



GL Hearn

Part of Capita Real Estate

Affordable Housing Background Paper

**Nuneaton and Bedworth Borough
Council**

Final Report

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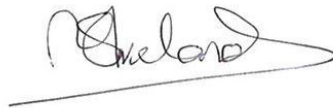
DATE

April 2016

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A handwritten signature in black ink, appearing to read 'Nick Ireland', is written over a horizontal line. The signature is cursive and stylized.

Limitations

This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of GL Hearn; we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.

1 INTRODUCTION

1.1 This background paper reviews evidence regarding the need for affordable housing, and development viability; and uses this to consider appropriate policies for affordable housing provision in the Borough Plan.

2 HOUSING NEEDS EVIDENCE

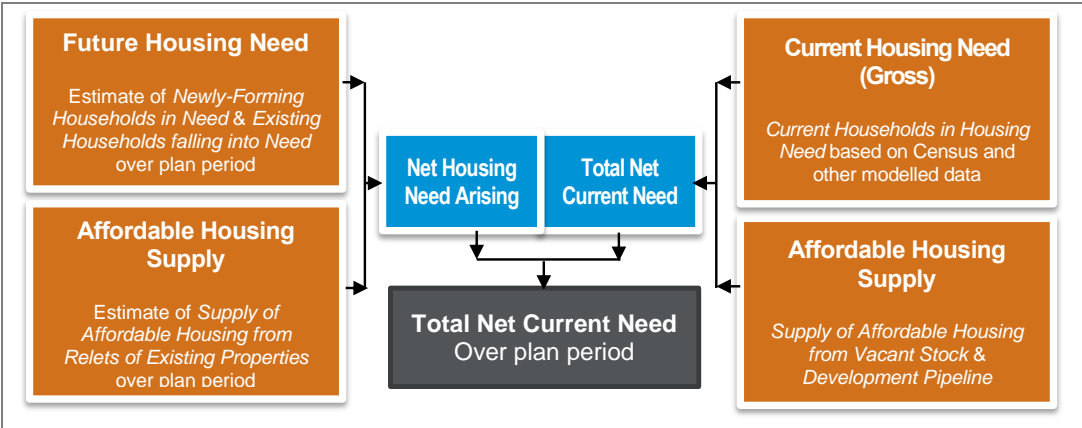
2.1 The latest assessment of the need for affordable housing is set out in the “*Updated Assessment of Housing Need: Coventry-Warwickshire HMA*” report prepared by GL Hearn (September 2015).

2.2 The SHMA uses the ‘Basic Needs Assessment Model’ set out in Planning Practice Guidance on Housing and Economic Development Needs Assessments to consider what need exists for affordable housing in the Borough.

2.3 The report defines affordable housing as ‘social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market.’ It assesses need based on considering whether households could either afford to rent or buy market housing without financial support.

2.4 The “Basic Needs Assessment Model” considers current households who would require support in meeting their housing needs. These households are eligible for affordable housing. It then considers the needs arising on an annual basis, both from newly-forming households, and from existing households falling into need. This is compared with the expected annual supply, based on the turnover of the current stock of affordable housing. The model is summarised in the diagram below.

Figure 1: Overview of Basic Needs Assessment Model



- 2.5 As with any model, the outputs are influenced by the inputs and key assumptions made within the modelling. The modelling of affordable housing need is particularly sensitive to the assumptions made on what proportion of households' income they might reasonably be expected to spend on housing costs; and over what period it is expected that the current housing need is addressed.
- 2.6 To ensure that there was a read across to overall housing targets, the GL Hearn modelling in the *Updated Assessment of Housing Need* report did not include figures for affordable housing in the development pipeline.

Interrogating the SHMA Evidence

- 2.7 The assessment of current housing need was based on modelling which took into account numbers of concealed households, those in overcrowded and temporary accommodation; and estimates of other households in need, taking account of the tenure profile and housing affordability. Newly-forming households were calculated using demographic modelling with an affordability test then applied; and those falling into need calculated based on flows shown from CORE data. This was then compared against supply through relets of current stock.
- 2.8 Both sides of the modelling excluded 'transfers' of households within the affordable housing stock as the modelling was focused on deriving outputs on overall housing need, and meeting the needs of current tenants (such as for an alternative size/ type of property) was expected to release a home which could be occupied by another household. Transfers were excluded on both the need and supply sides of the modelling.
- 2.9 We have sought to consider below key factors in the modelling which the needs assessment is sensitive to:

What proportion of income should households spend on housing costs?

