

Building blocks

Exploring ways to deliver more affordable homes in the housing downturn

A Regional Campaigns discussion paper



Shelter



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Foreword

Britain is in the middle of a financial crisis: the downturn in the housing market, the squeeze on mortgage credit, and the slowdown in housebuilding, all make the Government's housing programme more challenging than ever.

The impact of the current economic climate on the delivery of affordable housing threatens to exacerbate the housing crisis and leave millions of families trapped in damp, dilapidated, overcrowded or temporary housing, or in homes they can barely afford. The numbers of households on social housing waiting lists are at record levels. The housing market bubble has burst causing soaring repossessions and the return of negative equity. The country is facing recession and unemployment is rocketing. Against this backdrop, the case for building more affordable homes is stronger than ever.

The external environment is changing rapidly, so we must respond swiftly and decisively to help ease the housing crisis. While the current housing market conditions pose serious problems, they also present new opportunities for affordable housing development – in many ways allowing registered social landlords (RSLs) and local authorities to take the driving seat for the first time in years.

We need to seize these opportunities. There is a wealth of experience and expertise in housing, planning and development in all regions of the country. We need a plan of action, and this requires all of us in the housing sector to work together, innovate, and have the drive to make things happen.

With more and more people struggling to pay for their housing or forced to live in intolerable conditions, now is the time for action.



Adam Sampson
Chief Executive, Shelter





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Introduction

This Shelter Regional Campaigns discussion paper explores ideas for delivering affordable housing during the housing market downturn.

Nationally, regionally and locally, housing and planning experts, civil servants and elected representatives are dealing with the continuing housing crisis. Now the dramatic shifts in our economic environment require us to develop new ideas and a fresh approach to how we tackle this situation.

This paper is based on a report commissioned by Shelter from leading housing expert Kelvin MacDonald. Case studies throughout the paper offer examples of good practice that is happening on the ground.

We hope this paper will stimulate further discussion, ideas and, most importantly, contribute to the development of a plan of action in all regions to maximise affordable housing delivery in today's economic environment. We must act now to prevent the housing crisis in this country from getting even worse.

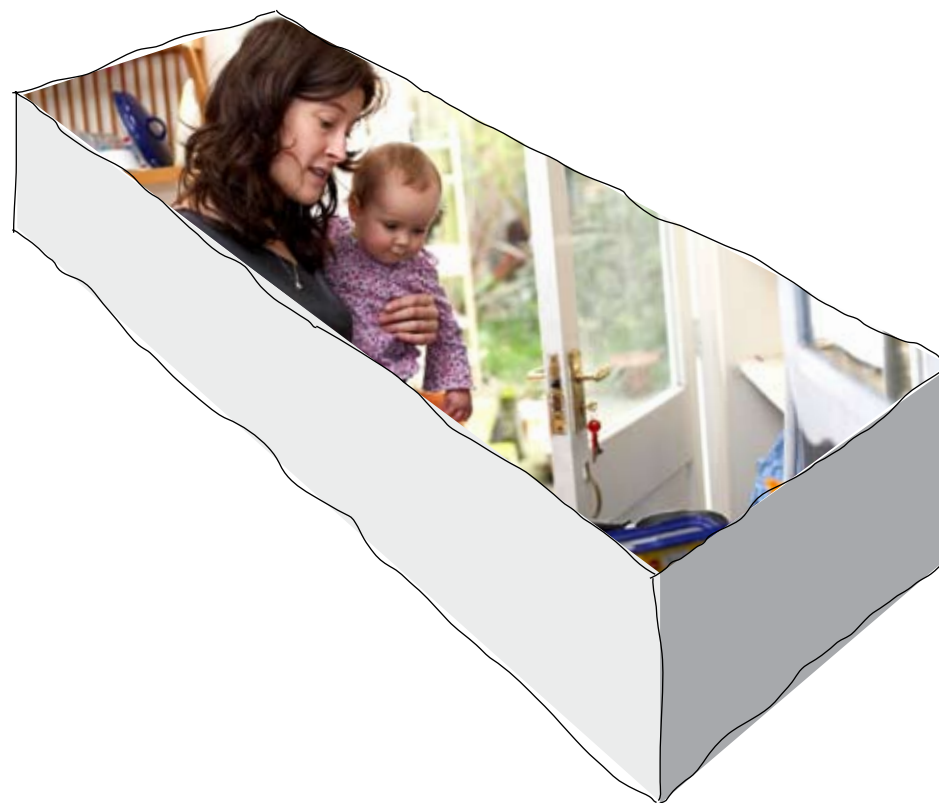
Terminology

Social housing (or social rented housing) is homes usually provided by local authorities or registered social landlords at regulated rent levels and accessed on a basis of housing need.

Intermediate housing (or low-cost housing) refers to homes, either rented or owned, provided for households who can afford more than social rents but cannot afford full owner-occupation or market rents.

Market housing refers to homes that are owned or rented without financial assistance from the Government.

Affordable housing includes social and intermediate housing.



Background

In July 2007, the Government made a commitment to tackle the housing crisis with a major housebuilding programme that includes a significant number of social homes. We must ensure these homes are delivered in spite of the housing downturn.



When we were experiencing high and increasing house prices, and ready access to cheap credit, some of the value of profit derived from the housing market could be captured in order to support the affordable housing sector. Current government policy and guidance on increasing the supply of affordable housing is based on this assumption.

A Communities and Local Government (CLG) report from 2006 states:

'[The increase in house prices] also brings opportunities. Where housing commands much higher prices there is greater scope for securing affordable housing through developer contributions or 'planning obligations'. In traditional high-value areas, local planning authorities already have strong experience of negotiating planning obligations to deliver both social rented and intermediate market housing. But there is now a need for local authorities in other areas to raise their game and to recognise

*that such obligations will increasingly be viable on new housing developments.'*¹

Now that housebuilding has slowed down so dramatically, we have the opposite situation. While it is not yet reflected in official statistics, there is overwhelming anecdotal evidence from all sides that housing developers are increasingly unwilling or unable to contribute through section 106 agreements.

A major reference point for all of us is the housing slump in the 1990s, where we saw house prices fall by more than 10 per cent and an estimated one million households found themselves in negative equity.² In 1991, at the height of the crash, there were 75,500 repossessions – an average of 207 repossessions every day.³ There are lessons to be learnt from this period. After the housing slump in the early 1990s, the building industry took many years to recover to full capacity. It is vital that this time we do everything possible now to speed up the process of recovery

once we come out of the other end of the current downturn. This means having delivery models prepared, with planning and land ready, to start building again on the scale necessary as soon as the market recovers.

There are also some significant differences between the situation then and now. The first major difference is that there are currently dual forces at play: difficulties in borrowing capital and falling house prices. If only the latter of these were operating, there would be some hope that falling prices would eventually lead to individuals and RSLs both finding it easier to buy stock or land. However, the credit crunch has hit housebuilders as well as individuals. Job cuts in the building industry are regularly making headline news. For example, one of the UK's leading housebuilders, Persimmon, announced in April 2008 that it had decided not to start development on any new sites.⁴ Persimmon has blamed the lack of mortgage finance available to potential buyers rather than selling prices or costs. At the same

1 Communities and Local Government (CLG), *Delivering affordable housing*, 2006.

2 Aldrick, P, 'Negative equity threat stalks housing downturn', *Daily Telegraph*, 5 September 2008, quoting analysts Bernstein Research.

3 Council of Mortgage Lenders website: Statistics: www.cml.org.uk/cml/statistics

4 REG-Persimmon Plc, AGM Statement, RNS Number: 0004T, 24 April 2008.

time, the credit crunch has hit RSLs and hampered their ability to borrow to provide finance for development.

A second difference is that since the last slump there have been significant changes in the ways in which RSLs deliver affordable housing. A far greater proportion of affordable housing has been obtained from private developers and there has been an increasing reliance on section 106

agreements.⁵ In addition, RSLs are increasingly developing affordable housing by cross-subsidising their profits from market housing, often through a separate commercial housing development arm. The result of these changes is that the proportion of the cost of an average new social home funded from public grant has fallen substantially in recent years. This mechanism for delivery has greatly increased

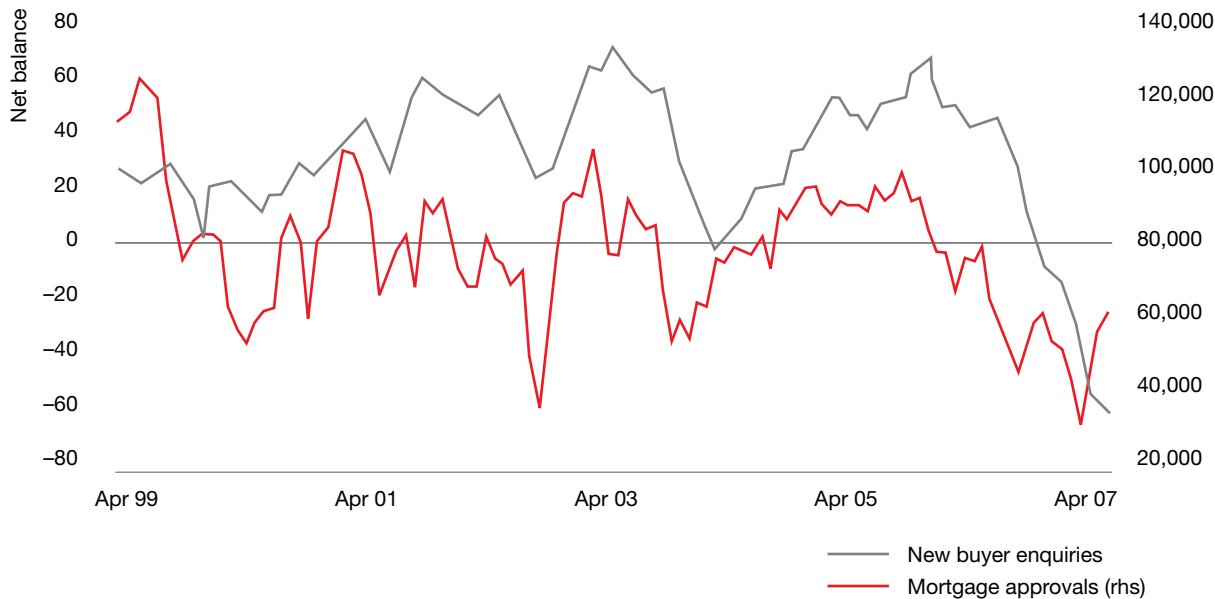
the vulnerability of RSLs to the vagaries of the market, and has left many of them unable to draw down granting funding. This is now preventing them from reverting to 'own build' and benefiting from falling land prices. It is becoming clear that current trends demand new approaches to funding and investment in social housing development.

A picture of the current housing market

The global financial crisis and its relationship to the UK housing market are dominating the nation's thinking. The situation is evolving rapidly and will continue to do so as the Government's recent injection of capital into the banking system takes effect.⁷ The hope is that the Government's 'rescue package' will address the lack of liquidity in the mortgage and lending market. Whether, or how soon, this will translate into the unblocking of lending for RSLs and individual borrowers is not yet known.

Charts 1 and 2 summarise the situation regarding new buyer enquiries, mortgage approvals and housing starts over the past few years. Chart 1 shows a significant decline in new buyer enquiries and mortgage approvals from mid-2007. Figures from the British Bankers Association paint a similar picture, showing that in August 2008 mortgage approvals by banks for house purchases were down 69.1 per cent compared to one year previously.⁸

Chart 1: New buyer enquires and mortgage approvals



Source: Royal Institute of Chartered Surveyors (RICS).⁶

5 Crook, A, Henneberry, J, Rowley, S, Smith, R and Watkins, C, *Valuing planning obligations in England: Update study for 2005-06*, 2008.

