

Report of The Leader of the Council, Cabinet Member for Health, Housing & Adult Social Services & Cabinet Member for Transport, Planning & Sustainability.

Get York Building – Economic Growth, A Case for Change

Summary

1. The following report outlines the current state of the building industry within York and the direct role stimulating the house building industry within the city will have on achieving the council's priority to create jobs and grow the economy. It also discusses the real and perceived barriers to building and considers options for the Council to play a leadership role in developing the climate where stalled development can be brought forward and whilst protecting the historic and green nature of the city, York is seen as a place that welcomes development.
2. The interventions presented in this report should be seen as a first phase of actions to facilitate an increase in the number of new homes built. Work is ongoing to unlock major developments which will be subject to further reports, the first of which will be April 2013 setting out proposals for Infrastructure investment to unlock major developments.

Background

3. When considering the current economic and housing needs of the city it is clear that one of the most important elements to creating jobs and growing the economy in York is to build quality sustainably designed homes. Developing a more integrated response to housing and economic growth needs to be a key focus of economic growth strategy, building new homes will not only enhance the economic performance of the city but also its overall economic competitiveness.
4. The two main aims of the Get York Building programme is first, to help drive the local economy, unblocking the house building market will provide a much-needed boost to employment, reducing benefits dependency and create a knock on impact in the wider prosperity of the city and, secondly to provide much needed sustainable homes of all tenures to meet the housing needs of the city

5. The current level of house building in the city has fallen dramatically from a high of 1,160 new homes in 2005 to 321 in 2012. The number of affordable homes delivered over the same period is 148 in 2004/5 to 151 in 2011/12, in some cases the guaranteed nature of the income from affordable housing has been a critical factor in sustaining development.
6. Completions are increasing, however not at a rate that will meet the housing need or deliver the real economic benefits for the city, there is a clear case for change
7. Getting house building moving again is crucial for the city's economic growth – housing has a direct impact on economic output, averaging 3 per cent of GDP in the last decade. For every new home built, up to two new jobs are created for a year¹. For every £1 spent on construction 92p stay in the UK economy and generates a total of £2.84 in extra economic growth as well as having a direct saving in tax and benefits of 36p².
8. Within this context developing a balanced yet active housing market that offers choice, flexibility and affordable housing is critical to the economic and social wellbeing of the city
9. The city's housing need is well known, the 2011 Strategic Housing Market Assessment (SHMA) set out the need for 790 additional affordable homes each year. The city's population is growing with the number of people living in the city increasing from 181,094 to 198,051 between 2001 and 2011, a 9.2% increase since the 2001 Census.
10. On the demand side, customers have become ever more wary of borrowing for home ownership and banks/ building societies require larger deposits from them. Pre 2007 a person needed only to save up for a 5% deposit on a mortgage and, in some cases, 0%. Following the downturn this increased to 20% (post 2007/8), making it virtually impossible for most first time buyers to enter the owner occupied market – an average £230,000 house in York would require a £46,000 deposit. The 2011 SHMA shows the median (private sector) average household income in York to be £22,100 (£11,700 for those in social rented sector). Affordability ratio based on median house price to median earnings = 6.79:1

Current Picture

11. In developing the background to support the proposed interventions we have held a number of consultation events with stakeholders and contacted all developers / agents who have unimplemented planning permissions for 3 or more dwellings. We have, in discussions with each developer, sought

¹ DCLG Housebuilding Statistics (2011)

² National Federation of ALMO's – Lets Get Building (2012)

to establish the reasons why the approved scheme has not been implemented and to understand what action would enable / give them the confidence to start development.