- 2.10 The affordable housing modelling is particularly sensitive to what proportion of income households might spend on housing costs. The table below shows the net affordable housing need based on households spending different proportions of their gross income on housing – from 25% to 40%.

Table 1: Annual Affordable Housing Need – Nuneaton and Bedworth Borough

	@25%	@30%	@35%	@40%
Current need	53	46	40	35
Newly forming households	473	388	321	261
Existing households falling into need	254	230	206	186
Total gross need	779	664	566	482
Supply from relets	481	481	481	481

Net affordable need (pa)	298	183	85	1
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2.11 The analysis shows that the affordable housing need, expressed per annum over the 2011-31 period would vary between a negligible level if households were expected to spend 40% of their income on housing costs; through to a need for 298 affordable homes per annum if it is considered appropriate that households do not spend more than 25% of their income on housing costs.

2.12 The key issue is therefore what is a reasonable assumption on what proportion of income households might spend? The Planning Practice Guidance is not prescriptive on this. However the previous 2007 Government Practice Guidance on Strategic Housing Market Assessments was more specific setting out that:

“A household can be considered able to afford market house renting in cases where the rent payable was up to 25 per cent of their gross household income. The ‘Rent Payable’ figure is defined as the entire rent due, even if it is partially or entirely met by housing benefit. Other housing-related costs, such as council tax and utility bills should not be included. As in the case of assessing home ownership, housing market partnerships will need to consider that what is affordable may vary (e.g. a higher percentage may be affordable for someone on a higher income). Local circumstances could justify a figure other than 25 per cent of gross household income being used.”

2.13 Critically this recognises the inter-relationship between the income profile in an area, and what proportion of incomes households might reasonably be expected to spend on housing costs. Those on higher incomes could afford to spend a higher proportion of their income on housing, whilst still leaving them with sufficient “residual income” to live on (i.e. to cover wider living expenses), than for instance could lower income households.

2.14 Whilst there is no right or wrong answer to what proportion of income households might spend, some international examples are useful. Whilst there is not a defined standard within the UK, we have found examples where other countries or organisations have defined appropriate standards. These include:

- **European Union – Housing Cost Overburden Rate** – defined as percentage of the population living in households where the total housing costs ('net' of housing allowances) represent more than 40% of disposable income ('net' of housing allowances).
- **Other Countries** – in the US and Canada a commonly accepted guideline is that housing cost does not exceed 30% of gross income. India uses 40% (although arguably the situation in India is likely to be quite different to the UK).

2.15 In considering what threshold to apply to Nuneaton and Bedworth, it is instructive therefore to consider how housing costs compare to other areas nationally and to consider what this might suggest regarding the potential income threshold which might be applied.

- 2.16 Firstly, the OAN Report analysis showed that the median income in Nuneaton and Bedworth was below the HMA average. On the basis that the core analysis in the SHMA assumes that households might spend up to 35% of gross income on housing costs, it may therefore be appropriate for an assessment looking at Nuneaton and Bedworth specifically to use a lower threshold.

Table 2: Gross Household Income Levels by Local Authority

	Mean income	Median income
Coventry	£30,141	£22,925
North Warwickshire	£34,116	£25,948
Nuneaton & Bedworth	£33,434	£25,429
Rugby	£36,873	£28,045
Stratford-on-Avon	£39,438	£29,996
Warwick	£39,344	£29,925
Coventry/Warwickshire	£34,543	£26,057

- 2.17 The table below compares entry-level private sector housing costs across Warwickshire. It shows lower quartile rents per calendar month. The average monthly rent in Nuneaton & Bedworth at £425 PCM is similar to Coventry, but below levels in other authorities in the HMA. The level is also below regional (£450) and national (£475) rental benchmarks.