6 Royal Institute of Chartered Surveyors (RICS), Presentation to Mayors Housing Forum, London, by RICS Chief Economist, Simon Rubinsohn, 1 October 2008.

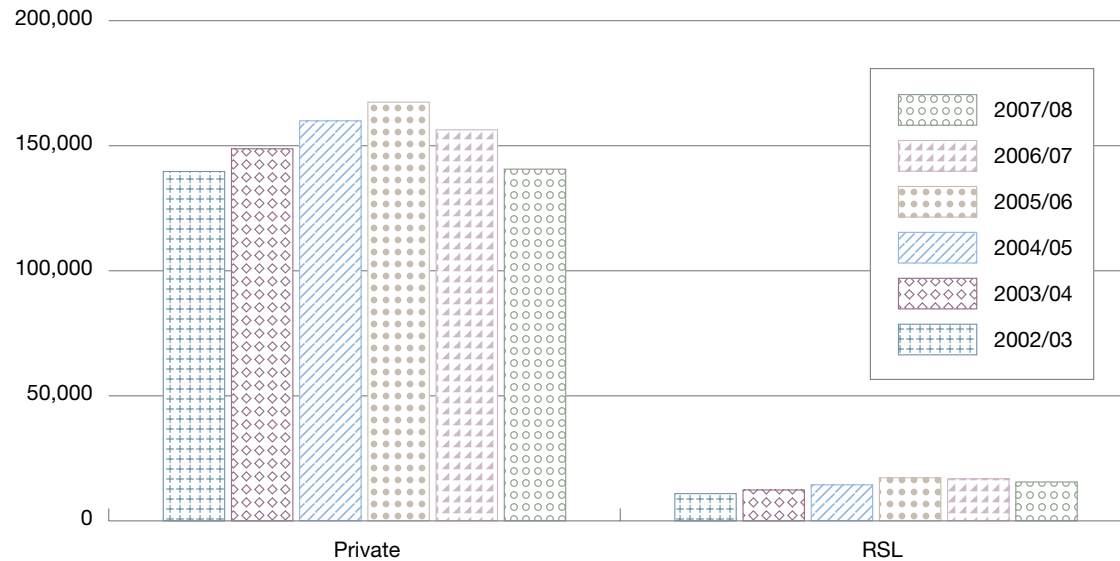
7 Government's rescue plan announcements, 6 October 2008: see page 35.

8 British Bankers Association, *Statistics release: August figures for the main high street banks*, September 2008.

9 CLG, Live tables on housing: Table 213, August 2008: available from www.communities.gov.uk

10 Ibid.

Chart 2: Housing starts by private developers and RSLs, 2002/03 to 2007/08



Source: CLG, Live tables on housing: Table 213.

Chart 2 shows that in the past year housing starts have dropped to levels that are almost the same as in 2002/03.⁹ However, it is encouraging to note that, so far, ‘own development’ by RSLs is holding up much better, with RSL starts for the second quarter of 2008 the highest of any quarter since 1997.¹⁰

The position for private housebuilding is continuing to deteriorate. The number of private sector starts in the second quarter of 2008 was fewer than 28,500, compared with almost 39,000 in the second quarter of 2007. This is a 27 per cent decline over 12 months and represents an

annual figure of 113,500 starts a year – fewer than half those needed to be on track to meet Government housebuilding targets (240,000 homes per year by 2016).¹¹

The delivery of social homes, and affordable housing in general, is directly affected by the impact of the credit crunch on the ability of RSLs to access credit. Many of the larger RSLs are already heavily committed, and facing rising interest payments on existing loans. Perhaps even more significant is the effect of the credit crunch on first-time buyers and others, and therefore on RSLs’ ability to cross-subsidise through sales

of market housing and through income from ‘staircasing’ by shared ownership tenants. While this year’s RSL building figures are very positive, if the current situation continues unchecked, a sharp fall in housebuilding by RSLs can be expected further down the line.

Findings of a qualitative survey of members of the Chartered Institute of Housing carried out in June 2008 reiterate the picture described above.¹² Of those surveyed:

- 28 per cent felt that demand for shared ownership was falling (10 per cent felt that it was increasing and 47 per cent did not know)
- 54 per cent felt that getting a mortgage for shared ownership was getting harder
- 56 per cent thought that the risk of homelessness in their area was increasing
- 49 per cent felt that an increase in repossessions in their area was leading to increased demand for social housing
- 16 per cent of RSLs responding thought that they would decrease their development programme
- 70 per cent of those responding were now not confident that government housing targets would be met.

Government interventions

In June 2008, at the Chartered Institute of Housing Conference, the then Housing Minister Caroline Flint stated:

¹¹ CLG, *Homes for the future: more affordable, more sustainable – Housing Green Paper*, 2007.

¹² Chartered Institute of Housing (CIH), *Credit Crunch and Cost of Living Survey*, 2008: www.cih.org/news/credit-crunch-harrogate08

'I am announcing today that I have asked my officials, working with English Partnerships, the Housing Corporation and Sir Bob Kerslake's Homes and Communities Agency transition team, to urgently provide me with proposals on where we can do more across our programmes to work with RSLs, housebuilders and others to minimise the problems we currently face and create the right conditions for rapid recovery.'

The Government subsequently announced a series of measures to tackle the impact of the financial crisis on the housing market, with many focusing on affordable housing.¹³ The package includes:

- the 'front-loading' of funds for social housing to deliver a £400 million boost to enable both RSLs and local authorities that manage their stock directly to deliver 5,500 extra social homes over the next 18 months¹⁴
- increasing funding flexibility so that the Homes and Communities Agency will now have the option to release payment for affordable housing, to allow rephrasing of development of social housing at the start of schemes.

These measures are welcome and should enable urgently needed social housing to be built sooner rather than later and, critically, may help keep the cogs of the building industry moving.

Shelter recently commissioned Cambridge University to produce an updated estimate of the numbers of new homes required to meet

housing need and demand up to 2026, and to project the proportions of this that will need to be market, intermediate and social housing in each region. Shelter's report on this work reveals that, even just to meet newly arising need (ie not including the backlog of existing unmet need), the Government needs to take steps to ensure a far greater proportion of new housebuilding is affordable than current plans propose.¹⁵ If the delivery of affordable homes is not increased in the years following the current Comprehensive Spending Review period, a backlog of unmet urgent housing need in all regions will continue to build up, with devastating consequences for individuals and families.

More government intervention is going to be necessary if we are to deliver the required homes. The current level of public subsidy was set on the basis of substantial private sector investment and a reduction in average grant rates over time. It is clear that these calculations are no longer accurate. To have any chance of meeting even existing commitments on building affordable homes¹⁶, the Government will need to look again at overall grant levels and bring forward the necessary additional funding before the next Comprehensive Spending Review.

In the longer term, it is increasingly evident that we need a new deal for housing. This needs to re-examine how affordable housing is financed and how to deliver far higher numbers of affordable homes to meet local needs.

However, this problem cannot be solved simply by increasing levels of public subsidy for affordable housing, although this is an important element. We need concerted action on the ground at all levels of Government, and by all professionals involved in the planning and delivery of housing.

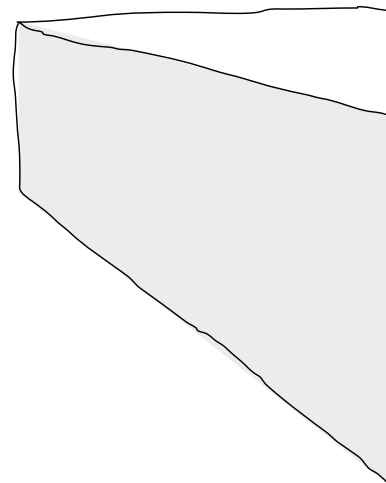
As our understanding of the scale and nature of the effects of the credit crunch improves, ideas are being developed on how to respond. In *Building blocks*, Shelter explores ideas for action to maximise the delivery of affordable housing at a local level, both building on work that is already underway and responding in innovative ways to the economic climate we are facing.

¹³ See Appendix 1 on page 34 for a full list of measures in the Government's recovery package, May to October 2008.

¹⁴ Government announcement, 2 July 2008: see page 34.

¹⁵ Shelter, *Homes for the future: A new analysis of housing need and demand in England*, November 2008.

¹⁶ The 2007 Housing Green Paper committed the Government to building 45,000 new social rented homes each year by 2011, with an aspiration to reach 50,000 per year during the next Comprehensive Spending Review period (2011-14).



How we use our land

Key to resolving the housing crisis is the issue of finding available land, both publicly and privately owned, on which to build. Better use can be made of land owned by public bodies to deliver affordable housing, and there are new opportunities to buy up private land that is falling in value in the current downturn.

The creation of the new Homes and Communities Agency (HCA) on 1 December 2008 brought together English Partnerships, and its function in bringing forward land for development, and the Housing Corporation and its affordable housing programme. The new agency will need to play an instrumental role in increasing the use of public sector land for the development of affordable housing.

Providing public sector land at below-market prices

Over a quarter of all land that could potentially be used to build homes is publicly owned. In 2006 official figures revealed that local authorities own 12 per cent of previously used land suitable for housing, with other public bodies owning a further 15 per cent.¹⁷

However, many opportunities for developing housing quickly on publicly owned land are being lost. Often the cost of the land is too high to allow

it to be used for the provision of affordable housing, because it is being sold off on the open market to the highest bidder. Significant numbers of local authorities are seeking to change this by treating affordable housing as a corporate and strategic priority and reviewing their land holdings on this basis.

The guidance to local authorities on the extent to which they can undersell, and the circumstances when they can do this, is clear. Circular 06/03 recognises that there may be circumstances where an authority considers it appropriate to dispose of land at an 'undervalue'.¹⁸ It specifies that if the 'undervalue' does not exceed £2 million, specific consent is not required where the disposal of any interest in the land will help to secure the promotion or improvement of the economic, social or environmental wellbeing of its area; and, where applicable, authorities should have regard to their community strategy.¹⁹ Outside these circumstances, specific consent from the Secretary of State is required.²⁰

¹⁷ CLG, Live tables on national land use: Table P303, August 2008: available at www.communities.gov.uk

¹⁸ CLG, *Circular 06/03: Local Government Act 1972 General Disposal Consent (England) 2003 – disposal of land for less than the best consideration that can reasonably be obtained*, 2003, paragraph 6.

Awareness of these provisions among lead officers and councillors appears to be patchy and the belief prevails that there is always a duty to obtain the best price for the disposal of land. Given how crucial the use of public land is to the delivery of affordable homes, a letter of guidance on this point to local authorities from the Housing Minister or the HCA would be helpful and timely. A recent article on the Planning Resource website calls both for clearer guidance on this for local authorities and for the £2 million limit on general consents to be raised.²¹ The Treasury could similarly assist by lifting the constraints on government departments, such as the Department of Health and the Ministry of Defence, to give them the same flexibility to dispose of land at below-market rates to support affordable housing development.

