Health & Housing PARTNERSHIP LLP

Kent Housing Group
The Voice of Housing in Kent

Kent & Medway Housing Market Review

Prepared on behalf of

The Kent Housing Group

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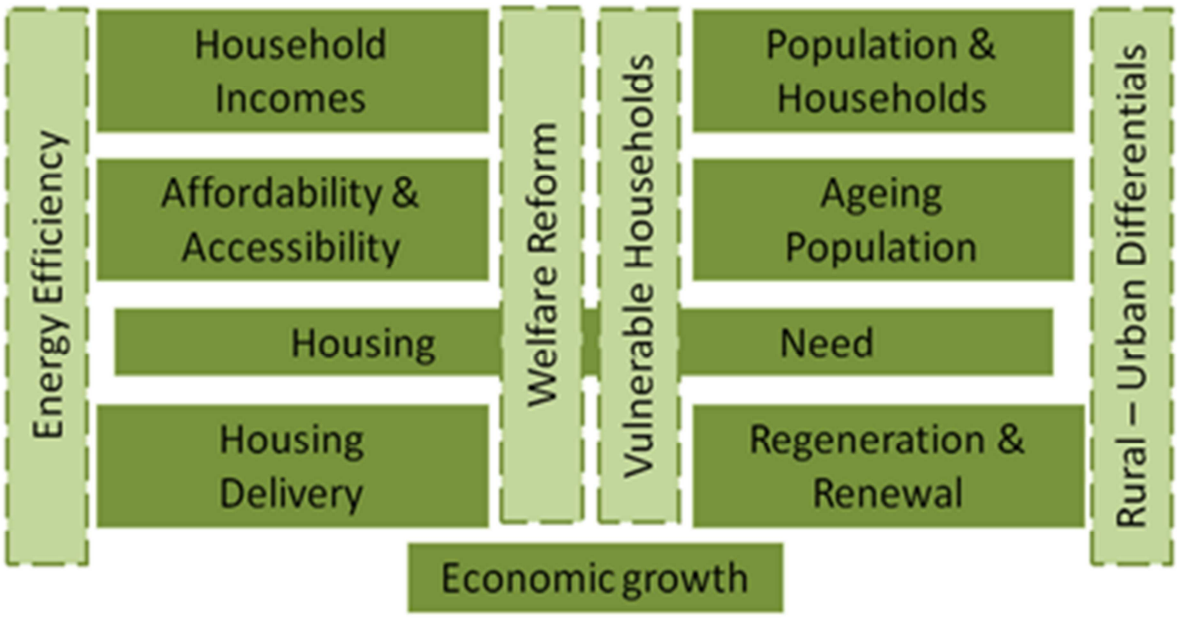
Contents

1 Introduction

1.1 Re-cap on Kent & Medway SHMA 2010 and Previous Updates

The Kent and Medway Strategic Housing Market Assessment (2010) supported the development of the Kent and Medway Housing Strategy (launched in 2011). The SHMA identified the big picture issues and challenges and provided evidence for developing appropriate actions for the future.

The SHMA drew on publically available data to ensure consistency of analysis across the sub-regions and local authorities of Kent and Medway. A key source of information was the data contained within the existing SHMAs within Kent and Medway, particularly in relation to evidence of housing need. The process also involved consultation with stakeholders in the public and private sector through two stakeholder events. As part of these stakeholder events, workshop sessions focused on the emerging evidence and implications for future strategy.



The diagram above provides a summary of the key themes that the SHMA identified:

- Changes in the size and structure of the population and economy within Kent and Medway impact on the number of households, their make-up and financial resources (household incomes including benefits).
- Key outcomes from these changes include an ageing population, declining affordability of housing and significant housing need.
- Cutting across these challenges are the specific needs of vulnerable households, the potential impact of welfare reform and different manifestations of the issues within rural and urban areas.
- The challenges highlight the importance of achieving housing delivery, regeneration and renewal and in doing so, improving the energy efficiency of new and existing homes. Housing delivery and regeneration will also be expected to contribute to economic growth which has become a key focus of policy makers.

Although the original SHMA is now 8 years old, these fundamental themes have not changed and so continue to form the structure of this market report. However, since 2010, there have been seismic shifts in the political and policy landscape which are affecting the housing market and how new housing is delivered.

1.2 Purpose of this report

This report reviews some of the key evidence in the original report and tests whether the challenges identified in the update reports (2012 and 2015) remain relevant at the start of 2018. It is not a comprehensive review of the SHMA; rather it focuses on updating the headline messages, following the structure set out above, and identifying new challenges which have arisen since the original SHMA and Strategy were launched in May 2011. It draws on the data and information provided in Kent County Council's Business Intelligence Statistical Bulletins, provided by Research and Evaluation.

