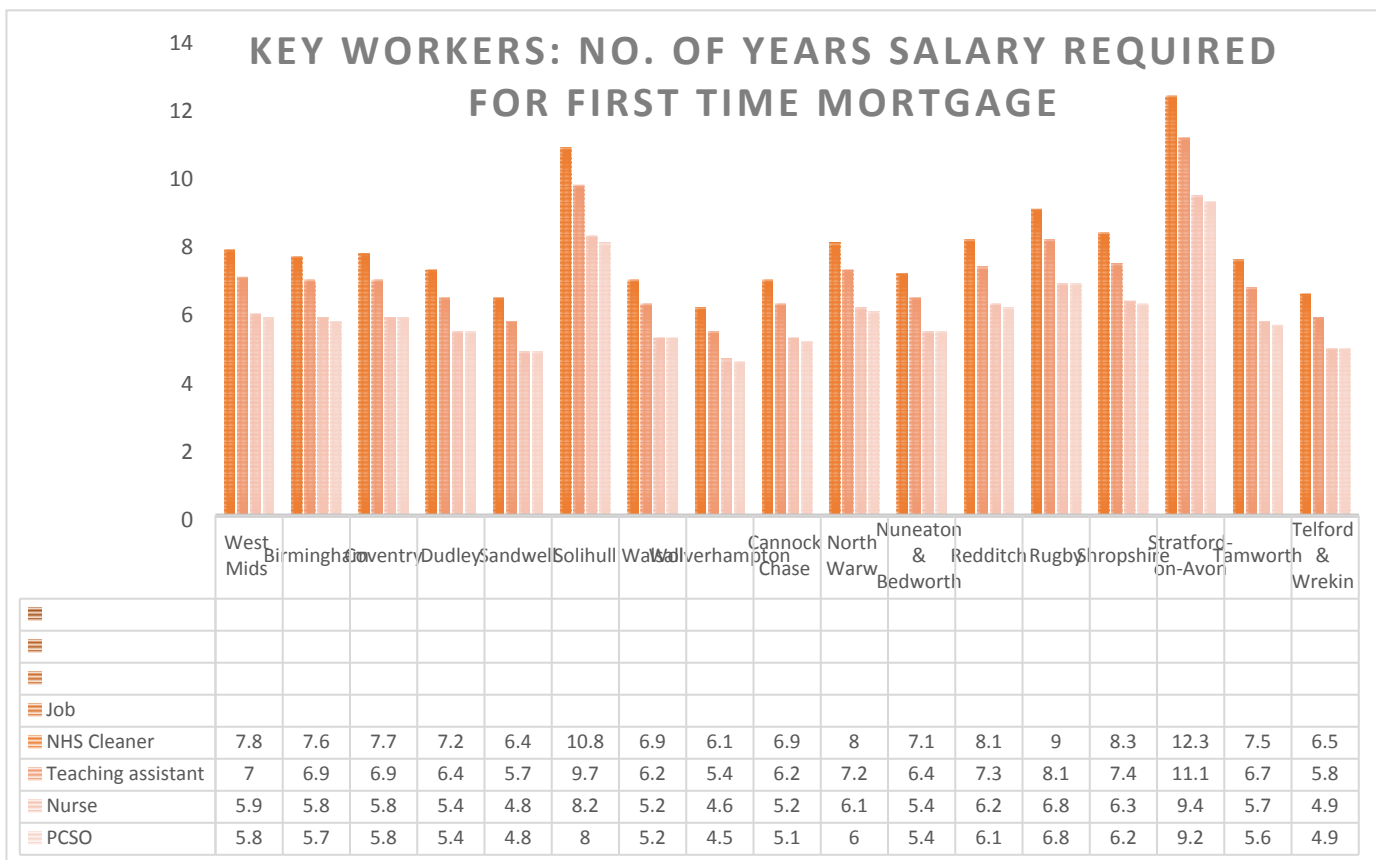


Figure 4: Key worker salary/mortgage analysis, source Unison

4.0 Rental market

- 4.1 The data and analysis in Section 3 above demonstrates some of the issues in the housing sales market. However, the national measure of affordability takes no account of the complex issues we see within the housing rental market.
- 4.2 The rented sector has seen considerable change and growth in recent years, as homeownership has become increasingly unattainable to a large proportion of the population. This has resulted in a growing number of households, including a large increase of families with dependants, living in the Private Rented Sector.
- 4.3 Alongside this growth in the private sector, the number of affordable and social homes being completed in the region has not kept pace with the overall increase in housing. The total of affordable homes completed in the WMCA area was 3,801 – of which 1,793 were within the 7 Met area. This shortfall of affordable supply is adding to the demand in the private rented sector.
- 4.4 The data illustrated in Figure 5 below shows the range of private rented prices across the seven metropolitan council areas of the WMCA, based on Valuation Office Agency data. This indicates the variation of local values and demand within the market, in particular highlighting the strong demand for small urban homes.

