EERF Rural Housing Sub Group

The Group met in January. Membership is representative of a good cross section of those involved in rural housing, though it is noted that there is only one member of the Rural Forum as a formal member of the group.

The main item of work is in support of the regional Rural Housing Strategy Action Plan. See below.

Graham Hedger, 1 March 2010

Rural Housing Strategy Action plan
Actions for EERF Rural Housing Sub Group

Introduction

The Rural Housing Sub Group is made up of representatives from Local Government Housing departments, Housing Associations, Rural Housing Enablers, Homes & Community Agency plus GoEast. The strategy has been produced as an aid for decision makers, helping them to understand some of the complexities of delivering affordable rural housing.

The strategy looks at six core elements; these six are taken from a basket of issues and problems currently facing rural housing providers: Sustainable funding models for RHE's, Alternative approaches to verification of Housing need, Alternative funding mechanisms, Availability of mortgage products for Shared Ownership, Reduce energy costs through the use of renewable energy technologies, The use of renewable energy technologies through the use of flexibility on the rent envelope.

In the prevailing economic conditions, affordable rural housing is a way of delivering homes where they are most needed. In this way, the homes are not as exposed to the harsh reality of the market as those on the private open market. In the past large numbers of section 106 houses delivered the affordable homes, these are now not being delivered in the numbers they once were.

Promoting and supporting rural housing is a way of ensuring stability in the house building industry. Contractors and developers are now working with affordable housing providers to replace the loss of their traditional building programme, delivering homes that address true need and helping to ensure sustainable communities and enabling generations of families stay close to their roots.

Housing as a subject is complex. It covers finance, legal, policy but more importantly it touches people's lives and it is proved that good housing improves health and well being. If policy can be tailored to help speed up the delivery of rural housing the end result will be healthier, vibrant, balanced rural communities.

The six items in this action plan provide a way, if adopted, of making communities more inclusive in the delivery process which would enable the process to work effectively and more efficiently. It may help to open up new funding opportunities and take the pressure off the public purse.

Actions

Key points of action 4

a) **Sustainable funding models for RHEs in agreement with RCCs**
b) **Alternative approaches to verification of housing need on exceptions site with planning policy support**
c) **Alternative funding mechanisms (cross subsidy from outright sale) with planning policy support**

Milestone – Sept 2009
Completion – March 2010

4a) Sustainable funding models for RHEs in agreement with RCCs

Since the withdrawal of DEFRA funding the region's RHEs has been based on the on-cost model with varying degrees of Local Authority contributions. Typically the RHEs receive half a percent of the land and build cost for new schemes that are delivered.

The on-cost model secures funding from the RP at the point of a scheme starting on site. With a steady programme of exceptions sites coming forward, an RHE can cover regular expenditure with the irregular but relatively large income points.

This model should drive delivery of exceptions sites, however the danger is that groups focus on securing funding and agreeing the RHEs scope of works.

Examples in the region that "top up" the RHE funding include payments at completion of Housing Needs Survey, consideration of a higher on-cost percentage and consideration of all rural housing delivered by RPs bringing forward an on cost to the RHE (including those where the RHE is not involved).

It is widely agreed that the RHEs independent nature and established link at a Parish level is vital in the delivery of exceptions sites. However the funding mechanism is not driving delivery and must be reworked, altering the focus of the RHEs not only on producing the Housing Needs survey, which as discussed at 4b is becoming less integral, but on actual delivery of homes.

This is especially poignant in the current climate with a marked decrease in Section 106 schemes delivering affordable housing, capacity issues being experienced by RPs and uncertainty over public funding levels.

The EERF Rural Housing Sub Group members, having supported the creation of the on-cost model when DEFRA funding was first withdrawn, believe that the on-cost model can work but will require a marked change in the role of the RHE.

The difficulty arises with the gap in funding that has arisen between the withdrawal of DEFRA funding and the delivery of schemes. This could have been bridged with pro-active delivery of a steady programme being in place before the withdrawal, unfortunately this opportunity has been missed. Another alternative is to seek initial contributions from partners to provide a "start-up" budget to bridge this gap. Again this would prove difficult with the tightening of financial positions and current perception of the RHE from some organisations.

