REGIONAL FUNDING ADVICE ROUND 2 - DRAFT RESPONSE

Housing

Summary of Proposals and Priorities at a Glance:

1. To be a successful and sustainable region, we need attractive housing that provides a wide choice of affordable, decent homes in good quality places where people want to live. We are proposing a package of measures that will enable the region to balance dealing with the short-term issues in the housing market, whilst remaining focused on delivering the key strategic priorities for the region. Our proposals include:

2008-11 – Preparing for Recovery

- A **revised Affordable Housing Programme** that will cost £307m and will deliver up to 8,651 new affordable homes. This includes additional ring fenced resources for Mortgage Rescue and for Homebuy Direct which could generate up to 2,557 new low cost home ownership homes;
- A commitment to use the flexibility created by an unallocated resource of around £24m to underwrite **major housing led regeneration** projects that face a shortfall due to falling receipts from land sales; and
- To use any remaining available resources to **support long term delivery** of housing objectives – through site acquisition and preparation activities These would be determined through the HCA single conversation process;

2011-15 – Building for the Future and 2015-19 – Reaping the Benefits

- A focus on **accelerated delivery** of affordable housing outcomes;
- After 2011, to shift resources currently used to support delivery of **Decent Homes** in non-transfer authorities into place based initiatives; and
- Securing the ongoing delivery of a set of **key regional investment priorities**

The factors that Shape our Priorities

Review of RFA Round 1 and Developments

2. This RFA response builds upon priorities and investments that the region has already formulated, consulted upon and agreed. In 2005, as part of the first RFA process, the region agreed a series of priorities based around Places, Access and Homes. At that time, the impact of successful regeneration was starting to be felt in historically weak markets. But the region still suffered from having very different markets at work. Housing in high value areas was increasingly beyond the reach of local people whilst regeneration and transformation of our towns and cities remained the key regional priority to develop sustainable communities close to areas of employment and leisure.

3. By summer 2007, when the region had to agree a response to government on housing investment for the current CSR period, this analysis broadly remained relevant and accurate. What had changed between early 2005 and mid 2007, was that an overheating housing market had led to increased problems around affordability. This was reflected in the settlement that the region received from government for CSR, and the region's decision to use the increase in resources to support an increased programme of affordable housing delivery.

4. Following the submission of RFA1, and the submission of further advice to government in mid 2007, there have been further significant changes in the regional housing picture. These are outlined in para 10 (Evidence) and have mirrored some of the problems that have impacted nationally – around access to credit, low developer confidence and falling house prices. However, the region believes that, despite recent changes in market condition, the underlying priorities identified in 2005 and 2007 remain consistent, and the strategic priorities identified last year remain valid.

5. Many of the current challenges are related to the availability of finance for both purchasers and developers, as a result of a lack of liquidity in the money markets. These are relatively short-term issues that will not change the picture of undersupply in the region – particularly of affordable housing. There also continues to be a pressing need to address issues around stock condition, particularly where it relates to fuel poverty and a need to continue driving forward the regeneration of our towns and cities.

Strategies and Frameworks

6. Currently the Regional Housing Strategy continues to be the driver for Housing Policy in the region, before housing is integrated with economy, planning, transport, climate change and other issues with the Integrated Regional Strategy.

7. The Integrated Regional Framework also identifies Housing as a 'Challenge Issue', based chiefly upon the rapidly declining affordability of housing experienced into early 2008. Other strategies such as on climate change further identify Housing as an area where there are great opportunities to improve stock (especially existing) by improving energy performance, and in the process to reduce fuel poverty, boost quality of life, stimulate the economy and reduce the region's carbon footprint. The Government's target to make all new housing carbon neutral by 2016 and the Climate Change Act are expected to have major impacts that will need factoring into priorities if the region is to respond successfully.

8. The Regional Spatial Strategy (RSS) drives the region's ambitions on the provision of new housing in terms of housing numbers. The draft Regional Spatial Strategy called for 15,000 more homes a year (19,000 by 2016). In the published plan Government sets out a requirement for 22,000 extra from 2008. However, reaching these targets will become increasingly difficult as developers put schemes on hold as the market stagnates due to lack of confidence and finance.