Table 3: Average LQ rents (all sizes) year to March 2015 (pcm)

	Rent PCM
Coventry	£425
North Warwickshire	£495
Nuneaton & Bedworth	£425
Rugby	£495
Stratford-on-Avon	£625
Warwick	£550

Source: VOA

- 2.18 We can then look at relative housing costs compared to the regional level, and other benchmarks. The lowest rental levels nationally are in Liverpool (£325 PCM); with the lowest in the region in Stoke-on-Trent (£375 PCM). If each of these areas are used as a 25% benchmark then to achieve the same level of residual income would imply the following proportions of income to be spent on housing.

Table 4: Benchmarking Affordability Thresholds

	England	West Midlands	Stoke	Liverpool
Coventry	22%	24%	28%	33%
North Warwickshire	26%	28%	33%	38%
Nuneaton & Bedworth	22%	24%	28%	33%
Rugby	26%	28%	33%	38%

Stratford-on-Avon	33%	35%	42%	48%
Warwick	29%	31%	37%	42%
Average	26%	28%	34%	39%

2.19 If a 25% threshold is considered appropriate in Stoke-on-Trent and Liverpool, then a threshold of 28-33% would be appropriate for Nuneaton and Bedworth. If a 25% threshold on the other hand is considered appropriate at a national and regional level, then a threshold of 22-24% would be appropriate for Nuneaton and Bedworth.

2.20 Drawing this together, it would be reasonable to assume that households in the Borough would be able to spend 25-30% of gross income on housing costs. We have taken an arguably conservative approach and assumed households would spend up to 30% on affordable housing.

Over what period should the current housing need be addressed?

2.21 The next relevant question to consider is over what period the current housing need (often termed the backlog) should be addressed. The *Updated Assessment of Housing Need* report (Sept 2015) derives an annual requirement for comparison with the demographic projections and thus expressed affordable need as an annual figure over the plan period. On this basis the current need is divided by 20 to provide an annual figure over the plan period (2011-31).

2.22 In the local context of Nuneaton & Bedworth, it may however be appropriate to assume that the backlog will be addressed over a different period. The key issue is considering what, on sensible assumptions, might be a reasonable period over which the current need could feasibly be met.

2.23 If the current need is met over a 5 year period, which is arguably preferable where it is reasonable to do so, a net need for 260 homes a year is shown. This falls notionally to 176 homes per year if the current need is met over the 16 years between 2015 (the date of the assessment) and 2031 (the end of the plan period).

Table 5: Sensitivity Analysis – Backlog Period

	5 Years	10 Years	16 Years
Current Need - Total (30% Threshold)	920	920	920
Affordable Housing Pipeline	303	303	303
Net Current Need	617	617	617
Backlog addressed over X years	5	10	16
Annual Flow to Address Current Need	123	62	39
Newly-Forming Households in Need per Annum	388	388	388
Existing Households falling into Need per Annum	230	230	230
Total Annual Newly-Arising Need	618	618	618

Supply from Relets of Existing Stock	481	481	481
Net Affordable Housing Need	260	199	176
Net Affordable Housing Need (excluding Pipeline)	321	229	195

- 2.24 An assumption that the current need is met over the period to 2031 does not suggest that people on the housing register would need to wait 15 years to be housed. It accepts that there will be flows on and off the register on an annual basis; and is looking at the period over which the current need will be reduced to zero. It simply reflects the PPG advice that the current need should be expressed as an annual flows; and the overall need compared against demographics. It thus shows the affordable need over a comparable timeframe.

3 RELATIONSHIP TO OBJECTIVELY ASSESSED HOUSING NEED AND PROPOSED HOUSING TARGETS

- 3.1 The 2015 Updated Assessment of Housing Need (GL Hearn, September 2015) identifies an objectively assessed need for 10,040 homes between 2011-31 in Nuneaton and Bedworth Borough (502 per annum). This currently forms the basis of the emerging Borough Plan.
- 3.2 The Memorandum of Understanding (MOU), which is as yet not agreed by Nuneaton and Bedworth Borough Council, proposes provision of 14,060 dwellings in Nuneaton and Bedworth (703 per annum).
- 3.3 Net completions of 1073 dwellings have been achieved between 2011/12 – 2014/15. This means that to deliver the dwelling totals above, an annual average of 560 dwellings would need to be delivered to meet the OAN figure; and potentially 812 per annum to meet the figure proposed in the MOU.
- 3.4 The assessed affordable need, based on the scenarios above (excluding the affordable housing pipeline), would be equivalent to between 35-57% of the 560 dpa based on meeting the Borough's own OAN; and between 24-39% of the 812 dpa delivery figure based on the MOU.