12. In some instances, particularly in relation to very small developments of less than 5 dwellings, the developer's aspiration as to sale price is one of the issues holding up development. Whilst this is clearly an issue, given the nature of the developments, i.e. windfalls, it is one which should be addressed through ensuring adequate supply is brought forward elsewhere.
13. It is clear from these discussions that as a result of the credit crunch and subsequent recession, commercial lending for developers, especially small developers has become less and less accessible - developers are struggling to get finance to build, and often need 40% deposits for speculative house building schemes. Many developers do not have access to those amounts required to build out sites, hence the picture of developments that have planning permission but not being built out. More recently deposits have reduced to 10-15% but high loan to value lending also comes with expensive arrangement fees and higher interest rates.
14. At the same time house prices have stabilised and the private rented sector has expanded, which can in some cases have the impact of trapping individuals into the private rented sector because of the high rent levels within the city, preventing them from saving for a deposit.
15. Affordable housing and other Section 106 requirements are often portrayed as being the key barriers to housing development coming forward. However, the viability of a scheme and the concerns about bureaucracy are only part of the picture which needs to be considered as a whole alongside other issues. What is clear is that larger national house builders are finding it much easier to address S106 requirements and to bring forward new homes and subsequently sell properties than the local smaller development/building firms. The local smaller development/building firms have expressed concerns about S106 agreements, which can be complex in nature and take some time to agree between parties.
16. Since the change in the affordable housing target to 25% on Brownfield sites & 35% on Greenfield sites and more recent changes on rural sites, development have been coming forward and approved by planning. However the true test is clearly the build out of developments. In recent months it is clear that some developments are coming forward and been built out. This is particularly noticeable in rural areas where in the last 12 months 8 developments have been approved by planning with 2 developments already on site, and an additional site has fully paid the commuted payment.

17. However, the recent changes in policy, whilst helpful needs to form part of a range of interventions that the council has available. To meet our housing needs and growth aspirations we need to see a step change in role for the council, actively facilitating development and unlocking potential.
18. Central to the long term development potential and subsequent economic growth is the bringing forward sufficient sites to meet not only our need but also our development aspirations. Work is currently underway to look at opportunities, arising as a result of a number of local and national changes, to unlock some of our major development sites within the city.
19. Critical to unlocking major development sites within the city is addressing the infrastructure requirements. To unlock the potential of these sites a new, more radical approach to funding and return on investment needs to be considered. Work is currently ongoing to consider how this can be achieved a further report will be brought forward in April 2013 setting out our approach to unlocking the potential of these sites.

Options

20. Option 1 – To agree approve the proposed interventions to:
 - Update the Affordable Housing Targets (as set out in Table 1) and approve as a material consideration for Development Management purposes;
 - Accept, on sites of less than 15 homes in rural areas, an off site financial contribution in lieu of on site affordable housing, (as set out in Annex 1) for a period of 18 months and approve as a material consideration for Development Management purposes;
 - Invest £1m in addressing overcrowding in existing council homes;
 - Agree a first phase of building new council homes;
 - Work up options for a mortgage advice scheme;
 - Review general S106 requirements and development of new approaches to facilitate greater flexibility in the payment of contributions
 - Develop opportunities for Institutional investment in to new Private Rented Sector homes within the city.
21. Option 2 – To ask officers to amend the proposed interventions.

Analysis

Proposed Interventions – Immediate

Update Affordable Housing Target

22. It is proposed that the current approved interim affordable housing targets are updated and reduced in line with the dynamic model principles of the Affordable Housing Viability Study (2010) and Annex (2011) (AHVS).
23. It was the intention to update the model and revise targets as soon as the Local Development Framework (LDF) Core Strategy was adopted. However, given the withdrawal of the LDF and the progression of a Local Plan, it is recommended that the interim affordable housing targets be updated to aid building in York. This approach should be approved for Development Management purposes and commenced on 1st March 2013.
24. The Dynamic Model contained within the AHVS allows affordable housing targets to be updated regularly using three update mechanisms. The three indices proposed for the update are (1) market prices (measured by York Land Registry House Price Index (HPI), (2) construction costs (measured by the Building Costs Information service (BCIS)) and (3) York Alternative Land Use Value (produced by the DVS - Property Services arm of the Valuation Office Agency).
25. This is a slight variation from the AHVS. The House Price Index has been changed to the York Land Registry House Price Index rather than the national Halifax HPI, as this is a local index which reflects more accurately York's specific housing market rather than the national housing market. At the time the AHVS was produced, the local index was unknown. The VOA no longer publishes the Property Market Reports. Therefore the VOA will now produce a specific York value for industrial land based on the same parameters as their discontinued Market Reports. This again has benefits of making the model more York specific, as previously a Leeds figure was used. Fordham's, who produced the AHVS, has confirmed that a switch of indices is acceptable.
26. Using the dynamic matrix in the AHVS Annex (2011) the affordable housing target for brownfield sites of >15 homes (benchmark target) decreases to 20%, from 25% currently. The other affordable housing targets are directly linked to this benchmark target and therefore also reduce. Table 1 below sets out the updated dynamic targets. Developers can still submit an open book appraisal if they consider that these targets are not viable for their site.