The report updates evidence under the themes:

- Population, household change and housing requirements
- Economic and employment outlook
- Household incomes
- Older people
- Affordability and housing prices
- Housing need
- The condition of the housing stock
- Delivery of new housing

It then summarises 5 key observations in conclusion.

2 New Evidence

2.1 Population, Household Change and Housing Requirements

The National Planning Policy Framework requires local authorities to calculate objectively assessed housing need (OAN). In 2017, the Government consulted on simplifying the process of determining OAN, which uses household projections as its starting point and takes account of market signals, the need for affordable housing and economic projections. In its consultation, the Government published indicative OAN figures for local authorities, based on a simplified methodology. These are presented in Figure 1, alongside existing OAN figures and housing targets in Local Plans (largely agreed before the simplified methodology was proposed).

The population of Kent and Medway in 2018 is 1,819,500 according to the ONS Sub-National Population Projections (May 2014). This compares to 1,727,700 recorded in the Census 2011 and indicates growth of around 91,800 people over this seven year period, or 13,100 each year. These trend based projections assume Kent's population will grow faster (by 22% over the period) than the regional (18%) and national average (19%) over the 25 years period 2014 - 2039. The latest Government projections anticipate growth in the number of people in Kent and Medway of 400,500 between 2014 and 2039.

These population projections have also been used to produce household projections, released by CLG in July 2016. The household projections anticipate an additional 221,600 households over the period - growth of 8,865 households per annum over the 25 year projection period. The annualised figure differs slightly depending on the projection period and hence the annualised figure for 2016-2026 (typical plan period for Local Plans) is higher at 9,152 per annum (Figure 1). This projection is based on past trends and does not take into account future housing supply or other policy interventions that might influence population and household growth.

Current Local Plans within Kent and Medway make provision for between 8,945 and 9,625 new homes each year (Figure 1). This broadly accommodates the number of households expected to form each year (9,152 per annum) over the 10 year period 2016-2026.

Figure 1: Household Forecasts and Planned Housing Provision by Local Authority

	Household projection (2016-2026) using CLG 2014 Household Projections	OAN - CLG standardised methodology	Target in Local Plan
Ashford	764	989	825
Canterbury	776	1,096	800
Dartford	604	778	585
Dover	479	594	529
Gravesham	519	508	363
Maidstone	897	1,236	883
Medway	1,352	1,665	730-1410
Sevenoaks	498	698	620
Shepway	545	490	633
Swale	822	1,054	776
Thanet	788	1,068	857
Tonbridge & Malling	614	859	696
Tunbridge Wells	494	692	648
KCC area	7,800	10,062	8,215

Kent & Medway	9,152	11,727	8,945-9,625

Source: Barton Wilmore Standardised Methodology for Assessing Housing Need (September 2017); cross checked with KCC Growth Infrastructure Fund

Since the Kent and Medway Housing Strategy was published in 2010 and refreshed in 2012, the Government published the National Planning Policy Framework (NPPF). A key objective of the NPPF is to 'boost significantly the supply of housing'. Local authorities are expected to *'use their evidence base to ensure that their plans meet the full, objectively assessed needs for market and affordable housing in the housing market area, as far as is consistent with the policies in this framework'* (Paragraph 47, NPPF). The NPPF places a stronger emphasis on the need to meet identified housing requirements than any other previous planning policy.

The accompanying official guidance is the National Planning Practice Guidance published in March 2014, specifically the section on Housing and Economic Development Needs. This is online guidance which continues to be updated.

The Guidance makes clear that household projections are the starting point for determining local housing targets and that local authorities must consider economic growth trends or forecasts, the need for affordable housing and ensure that they take full account of relevant market and economic signals (Paragraph 158, NPPF). These factors typically indicate the need to boost housing supply above the level implied by household projections.

The Government has consulted on a simplified version of this guidance and provided local authorities with indicative OAN figures based on the proposed simplified and standardised methodology. These OAN figures are set out in Figure 1. Collectively, across Kent and Medway, the OAN identified by the proposed CLG standardised methodology exceeds the levels of housing identified in Local Plans.

The NPPF also expects local authorities to deliver a wide choice of high quality homes, widen opportunities for home ownership and create sustainable and inclusive, mixed communities (Paragraph 50, NPPF). Specifically, local authorities are asked to:

- plan for a mix of housing based on current and future demographic trends, market trends and the needs of different groups in the community (such as, but not limited to, families with children, older people, people with disabilities, service families and people wishing to build their own homes);
- identify the size, type, tenure and range of housing that is required in particular locations, reflecting local demand.

In conclusion, the majority of the Kent and Medway authorities have adopted plans in place which set out their housing targets. This is in contrast to the position in 2010 when the Kent and Medway Housing Strategy was first developed and most authorities did not have adopted plans in place. However, some of those adopted since 2010 were prepared prior to NPPF 2012. None of the plans reflect the new proposed standardised methodology for calculating Objectively Assessed Need. The new proposed standardised methodology for OAN adds a layer of uncertainty since it may mean that Local Plans need to be reviewed in the short term to take account of the new methodology, if it is adopted by the Government.