4 HISTORICAL AFFORDABLE HOUSING DELIVERY

- 4.1 The Council's current policies (as set out in the adopted 2006 Local Plan, Policy H3) seek 25% affordable housing on sites of over 15 dwellings/ 0.5 ha.

4.2 The chart below considers historical performance in respect of affordable housing delivery. Over the last decade 27% of new housing has been delivered as affordable housing. However over the last five years, a more substantial 43% of completions have been of affordable housing – influenced by stronger affordable housing delivery, and slightly lower delivery overall.

Table 6: Appraising Historical Affordable Housing Delivery

	Gross Completions	Gross New-Build Affordable Housing	% Affordable
2004/5	503	66	13%
2005/6	706	70	10%
2006/7	361	14	4%
2007/8	351	59	17%
2008/9	344	71	21%
2009/10	231	75	32%
2010/11	375	144	38%
2011/12	278	128	46%
2012/13	291	100	34%
2013/14	171	29	17%
2014/15	411	257	63%
10 Year Average	352	95	27%
5 Year Average	305	132	43%

- 4.3 It is evident that recent affordable housing delivery has been strong. This has been influenced by a range of factors, including delivery of affordable housing through the Camp Hill Regeneration Scheme; direct delivery on sites owned by Registered Providers (often with grant funding); and delivery via S.106 planning obligations.
- 4.4 The chart below indicates sites which have delivered 100% affordable housing. These sites have been brought forward principally by Registered Providers, but also some small sites where the Council itself has delivered housing. There are 20 such schemes which have delivered affordable housing over the last 5 years, contributing almost 350 dwellings. 45% of gross affordable housing delivery has been through these schemes – as opposed to s.106 agreements on market-led housing schemes.

Table 7: Sites delivering 100% Affordable Housing

Site/ Address	Applicant	Year completed	Number of units (dwellings)
Bermuda (Orbit)	Deeley Homes Ltd	2014/15	30
Howat Road, Keresley (Golden Eagle)	Bestwood Village Ltd	2014/15	15
Acacia Road, Nuneaton	Nuneaton & Bedworth Borough Council	2014/15	3
Camp Hill Drive Youth Centre	Partner Construction Ltd	2014/15	12
Rear of Sandringham Ct	Jephson Midlands	2014/15	45
Sycamore Road, former garage site	Nuneaton & Bedworth Borough Council	2014/15	8
Land Rear of Evergreens, Tuttle Hill	Stoneacre Partnerships Ltd	2014/15	4
Hayes Ln/Marshall Rd, Exhall	Waterloo Housing Association	2012/13	44
Newcomen Rd, 78-112, Bed	Westleigh Developments Ltd	2012/14	28
Beechwood Rd, r/o 3-15, Bedth	Waterloo Housing Association	2012/15	10
Grant Rd, r/o 5-9, Exhall	Waterloo Housing Association	2012/16	6
Bucks Hill, The Bucksford pub, Nun	Orbit Group Ltd	2011/12	20
Kingswood Rd, former Poachers Pocket, Nun	Orbit Group Ltd	2011/12	30
Furnace Rd, r/o 19-21, Bed	Bromford Housing Group	2011/12	7
Hazel Grove, 43-53, Bed	Bromford Housing Group	2011/12	8
Former Electricity sub stn, Bucks Hill, Nun	Orbit Group Ltd & Orion Dev, (Midlands) Ltd	2011/12	7
Leyland Rd, Former Leyland School	Orbit Homes	2011/12	35
Jodrell St, Allotments	Orbit Housing Group	2010/11	28
Acacia Ave, r/o 63-73	Bromford Housing Group	2010/11	7

5 FACTORS AFFECTING FUTURE AFFORDABLE HOUSING DELIVERY

5.1 Looking forward, there are a range of factors which may influence the future delivery of affordable housing. We consider these here.

Residential Development Viability

5.2 Affordable housing delivery through mixed tenure development schemes, commonly secured through Section 106 Agreements, will be influenced by the viability of residential development.