Table 1 – Updated Interim Dynamic Affordable Housing Targets

Thresholds	Existing Dynamic Targets 2009	Re-Run Dynamic Targets 2012
Brownfield sites > than 15 dwellings	25%	20%
Greenfield sites > than 15 dwellings	35%	30%
Rural Sites 11-14 dwellings (inc Greenfield and Brownfield sites)	25%	20%
Rural Sites 5-10 dwellings (inc Greenfield and Brownfield sites)	20%	15%
Rural Sites 2-4 dwellings (inc Greenfield and Brownfield sites)	10% Off site financial contribution = £15,427.50 per unit	10% Off site financial contribution = £11,566.90 per unit

27. These new targets will be relevant to any applications not currently determined. In respect of existing applications, applicants do have the right to submit a deed of variation to S106's in line with current policy. Many of the larger outline applications approved under the dynamic interim targets, through their S106 agreements set the actual affordable housing target at time of reserved matters submission, so these remain unaffected

Reducing Bureaucracy - Off Site Financial Contributions (OSFC)

28. Discussions with smaller house builders/developers has suggested that on smaller rural developments, often delivered by local building firms, the requirements for lengthy and complex legal agreements are a deterrent to development, especially in the current economic climate where back office capacity has been significantly reduced. The often complex and lengthy legal agreements (around 40 pages) required to secure on site affordable housing is an example cited by local smaller development/ building firms.
29. It is therefore proposed that for sites in rural areas of less than 15 homes Members agree the principle of off site financial contributions (OSFC) for an 18 month agreed period rather than provision on site. Table 2 below sets out the OSFC payment schedule for sites up to 15 homes. This approach should be approved for Development Management purposes and commenced on 1st March 2013 for an 18 month period unless material considerations indicate the need for an earlier review. The OSFC has been calculated in accordance with the formula below which has been in operation since the rural targets were approved in Dec 2011:

Formula: Average Property Price – Fixed RSL Price X AHVS Viable %

Table 2 – Rural Off Site Financial Contribution Schedule.

Rural Site Threshold	Average York Property price (Land Reg Aug 2012)	Average York Fixed RSL Price	AHVS Viable % level	Fraction OSFC
2 – 4 homes	£180,502	£64,833	10%	£11,566.90
5 – 10 homes	£180,502	£64,833	15%	£17,350.35
11 – 14 homes	£180,502	£64,833	20%	£23,133.80

*Payment is not required where there is a net gain of 1 home.

30. It is considered that these updated targets and the allowance of an OSFC for sites of up to 15 homes in rural areas will send out a clear message to the house building industry that the council is responding to market conditions. The changes should assist in limiting the need of viability appraisals that developers need to submit. Developers can still submit an open book appraisal if they consider that the revised targets are not viable for their site. Allowance of OSFC simplifies the negotiation process on smaller rural sites and removes the necessity for a complex Section 106 agreement, both of which will speed up and simplify the determination process.
31. Members should note that in terms of impact on affordable housing or other contributions sought, an 18 month interim approach would be felt for much longer than this period in reality, due to the period of validity of a planning permission. From granting of approval there is a standard period of 3 years for development to commence, before the permission lapses. Officers recommend that applications approved in relation to OSFC have a reduced timeframe for commencement. Applications should be conditioned to 2 year time period to encourage implementation and to prevent these interim reduced requirements from being exploited significantly beyond the period when their operation is justified. This is based on the generous relaxation of onsite provision for small rural sites, the progression of the Local Plan and changing market conditions. A report would be brought back to Cabinet at the end of the period to assess the impact of the change.
32. This interim approach will be relevant to any applications not currently determined. In respect of existing applications, applicants do have the right to submit a deed of variation to S106's but like applications yet to be determined the time frame of the application will be tied to a shorter implementation period i.e. a maximum of 2 years or shorter if the

application has less lifespan remaining. Many of the larger outline applications approved under the dynamic interim targets, through their S106 agreements set the actual affordable housing target at time of reserved matters submission, so these remain unaffected.