2.2 Economic and Employment Outlook

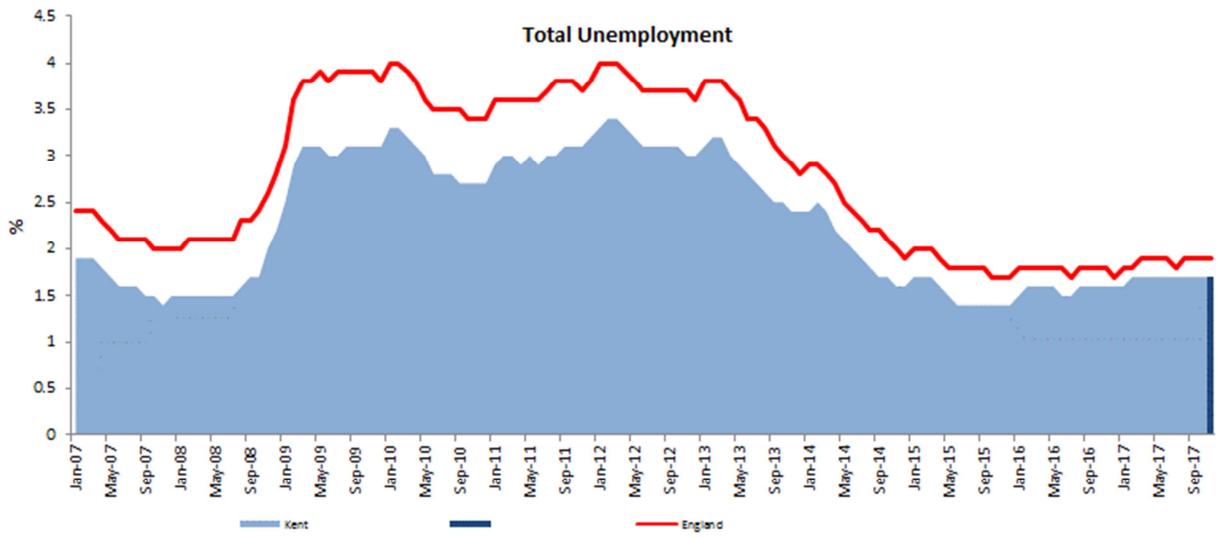
Unemployment within Kent and Medway stood at around 16,100 people (1.7% of the working age population) in November 2017[1] There has been very little change in unemployment since the last update in 2015 (see Figure 2). Unemployment has halved from a peak of 30,300 people in 2012 and is now back to levels experienced in the years before the recession.

Young people (aged 18-24) account for the largest proportion of unemployed people in Kent and Medway but unemployment levels amongst the young have also improved in the years since the last Market Review. Figure 3 presents data on the number of young people unemployed in Kent and Medway compared to other South East local authorities. Whilst unemployment rates amongst the young have improved, six of the Kent local authorities experience some of the highest rates of youth unemployment in the South East.

Overall, the fall in unemployment is a positive outcome. But there remains concern about the quality of employment including the sharp rise in casual and part time work and little evidence of wage growth. The employment situation amongst the young is therefore likely to continue to feed through into the housing market. Although more young people may be in employment, their terms and conditions and earnings may not provide them with the security to form independent households (impacting on household formation). This also impacts on their ability to save for rental deposits or equity to buy a home, leading to more young people joining housing waiting lists in Kent.

Employment – the number of jobs – within Kent had remained relatively static since the recession in 2009 up to 2015, the last report. However, the level of employment now stands at 721,000 jobs in Kent and Medway in 2016, compared to 664,000 (2013 figures released by BRES in 2014)[2], so appears to have increased markedly in the most recent two years.

