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| Item No. 7. | Classification: Open | Date: 20 December 2011 | Meeting Name: Planning Committee |
| Report title: | | Clarification of Southwark's affordable housing planning policies | |
| Ward(s) or groups affected: | | All | |
| From: | | Strategic Director of Regeneration & Neighbourhoods | |

RECOMMENDATION

1. That planning committee note for information:
 - Clarification of Southwark's affordable housing planning policies.
 - Background to the national and regional changes to affordable housing.

BACKGROUND INFORMATION

2. The Core Strategy (2011), saved Southwark Plan (2007) and area actions plans set out the council's planning policies on affordable housing. The adopted (2008) and draft (2011) Affordable Housing supplementary planning documents (SPDs) set out more detailed guidance on implementing the affordable housing policies.
3. Since adopting the Core Strategy and preparing the revised Affordable Housing SPD 2011, national government has made changes to the definition and delivery of affordable housing. These changes are now being reflected in regional policy.
4. This report is for information to clarify Southwark's affordable housing policies. It does not introduce or amend existing planning policies. It also provides a background to the national and regional changes to affordable housing.

Changes to national and regional policy

5. The most important change introduced by national government, which will have an impact of the delivery of affordable homes in Southwark, is the introduction of a new type of affordable housing called affordable rent. Affordable rent is a type of affordable housing offered at up to 80% of the local market rent and for a tenancy that can range from two years to a lifetime. Affordable rent will be offered by registered providers of social housing through the usual lettings/nominations process to new tenants.
6. The council has commented on the consultation documents introducing this new type of affordable housing. In January 2011. The council responded to the Government's consultation on its White Paper "Local Decisions: Fairer Future for Social Housing". The White Paper outlined the planned introduction of "affordable" flexible tenure rents. Although the consultation did not seek specific views on allowing registered providers to charge up to 80% market rents, the council's response noted serious concerns relating to how affordable rent would work in this borough. One of our biggest concerns was the affordability of the product for those people on our waiting list. Our initial modeling showed that it would be unlikely for rent to be affordable to people on our waiting list, particularly those in need of family homes. Therefore the response commented that the council would not support registered providers providing up to 80% market rents in Southwark.

7. In February 2011, the Homes and Communities Agency ('HCA') published its '*2011-2015 Affordable Homes Programme – Framework*', setting out its approach to funding the provision of new affordable housing. The *Framework* document also set out the government's intention to largely replace social rented housing with a new tenure, *affordable rent*, at rents of up to 80% of market rents.
8. This new tenure was then consulted as an update to Planning Policy Statement 3 (PPS3) in March 2011. The draft PPS3 included affordable rent as a type of affordable housing, alongside social rent and intermediate. It set out that it cannot be classed as intermediate housing, but is a separate type of affordable housing. The council put in a response to the amendment to highlight the concern of affordable rent and that we did not feel that the product would be affordable to the majority of current housing applicants in Southwark.
9. However, the amended PPS3 was adopted in June 2011, introducing the third type of affordable housing. Subsequently the National Planning Policy Framework was released, which will eventually replace all the PPSs including PPS3, and again includes affordable rent as a type of affordable housing. The council put in a response to this consultation.
10. The Mayor of London has subsequently produced two consultation documents to take into account the changes to PPS3 and affordable rent. His adopted London Plan (July 2011) does not include policies on affordable rent, but acknowledges that an early alteration will soon be produced to take it into account. He is currently consulting on a minor early alteration to the London Plan which recognises affordable rent as a type of affordable housing, and requires boroughs to group affordable rent within the target for social rented housing. He is also consulting on an affordable housing supplementary planning guidance note which provides information on how to consider affordable rent as part of the adopted London Plan. The council will be putting in responses on both these consultation documents.
11. Alongside the changes to national planning policy, there are a number of wider changes that will affect the delivery and affordability of affordable housing relating to the welfare system.