It is clear that RPs are still delivering a number of exceptions site, in some cases without the RHEs involvement at all. It is with these schemes that the funding gap can be bridged. The RHEs role must move away from solely proving the need (which can often be undertaken in other ways) and to supporting the RPs through the process of site identification, public consultation and continued positive involvement of the community throughout the build and let of the homes.

Good work is being done, homes for local people are being delivered, but promotion of this is severely lacking. Providing this promotion and positive examples of schemes will encourage Parishes to approach the RHE, not vice-versa. Switching this relationship readdresses the traditional power balance, ensuring that Parish Council's are also committed to delivery. Altering this element will improve the timescales of delivery dramatically and in turn support the sustainability of the on cost model.

The payment to the RHE could potentially be split across the process, with payment in part of the on-cost at planning approval (reducing uncertainty relating to RP and HCA funding) and balance due at completion of the homes. This balances the RHEs risk fairly with the RPs whilst encouraging continued support at the point where the scheme has most impact on the parish. It is during the build where promotion has been lacking but where awareness is highest. The on-cost percentage needs to be reviewed on a regular basis to ensure income is matched to expenditure.

Action: Discussion of proposals with RHEs, LA and RP partners to agree and bring forward this method.

4b) Alternative approaches to verification of housing need on exceptions site with planning policy support

Traditionally exceptions sites have developed following a Parish Plan, with the housing needs survey being undertaken off the back of this. The timescale between the needs survey and the completion of the homes, together with the lack in expectation of delivery and low response rates has led to the appropriateness of completed surveys being queried at planning application stage. Clearly this is the point at which the survey is most crucial but could potentially be inaccurate.

A majority of organisations responsible for assessing housing need, including Local Authorities, have recently, and continue to, ensure the accuracy, comprehensiveness and timeliness of their data.

These increasingly robust housing registers can provide accurate data relating to local housing need, especially when coupled with promotion of a potential scheme within the parish capturing currently unregistered households. The move to Choice Based Lettings, in some areas has also improved the data held on the housing registers and this is now a extremely useful tool in identifying parishes with a local housing need.

Typically schemes are designed to accommodate around half of the established need and together with the robust housing register data, planning policy are able to support this approach, both under Local Plan policy and emerging LDF policy. There will still be instances where a Local Housing Needs Survey is necessary and we propose the additional cost is borne within the on-cost model.

Currently, some (including adopted) Core Strategies, have specifically written out the need for a Housing Needs Survey, “a proven local housing need for affordable housing as demonstrated in the Strategic Housing Market Assessment and waiting list information” (NNDC adopted Core Strategy). This should be strongly encouraged.

Case Study – Supplied by North Norfolk District Council

The need for affordable housing across the district was established in the Strategic Housing Market Assessment (Fordham’s Research, 2007). Housing need in specific areas (such as individual parishes) is determined through the housing register: all applicants on the register can indicate a desire to be re-housed in particular areas, which gives us information about their household type (single/OAP single, childless couple/OAP couple, family – including number of children). Information about the current housing stock will also help us to identify gaps in provision. For general need housing (say, as part of the s106 negotiations), these two sources of information is sufficient to determine a mix of dwellings that will meet the identified need in that particular area.

For rural exception schemes, we will examine the waiting list further, identifying only those households with a local connection (and ‘rejecting’ all those with no local connection to the parish or immediately adjoining civil parish). This detailed analysis and current stock information is used to arrive at a suitable mix on the rural scheme to meet the identified local need, which forms part of the discussions with the housing association, parish council, district councillor and planning department in the early stages of the scheme.

During consultation and discussion with the parish council, the publicity raised about the proposed scheme can help to flush out ‘hidden need’ in the parish. There are often households who have not bothered to join the housing register because there are so few existing housing association homes in the parish, they know that they would be unlikely to be re-housed there: if a new rural housing scheme looks likely to go ahead, there is usually an increase in applications from those with local connections to the parish (or immediately adjoining civil parish). Early publicity is therefore vital in getting the scheme right in terms of numbers and mix.

Once a planning application is submitted, Strategic Housing is formally consulted. We will respond to Planning with the information from the waiting list and the results of the detailed analysis to prove that the proposed mix meets the identified local housing need. The mix is often subjected to a great deal of scrutiny at Planning Committee, so it must be robust enough to meet the current identified need and yet still be flexible enough for future generations, since a second scheme is (in most cases) unlikely.