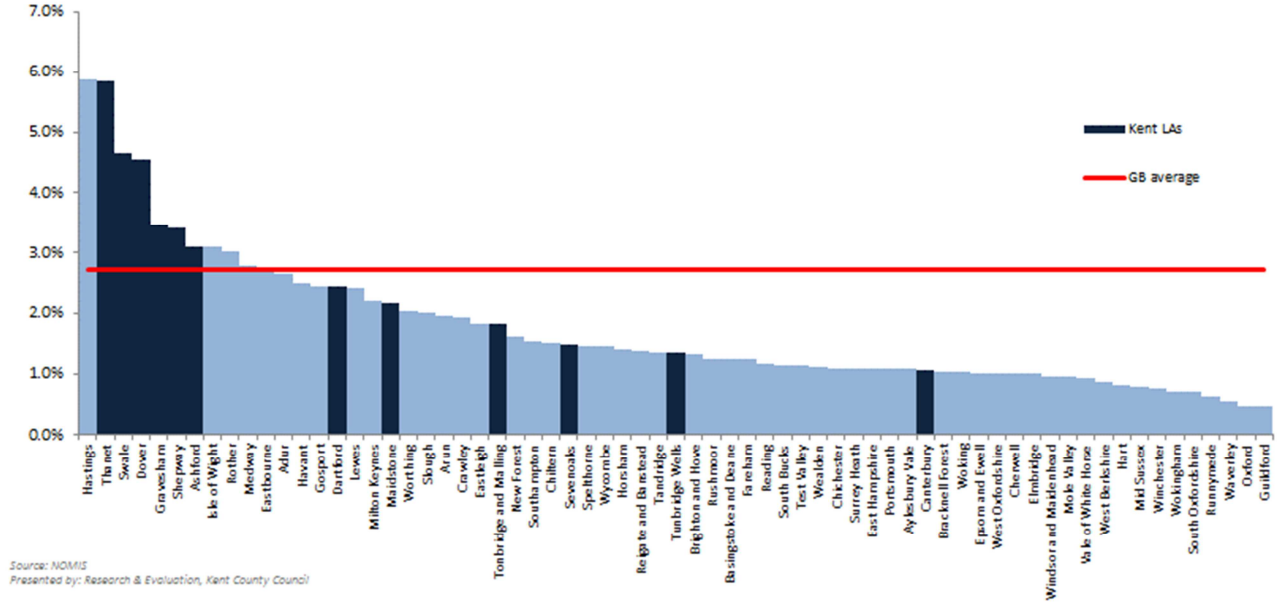
Figure 2: Unemployment (% of working age population) in Kent over Last 10 Years



Source: ONS Claimant Count chart in KCC Research and Intelligence District Model of Employment

1 ONS Claimant Count, reported in KCC Research and Intelligence District Model of Employment
2 Business Register and Employment Survey 2016. The employment data in BRES is the number of employees added to the number of working owners (for example, sole proprietors and partners). However, BRES does not cover the very small businesses neither registered for VAT nor Pay-As-You-Earn (PAYE), which make up a small part of the economy.

Figure 3: Unemployment Rate amongst Young People (18-24) Compared to All South East LAs



Source: ONS Claimant Count

ONS workplace migration statistics from the Census 2011 show where the residents of Kent authorities go to work. This can be compared to data from 2001. All of the Kent and Medway authorities have become less self-contained over the 10 years 2001 to 2011. There are fewer people who live and work within each authority area. On the whole, more Kent residents are travelling out of their local authority to access work (Figure 4).

Figure 4: Levels of Self Containment within Kent and % of Residents who Work in London

	Residents Who Live and Work in the Local Authority Area		Residents Who Work in London	
	2001	**2011**	**2001**	**2011**
Ashford	69%	60%	7%	9%
Canterbury	73%	66%	5%	6%
Dartford	45%	34%	40%	47%
Dover	73%	59%	2%	3%
Gravesham	47%	34%	22%	27%
Maidstone	61%	50%	10%	12%
Medway	59%	51%	15%	17%
Sevenoaks	45%	30%	34%	43%
Shepway	70%	61%	3%	5%
Swale	65%	55%	9%	10%
Thanet	75%	70%	3%	4%
Tonbridge & Malling	48%	36%	16%	20%
Tunbridge Wells	61%	50%	14%	19%
Kent & Medway	-	-	14%	16%

Source ONS Census 2001 & 2011

Over the same period, more Kent residents are accessing work in London. In part, this has been enabled by improved transport links, including HS1, though there have been further improvements in accessibility eg to Canterbury since 2011 which may not be reflected in the Census figures. There are also likely to be further

improvements to accessibility as line speeds are improved from East Kent to London and the wider Kent area and following approval of funding for the development of a Thanet Parkway station.