- 5.3 The Council's current evidence is provided by a Viability Study prepared by Dixon Searle Partnership (DSP, 2015). This indicates that 25% affordable housing provision would be viable on residential development schemes, with CIL contributions of £50 per sq.m. With higher affordable housing provision, CIL contributions would be reduced or not feasible.
- 5.4 Inevitable there will be some sites which will not deliver policy-compliant affordable housing provision; or sites which are below thresholds set for affordable housing contributions.

Use of Council Land

- 5.5 The Council has delivered 36 new build dwellings in 2015/16. The Council has a Housing Revenue Account (HRA) Business Plan which sets out how it will manage its housing stock overall.
- 5.6 The council will be evaluating its options to build and develop further new properties as part of a full review of the Business plan later this year. This will in effect form part of an overall business plan looking 30 years into the future.

Bringing Empty Homes back into Use

- 5.7 The Council has a clear programme of working to bring empty homes back into use to provide affordable housing, with an Empty Property Officer who is responsible for taking this forward.

Development by Registered Providers

- 5.8 There is a history of development of affordable housing directly by Registered Providers in the Borough. However in the short-term, the business plans of developing Registered Providers are expected to be impacted by the Government's announcement in July 2015 that rents should be reduced by 1% per annum over the period to 2020 in order to reduce the welfare bill. This is however expected to be a temporary issue – and as Table 7 shows, schemes brought forward by Registered Providers have contributed strongly to overall affordable housing delivery.

Right-to-Buy Sales

- 5.9 The Government's Housing and Planning Bill includes proposals for the voluntary extension of right-to-buy legislation to registered providers, allowing the Secretary of State to make grants to providers. This could reduce the current stock of affordable housing which is available to meet local needs. The Council estimates that the greater scope of properties liable to RTBs, and the greater discounts available for right-to-buy of the authorities stock, will lead to a potential loss of stock.

- 5.10 Some funding for replacement provision is available, including potentially through Government proposals for the sale of high value social housing.
- 5.11 Overall there is however the potential that these measures reduce the supply of stock which can come forward through re-lets.

Starter Homes

- 5.12 Government is currently consulting on proposed changes to the National Planning Policy Framework. The consultation proposes the revision of the definition of affordable housing to place a greater emphasis on supporting households to access home ownership, where that is their aspiration; and including a fuller range of products as affordable housing – including low cost market housing or intermediate rent products. Starter Homes would be included, in effect removing the requirement for low cost market housing to be ‘in perpetuity.’
- 5.13 The Housing and Planning Bill is, at the time of writing, working its way through Parliament. The Bill proposes a duty on English planning authorities to promote the supply of starter homes; having regard to any guidance given by the Secretary of State in doing so. A Starter Home would be priced at a discount of at least 20% of the market value, and below a cap price of £250,000; to a first-time buyer aged under 40. Where there is a conflict with policies in existing plans, the Secretary of State may make a compliance direction setting out how regard should be had to a specified policy in determining planning applications.
- 5.14 Delivery of starter homes could impact on the ability to secure other forms of affordable housing through S.106 negotiations. It may however contribute to enhancing the overall percentage of affordable housing which could be achieved through new development schemes. The Council will need to consider how this impacts on potential housing need and delivery through selective updating of elements of the evidence base.

Implications on Future Delivery of Affordable Housing

- 5.15 Historically 27% of new housing has been delivered as affordable housing looking over the last 10 years; and 43% over the last five years. Higher housing delivery however is required moving forwards, and it seems likely that the private sector will play a major role in increasing overall housing output. On the basis of the viability evidence, and wider factors which are expected to influence delivery, we would consider it a reasonable planning assumption that future delivery (from the range of potential sources) will be of over 25%.

6 IMPLICATIONS FOR SETTING POLICIES FOR AFFORDABLE HOUSING

- 6.1 The NPPF is clear that affordable housing policies within local plans need to reflect the evidence both of housing need and development viability. The Council's viability evidence points towards 25% affordable housing provision being viable. The needs evidence points to a minimum of 25% affordable housing provision being required.
- 6.2 For the purposes of setting planning policies within the Borough Plan, a policy seeking 25% provision on suitable sites subject to viability would clearly be appropriate.