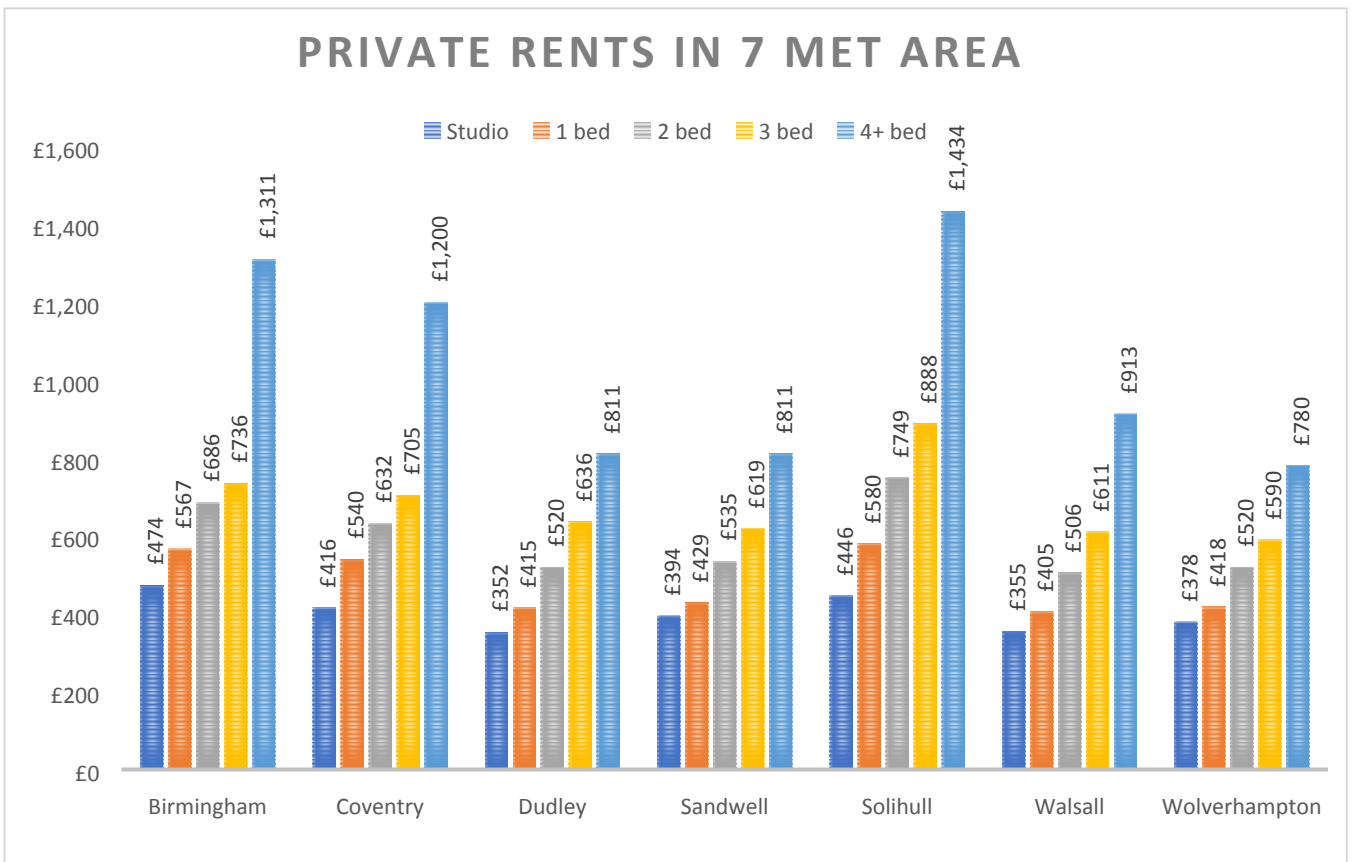


Figure 5: Private rental property prices for WM Metropolitan Council areas, source VAO analysis by Cushman & Wakefield.

4.5 Affordable housing provided by housing associations is a significant element of the regional market, with rents often set at considerably lower levels than other options. Figure 6 shows the average price variation between private rented sector and homes managed by registered providers, alongside the benchmark of 30% of household income, illustrating the broad picture across the 7 Met area. It should be noted that this data is available at overall average level only and therefore does not indicate size of property, household composition etc.