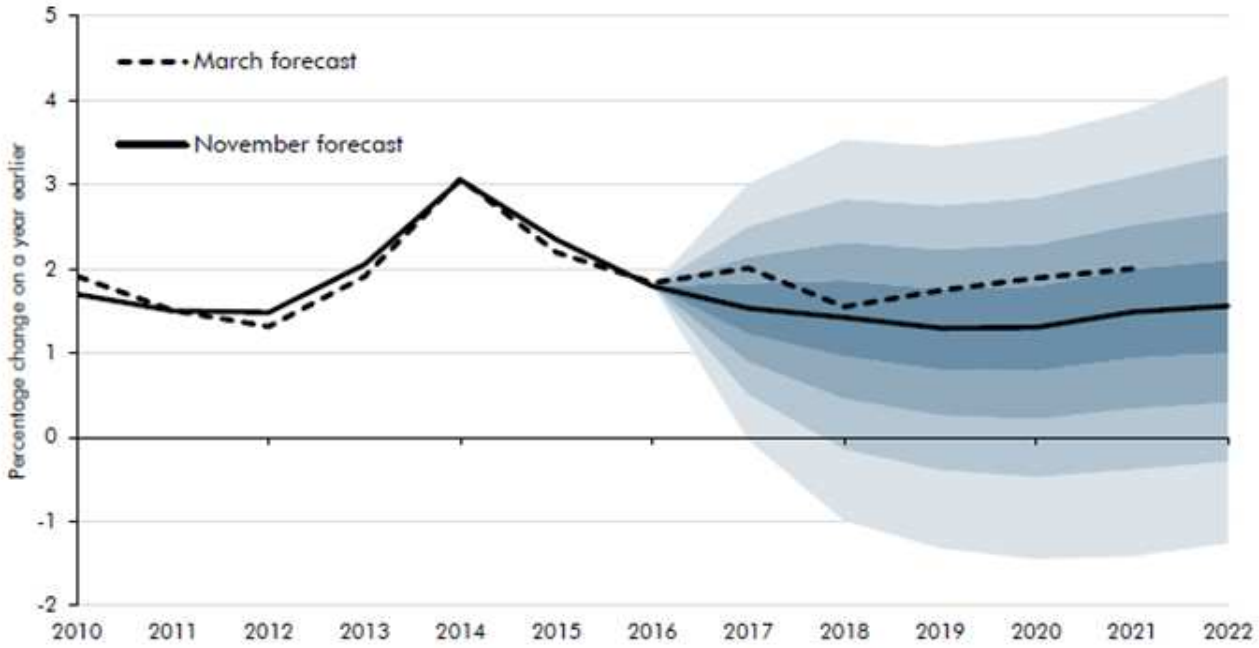
However, the number of Kent residents commuting to London for work is also strongly influenced by the availability of jobs in London and the faster rate of employment growth in the capital compared to Kent as a whole. In Sevenoaks, there are now more residents working in London than in Sevenoaks. This is a reversal of the pattern in 2001.

The last market update reported on rising economic growth (GDP) in 2014. However, UK growth has since slowed, in contrast to other advanced economies. The Office of Budget Responsibility attributes lower than expected GDP forecasts for the next 5 years to public spending cuts and Brexit related uncertainty which is weighing on the economy.[3] The fall in the value of Sterling has also seen inflation pick up more than in other major economies, contributing to weaker real growth.

Employment growth in the UK has continued to outperform expectations and this is replicated in Kent and Medway, but productivity growth has been weak which has meant limited growth in earnings. Limited growth in real earnings is expected to continue, with the OBR forecasting real earnings to increase by just 0.6% per annum over the next 5 years. Slower than expected earnings growth directly feeds through into the affordability of housing to buy and rent as household earnings growth fails to keep pace with rises in rents and house prices.

The OBR also expect interest rates to rise slowly over the next 5 years in response to rises in inflation. All other things being equal, this will increase the cost of accessing mortgages for first time buyers and home movers. Higher interest rates will also increase costs for developers who need to access loan finance.

Figure 5: OBR Central GDP Forecasts for the UK Economy, December 2014



Source: Economic and Fiscal Outlook, OBR, November 2017

In conclusion, the economic recovery has been mixed within Kent and Medway, largely reflecting national trends of slower economic growth and limited growth in earnings but relatively robust employment growth. Slower growth in the economy has dampened migration to the sub-region and

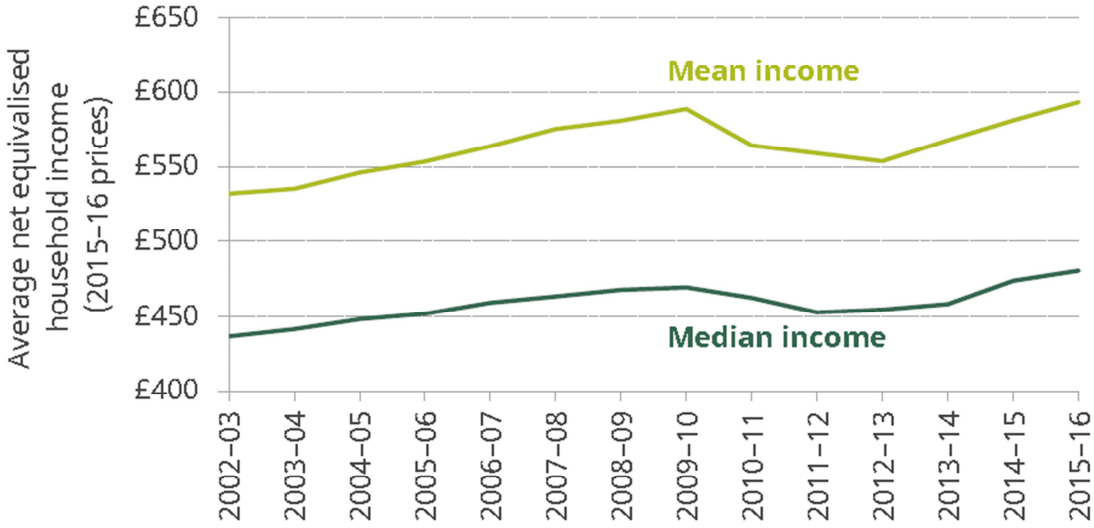
[3] Office of Budget Responsibility (November 2017) Economic and Fiscal Outlook