Welfare changes

12. From 1 April 2011, for all new claimants, Local Housing Allowance was reduced from the median to the 30th Percentile of the Broad Rental Market Area. Existing claimants (assuming there has been no change in their circumstances), have transitional protection of 9 months after their first yearly review date after the change was introduced in April 2011. This means that for those whose review date was in April 2011 their benefit will reflect the new LHA rates from January 2012, and those with a review date of March 2012 will see their benefit reflecting the new LHA rates in December 2012.
13. From October 2013, Universal Credit (UC) will replace most current working age benefits. For non working households a cap will be placed on the maximum amount payable; currently understood to be £350 per week for a single person household and £500 per week for a couple / family household; this includes all housing costs.
14. The UC cap will have a disproportionate affect on London residents, particularly those residing in inner London boroughs such as Southwark, as no allowance has been made for the higher living costs associated with living in the capital.

15. Initial modeling of the impact of the introduction of Universal Credit provides the data in the table below. As an example, it shows that a couple with two children in a two bedroom flat could afford to pay £251.91 a week once Universal Credit is introduced. This would mean they could potentially afford to pay a maximum of 67% of market rent.

Figures based on Southwark weekly averages. Housing element of UC is based on UC cap minus total claimed benefits excluding housing costs. Modeling data may change with further information and Government policy clarification.

| Household & Bedroom need | Maximum Housing element of UC | LHA rate (August 2011) | Target rent | Market rent (2010/11 Q4) | Affordable rent (80%) | Max % of Market Rent that is affordable. |
|--------------------------|-------------------------------|------------------------|-------------|--------------------------|-----------------------|--|
| 1 Bed | | | | | | |
| Single, 35+ | 284.55 | 184.62 | 96.88 | 284.95 | 227.96 | 100% |
| Couple | 397.25 | 184.62 | 96.88 | 284.95 | 227.96 | 139% |
| 2 Bed | | | | | | |
| Couple + 1C | 315.89 | 230.77 | 110.76 | 375.11 | 300.09 | 84% |
| Couple + 2C | 251.91 | 230.77 | 110.76 | 375.11 | 300.09 | 67% |
| Lone + 1C | 353.19 | 230.77 | 110.76 | 375.11 | 300.09 | 94% |
| Lone + 2C | 289.21 | 230.77 | 110.76 | 375.11 | 300.09 | 77% |
| 3 Bed | | | | | | |
| Couple + 3C | 187.93 | 288.46 | 124.18 | 427.77 | 342.22 | 44% |
| Couple + 4C | 123.95 | 288.46 | 124.18 | 427.77 | 342.22 | 29% |
| Lone + 3C | 225.23 | 288.46 | 124.18 | 427.77 | 342.22 | 53% |
| Lone + 4C | 161.25 | 288.46 | 124.18 | 427.77 | 342.22 | 38% |
| 4 Bed | | | | | | |
| Couple + 5C | 59.97 | 369.23 | 139.69 | 572.44 | 457.95 | 10% |
| Couple + 6C | -4.01 | 369.23 | 139.69 | 572.44 | 457.95 | -1% |
| Lone + 5C | 97.27 | 369.23 | 139.69 | 572.44 | 457.95 | 17% |
| Lone + 6C | 33.29 | 369.23 | 139.69 | 572.44 | 457.95 | 6% |

16. For comparison, the table below sets out average weekly market rent across the borough's nine postcodes and for different sized dwellings.

Average weekly market rents 2010-2011

| Area | Studio | 1 | 2 | 3 | 4+ |
|-----------|--------|--------|--------|--------|--------|
| Southwark | 206.99 | 275.35 | 354.76 | 409.10 | 545.64 |
| SE1 | 266.01 | 354.69 | 452.10 | 523.39 | 578.29 |
| SE5 | 147.19 | 210.16 | 264.99 | 320.38 | 516.99 |
| SE11 | 182.11 | 285.35 | 368.44 | 434.59 | 676.35 |
| SE15 | 168.11 | 202.45 | 264.43 | 325.97 | 465.85 |
| SE16 | 211.23 | 253.56 | 334.71 | 455.24 | 547.02 |
| SE17 | 210.43 | 264.74 | 329.97 | 387.14 | 492.71 |
| SE21 | 160.99 | 193.00 | 272.52 | 312.28 | 621.02 |
| SE22 | 172.50 | 205.79 | 284.67 | 341.64 | 537.07 |
| SE24 | 147.88 | 205.68 | 270.59 | 312.05 | 610.15 |

Social housing grant

17. Historically Southwark has had the policy position of only supporting social housing grant for affordable housing provision in addition to the policy requirement (i.e. anything above the minimum 35% affordable housing policy). However, since the

recession we have supported social housing grant to encourage the delivery of more affordable home.