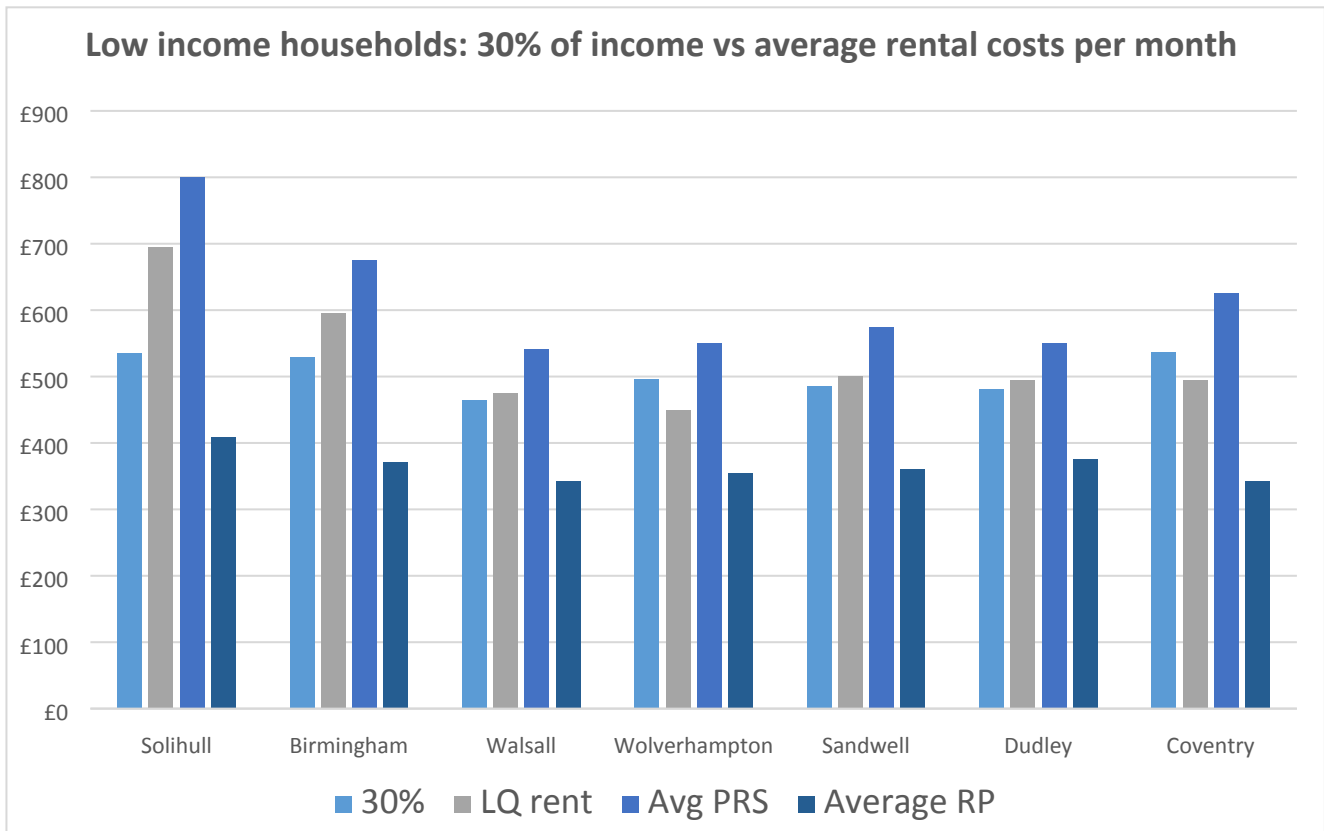


Figure 6: Low Income households and rental options, source data ONS.

- 4.6 In summary, the evidence above shows that the “one size fits all” approach of the National policy definition of affordability does not reflect the multi-dimensional factors that influence the costs of housing in the West Midlands for local people. In order to address the inaccessibility of both genuinely affordable rental properties and the growing gap between income levels and house prices, a regional approach needs to reflect a whole range of factors influencing affordability and housing market demand.
- 4.7 It is important to note that a proposed definition will be the first of its kind for a region in the UK and therefore, as with any trailblazing approach, there may be impacts and consequences that will need to be evaluated and reflected in due course. The research and engagement undertaken by the CA has identified a number of issues that will need to be closely monitored and mitigated for, including:
- Developer interest and stakeholder buy-in in the region
 - Potential displacement or substitution of existing supply
 - Existing affordable and social housing supply and pricing
 - Demand for specific products or types of affordable housing
 - Current and future housing mix and demand

5.0 Applying a local definition

- 5.1 The approach being proposed today to the Housing and Land Board learns from the beta testing since March 2019, the Board's steers in July 2019, the independent report we commissioned and feedback from practitioners, project sponsors, local councils, Homes England and the Homelessness Task Force. It focuses on broadening the definition of affordable housing on sites acquired or invested in by West Midlands Combined Authority, to include:
- a) A greater range of products available in the market, tailored for local demand and needs. For example, in areas local to major healthcare facilities, homes are to be provided which are affordable to defined groups of healthcare workers; or in areas with an education and learning focus, homes are affordable to those employed in the knowledge economy
 - b) A measure of local affordability related to lower quartile household income, to reflect the local market issues and incomes of residents.
- 5.2 This approach reflects both supply and demand in the affordable housing market, in order to address both the types of product available and the existing market factors influencing what is affordable at a local level. The table below sets out **some** of these elements to be factored into the appraisal process.

Supply "products"	Demand factors
"Key worker" housing	Local median income
Knowledge economy/ graduate housing	Local lower quartile income
Shared ownership	Tenure mix
Help to Own	Current social housing provision
Co-living	Market conditions/values
Social rent	Local employment
Affordable rent	Connectivity and proximity to assets

- 5.3 Alongside the criteria above, the importance of local income levels and tackling wide ranging concerns about the cost of living should be reflected by a measure of local income that reflects local circumstances. It is proposed that we set a target of 30-35% of lower quartile income levels in the local area, as set out in Table 1 below. This measure should remain flexible in order to reflect local market conditions and viability of schemes to ensure development is not hindered. However, the intent of the local income-based measure is fundamental to the distinctly localist approach of this definition.