Buying up land from developers

As the current economic situation worsens, there may well be opportunities to buy land from developers at a reduced cost. The incoming Chief Executive of the HCA, speaking at this year's English Partnerships Annual Open²², signalled that the HCA would look at opportunities to provide funds for land purchase, but only after the avenues to use funding to keep housebuilding active on existing sites had been exhausted. Shelter has recommended to the CLG Select Committee inquiring into the impact of the credit crunch on housing policies that the Government

provides an additional £500 million of funding for the HCA to buy up land at reduced prices during the market downturn.²³ Many other housing experts are making similar recommendations for the HCA to do more to buy up land in this current period, or assist RSLs in doing so, and fill the funding gap to make this possible.²⁴

In the meantime, local authorities could consider how they might use their powers of acquisition to support RSLs in buying private land, through Compulsory Purchase Orders (CPOs) or the threat of CPOs. RSLs working together in consortia may also be able to take advantage of the land becoming available to acquire. This could be achieved by using joint purchasing power to buy up land and by operating together to prevent prices being driven up by them bidding against each other.

Encouraging landowners to take a longer-term view of land value

Falling housing development values are having a knock-on effect on land values and some landowners may consider it prudent to hold onto their land until values stabilise or rise. This has obvious implications for the amount of land that is available for housing. Local authority planning departments will be aware of trends in land management and should examine ways of encouraging land to be brought forward in their area. One way could be to encourage landowners

to lease land to developers and consortia to build on, but to delay taking the capital value on it until the housing stock is sold. This would have the additional effect of reducing the amount of investment required in a development at the outset and might help overcome the current difficulties in accessing finance for development.

Case study: Sourcing expertise

South Hams District Council, in the South West, has secured additional funding under the Beacon Peer Support scheme for research into issues around land values. These include the impact of second homes, governance and accountability, Community Land Trusts, and opportunities around land-leasing as an alternative to land purchase. The Council's top corporate priority is 'to secure a supply of housing for local people at affordable levels' and a multi-disciplinary affordable housing team was recruited to deliver this priority. The new team brought together expertise in planning, housing strategy and enabling, and land valuation. The team has worked directly with local communities and landowners to encourage them to bring sites forward for development as exception sites or, where appropriate, as departures from the development plan.

19 Ibid, paragraph 8.

20 Ibid, paragraph 10.

21 Phillips, G, 'Legal report – Playing safe on valuation in the disposal of public land', Planning Resource website, 17 October 2008: <http://tinyurl.com/63xm7d>

22 English Partnerships Annual Open Conference, Greenwich, 16 October 2008: see page 35 for more details.

23 Shelter, *Submission to the CLG Select Committee into the government response to the effect of the credit crunch on its housing policies*, November 2008.

24 See page 27 for details.

Case study: Innovative section 106

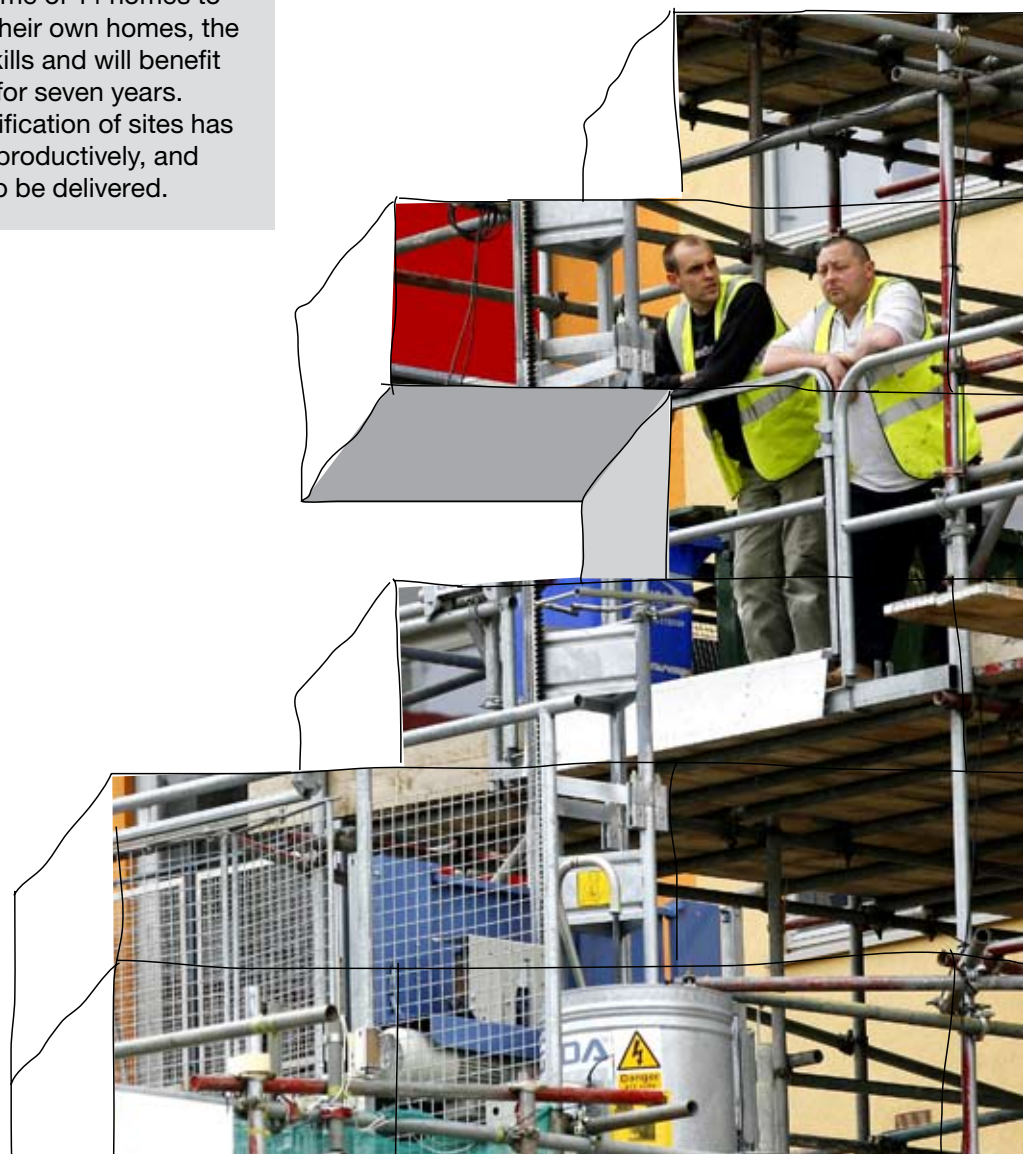
South Holland Borough Council in the East Midlands has created an innovative new section 106 agreement in which the developer retains ownership of affordable properties that are sublet to the local authorities, who manage and let them at a social rent levels.

Identifying the land we need

One of the important elements of the planning guidance on housing (PPS3)²⁵ is that local authorities should establish a 15-year supply of housing land, with an emphasis on the first five years, through Strategic Housing Land Availability Assessments. While many local authorities are carrying these assessments out, and being creative in identifying land, many more have not yet done so.²⁶ Looking beyond the current housing market situation, a thorough assessment of land is essential for achieving the increase in housebuilding that is necessary over the next 20 years. The best assessments should consider the suitability of land, not just in planning terms, and should involve the local authorities engaging fully with landowners and developers in the process. The HCA in the regions needs to support local authorities who have not yet carried out a full assessment of land in their area to ensure that they prioritise doing so.

Case study: Self-build scheme

Harlow Council in the East of England does not own much land and is exploring new sources of potential sites for development. It is making use of under-used garage sites, working with Home Housing Group, the Community Self Build Agency, Durkhan and the Housing Corporation to develop an innovative self-build scheme of 14 homes to rent. By helping to build their own homes, the self-builders learn new skills and will benefit from reduced rent levels for seven years. Being creative in its identification of sites has enabled land to be used productively, and more affordable homes to be delivered.



²⁵ CLG, *Planning Policy Statement 3: Housing*, November 2006.

²⁶ Local authorities were supposed to have completed their Strategic Land Availability Assessments by the end of March 2007, but in regional meetings with local authority chief executives, CLG speaker Richard McCarthy said that by the end of December 2007 only 15 per cent had been completed.

Making best use of unsold market stock

In the wake of the housing boom, new housing built to be sold on the open market is lying empty. There is potential for more of this housing to be used for social and intermediate housing. At the same time, however, we must ensure that environmental, bedroom and space standards are not undermined.

Buying up market housing stock for social housing

The problems faced by developers currently unable to sell their properties because of the credit crunch provide an opportunity for social landlords to buy up stock at a discounted rate. This has the benefit of adding to the supply of affordable homes now, while at the same time supporting the ailing housebuilding industry. As far back as January 2008, there was evidence that developers and RSLs were already doing this, with reports of a 15-per-cent discount to buy stock.²⁷

Naturally, additional capital funding is needed for the social housing sector to take full advantage of this opportunity. It is extremely welcome that the Government announced £200 million for RSLs to buy up stock for HomeBuy or social rented

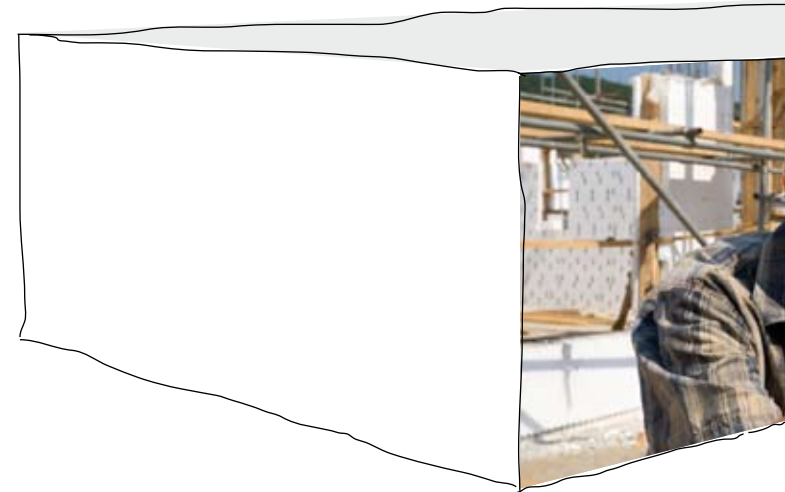
housing²⁸ – a move widely supported across the housing sector, including by the Home Builders Federation. However, this sum of money will only enable the purchase of between two and three thousand homes.²⁹ It is worth noting that in the 1992 housing slump the Conservative Government did far more to allow RSLs to buy up empty properties.³⁰ As housing completion rates slow down, the opportunity to buy market stock will diminish. Having already made a positive step in this direction, the Government should urgently consider giving further assistance in this area.

Local planning authorities have a central role to play in helping RSLs to buy up market housing in this way, by coordinating with the new national clearing-house and sharing information regarding the progress of private schemes, local market conditions, and the location of housing need.

Addressing suitability and standards of unsold market stock

One potentially major problem in buying up market stock relates to its suitability. Unlike social housing, stock built by developers will not necessarily meet the required level of the Code for Sustainable Homes (Level 3) or meet the Housing Corporation's requirements regarding bedroom size and other space requirements. This would make it ineligible for any grant from the Housing Corporation.

The National Housing Federation recommends that homes below such standards should not be used for social renting, while the Home Builders Federation calls for a 'reduction in regulatory costs'. In Shelter's view, pressure to relax standards across the board needs to be resisted. It would be unwise to lower the environmental



27 Blackman, D, 'Market downturn spells opportunity', *Inside Housing*, 11 January 2008.

28 CLG, 'Helping first-time buyers on to the housing ladder', CLG housing newsroom, 14 May 2008: <http://www.communities.gov.uk/news/housing/803728>

29 This calculation is based on the assumption that the allocation will only fund 30 to 50 per cent of the purchase price at current average house prices.