9. The current economic downturn is impacting upon housing markets and in the short term that will inevitably reduce house building. The current RSS review (The Housing Challenge, The Yorkshire and Humber Plan 2009 Update) is looking again at the need and demand for housing through a review of the evidence for the scale and distribution of new housing and the opportunities in different parts of the region to accommodate new homes. This will provide an opportunity to clarify the immediate and longer term requirements for housing and other supporting investment. The evidence now emerging is showing that the region's longer term housing requirement could well be significantly higher than the 22,000 a year in the approved RSS. Our current Spatial Options consultation document includes some evidence, which suggests a figure of up to 30,000 may be required. This represents another major increase in housing provision for the Region with all the attendant infrastructure and delivery issues it will bring.

Evidence

10. Yorkshire and Humber has a range of different housing markets. Some provide excellent quality homes and environments, but there continues to be an imbalance between the housing markets in different parts of the region.

11. Popular high value areas – especially in North Yorkshire, the western parts of Bradford and South Yorkshire, North Leeds, Harrogate and York and parts of the East Riding – are 'overheated markets', where housing is inaccessible to many local people, key workers and first time buyers. By contrast, the decline of traditional industries has led to great changes to many inner urban areas and to uncertainty about the need for and function of some historic settlements. This coupled with increased household mobility and shifting aspirations has created a complex picture of demand.

12. This picture has been further complicated by the recent challenges that we have seen in delivering housing in the region. Whilst demand for housing remains extremely high, there are real difficulties faced by many people in accessing that housing, particularly in access to finance. In turn, this has had an impact on development in the region – from both private and housing association sectors. This means that our investment plans, particularly for the current period, need to take account of the challenges in the market, and make best use of the region's resources in the short term to deliver housing in the medium and long term.

13. Over the past year in the region:

- House prices have fallen 4.1% since last year – with the biggest falls being in the high value areas (8.4% in Hambleton, November 2008);
- First time buyers have found it hard to access finance, which has led to stagnation in the market – with houses taking longer to sell, and sales to asking price ratios falling from 94% in November 2007 to 89% in November 2008. The impact of the lack of available finance is being felt in fewer house sales, falling prices and a withdrawal of some mortgage products from the market. This is hitting developer confidence, and we are seeing a much more cautious approach in new schemes coming forward;
- The 'credit crunch' has meant that many Housing Associations have seen purchasers withdrawing from sales of Shared Ownership properties having met the Association's criteria but not being able to secure a mortgage. At the end of March 2008 about 300 units (shared ownership and outright sale) had been unsold for three months or more. Because many rented schemes rely on surpluses from shared ownership sales they are now no longer viable. This will have an impact on the amount of new affordable housing being built in the region; and
- The level of development has stalled in the region at the very time when the region is being asked to deliver significant amounts of growth. Delivering regional targets demands a 30% increase in house building over nine years. However, work started on 29.5% fewer homes in the first 3 quarters of 2008 than in the same period in 2007. In the same period completions also fell by 28% to 9590 dwellings completed between January and September.

Consultation and Stakeholder Input

14. This response builds upon a set of regional priorities that were subject to wide consultation in both 2005 and 2007. In developing this response, we have again worked closely with partners in the region. Key discussions have taken place with the sub-regional housing partnerships and the emerging arrangements at city regional level. This consultation has focused on the over-arching aims and objectives of the investment and on identifying those key major programmes that the region wishes to prioritise in the medium to long term.

15. The co-ordination of this element of the advice has been led by the Regional Housing Board, which includes representation from local authorities, housing associations, private sector developers, tenants and residents the HMR Pathfinders and key regional agencies. This has resulted in a widely owned set of advice that has been shaped by a diverse range of partner interests.

The role of the Homes and Communities Agency

16. The new Homes and Communities Agency will be a major influence on our forward programme as key investor in places, projects and programmes. Although, currently at an early stage, the HCA input will be developed over time, through the **Single Conversation**. The ambition is for this approach to lead to national targets matching and responding to local ambition in an iterative process.

17. In the short term however the emerging HCA Regional Delivery Framework will provide for a transition from the current approach to one that is more joined up at local level and programme based. This should broaden the range of outcomes and benefits to local people.

18. In order for a successful Single Conversation approach to be adopted, there will be a need for local partners to link their housing aspirations and targets to the delivery of programmes that address economic, environmental and social infrastructure improvements with a clear understanding of the needs and priorities. Consideration will be given to supporting investments with a logical description of what can be delivered either in advance of, or in parallel with, housing and regeneration investment. This could include investments in schools, health facilities and neighbourhood centres, and effective use of publicly owned land, to maximise the benefits. The approach will also, where possible, give potential returns on investment to regeneration partners to increase the leverage of the investment.