Action: No action required

4c) Alternative funding mechanisms (cross subsidy from outright sale) with planning policy support

Due to their location and typical small numbers, exceptions sites have been expensive to develop and are typically funded by HCA social housing grant, RPs own funding and occasionally with some LA support. The squeeze on public funding and pressure on spend in larger towns and cities will reduce the rural housing funding pot and alternative funding avenues need to be accessed.

Cross subsidy from private sale units within the exceptions site could be a potential solution, although to provide a fully grant free scheme the worked example below indicates that one private sale would be needed to support each affordable housing unit. This is based on average cost figures but the required sales value is unlikely to be achieved in all instances.

Average total cost of exceptions site house	<u>£123,000</u>
Average social housing grant	£55,000
Average RP funding	£68,000
Average total cost of exceptions site unit	£123,000
Developer profit (risk factor for RP) @ 10%	£12,300
Additional profit to support 1 AH unit	<u>£55,000</u>
Required sales value	£190,300

An option to be further explored would be for RPs to work in partnership with a house builder / developer who would take on of the outright sale units and built out the entire scheme. This approach could potentially reduce build cost and developer profit margins, decreasing total costs and increasing the ratio of outright sale to affordable. This approach must not lead to a reduction in quality of the homes and control of delivery by either an RP or the LA.

Planning policy, both existing and emerging, does not support cross subsidy, see below policy wording examples of emerging core strategies:

“Ensures that all dwellings will remain as affordable hosing and exclusively for local need, in perpetuity”

“The affordable housing provided is made available to people in local need at an affordable cost for the life of the property”

“The site shall be subject to a legal agreement with the District Council, which provides for permanent control and management to ensure the retention of proposals for local need”

The premise for exceptions sites is to provide local housing in perpetuity, which some policies specifically reference. Clearly it would be impractical and unwise to restrict outright sale units to local people, which would severely restrict mortgage opportunities and discourage purchasers. However early discussions are taking place with Local Authorities to deliver a cross subsidy scheme regardless of these statements.

Exceptions policy as it stands is already a source of contention and allowing outright sale units would cause further confusion and debate. Land owner expectations are already higher than the typical exceptions developments can support. They are likely to expect a greater land value and potentially less willing to accept the exceptions value knowing that half of the homes will be sold at around £200,000.

Further work needs to be undertaken to explore the principles with planning policy officers. Potentially similar cost models that developers produce regarding negotiation of Section 106 contributions could take place. If alternative sources of subsidy are unavailable a cross-subsidy proposal could be made, led on a purely financial basis,

Another strategy to tackle this issue, which may arise when emerging LDFs are fully adopted, is to impose local restrictions on developer led Section 106 sites in rural areas. Many Local Authorities are pushing for 40% on site provision, which is not dissimilar to the 1 for 1 ration explored above. Although not addressing general housing need, local lettings on small rural Section 106s will achieve the same benefits as exceptions sites but at a significantly lower cost to the public purse.

Where Section 106 schemes are progressed in areas of low local housing need, general needs homes can be provided or alternatively a commuted sum. This can restrict delivery to where allocated sites exist with the main driver being for outright sale.

The EERF Rural Housing Sub Group members would raise concern over Community Land Trusts as being a "red herring" to the delivery of affordable homes for local people.

Action: Discussion of cross subsidy schemes with planning policy officers and house builders / developers

Key points of action 5

a) **Monitor and investigate the availability of mortgage products for shared ownership where staircasing caps exist**
b) **Investigate ways to remove potential blockages**

Completion – March 2010

5a) Monitor and investigate the availability of mortgage products for shared ownership where staircasing caps exist

The growth in number of shared ownership homes with staircasing restrictions exist as a result of HCA funding requirements on exceptions sites highlighted the issues that these clauses give to mortgage lenders. Also, planning requirements for guaranteed availability in perpetuity has added to this growth.

Although the number of these homes currently available, the necessity to tackle this issue is still prominent.

In the current market, only Halifax and Nationwide are offering mortgages on such schemes. They are also requesting a higher deposit as compared to unrestricted shared ownership. The Ipswich Building Society, who have traditionally lent to this market specifically have currently withdrawn all shared ownership mortgage products.

The mortgage market is currently difficult to monitor, although signed of increased stability are beginning to appear. Experiences of mortgage offers being withdrawn due to removal of the product from the market, before completion has taken place has ceased.