30 The Government at that time gave selected RSLs £577 million to buy empty properties, although they were only given 100 days in which to do so.



standards for grant eligibility because it could be difficult to reinstate these standards later and would also represent a step backwards in efforts to tackle climate change. Similarly, standards in bedroom size and space requirements – vital to reducing overcrowding – need to be maintained. Local authorities and RSLs may well decide on a pragmatic approach to this, assessing developments on a case-by-case basis, looking at how far individual developments fall short of these standards and assessing the suitability of various types of housing for different kinds of household.

Opinions in hindsight from when RSLs bought up market stock in 1992 are mixed. This mechanism undoubtedly provided some fine social housing, including genuinely mixed tenure and tenure-blind housing on many of our streets; the London Borough of Islington being a good example of this. However, some RSLs, perhaps because

of the 100-day time limit to buy stock, complain that some of the properties they bought were of poor standard and led to high maintenance costs.³¹ This experience serves to underline the importance of thorough assessments of the quality of stock prior to purchase.

Buying up unsold market stock for intermediate and private rent

In some areas, local authorities and RSLs are starting to explore the possibility of using unsold market stock that does not meet the standards required for social housing, to increase the supply of market and intermediate housing for rent. This could support the aim of developing mixed tenure and mixed income communities, provide an entry point for RSLs into the private rented market, and ease pressure on social housing waiting lists.

31 Dowler, C, 'Brown's plans lay foundations but will not finish the job', *Inside Housing*, 12 September 2008.

Using the planning system

Although perceived as an obstacle in some instances, the planning system provides the essential framework to enable us to build more affordable homes.

Bringing forward grant funding for social housing – the role of planners

The Government made a commitment in July 2007 to bring forward funding for social housing, where doing so would encourage the continuation of housing developments in jeopardy and make it possible for developers to meet local authority affordable housing requirements. Many RSLs are reporting that this is not yet translating into action in their dealings with regional officials. On the other hand, there is anecdotal evidence from Housing Corporation investment managers that they are not being approached in their regions for the additional funding that is now available.

It is essential that this commitment is followed through locally. Local authority planners have an important role to play in identifying cases where reviewing grant levels will allow development to go ahead, broker discussions with developers, and relay this information to the HCA.

Renegotiating section 106 contributions?

On the principle that something is better than nothing, some planning authorities are already renegotiating with developers to amend the section 106 requirement where there is a danger that developments will not go ahead otherwise. In the case of such renegotiations, it is vital that

Case study: Developing a grant and investment model

Following a viability study on providing affordable housing through section 106 agreements, Exeter City Council in the South West is in negotiation with a number of private developers to try and provide the affordable element of their developments up front. This would help developers to maintain their workforce and provide much-needed affordable housing in Exeter. With no market housing being built to cross-subsidise the affordable housing element, the levels of grant required are much higher than would normally be considered. The Council is therefore now working on a scheme to develop a grant and investment model that allows for high levels of public subsidy to be awarded to the scheme while the market is low, with an agreement that when the economy recovers and market housebuilding resumes, a proportion of the public subsidy will be repaid by the developer.



affordable housing does not lose out to other types of infrastructure. In addition, the provision of social housing should be prioritised over shared-equity housing. This approach will help ensure that the most urgent housing need is met, while responding to the current difficulties in acquiring mortgages for HomeBuy and other low-cost home ownership products.

Such renegotiations should be viewed as short-term exceptions to policy as a result of the present economic environment. If we are to meet acute housing need in the long term, shortfalls in affordable housing delivery must be made up when housing market conditions improve.

Case study: Renegotiating number of affordable homes

In Walsall, in the West Midlands, the local authority was willing to renegotiate the number of affordable homes previously agreed down from 33 to 17 (from a 25 per cent requirement to a 13 per cent requirement.) The renegotiation has meant that the 17 homes are now to be social rented rather than shared equity as negotiated originally. Planners need to be artful in looking at development value and assessing how a development can be made to work, while still seeking to achieve an element of social housing. As this example shows, the cascade mechanism does not have to work only in one direction: development plans can 'cascade' from shared equity to social rented housing.

Resources for local authorities in negotiations

Many local authorities are under-resourced in terms of staff and expertise in planning negotiations; this is particularly the case among smaller local authorities. It is well documented that this can reduce the ability of a local authority to maximise their gains from planning negotiations.³² The Advisory Service for Large Applications (ATLAS) has been providing advice to local authorities in the South of England on planning applications of 50 units or more. It is potentially extremely positive that as ATLAS becomes part of the HCA it is being expanded to be a nationwide service and to provide more generic advice to all local authorities.

Indeed, one of the original reasons for creating the new HCA was to provide support to local authorities in undertaking negotiations and valuations.³³ The new body will need to play a full role in this if additional affordable housing is to be delivered.

Additionally, opportunities to assist those individuals within local authorities who are charged with negotiating section 106 agreements to link up and share information need to be explored. In some regions, local authorities are looking at other ways to support each other and ensure all authorities have access to specialists experienced in section 106 negotiations.

Case study: Experience key to maximising section 106

The London Assembly's recent report on the operation of section 106 agreements in London found that experience, rather than the best lawyers, was key to getting the most out of section 106. Individual local authority planning officers, valuers or lawyers are unlikely to have the opportunity to gain sufficient experience with large and complex developments – unlike developers and their lawyers. For example, the Stratford City development will result in one of the largest mixed-use projects in the country. The planning application and section 106 agreement were incredibly complex, resulting in a section 106 document that was more than 220 pages long. For the developers, large projects can be relatively commonplace; however, planning officers in Newham are likely to experience only one such development in their careers. This means that the skills and knowledge they will have gained will not be used in the future.

To ensure other London boroughs can draw on such knowledge and experience, the London Assembly recommends that the best and most experienced local authority planning staff are available to all boroughs. This could be done by setting up an expert advisory group of planning officers who can be called upon when other boroughs need their expertise or by setting up a pan-London unit that is skilled in complex section 106 agreements.

³² Monk, S, Whitehead, C and Burgess, G, *The provision of affordable housing through section 106: the situation in 2007*, RICS research paper, Volume 7, Number 14, 2007.

³³ CLG, *Consultation: Delivering housing and regeneration: Communities England and the future of social housing regulation*, 2007.

Agreeing lower site threshold policies

Many sites for development are under the threshold set by the local planning authority, and therefore fail to qualify for contributions via section 106. There is evidence from the South West that up to 50 per cent of homes are built on sites of fewer than 15 units³⁴, which therefore may not qualify for section 106 agreements. This can reduce considerably the scope for delivering affordable housing as part of existing developments. It is believed that some developers deliberately choose to pitch their proposals at 14 units precisely for this reason. Government guidance in PPS3 suggests that the threshold be set at 15, but gives the freedom to local authorities to set lower thresholds. Shelter supports the suggestion in Matthew Taylor MP's report on rural housing affordability³⁵ that encouragement from the Government to local authorities to lower site thresholds would be helpful. Many local authorities are already taking the initiative and are using their powers to specify a lower site threshold, or even remove the site threshold altogether, to ensure that section 106 agreements are brought into play for smaller sites that are more likely to be delivered in the current climate.

Case study: One-for-one policy

In Yorkshire and Humberside, Harrogate Borough Council operates a 'one-for-one policy'. This was cited in the Matthew Taylor's review on rural housing affordability as being particularly useful in smaller communities where the delivery of only one or two additional units can provide essential affordable housing.

Case study: Reducing site thresholds

South Hams District Council, in the South West, has reduced the thresholds in its Local Development Framework (LDF) and this has received approval from the Planning Inspectorate. They have adopted a sliding scale as follows: for sites with capacity for two to five dwellings the developers have to provide 20 per cent affordable housing; for sites of six to 14 dwellings this rises to 35 per cent; and for sites of 15 dwellings or more it is 50 per cent. Furthermore it states that onsite provision will be expected for sites with capacity for six or more dwellings, and only in exceptional circumstances will any alternative to this be appropriate.

Using rural exception sites more

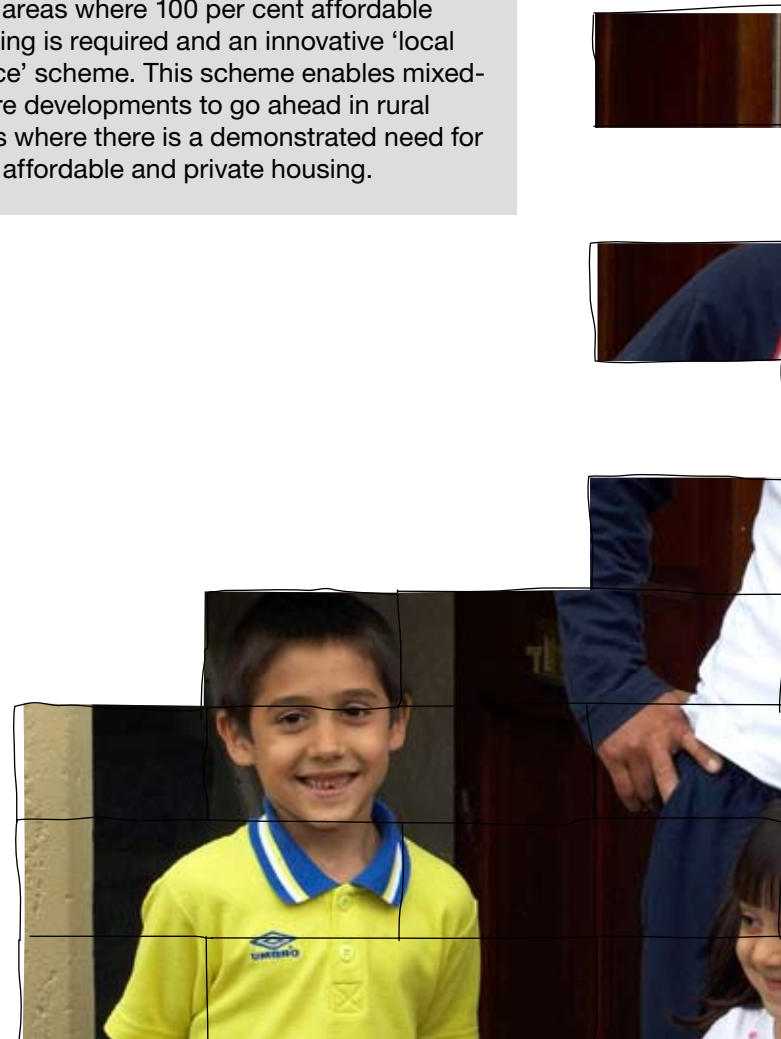
Many local authorities have adopted a positive rural exception sites policy to deliver land for affordable housing in perpetuity, at a much-reduced cost. Under a rural exception policy, local authorities can allocate or release small sites for the development of affordable housing within and adjoining small rural communities, which may be subject to policies of restraint and would not be released for market housing.

Case study: Addressing rural needs

Stratford upon Avon Council, in the West Midlands, has taken a robust approach to assessing needs and developing policy to address the lack of affordable housing in rural areas. A clear hierarchy of priority areas for development in rural areas has been formulated. A rural enabler has been part-funded by the Council since 2003. The enabler has worked closely with parish councils to develop local needs surveys. Planning policy includes exception sites in rural areas where 100 per cent affordable housing is required and an innovative 'local choice' scheme. This scheme enables mixed-tenure developments to go ahead in rural areas where there is a demonstrated need for both affordable and private housing.