Contribution to Sustainable Development

Initial sustainable development appraisal of the RFA strands has been favourable – work is still ongoing to finalise the detail to be added here.

Details of Proposed Funding Priorities

19. As with its Economic and Skills priorities, the Housing and Regeneration element of this RFA response identifies a clear difference between short-term market difficulties and long-term challenges that the region faces. It advocates a package of measures that:

- Makes best use of current housing resource in the short term – where development may be difficult;
- Helps retain the capacity of the construction sector through a difficult and challenging time;
- Helps secure and support the long-term delivery of housing objectives in the region – particularly around affordability and growth;
- Provides support for major regeneration schemes that may require different forms of subsidy in the current market conditions; and

- Gives some certainty to those major schemes and areas of investment that the region wants to support in the medium and long term.

20. As indicated above, our proposals build upon and continue driving forward on the key policy priority areas of Places, Access and Homes. These priorities, set out below, have been slightly amended to give more clarity and focus.

Overarching Aim of Investment

To deliver choice and opportunity for all our people to meet their housing requirements by delivering a range of high quality housing and services in successful neighbourhoods, and to support the successful economic performance of the region, contributing to a superb quality of life for current and future residents

Priority 1 – Places

Creating better places where people want to live and wish to stay, through long-term and concerted action to transform areas and supporting interventions that include:

- Masterplanning;
- Acquisition and demolition;
- Environmental works;
- Replacement Housing in regeneration areas; and
- Maintaining stock condition (from 2011 onwards).

Priority 2 – Access

Addressing difficulties/ disadvantages in accessing housing, supporting interventions to provide high quality, energy efficient homes, which:

- Address access to the property market in high demand areas;
- Address the demands of all rural communities from small villages to Renaissance Market Towns; and
- Provide a context for housing which supports fair access to housing for BME communities, young people, people with physical and learning disabilities, Gypsies and Travellers and older people.

Priority 3 – Homes

Providing access to better, healthier existing homes, supporting interventions that:

- Meet stockholding LAs' decent council housing plans (up to 2011);
- Deliver decent private sector homes through Regional Loans Fund and other investment; and
- Deliver energy efficiency and eradicate fuel poverty.

21. These priorities help us plan a balanced approach to investment. The relationship between the three themes has always been fluid and this is likely to continue and increase as the region moves towards new ways of working - with a clear set of regional priorities set out in the Integrated Regional Strategy and with local priorities identified by the Homes and Communities Agency through the 'single conversation'. This means that by later funding blocks, we will be adopting a more place based approach, where the themes will assist and inform the conversation at a local level but will not constrain it.

22. Within this overarching strategic context, our advice falls into three blocks:

- Block 1 – 2008 to 2011 – Preparing for the Recovery
- Block 2 - 2011 to 2015 – Building for the Future
- Block 3 – 2015 to 2019 – Reaping the Benefits

Block 1: 2008 – 2011 - £886m 'Preparing for the Recovery'

23. The region's investment priorities for 2008-11 were agreed only last year. At that time the region identified the split across the three themes of places, access and homes that recognised the need for an expanded affordable housing programme. This reflected both Government targets to step up delivery of affordable homes, and recognition within the region that a lack of affordable housing was starting to impact on the way that the region was developing – socially and economically.

24. Additionally, the region was also determined to protect investment in those major regeneration and private sector decency schemes that are essential for the long-term development and success of our region.

25. When submitting revised Advice to Government in July 2007, the Board proposed an indicative 30:48:22 split across the three themes. When English Partnerships and Housing Market Renewal resources are factored in as part of a larger indicative pot (into the Places element), and the commitments for Decent Homes (into the Homes element), then the split for the current CSR period to 2011 is as follows:

	Places	**Access**	**Homes**
% split for original RHB Pot	30%	48%	22%
% split for expanded pot	55%	31%	14%

Delivering Affordable Homes

26. One of the key issues that this investment was intended to address was the current undersupply of homes for social rent. This key challenge around the provision of affordable homes through social rent and shared ownership remains. However, within current market conditions, it has proved difficult for Housing Associations and private developers to develop effectively. Limited access to finance has led to fewer house purchasers and this has had a disabling effect on the rest of the market. Therefore, whilst we are on course to deliver against the Places and Homes priorities it is likely that there will be some unallocated resource within the Access priority theme (ie the Affordable Housing Programme)).