moderated demand for housing in the short term but the pattern is different across Kent with some markets remaining robust. Unemployment is highest amongst the young and young people have experienced below average levels of wage increases. This is constraining the ability of some young people to form independent households. For others it is limiting their prospects of becoming first time buyers and is increasing demand for private renting and affordable housing.

2.3 Household Incomes

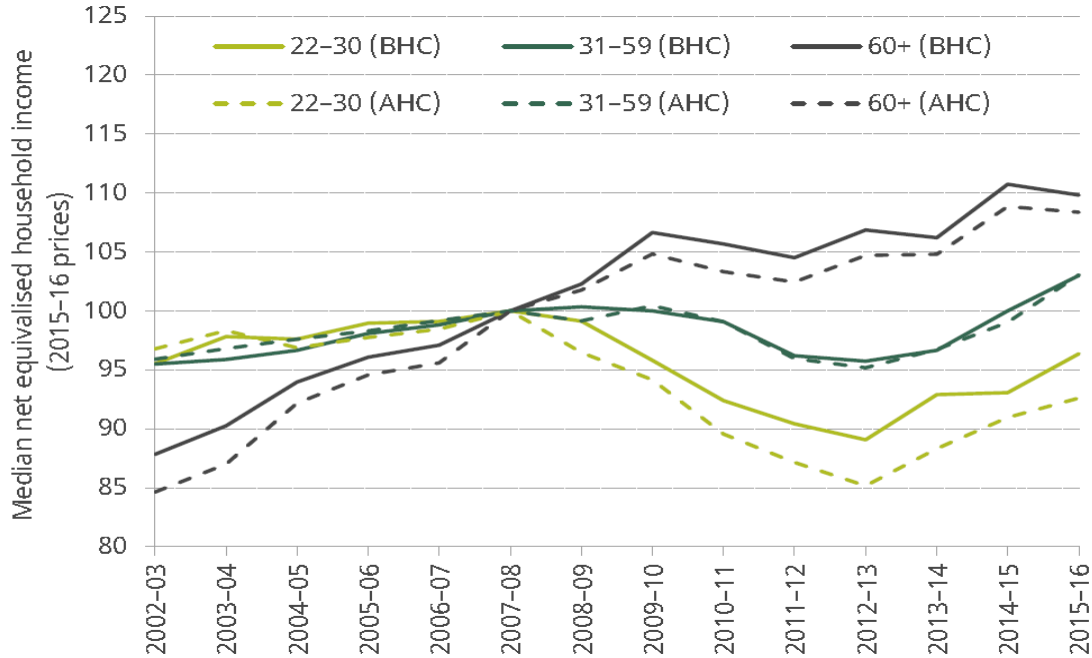
The Kent & Medway SHMA emphasised the importance of household income growth and the distribution of household incomes to the demand for housing. Research by the Institute for Fiscal Studies (IFS) showed how real incomes fell during the economic downturn and that all age groups experienced falling real incomes between 2009 and 2012, which fed through into reduced demand for housing.

Figure 6: Average Household Income since 2002/03



Source: IFS; Nuffield Foundation. Note: Incomes measured before housing costs deducted and are expressed in 2015/16 prices. All incomes are equivalised using the OECD equivalence scale and are expressed in terms of equivalent amounts for a childless couple.

Figure 7: Average Household Income (Before and After Housing Costs) by Age Group



Source: IFS (2017) Living Standards, Poverty and Inequality in the UK, 2017. Note: All incomes are equivalised using the OECD equivalence scale and are expressed in terms of equivalent amounts for a childless couple.

The IFS found that at the start of 2015, average real household incomes had returned to pre-crisis levels (ie 2007/08). However this masks significant disparity between the incomes of older households, which have been rising since 2011/12 and are substantially above their 2007/08 levels, and those of younger where incomes continue to remain below their pre-crisis levels (see Figure 7).

Average (mean) earnings of residents were £30,000 in Kent and £28,000 in Medway in 2017 and earnings of employees were around £26,000 in Kent and Medway in 2017.[4] Although there are large differences across the County, on the whole, resident earnings have risen since 2014 according to the Annual Survey of Hours and Earnings when they were largely static from 2010 following the recession.

IFS's report on living standards[5] found that household incomes recorded in 2015/16 now stands at +3.7% above pre-recession levels (2007/08), having falling sharply during the recession. Median net household incomes have grown at an average annual rate of 1.5% per annum since 2011/12. This slow growth is due mainly to poor earnings growth. But the real incomes of the young are still lower in 2015/16 than before the recession. The IFS's projections imply little or no growth in living standards over the next 2 years.