34 Evidence provided by the Housing Corporation during the South West Regional Spatial Strategy Examination in Public in 2007.

35 Taylor, M, *Living and working countryside: The Taylor review of rural economy and affordable housing*, CLG, July 2008.



Putting local policy in place to support affordable housebuilding

Local authorities across the country have made huge progress in developing policy and spending plans to support the delivery of affordable housing. With current market conditions and uncertainty in the economy, there is a danger that local plans on affordable housing will be sidelined because they are perceived to be too difficult to implement in the current climate. It is important that we do not let this happen.

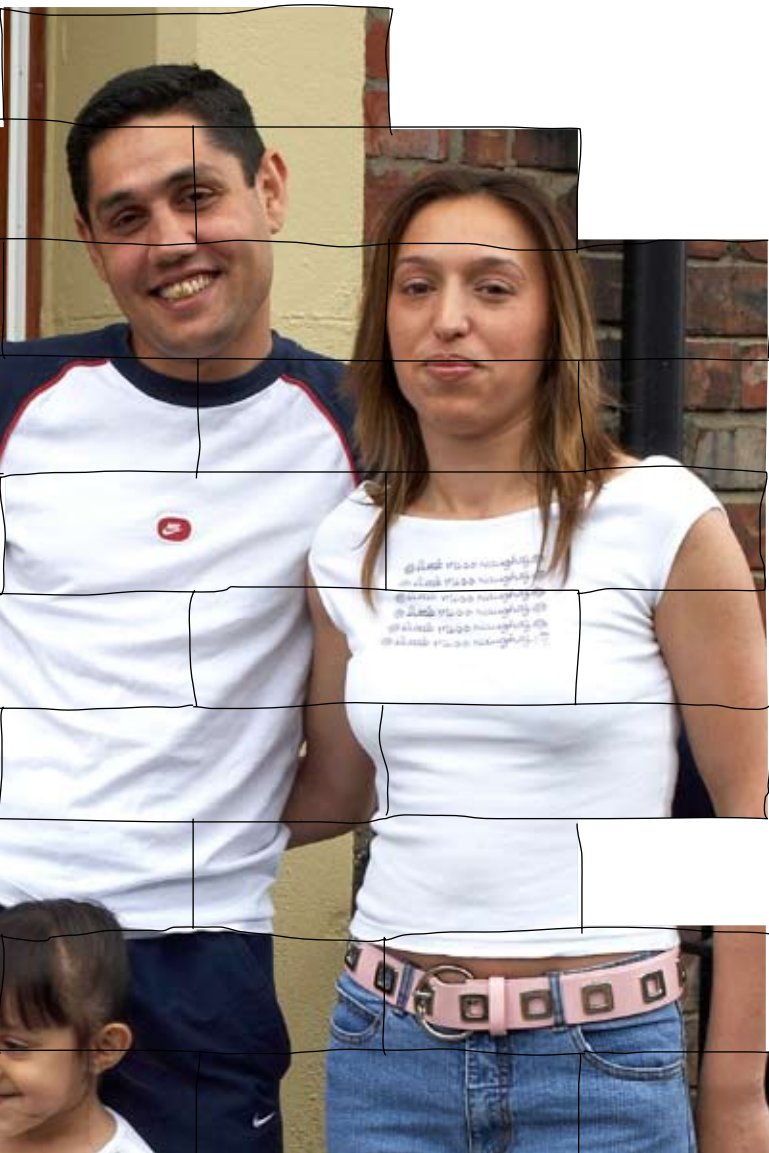
Making sure sound Local Development Frameworks are in place

Local Development Framework (LDF) documents are crucial to support the delivery of affordable housing. They outline the planning vision for local areas, including targets on the levels of housing required, based on robust assessments of housing need and demand. They also provide clear direction to developers in relation to section 106 agreements and enable local authorities to lead on the delivery of affordable homes. In a speech in October 2008, the Deputy Chief Executive and Director of Policy of the Planning Inspectorate, Leonora Rozee, revealed that there are only 33 'sound' core strategies in local development plans in England. Given that there are 388 local authorities in England, this indicates a significant shortfall in the number of plans. It is

essential that local authorities direct their resources to allow planners to prioritise these.

The recent Court of Appeal case of *Blyth Valley Borough Council v Persimmon Homes, Barratt Homes and Millhouse Developments* gave a harsh verdict on a local authority's assessment of economic viability in their affordable housing policy.³⁶ This demonstrates the imperative for LDFs and Affordable Housing Policies to be robust and underpinned by thorough evidence both of local housing need and of the economic viability of the authority's affordable housing plans. Such evidence is provided through the Strategic Housing Market Assessments (SHMA). Official figures on the number of SHMAs that have been carried out are not available, but there is a concern that many local authorities have yet to complete these.

³⁶ *Blyth Valley BC v (1) Persimmon Homes (North East) Ltd (2) Barratt Homes Ltd (3) Millhouse Developments Ltd* [2008] EWCA Civ 861.





In their LDFs local authorities need to demonstrate that their own policies are based on an assessment of viability and how economic viability assessments would be done on individual applications. The best LDFs adopt a formula for assessments which ensures that the landowner and developer both realise that the price the developer pays for the land will have to reflect the fact that a percentage of the housing will be affordable. The frameworks also enable assessments to be conducted on a site-by-site basis to ensure that each development can support as much affordable housing as possible. Many local authorities are finding that employing a valuer (independent from the building industry) is the best way to ensure that their economic viability assessments are watertight.³⁷

Local Development Framework targets

In these times of rapid change, it is important that the proportions of affordable housing in LDFs are not reduced simply because of current difficulties in implementing them. Local authorities are having to be pragmatic and flexible, and at present they may not be able to meet their targets. However, if building rates continue to slow, this will lead to an even greater undersupply of new homes, which in turn could cause the backlog of housing need to grow. As such, LDFs may need to plan for future affordable housebuilding on a scale to compensate over the longer term for the shortfalls in delivery that could accumulate over the next three to four years. This means that the number of new affordable homes, and particularly social rented homes, included in LDFs may need to be increased in order to meet local need.

Producing robust affordable housing policies

In order to be up-front and clear with developers and RSLs about the affordable housing policies contained in their core strategies, many local authorities are providing more detailed guidance and explanation in the form of Supplementary Planning Documents (SPDs) and affordable housing guides.

A local guide to developing in the current economic context could be a useful tool in bringing together information about national and local initiatives in the face of the credit crunch that would be of relevance to local developers and RSLs.

Case study: SPD guidance

In the West Midlands, the Regional Assembly has encouraged local authorities to adopt SPDs that should cover 'the evidence base for providing affordable housing, including the type and tenure of affordable housing required, the definition of affordable housing in the local context, site thresholds and needs-based affordable housing targets, the expected level of design quality and design considerations, appropriate mechanisms for calculating the price of affordable housing both in terms of price to the RSL and customer, the phasing of affordable housing, its location within developments and the anticipated level of pepper-potting scheme viability'.

Case study: Affordable housing policy

Craven Council in Yorkshire has published a leaflet explaining its affordable housing policies. It states that: developments of 15 or more dwellings must provide a minimum of 40 per cent of affordable housing; this can only be reduced if deemed unfeasible by a financial viability assessment; affordable housing should comprise 70 per cent social rented homes and 30 per cent intermediate homes; densities must be at the minimum of 30 dwellings per hectare and higher wherever possible; planning applications should include a countersigned Affordable Housing Pro-Forma and a draft section 106 agreement; affordable housing should be delivered in partnership with a nominated RSL.

³⁷ 'Legal report – Court takes tough line on viability and soundness', Planning Resource website, 5 September 2008: <http://tinyurl.com/6x8fg6>

Case study: Involving RSLs

In Chester in the North West, the SPD gives clear recommendations to developers on involving RSLs from the outset of the planning process. It suggests that developers should seek RSL partners from the Council's Housing Partnership at the earliest opportunity to ensure that proposals for affordable housing provision meet the requirements of the RSL. The RSL should also be party to any section 106 agreement.

Having a corporate approach to affordable housing

Many local authorities have made affordable housing a corporate priority and have started putting this into practice.³⁸ There are a number of different ways in which local authorities can work corporately to address current housing conditions.

One way is to assess their land holdings to determine whether they can be used to achieve corporate objectives on affordable housing. Another is working at a regional level with the HCA to ensure that unspent funds³⁹ resulting from a slowdown of grant-supported section 106 agreements are used in other ways locally, for example to increase grant intervention and purchase unsold stock. Local authority land can be key to this and the current climate should provide local authorities with the opportunity to establish new ways of working with developers and RSLs.

Case study: Adopting a corporate approach

In the South East, the East Hampshire Council have adopted a strong corporate approach to housing, maximising affordable housing by ensuring close working and cooperation between planning and housing teams. Councillors are supportive of affordable housing and recognise the benefits it can bring in helping to deliver sustainable communities. Members agreed the use of council capital receipts to fund housing schemes, despite the ending of the local authority Social Housing Grant. There is strong joint working between officers and councillors, which ensures a positive approach to site development.

Integrating housing and planning strategies at the local level

Fundamental to making affordable housing a corporate priority, and joining up strategic thinking, is further integration of housing and planning strategies at the local level. The more we break down the silos and use the resources of all local authority departments towards achieving common goals, the more achievable they are.

The Government is consulting on moves to integrate further local vision, partnerships, spatial and spending plans, and the methods by which success is measured, through meshing Sustainable Communities Strategies, Local



³⁸ A survey carried out by the National Audit Office (NAO) and the Audit Commission in 2005 found that 92 per cent of the 50 local authorities surveyed had adopted affordable housing as one of their key corporate priorities. Source: NAO and Audit Commission, *Building more affordable homes: Improving the delivery of affordable housing in areas of high demand*, 2005.

³⁹ There is some anecdotal evidence that the Housing Corporation is experiencing a significant under-spend on its £8 billion affordable housing budget because funded schemes are not completed.

Strategic Partnerships, Local Area Agreements and LDFs. Many local authorities are already putting this into action.

Developing partnerships across local authorities in sub-regions is also proving itself to be effective in delivering affordable housing and new communities in many areas.

Increasingly, local authorities are working with their neighbours in developing the evidence base and share information to develop their SHMAs.⁴⁰

Case study: Affordable housing select committee

Oxford City Council in the South East has some of the highest house prices in the country. The Council has involved its Local Strategic Partnership in coming up with innovative ways of addressing this issue. The city's Partnership Officer says, 'Affordable housing is one of our five flagship issues for the Oxford Strategic Partnership.' The Local Strategic Partnership decided the housing problem needed a radically new approach. Oxfordshire County Council came up with the idea of a select committee to look at a range of innovative ideas for delivering affordable housing. For example, the committee has been looking at the model of a cooperative RSL that gives tenants the opportunity to buy equity shares in their homes. Although tenants do not own the homes, they can sell the shares when they leave the cooperative. This could give tenants more housing options when they move on as well as free up homes.

Case study: Exemplary Local Strategic Partnership

Basingstoke and Deane Council in the South East has been noted for embedding housing in a very active Local Strategic Partnership. This led to a holistic approach to developing and supporting sustainable communities on larger-scale developments, a close-working relationship between the Council and its partners, effective cross-professional working – for example, housing, planning and legal officers – and elected member involvement.