	Low Income			
	Gross Earnings	30% Cap	35% Cap	Monthly equivalent rate
Solihull	£21,403	£6,420.90	£7,491.05	£535/624
Birmingham	£21,156	£6,346.80	£7,404.60	£529/617
Walsall	£18,571	£5,571.30	£6,499.85	£464/542
Wolverhampton	£19,847	£5,954.10	£6,946.45	£496/579
Sandwell	£19,415	£5,824.50	£6,795.25	£485/566
Dudley	£19,232	£5,769.60	£6,731.20	£481/561
Coventry	£21,473	£6,441.90	£7,515.55	£537/626
North Warwickshire	£20,768	£6,230.40	£7,268.80	£519/606
Stratford upon Avon	£22,253	£6,675.90	£7,788.55	£556/649
Rugby	£22,040	£6,612.00	£7,714.00	£551/643
Nuneaton & Bedworth	£19,796	£5,938.80	£6,928.60	£495/577
Tamworth	£18,581	£5,574.30	£6,503.35	£465/542
Redditch	£19,165	£5,749.50	£6,707.75	£479/559
Cannock Chase	£19,649	£5,894.70	£6,877.15	£491/573
Telford and Wrekin	£20,204	£6,061.20	£7,071.40	£505/589
Shropshire	£19,500	£5,850.00	£6,825.00	£488/569

Table 1: Low income quartile households monthly housing cost threshold, source Avison Young

How the definition will be implemented

- 5.4 The definition is intended to sit within the SCF funding programme to avoid direct competition with other affordable products and programmes (e.g. Homes England National Affordable Homes Programme) or affordable housing which is secured on a scheme by local planning authorities by way of the existing planning application process (Section 106).
- 5.5 Through the current SCF process, all schemes receiving WMCA funding that “include residential uses and involve 10 dwellings or more, or involve sites of 0.5 hectares or more” are required to meet a minimum provision of 20% affordable housing. As current schemes progress through negotiation and viability assessment, the proposed regional definition is being “soft tested” to assess market acceptance and take-up. Thus far, feedback from the real estate industry coming through the SCF has been positive about this requirement and the flexibility given by the proposed definition has been welcomed as a more bespoke and locally informed approach that enables increased supply of affordable homes.

- 5.6 The application of a regional definition informed by local context will require the consistent application of analysis at scheme assessment and viability appraisal stages (e.g. what constitutes “Key Worker” housing). This process will become a formalised element of scheme appraisals via the SCF and the Framework documentation will require amendments to reflect the adopted criteria, as agreed by Housing & Land Delivery Board in September 2019.
- 5.7 The WMCA will have responsibility for monitoring the implementation of the definition through the contractual obligations of agreements agreed via the Single Commissioning Framework, to ensure compliance with minimum thresholds and other criteria. As part of the monitoring and evaluation of the WMCAs Housing and Regeneration programmes, the impact and outcomes arising from the regional affordable housing definition would be reported on a regular basis to the Housing & Land Delivery Board to demonstrate effectiveness and value for money of the SCF investments. The criteria will be reviewed at regular intervals to ensure information is as current as possible in order to reflect local circumstances. This evidence will then be used to amend and refine the process as required and to encourage wider uptake of the definition subject to proof of concept.

6. Financial Implications

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.

7. 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.

There are no direct legal implications identified as a result of this report. However, the proposals set out in this report will have legal implications and risks in the future which will be considered at the appropriate time through future reports as necessary.

8. 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 affordable housing definition to help address inequalities and promote inclusion and equality for a wide range of groups.

9. Inclusive Growth Implications

The proposals for a regional affordable definition applied to the Single Commissioning Framework 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.

10. 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.

11. Other Implications

N/A

12. Schedule of Background Papers

"Housing Affordability: Regional Definition" Report to Housing & Land Delivery Board, July 2019.