Over recent years, changes in housing costs have had a significant impact on living standards. Home owners have experienced reduced living costs because of lower interest rates feeding through to their mortgage payments. In contrast, renters have spent more of their net incomes on housing and therefore experienced worsening living standards and a reduced ability to save towards homeownership. However, there is a difference between home owners and renters with the latter experiencing worsening income inequality, particularly young adults aged 22-30. Amongst this group there has been an increase in the proportion living with their parents.

However, the IFS state that *'there is good reason to think falls in income inequality since 2007/08 are currently being reversed.'* This is because earnings growth is now catching up with inflation which benefits middle to high income households but cuts to benefits and tax credits are reducing the resources of those on the lowest incomes.

The issue of low incomes amongst the young within Kent was identified by Kent Leaders and examined in a research report 'Striving to Survive'. The report researches the impact of living and working on low pay in Kent.

The number of households claiming housing benefit in Kent and Medway has risen since 2010, when the total number of claimants was 106,400. The number of claimants increased by 16% to 123,000 claimants in 2014 but has since fallen back to 112,400 in 2017[6] It is important to note that the majority of claimants are in work, rather than unemployed and so the rise in housing benefit claimants is more of a reflection of low pay rather than worklessness.

Household budgets since 2010 have been affected not just by changes in earnings and benefit levels but also by living costs. There is continued pressure on household budgets as a result of economic pressures and cuts in public spending:

- The Government's reforms of public sector pensions has impacted on disposable incomes of public sector workers as they have been required to make higher contributions. Private sector pension holders have by and large already experienced this adjustment.

4 Annual Survey of Hours and Earnings 2017 – based on mean annual gross total (including full time and part time) earnings
5 IFS (2014) Living Standards, Poverty and Inequality in the UK: 2017
6 Housing Benefit Claimants recorded by DWP, data obtained from Stat Xplore

- Higher levels of inflation since the economic downturn which have reduced the real value of income and earnings. Although inflation fell through 2012-2014, driven by falls in oil prices feeding through into cheaper fuel and food, it has increased in the most recent year as the value of Sterling has fallen following the result of the EU referendum. Inflation pressures are expected to continue in the short term.

- The IFS make particular distinction between the living standards of home owners compared to renters. The latter are a group growing in size as home ownership levels have fallen. Renters have not benefited from low interest rates reducing mortgage payments and instead have had to cope with rising rents and, for those reliant on housing benefit, falling housing benefit payments.

The issue of low earnings was recognised in the Summer Budget 2015 as the Government introduced the 'Living wage' which, over time, will increase the national minimum wage to 60% of median earnings by 2020. At the same time, working age benefits have been frozen and given other changes to welfare benefits, it is unclear to what extent the increases in the minimum wage will improve the incomes of those on low earnings.

In conclusion, household budgets remain under pressure, with young people and younger households disproportionately affected as they are more likely to be unemployed; they are most likely to be renting and have not experienced an improvement in their household incomes or living standards. This continues to affect the ability of first time buyers to access home ownership and will continue to push more vulnerable households into housing need, creating demand for affordable housing and higher levels of Housing Benefit. There are also acute pressures on some families and their ability to manage financially, under the benefit cap.

2.4 Older people

The ONS 2014-based population projections expect Kent and Medway's population to age at around the same pace as the rest of South East but faster than the rate in England as a whole. Since the original SHMA was undertaken, additional research has been completed on older people and their requirements for housing.[7] Kent County Council has also developed an Adult Accommodation Strategy which plans for the need of older people with care and accommodation needs, alongside other groups needing support.[8]

Across Kent and Medway as a whole the population of older people will increase substantially over the next 25 years. According to ONS 2014-based projections the population aged over 65 in Kent and Medway will increase by 68% over the 25 year period. This compares to growth of around 22% in the population as a whole over the same period. It is relevant to note that Kent County Council's 2017 population forecasts expected growth of around 82% in the population aged 65 and between 2011 and 2036 – a different 25 year period. The two projections use different methodologies but both show that the scale of the expected increase in the older population is substantial.

In research which informed the development of the Kent Older Person's Housing Strategy, consultants considered what these trends might mean for the housing market by examining patterns of occupancy amongst older households. The tenure pattern in 2011 indicates that around three quarters of people over 55 in 2031 will own their own home. This means that, unlike the existing older population which includes a greater proportion of social renters (due to historic renting patterns), housing strategies for older people for the next 20 years will need to recognise the increased proportion of owner occupiers who are likely to have a significant amounts of housing equity. It is likely that suitable and attractive private accommodation will need to be provided for this large group of older owner occupiers if they are to be encouraged to down-size and free up existing larger housing stock.