Case study: West of England Partnership (WEP)

In the South West, WEP brings together four local authorities to address housing and planning issues across the sub-region. The partnership was formed as a response to rapid population growth, increasing pressure on infrastructure and inequalities in prosperity within the area. A Housing, Planning and Communities Board takes responsibility for developing and driving forward the vision for affordable housing delivery across the sub-region.

Case study: Online resource

To support local authorities in the East Midlands, a housing intelligence website has been set up that provides an array of relevant information on issues that impact on housing markets. The project is funded by the Regional Housing Group of the East Midlands Regional Assembly.



⁴⁰ Baker Associates et al, *Final report – Spatial plans in practice: supporting the reform of local planning*, CLG, June 2008.

Taking charge on delivery

The new housing delivery vehicles introduced in 2007 and the current downturn in market housebuilding provide opportunities for local authorities and RSLs to take the lead in housing development for the first time in decades.

The new HCA and a new way of working

The HCA has signalled a new way of doing business (known as 'the Single Conversation') that is place based, rather than programme based, and puts local authorities at the centre of development plans from the start. This new way of working, if put into practice, could be extremely beneficial in bringing together new models for delivery and funding, partnership working, and local strategic decision-making. At the same time, it is vital that good relationships already developed with the Housing Corporation by local authorities and RSLs are not lost in the transition.

More RSLs could be involved in development

Private developers who are not themselves eligible for grants could be encouraged to act as building contractors for those RSLs who can access funds for building. This approach was also proposed in the 2007 Callcutt review of housebuilding delivery.⁴¹ There may also be scope for more RSLs with access to funding but no capacity for development to collaborate with

larger 'developer' RSLs. RSLs, either singly or in consortia, now have a greater potential role to play as the main lead in new housing development.

In recent years the Housing Corporation has moved towards allocating funds to far fewer, large RSLs. There may also be a case for a change in practice on this to increase the number of RSLs that can develop new housing, including some of the smaller ones. This could take advantage of the fact that some of the smaller RSLs may be less exposed and have more spare borrowing capacity, as well as local knowledge of housing need and housing markets in the area. Local authority planners have a critical role to play in brokering the arrangements in both these scenarios, as an extension of their role in ensuring that targets on affordable housing in the LDF are met.

Focus on smaller sites

Because of the current housing downturn, larger developments will be far harder to get off the ground. Additionally, many larger sites will be held or optioned by some of the major housing

developers who are currently either not developing or running a much-reduced development programme. In this context, the use of smaller sites becomes far more important. The need for more smaller sites to be made available has already been stressed in the Callcutt review of housebuilding delivery, on the basis that smaller sites would provide more opportunities for smaller, and often local, builders to operate in the market.⁴² Some local authorities are now looking at ways of encouraging smaller developments and considering breaking up sites in order to maintain some housing development. One way is to ensure that the Strategic Housing Land Availability Assessments focus on both larger and smaller sites and that, as a result, the local plan allocations include a range of smaller sites.



⁴¹ Callcutt, J, *The Callcutt review of housebuilding delivery*, CLG, 2007.

⁴² Ibid.

Developing Local Housing Companies

Local Housing Companies (LHC), introduced in the 2007 Housing Green Paper, are one of the most useful current ideas on housing delivery, enabling local authorities to play a more active role in developing their own land. LHCs are a new partnership model between local authorities and the private sector, where the company is set up by the local authority to act as the 'master developer'. The local authorities provide the land and enter into a development partnership with private sector developers and RSLs, who provide the equivalent investment and construction expertise, for the development of up to 1,000 homes.

Potential benefits of this new model are that it uses public sector land holdings, spreads the risk and benefits among a range of stakeholders, and reduces transaction costs by only working within agreed partnerships and thus avoiding raising prices through competitive bidding. In addition, it offers the opportunity to use public sector landowner powers to demand higher standards and targets for affordable housing. Such arrangements may require pump-priming by the new HCA, but this could be a good use of funds in the current market.

LHCs and other special delivery vehicles could also address the idea of value creation highlighted in the Callcutt review of housebuilding delivery.⁴³ Concerted effort by partners to invest in facilities, services and physical amenities will increase the value of that area. This, in turn, increases the ability of the developer to invest more profits in affordable housing. Furthermore, local authorities

can plough profit from increases in the value of the land once it is developed into more affordable housing or supporting infrastructure.

Fourteen local authorities were announced as pilot areas for LHCs.⁴⁴ Several of these are now in the process of being set up: New Homes Nottingham was launched on 21 October 2008 to build 5,000 homes in Nottingham. At least 18 other local authorities have expressed an interest in developing the next wave of LHCs.⁴⁵ Although it is too early for a full assessment of how successful these pilots have been, it would be very useful if the HCA and the 14 local authorities involved could publicise some of the early lessons from the pilots, given the potential that the new model has to encourage development in the current climate.

Case study: Using the LHC structure

Southampton City Council is exploring using an LHC structure to deliver its mixed-tenure estate-renewal programme. The company will also be an important mechanism to maintain housing delivery through the market downturn. The proposal will see the Council taking a more pro-active role in the development process than the traditional release of sites. This should forge a new partnership model between the Council, RSLs and developers, with a flexible structure to adapt to market conditions. To ensure delivery on the ground is maintained while a development partner is procured (in early 2009), the Council will shortly release an initial mixed-use project and some smaller sites for early delivery. The Council will achieve this through a development agreement to set up a joint venture with an RSL and/or a developer/contractor partner. This approach has already worked well in the city at the award-winning Chapel Development, resulting in a popular, high-quality development.

⁴³ Ibid.

⁴⁴ Barking & Dagenham, Bristol, Dacorum, Harlow, Leeds, Manchester, Newcastle, Nottingham, Peterborough, Plymouth, Sheffield, Sunderland, Wakefield, and Wolverhampton.

⁴⁵ CLG, *Facing the housing challenge: Action today, innovation tomorrow*, July 2008.

Community Land Trusts

In addition to LHCs, the 2007 Housing Green Paper also highlighted the Community Land Trust as a delivery vehicle to provide more affordable homes. A Community Land Trust is a mechanism for land to be owned by the local community. Land is taken out of the market and separated from its productive use so that the impact of land appreciation is removed, therefore enabling long-term affordable and sustainable local development. The value of public investment, philanthropic gifts, charitable endowments, legacies or development gain is thus captured in perpetuity, underpinning the sustainable development of a defined locality or community. Through such trusts, local residents and businesses participate in and take responsibility for planning and delivering redevelopment schemes.

Case study: Community builders

Coin Street Community Builders (CSCB) is a company established by local residents in London's Southbank in 1984, following a campaign against large-scale office proposals. The company is controlled by a board, which is elected by CSCB members. Only people living locally can become CSCB members. The Board employs staff to manage the company on a day-to-day basis. Profits are reinvested in CSCB's public service objective. Coin Street Secondary Housing Cooperative (CSS) is an Industrial Provident Act Society registered with the Housing Corporation as an RSL. It was established in 1987 and assists in the meeting of housing need by promoting, developing and supporting housing cooperatives. It also provides advisory, training and management services to RSLs.



Being creative with finance

Although the Government has brought forward some funding for social housing, Shelter believes more will be needed. This is only part of the solution though: we urgently need to look at how we make the most of finance available to the social housing sector.

Supporting RSLs to cross-subsidise through non-social housing development

To a large extent, the major developer RSLs have adopted a business model that relies on cross-subsidy between the market element of a scheme and the affordable element. Planning policy by most local authorities recognises this trend when negotiating planning permissions and takes a positive approach towards development by RSLs of homes for market provision, if this also facilitates more affordable housing.

However, in the short term at least, this business model is in danger of breaking down because the credit crunch is preventing first-time buyers and others from obtaining mortgages and the homes built by RSLs for sale on the open market are selling at a slower rate. If the lack of liquidity in the mortgage market continues, then urgent work is required to identify an alternative method by which RSLs can fund affordable housing. One possibility that RSLs have been exploring is converting market-for-sale to market-for-rent, and increasing cross-subsidy from market and sub-market rented housing, or other forms of non-social housing.

Case study: Intermediate rent schemes

In London and the South East, Southern Housing Group have introduced rent-to-HomeBuy and intermediate rent schemes to maximise shared ownership properties in the current climate. With the intermediate rent option, tenure is switched to a reduced rent that is around 70 to 80 per cent of market levels. Rent-to-HomeBuy comes into play where a prospective low-cost home ownership buyer cannot secure a mortgage because of the 'credit crunch'. It allows the buyer to rent a shared ownership home and retain the option of buying a share in the property at a later stage. The potential buyer enters a tenancy, at an intermediate rent level, along with a formal option to buy a share of the property at a later date. The tenancy agreement stipulates a set timeframe for buying the property, eg three years. If the lending market does not improve during that period, the RSL may need to review the agreement. This model ensures low-cost home-ownership homes do not remain empty and enables RSLs to receive revenue from the properties. It also allows buyers to live in the home of their choice despite current problems with mortgage availability, and go ahead with a shared-ownership purchase in due course.

Case study: Student accommodation

In Dorset in the South West, Signpost Homes, the development arm of Spectrum Housing Group has come up with another way to cross-subsidise. In August it announced a new £70 million development to build student accommodation for several universities in the region.

Addressing the mortgage blockage

At the time of writing, the Government has announced a rescue package worth hundreds of billions of pounds, with the aim of increasing confidence in the money markets and to encourage banks to lend to each other again. One of the anticipated outcomes of this move is to make it easier for people to obtain mortgages, which has been identified as one of the major barriers to development. Whether this move will prove successful, and how soon its effects will be felt, is as yet unknown.

In the meantime, many leading experts are developing proposals on how local authorities and providers can help address the shortage of mortgage finance for low-cost home ownership, looking at lessons learnt from the early 1990s.





These include ideas on actions by local authorities to both prevent homelessness and repossession among shared ownership householders and to encourage lenders to provide mortgages for this market. One way that this could be achieved, for example, would be for local authorities to put in place a system of buyback or flexible tenure schemes targeted at low-cost home-ownership buyers who are unable to meet their financial obligations. In such situations, the local authority would buy the purchaser's share and sell them a smaller share, using the Joseph Rowntree Foundation flexible tenure schemes as a model (see page 28), or by making use of Recycled Capital Grant Fund to buy back all or part of shared homes.

Being creative about other sources of local funding

Since local authorities were given the option to reduce the discount on council tax for second homes, many have started using the receipts from council tax on second homes to invest

in local affordable housing provision. This can be particularly effective in areas where second homes form a sizable proportion of housing stock.

The reduced discount raised over £46 million in additional funds for rural authorities in its first year. The main uses of the funds have been to support the delivery of affordable housing and other housing-related services.⁴⁶

Case study: Match funding

North Yorkshire County Council have used council tax on second homes to provide match funding for affordable homes with the Housing Corporation and Broadacres RSL. This has enabled the Council to provide 22 affordable homes for local people on the social housing waiting list in the districts of Hambleton in the Yorkshire Dales.

Case study: Funding more homes

In the South West, South Hams District Council have used additional monies from council tax on second and holiday homes to increase the housing capital programme to provide 70 homes for rent and 60 for shared ownership.

Spending the money from section 106 agreements

Where local authorities have previously been successful in negotiating section 106 agreements with developers, they need to make sure they do not inadvertently end up having to pay back commuted payments from such agreements. It was recently uncovered that around £1.25 billion from commuted payments from section 106 agreements was sitting unspent in local authorities' accounts.⁴⁷ Most section 106 agreements will stipulate that money not spent in the way that was agreed, within the set timescale, will have to be returned to the developer.