27. Discussions with developing associations and the Homes and Communities Agency has identified the size, scale and cost of **a revised programme of Affordable Housing** of £307m over the 2008-11 period, which the region believes is deliverable. This would secure 8,651 affordable homes including Homebuy direct. (Some resources from the original NAHP are needed to complement the ring fenced Homebuy direct allocation due to the very positive response within the region to this initiative.)

28. This revised programme would allow the region to have some flexibility to use unallocated resource to help support those key priorities that are in danger of stalling in current market conditions, and secondly to help prepare the ground for accelerated delivery when market conditions improve. Initial calculations suggest the revised programme would leave a flexible resource of approximately £24m once all commitments are taken into account. The first call on this resource will be those housing based regeneration priorities already agreed by the region, but in danger of stalling due to a shortfall in anticipated receipts from land sales by English Partnerships and others. Where there are significant housing led regeneration schemes to which the region is committed, it is vital that these are supported through a difficult and challenging time. Other potential uses could include land acquisition.

29. The region is proposing that any remainder of this resource is used to support long term delivery of affordable housing in the region by **preparing for the recovery**. This investment will help secure and prepare sites, and support some of the infrastructure associated with new housing, so that when the market recovers we are able to enter an accelerated phase of delivery. In preparing this advice, discussions with sub-regional and local partners shows there is a willingness and an ability to step up spending on site acquisition and preparation in the very short term. The precise details on how this resource should be spent will be agreed in local single conversations and negotiations between Local Authorities, groups of local authorities and the HCA.

Block 2: - 2011 to 2015 - £1.216bn – Building for the Future

30. The theme for the second block of investment is **building for the future.** By 2011, we expect to be beyond the current short-term issues in the housing market. There will have been some reductions in house prices, but these will only have a marginal impact on the ability of people to access housing who are currently priced out of the market. Indeed, regional issues of under-supply are likely to be exacerbated by the current problems in the development industry.

31. The investment decisions and careful planning undertaken in the 2008-11 period will have laid the groundwork for a period of bold and ambitious delivery, where sites acquired and readied in flatter market conditions can be built out to benefit the region.

32. The other major change will be in respect of investment in council housing. With the decent homes standard achieved by all but two of our authorities, the focus of investment in council housing will shift from the achievement of the decent homes standard to maintaining homes in their improved condition. Decent Homes investment has made a major contribution to the quality of life for some of our most vulnerable households 'Through sustained investment and renewed commitment from the region, over 300,000 social homes are now decent - and more are in the pipeline to become decent over the next two years - with some £27m of Regional Housing Pot resources being spent on this activity each year over the period 2008/11.

33. After 2011, we propose shifting this resource into an enhanced ‘places’ theme. In some areas, these funds may continue be used to support decent council homes, but this needs to form part of the wider "single conversation" discussion about priorities, strategic fit, contribution to regeneration/mixed communities, etc. However, reflecting the original purpose of the Major Repairs Allowance at its inception, we look to that and the outcome of the current HRA review as the prime source of funding the maintenance of council housing moving forward.

34. All of these factors will lead to a thematic split in the allocation in 2011-15 as follows:

	Places	**Access**	**Homes**
% split for expanded Pot	64%	31%	5%

35. From within this thematic allocation, there are several key regional investment projects that we would want to take forward. These are major schemes that we believe are of significance regionally, and which require commitment to ensure they are truly transformational. They have been identified with and through the functional sub-regions and are listed at para 43.

Block 3 – 2015-19 – 1.316bn – Reaping the Benefits

36. By the 2015-19 block the activity of earlier years will be making an impact . The focus on supporting major regeneration schemes through difficult and challenging times will ensure that our towns and cities emerge into the second half of the decade with an economic and residential offer which matches the needs and aspirations of people living and working in the region.

37. With this success will come significant new challenges, particularly around affordability. Population growth and change will put greater pressure on existing housing stock. Successful regeneration in markets that were previously fragile will have led first to stable and then to increased house prices in some of our urban areas. At the same time pressure on land for other purposes, and increased flood risk in some parts of the region will also be affecting supply.

38. The result is a provisional programme for 2015-19, which continues to see significant investment in places, which will be shaped by the Integrated Regional Strategy and by the 'single conversation' at local level.

	Places	**Access**	**Homes**
% split for expanded Pot	59%	36%	5%

Key Regional Investment Priorities 2008-19

39. The thematic spilt outlined above is intended only to give an indication to Government about the way in which our RFA response builds upon and extends the thematic approach taken last time around and last year when submitting a response to Government on the use of housing investment in the region.