18. The grant process and allocations has been restructured by the Homes and Communities Agency, with changes that will affect the viability of delivery social rented homes in Southwark.
19. Under the 2008-11 National Affordable Homes Programme the average social housing grant was £120,000 per unit for social rent and £36,000 per unit for intermediate housing .Under the 2011-15 Affordable Homes Programme registered providers (RPs) in London requested funding from the HCA on the basis of an average of £33,600 for affordable rent and £15,400 per unit for intermediate housing. Charging rents of up to 80% of market rent on both new build and a proportion of relets assists RPs to bridge the gap in funding created by the reduction in grant.
20. Eleven RPs that work in Southwark have signed contracts with the HCA to deliver the 2011-15 Affordable Homes Programme. This includes all the major RPs currently developing in Southwark.
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CONSULTATION

22. The Planning and Compulsory Purchase Act 2004 (as amended by the Planning Act 2008) and our Statement of Community Involvement (2008) require consultation to be ongoing and informal to guide the overall approach to consultation on planning policy documents.
23. This committee report is clarifying the planning policy position in light of recent changes, and is not introducing new policy. The Core Strategy, saved Southwark Plan, area action plans and affordable housing SPDs were all consulted on in accordance with the Statement of Community Involvement.

KEY ISSUES FOR CONSIDERATION

Emerging policy

24. The changes outlined in the background section of this report, including changes to welfare and social housing grant will all have an impact on the delivery, viability and affordability of affordable housing. The changes in national policy to include affordable rent also need to be considered.
25. As well as the national government adoption of affordable rent in PPS3, the draft National Planning Policy Framework (NPPF) includes affordable rent as a type of affordable housing. However, neither document sets out detailed guidance on how local authorities should take affordable rent into account in their planning policies.
26. Regional policy through the adopted London Plan (2011) does not include policies on affordable rent, but acknowledges that the Mayor will be consulting on an alteration to the London Plan to take this into account. The early alteration to the London Plan is currently out for consultation until the 20 December, and the council is putting in a response to the consultation document. The Mayor is also consulting on a draft Housing supplementary planning guidance note until February 2012.

Clarification of Southwark's affordable housing planning policies

27. Core Strategy policy 6 requires as much affordable housing on developments of 10 or more units as is financially viable. It requires a minimum of 35% affordable housing units.
28. The Core Strategy also defines what is meant by affordable housing, to include two types of affordable housing: social rented and intermediate housing. Saved Southwark Plan policy 4.4 sets out the required tenure mix within the required affordable housing. It requires a tenure split of 70% social rented and 30% intermediate housing across the majority of the borough.
29. Where the policy minimum requirement cannot be met, applicants are required to submit a financial appraisal to demonstrate why the policy requirement or mix of affordable housing cannot be delivered. The council will look at the financial appraisal and the scheme on a case by case basis.
30. We have carried out a number of studies that support this approach. Firstly, it is important to note that the existing Core Strategy and saved Southwark Plan policies are based on a balance between meeting the large need for more affordable housing in Southwark and ensuring schemes are viable and can be delivered. Evidence underpinning the Core Strategy looked at housing need and viability, specifically the Strategic Housing Market Assessment (2010), Southwark Housing Requirements Study (2009) and the Affordable Housing Viability Study (2010). The studies highlight the need for more affordable housing in Southwark, particularly more social rented housing and also highlight the low average income of those in housing need.
31. Following the introduction of the idea of affordable rent, we carried out some initial modeling to look at the impact of charging up to 80% of market rent. Our initial modeling showed that up to 80% of market rent is unlikely to be affordable to the majority of current housing applicants in Southwark, particularly those requiring larger family homes. We provided information on this as part of our responses to national government consultations.
32. We also carried out two detailed studies to consider the impact of affordable rent. The initial study: Affordable Rent in Southwark looks at the affordability of affordable rent across the nine different postcode areas of Southwark. It models a range of scenarios from 40% to 80% market rents for one, two, three and four bedrooms dwellings. It reinforces our initial modeling, showing that it will be very difficult for people in housing need to afford the affordable rent model, particularly family homes.
33. The second study: Impact of the affordable rent tenure on the viability of developments in Southwark, looks at the viability of affordable rent in Southwark. It builds on the work in the initial study, looking at the viability of a number of options across the nine postcodes. The study recommends maintaining our existing policy of a split between social rent and intermediate, and requiring a financial appraisal to justify a departure from our adopted policy.
34. Each study built on our existing evidence which justified the adopted Southwark policies on affordable housing. Both the further studies reinforce the appropriateness of continuing to apply the existing adopted policies to ensure that the housing built meets our housing need.