46 Commission for Rural Communities, *Evaluation of the use of reduced council tax discount from second homes by rural authorities 2004/2005*, 2007, page 26.

47 Early, C, 'Exclusive: Unused gain cash revealed', *Planning magazine*, Issue 1757, 22 February 2008.

Building mixed communities

House prices soaring over many years, and now the current lack of mortgage availability, mean that millions of people are either locked out of the housing market or struggling with mortgages they can barely afford. Given this reality, do we need to update our ideas on mixed tenure communities?

Reviewing local policies on tenure

Lending up to five or six times a borrower's annual salary and 100 per cent mortgages were always risky practices. In the current crisis, these practices are cast in sharp relief. Those who have borne the brunt of this risk-taking are the many thousands at risk of debt and homelessness as house prices fall, repossession rates rise, and recession hits the economy. Even when the current restrictions on mortgage credit loosen, we are unlikely to see a return to the relaxed lending practices of recent years, and lenders will be cautious about the degree to which they invest in the sub-prime market in the future. As some regions have already started to show a decline in the proportion of home ownership, should local authorities be rethinking policies on increasing levels of home ownership in their areas?

Many RSLs and local authorities are seeking to develop new flexible tenure models. These could be the basis of a new blueprint for a mixed community, with a focus on market rented and

social rented tenancies that provide rents to a range of incomes and options to buy through 'staircasing' down as well as up.⁴⁸

Case study: Flexible tenure model

The Joseph Rowntree Foundation (JRF) developed a flexible tenure model nearly 20 years ago, and since then it has invested nearly £2.4 million in repurchasing equity shares. In the scheme, occupiers have the right to 'reverse staircasing', and JRF use the receipts from staircasing up to buy back shares in the property, enabling occupiers to become tenants and remain in the same neighbourhoods. The product was developed to help people to sustain their home and prevent homelessness. This has not been taken up by many other RSLs to date, but it is receiving mounting interest as a response to the credit crunch.

At the same time, many local authorities are now working with RSLs and developers to start replacing the more than two million social homes that have been lost over the last 28 years through the Right to Buy scheme. Increasingly, social housing is being viewed once again as a vital public asset that contributes positively to mixed communities.

Research carried out by Shelter in the Thames Gateway area found that complex management structures made it harder to deliver coherent service response to residents. New models of mixed tenure developments and partnerships for delivery that embrace a single management system could also lead to greatly improved services for all residents, and the management of both stock and public space.⁴⁹



48 Montague, D, 'The good old days are over – time for some fundamental changes', *Inside Housing*, 12 September 2008.

49 Shelter, *Neighbourhood watch – Building new communities: learning lessons from the Thames Gateway*, July 2008.



Making low-cost home ownership more accessible

In recent years, planning policy at the local level has taken greater account of the different intermediate tenures and low-cost home ownership schemes, and the roles they can play in addressing local housing needs.

Low-cost home-ownership products have been the hardest hit by the recent housing downturn – through both the fall in prices and the availability of borrowing, in terms of house prices and saleability – and are likely to be the slowest to recover. Looking beyond the immediate market conditions, for this sector to continue to meet intermediate housing need, the products must be

adapted so they are fit for purpose. Even before the housing downturn, there was a real concern that low-cost home ownership was not sufficiently ‘low cost’ for many on low or even medium incomes.

The Government has taken some action to address this by extending eligibility, for example opening up Open Market HomeBuy to all first-time buyers with a household income of £60,000 a year or less.⁵⁰ Local authority planners may want to review their policies on intermediate tenures as the eligibility for them is widened and more work will be needed to address the affordability of low-cost home ownership.

While Open Market HomeBuy does provide an equity return for the public sector, which can then be recycled into more affordable and social housing provision, it does not provide affordable housing in perpetuity. As such it does not count against local authority targets on affordable housing or directly meet future housing need.

Some local authorities and developers are exploring variations of the HomeBuy scheme through retaining the right to buy back and therefore keeping properties as social housing stock, or through joint working with a housing developer to lock in an element of affordability in perpetuity.

Case Study: Discounted market homes

In the South West, My Home by Summerfield Developments provides discounted market housing for local people. In order for future generations to benefit similarly, the same discount will apply to all future resales. Each scheme has an agreement with the local authority, Taunton Deane Borough Council, to ensure that a discounted price is available to future purchasers.

Encouraging a larger and better private rented sector

The latest UK Housing Review states that ‘private renting has become far more competitive as an option for households compared to the cost of buying’.⁵¹ The sector has grown by 21 per cent in the last five years across the UK and is fulfilling a significant role in the housing market. Some of this increase is the unplanned consequence of the expansion of buy to let as an investment opportunity: it formed 28 per cent of all private rented stock in 2006.⁵²

There is increasing interest in exploring the opportunities to promote large-scale development for the private rental market as a potential source of increased housing supply. Such housing could bridge the gap between the shortage of social rented housing and the reduced ability of people to buy fully or part-owned properties.

Attracting larger institutional investors, including RSLs, into the private rented market could help provide a stable basis for growth and drive up

50 ‘Helping first-time buyers onto the property ladder’, CLG website, Housing latest news, 14 May 2008: www.communities.gov.uk/news/housing/803728

51 Wilcox, S, *UK Housing Review 2007/08*, CIH, page 59.

52 Centre for Cities and the Smith Institute, *The future of the private rented sector*, 2008.

standards. This could also address many of the issues regarding responsibility for the long-term stewardship of areas that were raised by the Cave review of social housing.⁵³ RSLs operating in the private rented sector are well placed to develop private rented sector housing targeted at a range of incomes.

One way that local planning authorities could support the expansion of the private rented sector in their area is by stipulating that a certain proportion of homes have to be rented out for at least 15 to 20 years.⁵⁴

If more people are to be enabled and persuaded to choose private renting as a housing option, work needs to be done to improve the attractiveness of this option to a range of potential tenants, in terms of the security, value for money, and the quality of housing it provides.

Andrew Pratt, MD of Residential at Grainger plc, the UK's largest quoted residential landlord, spoke recently at a national Shelter seminar about the opportunities to deliver more housing into the private rental market.⁵⁵ Furthermore, a recent report commissioned by Grainger on prospects for the private rented sector concluded:

*'To achieve improvements in both quality and quantity of the private rented sector, any policy changes should focus on recognition that, offered with more tenant security and at an acceptable price, the private rented sector could be an appropriate affordable or intermediate housing option stimulating competition for quality and attracting investment in increased supply.'*⁵⁶

Many local authorities are already working with landlords to make increased use of the private rented sector to meet affordable housing needs, encouraging landlords to provide longer leases as standard and with capped rent levels.

Case Study: Private rent grants

In the South West, North Somerset Council recently undertook a successful one-year pilot scheme that offered £2,000 grants to private sector landlords to bring properties into use for rent. The criteria included a five-year rental agreement with 100 per cent nomination rights for the local authority to house people in housing need; properties to be of a high standard; and rent to be set at just below the Local Housing Allowance.

In October 2008, the Rugg review into the private rented sector reported its findings, with ideas on how to reform and expand the private rented sector. These included:

- introducing a 'light touch' licensing system for all landlords (with a more effective system of redress) and mandatory regulation for letting agencies
- changes to stamp duty to encourage landlords to purchase portfolios of property

- changes to capital gains tax to encourage the buying and selling of property through the roll over of tax liability, and
- policies to promote tenancy sustainment in the private rented sector, such as universal help with deposits and rent in advance for tenants on housing benefit and development of intermediary 'social lettings agencies' in each local authority area.⁵⁷



53 Cave, M, *Every tenant matters: a review of social housing regulation*, CLG, 2007.

54 Centre for Cities and the Smith Institute, *The future of the private rented sector*, 2008.

55 Building blocked? Shelter national policy seminar, London, 10 September 2008.

56 Cowans, J, *The English private rented sector in the twenty-first century: encouraging greater quality and quantity*, The Place Team, commissioned by Grainger plc, September 2008.

57 Rugg, J and Rhodes, D, *The private rented sector: its contribution and potential*, University of York, October 2008.

Delivering infrastructure and affordable homes

Having the right local infrastructure to support housing development is essential both for gaining the support of the local community and to deliver sustainable communities that work.

Focus on infrastructure planning

Emerging guidance from CLG encourages local authorities to place a far greater emphasis on planning for the infrastructure needs of their area. For example, recent guidance on local planning (PPS12)⁵⁸ states that the infrastructure planning process should identify, as far as possible: infrastructure needs and costs; phasing of development; funding sources; and responsibilities for delivery.

This is important for the delivery of affordable housing for three reasons. Firstly, local authorities will increasingly only be able to require developer contributions for local infrastructure if they have done clear infrastructure plans. Secondly, public opposition to housing can often relate to the impact of the housing on, for example, local roads, schools and health care. If a local authority can show that there are plans to fill these gaps then opposition may be reduced. Finally, housing developers will be more likely to develop in areas that have a good infrastructure planning system

and where, therefore, there is more certainty that infrastructure will be provided.

The housing downturn brings a risk of cuts to infrastructure in new developments. Infrastructure is an essential ingredient of a successful, thriving neighbourhood and cuts in this area could seriously undermine the success of new housing developments.

Case study: Infrastructure planning

In the East Midlands, the Housing Corporation has highlighted work in South Kettering as an example of good practice in infrastructure planning by the local authority and RSLs, who ensured that good public transport links and a rich range of community facilities were part of the master plan. Among the benefits secured from the section 106 agreement are free land for affordable housing, a new school, a subsidised bus service, a community centre, shop and open spaces.



Case study: Thames Gateway research

Shelter commissioned a study to look at three areas in the Thames Gateway growth area.⁵⁹ The research found although residents were satisfied with their new homes, there was widespread disappointment about the lack of infrastructure, such as public transport, local shops, local schools and primary healthcare provision, and upkeep of communal areas. In some cases the necessary infrastructure had not even been planned; in other cases there was a delay with services being built several years after residents had moved in. The latter was often caused by the necessity of a critical mass of residents to make businesses viable under our current system.

Most local authorities are acutely aware of the issue of infrastructure, both the phasing and funding of it. Increasingly they are looking to other European countries for guidance. Many of these

⁵⁸ CLG, *Planning Policy Statement 12: Local Spatial Planning*, June 2008.

⁵⁹ Shelter, *Neighbourhood watch – Building new communities: learning lessons from the Thames Gateway*, 2008.



have a different approach to infrastructure, often putting it in place before homes are built, developing confidence both among potential residents and businesses in the future prospects of the area. If the Government takes forward proposals on major public work programmes to counter recession and rising unemployment, there is a clear need for increased levels of public investment in infrastructure to support affordable housing. It must also be incorporated early on in the process both to give confidence to developers and to ensure that the required range of services are available for those affected by, or moving into, new housing developments.

Getting ready for the Community Infrastructure Levy

The Planning Bill⁶⁰ provisions requiring that Community Infrastructure Levy (CIL) revenue be spent on infrastructure includes a list of what constitutes infrastructure. This list includes affordable housing. In its briefings on CIL⁶¹, the Government proposes that 'planning obligations should... continue to secure affordable housing' and it is not the Government's intention for the CIL to be used to deliver affordable housing. However, the fact that it is included within the definition of infrastructure suggests that affordable housing could receive CIL funding

if there were evidence to show that this was necessary. CLG has also highlighted the steps that the Government will take to protect the levels of affordable housing delivered through planning obligations.