£1 million investment into CYC homes to address overcrowding

33. Whilst not new build properties, investment in extending current homes is activity in the construction industry and as such has the same positive impacts on the economy of the city.
34. The need for additional affordable homes is well documented, however the council should where possible look to minimise the demand for new larger homes. One way in which the council can start to address this is by looking to see where it can extend its existing homes to meet the need of families who are living in overcrowded conditions. In 2010/11 with a small amount of funding from the Golden Triangle the council introduced a limited scheme to provide loft conversions to its homes where tenants were living in overcrowded conditions. This proved very popular and whilst not only adding to the asset base of the authority, addressed significant overcrowding. As a result of the opportunities arising from HRA Self Financing it is proposed to develop a programme to extend existing council homes starting in 2013/14 with £1m investment.

Build new Council Homes

35. A clear priority for the Get York Building initiative is to bring sustainable development forward quickly. Utilisation of council land assets presents an opportunity to play a leadership role in kick starting new development. The council has a number of land assets that could be utilised for the development of new council homes.
36. Evaluation of Housing Revenue Account (HRA) land assets has identified number of sites where development of new council homes could be built. This includes existing unused land assets and garage courts. A number of these sites are felt to have the potential to move forward quickly which could deliver in the region of 50 – 70 new homes. Funding for this development would be from the investment fund on the HRA. Details of the suitable sites are been worked up and will be brought back to a Cabinet for approval.

Proposed Interventions – Within 6 Months

Review of general S106 requirements

37. Through the Get York Building initiative a review is underway to look at all issues pertinent to S106 contributions, including the nature and timing of

payments and how those payments are linked to the viability of a development through open market sales. Any changes arising from the review will form part of a wider package of incentives for development, and will be reported to the Get York Building Group and Local Plan Working Group and Cabinet for approval in due course.

Develop an accessible mortgage advice scheme

38. Discussions with developers have given the clear message one of the key issues is confidence in the market and demand uncertainty due to low mortgage availability and concern as to their subsequent ability to sell the new homes. This is particularly relevant to smaller developers who do not have the back office infrastructure that larger national developers have to bring advice and mortgage availability into their core sales package.
39. Where this advice and assistance is available, developers are seeing a significant increase in the percentage of reservations progressing to sale. This breeds confidence within the industry.
40. It is therefore proposed that the council develops an accessible mortgage advice scheme that brings together developers and lenders.

Bring forward key development opportunities following the Call for Sites

41. As part of our desire to generate development opportunities and to significantly boost housing supply in line with National Planning Policy Framework (NPPF), we wrote to and emailed nearly 2000 contacts from our Local Plan database asking them to submit sites, which they thought had potential for development over the next 15-20 years. In order to maximise the response to our 'Call for Sites' consultation we issued a press release which was subsequently reported in the York Press as well as advertising the consultation on the website homepage and displaying posters at our network of community facilities.
42. The consultation ran for 6 weeks and generated 292 individual site submissions from a variety of landowners, agents, developers and members of the public. We are looking at these sites alongside others we previously knew about from the 2008 call for sites, Strategic Housing Land Availability Assessment and Employment Land Review, which were not resubmitted as well as outstanding planning permissions. In total, we are we are considering 688 parcels of land.
43. The sites are subject to a suitability assessment of which the first stage is the consideration of flood risk, historic character and setting, nature conservation and green infrastructure. The next stage of the process is to score the sites against accessibility criteria in order to be able to rank the

sites by their suitability for different uses. Further to this, a viability assessment will be carried out to allow us to make realistic and accurate assumptions about the deliverability of the individual sites through the allocations process. This work will be completed in February and will be consulted on as part of the Preferred Options Local Plan report.

Opportunities for institutional investment

44. Institutional investors, in the main, are not interested in development or management they want a product that can be delivered at minimum risk to themselves where they receive a return on investment that meets their expectations.
45. Work has been carried out as part of the Leeds City Region (LCR) to model the opportunities for institutional investment and to consider the viability of such an approach. Modelling has been carried out which shows that sets out the viability of any investment.
46. However, more recent funding options from government as part of the 'Build to Rent' scheme provides an opportunity for the council to consider opportunities within its existing land assets to bring in investment to the city and still receive a capital receipt for the asset or, depending on the business case, consider the land asset as an equity investment and receive an ongoing return.