The Council of Mortgage Lenders have been approached previously with regards to this specific issue and little positive outcome was achieved. Although it is now standard practice to include Mortgagee in Possession Clauses in the necessary legal documents to ensure this issue does not affect mortgage availability.

When mortgage availability increases once more, a formal approach to major lenders, potentially focusing on Building Societies through the Building Society's Association, should be made to increase their awareness and understanding of shared ownership products in general, and specifically the staircasing restriction. It is clear these products are seen as sub-prime lending by mortgage providers. However, there are benefits to lending to shared owners which are probably unknown or unappreciated by the lenders and this needs to be addressed.

The method of approach and who should make the approach needs to be discussed by the group.
The FSAs restrictions require lenders to limit expenditure on shared ownership products, totally misunderstanding the low risk of the product.

Action: Formal approach to FSA, BSA and other major lenders to raise awareness

5b) Investigate ways to remove potential blockages

The main blockages to availability of mortgage products for shared ownership where staircasing caps exist are the mortgage lenders themselves. The action for 5a will attempt to remove this issue.

Similar approaches could be made to smaller, locally based lenders, with a view working in partnership on these small rural schemes.

Alternative lending sources could be investigated, including Local Authorities who may have capital funding available and wish to invest in this way.

As above, the FSA need to be challenged on their classification of shared ownership lending, the HCA, LGA and NHF would be key bodies to drive this.

Action: Approach locally based mortgage lenders and Local Authorities. Lobby FSA via appropriate routes.

Key points of action 6

- **a) Promote to landlords reduced energy costs through the use of renewable energy technologies**
- **b) Promote to tenants reduced energy costs through the use of renewable energy technologies through the use of flexibility on the rent envelope**

Completion – December 2009

6a) Promote to landlords reduced energy costs through the use of renewable energy technologies

RPs through their HCA funded rural programme are delivering new homes to a minimum of Code for Sustainable Homes level 3. To achieve Code level 3 where main gas is not available, which is likely to be the case for rural sites, alternative heating methods have to be considered. Typically the use of electric-wet systems combined with solar thermal water heating can achieve Code 3. However this can be costly to run, especially if residents do not take advantage of the lower tariffs (e.g. Economy 18) which are only offered by a few energy providers.

Increasingly common, however, in rural areas is the use of air-source heat pumps and also ground source heat-pumps to achieve Code level 3 and above. These are comparatively more expensive than traditional heating systems in terms of initial capital cost, however there are significant cost savings for the end user.

Installations are therefore taking place across a majority of new affordable rural homes (and some retro-fits to existing rural properties) to assist with Rural Fuel poverty issues. It is clear from rent arrears that those on oil heating in rural areas have chosen to cut back on spending, with the rent being the first to be hit. It is therefore evident that the increased initial capital costs are balanced from the longer-term ability of residents to heat their homes at reasonable levels.

The group believes that this action had been undertaken by RPs as a result of the introduction of Code for Sustainable Homes and the increase to deliver to Code 4 from April 2011.

Action: No action

6b) Promote to tenants reduced energy costs through the use of renewable energy technologies through the use of flexibility on the rent envelope

The rent restructuring formula does not currently allow for RPs to inflate rents to reflect lower running costs provided by newly built homes, nor for those using a renewable energy source for all or part of their heating.

The rent formula is based on county-wide, average earnings and January 1999 property valuations. The January 1999 valuations are slightly inflated where a high degree of environmental sustainability is installed, but this is not proportionate to the capital spend required to achieve this position.

The current system is unfair, leading to some tenants benefiting completely from large reductions in energy bills, whilst RP budgets to roll out these works to other properties and therefore tenants is extremely limited. Potentially, neighbouring tenants in equally inefficient properties would then be left with the same rent levels and far higher fuel bills.

However, RPs can adopt a policy to utilise the 5% rent envelope to capture this element. The sharing of energy bill savings across tenants and RPs alike resulting from environmental improvement works could have real impact. Tenants save money and the RP would receive greater rental income to roll out for improvements to neighbouring properties. This can be done now and we would encourage it.

The CLG need to appreciate this stand point and the NHF and LGA would be suitable bodies to lobby this point. An incentive system to encourage green investment through providing benefits through the rent setting formula could be adopted.

Action: Raise awareness of the CLG via NHF and LGA lobbing to promote incentive systems and rent restructure relating to sustainable improved properties.