The implication of this is that local authorities will need to be clear about the level of affordable housing they want provided on a site. Local authorities urgently need to set this out in their LDFs and must ensure that their CIL charging schedule, which will also be contained in their LDFs, makes sufficient allowance for these affordable housing requirements.

60 The Planning Bill 2007–8, Tuesday 27 November 2007 <http://services.parliament.uk/bills/2007-08/planning.html>

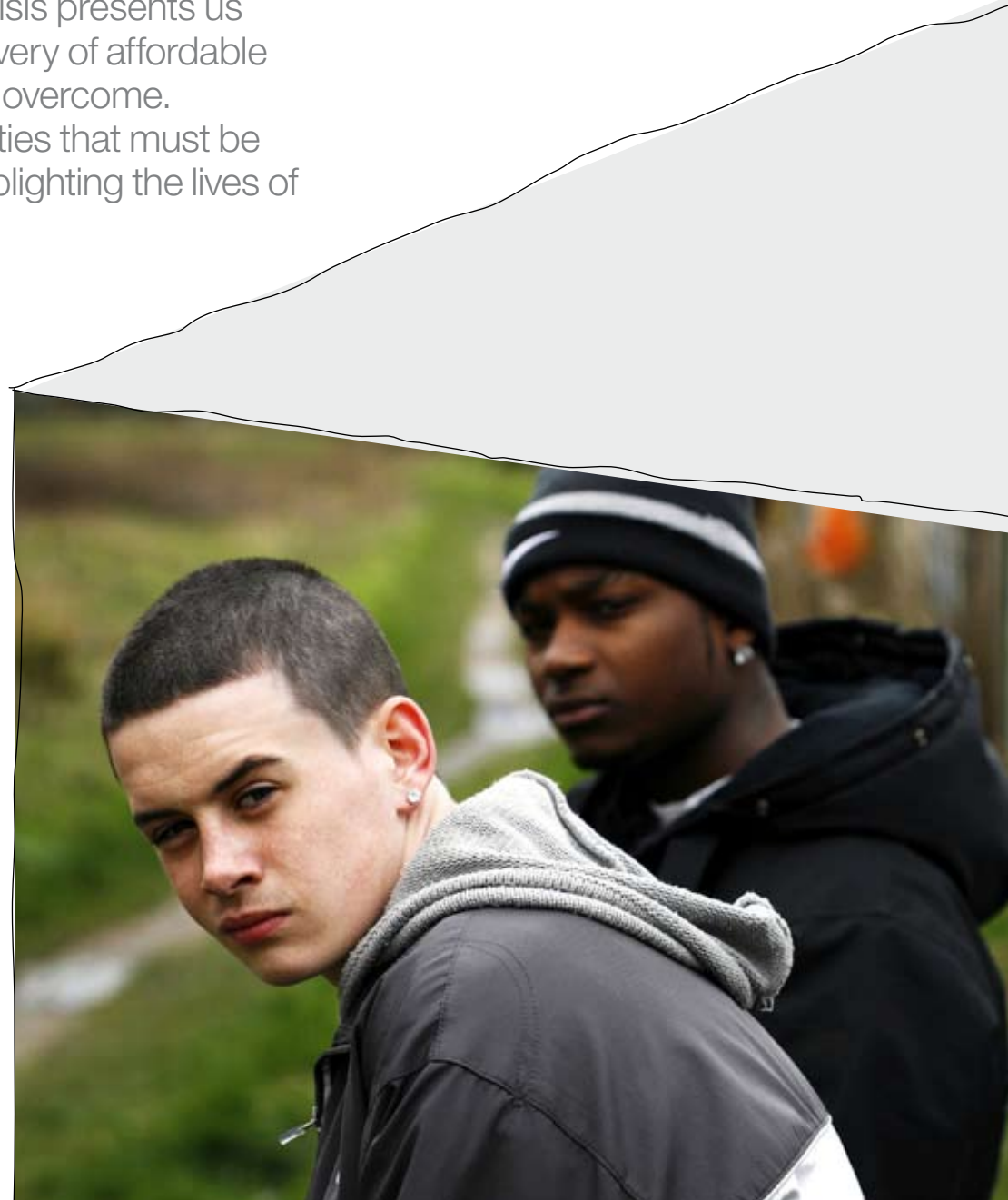
61 CLG, *The Community Infrastructure Levy*, August 2008.

Conclusion

While the housing downturn and wider financial crisis presents us with some of the biggest challenges yet in the delivery of affordable housing, these are challenges that we will need to overcome. The situation also presents us with new opportunities that must be seized if we are to tackle the housing crisis that is blighting the lives of millions of people in England today.

Before the housing downturn there had been an enormous amount of innovation and expertise built up at the local level on developing affordable housing. We need to build on this progress, consider new approaches, and develop a concerted plan of action on affordable housing in all regions, to respond both to the housing downturn and to the growing need for homes. This will require initiatives on planning, land, delivery, finance, and a new vision for mixed, sustainable communities.

While the current economic turmoil has thrown much into uncertainty, there is no doubt about the urgency to act now to prevent the shortage of affordable housing from becoming even more acute, both in the short and long term.



Appendix 1: Government measures to tackle the housing downturn and credit crunch

14 May 2008

- Major expansion of the Government's HomeBuy programme to enable all first-time buyers with an annual household income of £60,000 or less to apply to buy a share of a home. Currently, the scheme is open only to key workers (such as nurses and teachers), social tenants, and some buyers identified as a priority regionally.
- The new rules will mean that all first-time buyers will have the option to apply for the HomeBuy programme. The scheme allows buyers to purchase a share from 25 per cent of a property or to boost their purchasing power by up to 50 per cent with a shared-equity mortgage. For example a household with an income of £32,000 could afford a house of £200,000 paying £760 each month, as opposed to £1,350 without the scheme.
- Other measures announced to support first-time buyers include a new initiative to enable the Housing Corporation to allocate up to £200 million to buy new properties on the open market, either to be made available for first-time buyers to purchase through the HomeBuy scheme or for social rent.

See CLG website:

www.communities.gov.uk/news/housing/803728

17 June 2008

Quote from Caroline Flint MP at CIH Conference:

'I would also like to see a closer relationship between those building homes and those providing the finance – helping to develop new financial products and mortgages that work for people... I know that some housebuilders are already thinking about getting involved in shared-equity schemes, and even the rental market. I want to work with you to exploit your creativity and to discover if out of adversity we can find new ways of doing things in the future.'

2 July 2008

- A further £270 million was allocated through the Housing Corporation to deliver an additional 3,800 homes for social rent and 1,500 shared ownership homes over the next three years. This will help to stimulate wider market activity and drive forward delivery of our overall target of 180,000 affordable homes over the period.
- A new national clearing house will be set up through which housebuilders can approach the Housing Corporation with robust proposals to sell their unsold stock for affordable housing. The Government has committed £200 million so far for affordable housing providers to purchase unsold stock from housebuilders, which can then be used for social or affordable

housing. The clearing house will enable this resource to be invested as soon as possible by giving developers greater certainty and an early steer on their chances of success.

- Flexibility will be increased around when housing providers can bid for funding from the Government's £8.4 billion affordable housing programme. Providers will now be able to come forward with proposals for the Housing Corporation at any time, rather than waiting for the quarterly bidding round. This will enable the Corporation to increase the pace of approvals and deliver desperately needed affordable housing, while also supporting developers.
- Funding will become more flexible so that the Housing Corporation will now have the option to offer more of the payment to RSLs, and other developers delivering affordable and social housing, at the start of schemes. This will help to improve providers' cash flow, encourage new starts and stimulate wider market activity.
- The sixth round of the Housing Private Finance Initiative was announced. Councils will be able to bid for a share of up to £1.87 billion to build new homes or refurbish existing houses and estates. The Government will be looking for bids that show an aim to shape strong and dynamic communities and that will make a real contribution to increasing local housing supply.

See CLG website:

www.communities.gov.uk/news/corporate/869428

3 July 2008

A new agreement sets out how local authorities and the HCA will work together to deliver high-quality homes in places where people want to live, and to regenerate the most deprived communities. The agreement includes plans to:

- help bring forward land for development by providing financial assistance and facilitating the provision of infrastructure and community services
- provide information, advice and guidance services to help unlock strategic land assets and develop innovative new approaches to delivery
- work with public sector agencies to ensure that a coordinated view is taken on land available for development in an area
- promote best practice that will help local authorities develop effective approaches to delivery
- facilitate discussions between local authorities on housing delivery to reach an agreed approach.

The agreement builds on the principles outlined in the Central-Local Government Concordat of December 2007.

See CLG website:
www.communities.gov.uk/news/corporate/875664

2 September 2008

A cross-government package of new measures to meet current challenges in the housing market was announced, including:

- removal of stamp duty land tax on purchases of residential property of £175,000 or less
- reform of income support for mortgage interest (SMI) by shortening the waiting period before SMI is paid from 39 weeks to 13 weeks for new working-age claims from April 2009 and increasing the capital limit for such claims to £175,000
- new £300 million shared-equity scheme to offer 10,000 first-time buyers who are currently frozen out of the mortgage market the chance to get onto the property ladder
- £200 million mortgage rescue scheme to support up to 6,000 of the most vulnerable homeowners facing repossession to remain in their home
- £400 million boost in spending power for social housing providers, including RSLs and local authorities, to deliver 5,500 more social houses over the next 18 months by bringing funding forward
- working with Regional Development Agencies to support the most critical regeneration schemes with the most potential to transform their communities.

See CLG website:

www.communities.gov.uk/news/corporate/950558

6 October 2008

Package of £387 billion announced to recapitalise the banking system, including:

- £250 billion bank deposit guarantee
- £100 billion Bank of England short-term loan
- Treasury injection of £37 billion.

This is in addition to the Government nationalisation of Northern Rock on 22 February 2008. The Government now owns 43.5 per cent of the mortgage market.

See BBC news: <http://tinyurl.com/3qdnlf>

13 October 2008

Bob Kerslake, incoming Chief Executive of the new HCA, outlined the organisation's priorities speaking at the English Partnerships Annual Open Meeting in Greenwich. He stressed that within the current economic climate the organisation's priority was to maintain the delivery of affordable housing through working with housing associations and housebuilders. He outlined the organisation's strategy to achieve this:

'We are looking at sites that fall into three groups: those going ahead, albeit more slowly than they might have done; those that were optimistic at the

top of the market and now need a rethink; and a third group that perhaps with a bit more money, and a new view on risk-taking, could be kick-started and kept going.'

See Planning Portal website – News:
<http://tinyurl.com/5voto2>

19 October 2008

Peter Mandelson, Secretary of State for Business Enterprise and Regulatory Reform, confirmed that the Government was considering bringing forward spending on major public works to maintain spending and investment in the real economy and to invest in the public sector and infrastructure to tackle recessionary trends and unemployment.

See Seager, A and Stratton, A, 'Confidence at record low as slump looms', *The Guardian*, 20 October 2008.



Appendix 2: Case study sources

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Innovative section 106: see Audit Commission, Positive practice, September 2008: <http://tinyurl.com/5us9vs>

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Affordable housing select committee: see I&DeA website – A radical approach to affordable housing: <http://tinyurl.com/6ybq9u>

Exemplary Local Strategic Partnership: see The Beacon Scheme website – Affordable housing: <http://tinyurl.com/66u82t>

West of England Partnership (WEP): see WEP website: www.westofengland.org

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Discounted market homes: see Summerfield Developments website – My Home: www.summerfield.co.uk/myhome

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