40. It provides a signal to government, about how we see the balance between different investment priorities moving forward. But this is only a starting point. As we move through the RFA period, we will begin to get a much clearer map of regional need and priorities – firstly through the production of an Integrated Regional Strategy and secondly through the series of 'single conversations' between local areas and the HCA.

41. These priorities will emerge over the period of the first block, ahead of the more detailed response that Government will require for the 2011-15 CSR period. However, there are also a small number of schemes that the region has identified as being absolutely key – due to their scale or strategic importance. Providing a signal to those schemes and areas about continued regional commitment and investment will allow them to deliver in an atmosphere of clarity of support.

42. The following list has been identified through a series of discussions with existing sub-regional housing partnerships, emerging city regional structures and with individual localities. The list only identifies the use of a relatively small proportion of the funding covered by RFA – but these priorities will form the 'skeleton' around which the more detailed investment planning process will take place.

43. The Key Regional Investment Priorities are:

- Gateway HMR
- Transform South Yorkshire – HMR
- Green Corridor
- Advance Humber Towns
- Leeds Bradford Corridor
- Golden Triangle
- Delivering Growth in South Yorkshire
- Strategic New Growth Point locations – Leeds City Region
- Regional Loans Fund
- Park Hill Flats
- Derwenthorpe
- Housing interventions to supporting rural renaissance and rural affordable housing
- Affordable Housing Programme

Delivery

44. Delivering the ambitious vision for housing and regeneration that we have for this region demands more than direct investment. There are some areas where we need to be working alongside partners to make sure that they have the skills and capacity to deliver in the way that government and our residents expect. Working with a wide range of partners enables us to deliver more for the region, within the same resources - driving better efficiencies, better delivery and better leverage of private sector funding.

45. The Board has put in place a detailed workplan for the region that will help us drive delivery forward. Key activities include:

- Improving the way that we involve the private sector in delivering regional objectives - for instance affordable housing or regeneration. We are working a wide range of partners to establish and support a high level group of private developers, housing associations and others;
- Working with local authorities, housing associations and the wider housing sector to make better use of the planning system to drive up affordable housing delivery;
- Continuing to carry out a regional research programme to improve our understanding of housing issues facing the region which will guide investment from 2011; and
- Supporting the work of sub-regions and city regions to develop the capacity to properly commission, deliver and monitor the delivery of their parts of the Regional Housing Strategy.

46. In October 2008, the Regional Housing Board agreed a detailed Action Plan to overcome barriers to delivery through the current downturn in the economy. Many of these actions will place the region in a stronger position once we move into our `Reaping the Benefits' phase of investment.

HCA Delivery mechanisms

47. In addition to the ongoing work of the Regional Housing Board, the HCA will take a central role to help the region to meet its housing and regeneration priorities against the backdrop of short to medium term economic uncertainty. As such, there will be further discussion with local partners and players in the market, and direct action using a toolkit approach to ensure that the region is well placed to emerge from the economic downturn with the ability to deliver regional priorities.

48. In the short term, the toolkit of measures being developed and applied are:

- Site acquisition and preparation (including demolition);
- HomeBuy Direct;
- Mortgage Rescue (including working with Local Authorities to complement and support their own initiatives);
- Open Market HomeBuy;
- Broadening the definition of affordable housing to include other intermediate products, to preserve strategic aims of mixed tenure development;
- Increased immediate funding for social housing supply;
- Assessing potential to develop affordable housing on former EP sites where private developer interest has stalled;
- Purchasing additional properties on private sector sites for affordable housing where viability gap exists or to provide additionally in terms of enhanced numbers of units or quality;
- Direct delivery of more supported housing schemes including assessing further extra care schemes;
- Supporting the establishment of Local Housing Companies to assist in 'de-risking' development for private/RSL partners;
- Work with Regional Development Agencies to support critical regeneration schemes;
- Work with partners to consider levels of additional investment required to support 'Rent to Buy' products and mixed tenure schemes;
- Retention of skills within industry through support for businesses through involvement in projects, e.g. in provision of services for Decent Homes initiative; and
- Purchase and repair of existing properties e.g. to bring empty homes back into use or to enhance affordable provision in high demand or rural areas.

TO BE ADDED – INFORMATION ON + OR – 10%

Overall this proposal presents a measured approach to Housing Investment, taking account of both the short-term pressures and medium to long-term goals of our strategy. In the event of additional resources being made available these would...

In the event of a reduction in resources our approach would be...