Consultation

47. Significant consultation has taken place in the development of the proposed interventions set out in this report. Discussions have taken place with all developers / agents who have outstanding planning permission for 3 or more homes. In early November 2012 a Get York Build consultation event was held as part of the long term Local Plan Visioning event which was attended to over 50 representatives from the house building industry. A key focus of the Housing Summit was also Get York Building with presentations and workshop sessions with industry representatives.
48. The Get York Building Project Board is made up of officers from Communities & Neighbourhoods, City & Environmental Services and Cabinet members. Discussions have taken place with developers in relation to the site specific issues that have been raised. It is also proposed to establish a Strategic Housing Forum for the city where barriers to bringing forward development can be discussed to ensure effective interventions are put in place.

Council Plan

49. Whilst the principal objective of the work is to Get York Building, the impact of the project impacts on all five of the council priorities as set out in the Council Plan.

- Create jobs & grow the economy – This report clearly sets out the direct link between activity in the construction industry and the economic prosperity of the city. For every £1m spent on construction of new homes it delivers 20 new jobs for a year and creates £2,84m of additional economic activity.
- Get York Moving – Unlocking major sites through delivering major infrastructure works will have a positive impact on Getting York Moving.
- Building Strong Communities – Meeting the housing needs of our communities is central to ensuring that we can in the long term ensure that our communities are strong and sustainable. Development of new sustainably designed homes will ensure that we deliver some of the fundamental principals building blocks of strong communities for the future.
- Protecting vulnerable people – Whilst the key focus of this report is about delivering quality and quantity and freeing up the delivery of new homes, delivery of specialist accommodation is also part of the wider picture. Delivering new homes will also help address some of our long term needs for affordable housing and have a direct impact on some of the most vulnerable individuals in housing need.
- Protect the environment - Whilst we are focusing growth both in the economy and the numbers of homes built, central to our approach needs to be the sustainability of the homes built and the impact that these have on our environment. As part of our approach to delivery we will be considering how we can play a leadership role within the city to ensure homes that are delivered are sustainable.

Implications

50. The majority of the implications of this report are considered within the body of the report. Key implications are:

- **Financial:** If members approve the recommendations significant off site contributions for affordable housing may be forthcoming. These will be used to support the delivery of affordable housing in accordance with the current arrangements for off site contribution. The financial implication of the decision to approve a new build programme of council homes is

included within the HRA Business Plan which is another item on the Cabinet agenda.

- **Human Resources (HR):** None
- **Equalities:** None
- **Legal:** None
- **Crime and Disorder:** None
- **Information Technology (IT):** None
- **Property:** None

Risk Management

51. In compliance with the Council's Risk Management Strategy, there are no risks associated with the recommendations of this report.

Recommendations

52. The Cabinet is asked to

- a. Agree the option1 set out in Para 20 of the report to:
 - Update the Affordable Housing Targets (as set out in Table 1) and approve as a material consideration for Development Management purposes;
 - Accept, on sites of less than 15 homes in rural areas, an off site financial contribution in lieu of on site affordable housing, (as set out in Annex 1) for a period of 18 months and approve as a material consideration for Development Management purposes;
 - Invest £1m in addressing overcrowding in existing council homes from the HRA;
 - Agree a first phase of building new council homes with funding from the HRA as set out in the HRA Business Plan.
 - Work up options for a mortgage advice scheme;
 - Review general S106 requirements and development of new approaches to facilitate greater flexibility in the payment of contributions
 - Develop opportunities for Institutional investment in to new Private Rented Sector homes within the city.

Reason: To ensure that the council plays a full and active leadership role in delivering quality sustainable new homes, creating jobs and growing the economy of the city.

Contact Details

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	Report Approved	<input checked="" type="checkbox"/>	Date
Specialist Implications Officer(s) Derek Gauld Head of Major Development Projects & Initiatives Andy Kerr Housing Development Manager			
Wards Affected: List wards or tick box to indicate all		All	<input checked="" type="checkbox"/>

For further information please contact the author of the report

Annexes

Annex 1 – Table showing Rural Affordable Housing OSFC Payments for sites less than 15 homes