Exceptions to policy

35. There may be cases where the financial appraisal justifies to the satisfaction of the council, that the policy requirement of amount or mix of affordable housing cannot be delivered.
36. In these cases we will look at the scheme on a case by case basis.
37. In April 2011, the council wrote to all the registered providers active in Southwark, setting out options that should be applied in light of the national changes introducing affordable rent, reducing grant funding and the changes to the welfare system.
38. The options set out in the letter, from Councillor Fiona Colley, Cabinet Member for Regeneration and Corporate Strategy, dated 15 April 2011, should still be applied when the policy requirement cannot be met.
39. The options are:

Option 1

- Developing properties at a percentage of market rent that is significantly less than 80%, by use of cross subsidy.

Option 2

- Providing the majority of new build (e.g. 75%) at 'affordable rent', to enable the provision of some social rented homes (e.g. 25%)

Option 3

- Concentrating on providing one and two bed homes at up to 80% market rent level on the basis of providing three bed plus homes at social rent.

40. These options will help to ensure that where the policy requirement cannot be met, we continue to prioritise the delivery of affordable housing that meets our underlying housing need.

Next steps

41. In the draft Affordable Housing SPD 2011 we set out that we would look at the implications on the new definition of affordable housing for Southwark as part of the consultation on the SPD. Having done this through the production of our two further studies, we are currently maintaining the Core Strategy, saved Southwark Plan and area action plan policies, supporting by the Affordable Housing SPDs.
42. We will review whether this continues to be the case as the emerging national and regional policies become adopted policy.
43. We are proposing to consult on an updated draft Affordable Housing SPD (to replace both the draft 2011 and adopted 2008 versions) in spring 2012. At this point the National Planning Policy Framework should be adopted and the Mayor of London may have adopted his Housing SPG, providing more clarity on the wider policy position. This will be an appropriate time to consider whether we need more guidance in our Affordable Housing SPD.

Community impact statement

44. This report is clarifying existing policy and does not introduce new policy or guidance. Sustainability appraisals and equality impact assessments have already been carried out for the Core Strategy and area action plan policies.

BACKGROUND DOCUMENTS

| Background paper | Held at | Contact |
|--|--|---------------------------------|
| Core strategy April 2011 | Regeneration and Neighbourhoods | Sandra Warren 0207 525 5471 |
| Saved Southwark Plan 2007 | Department 5 th Floor | Sandra Warren 0207 525 5471 |
| Affordable Housing supplementary planning document 2008 | 160 Tooley Street London SE1 2QH | Sandra Warren 0207 525 5471 |
| Draft Affordable Housing supplementary planning document 2011 | | Sandra Warren 0207 525 5471 |
| Statement of Community Involvement 2008 | | Sandra Warren 0207 525 5471 |
| Background study: Affordable Rent in Southwark | Regeneration and Neighbourhoods | Alison Squires 020 7525 5644 |
| Background study: Impact of the affordable rent tenure on the viability of developments in Southwark | Department 5 th Floor 160 Tooley Street London SE1 2QH | Alison Squires 020 7525 5644 |

APPENDICES

| Appendix | |
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| None | |

AUDIT TRAIL

| | | |
|---|--|--------------------------|
| Lead Officer | Steven Platts, Strategic Director of Regeneration & Neighbourhoods | |
| Report Author | Alison Squires, Team Leader Planning Policy | |
| Version | Final | |
| Dated | 8 December 2011 | |
| Key Decision? | No | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER | | |
| Officer Title | Comments sought | Comments included |
| Strategic Director of Communities, Law & Governance | Yes | No |
| Departmental Finance Manager | Yes | Yes |
| Cabinet Member | Yes | No |
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