A related development is the abolition of the default retirement age which came into force in October 2011. Although older people are less likely to move home than other age groups, there is a pattern of movement associated with retirement around the age of 65. Flexibility over the retirement age may change this pattern, particularly amongst those who choose to work for longer and, all other things being equal, is likely to work against downsizing. The aim of this reform is to address the issues around the ageing population and shortfall in pension savings. Individuals can still choose to retire at 65 – assuming that they have sufficient savings or a private pension that allows them to do so. People who decide to keep working after 65 will be able to draw a slightly larger state pension when they do retire.

This change could also have an impact on economic activity rates within Kent and Medway. There is a debate about whether the retention of older workers in the labour market will disadvantage young people trying to enter the labour market. However, the growth of the population as a whole will mean an increase in demand for products and services and therefore a potential increase in demand for labour (though some increase in demand is likely to be met by increased productivity). But it may have a short term effect on recruitment rates of young people if older workers decide to delay retirement and whilst creation of new jobs within the economy is limited. This may be part of the reason that unemployment rates amongst younger workers remain higher than in the past, as discussed earlier in this report although it is likely to have had a limited impact.

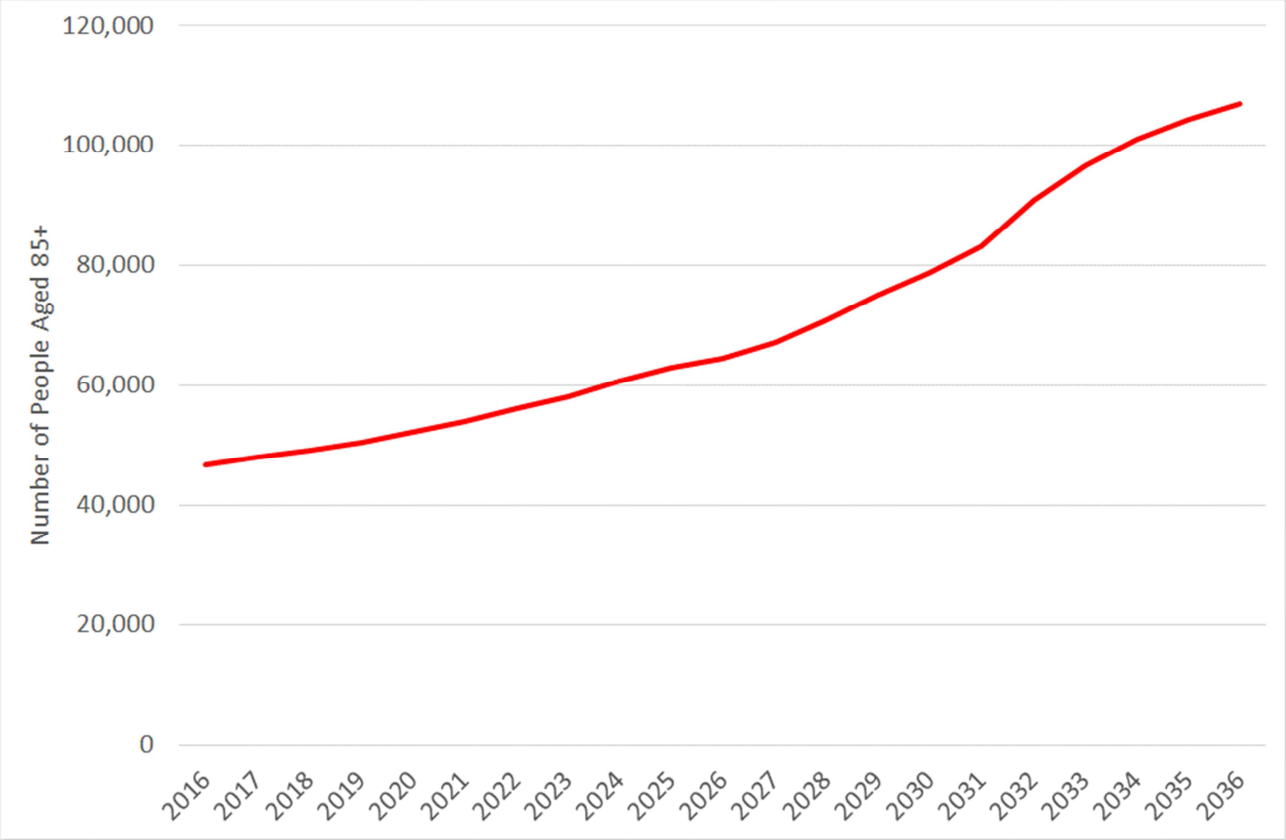
Kent County Council produced forecasts of activity rates, taking into account the reforms. The revised activity rate forecasts attempt to accommodate the measures proposed by the government to standardise Statutory Pension Age, and to effectively abolish a fixed retirement age. However, given that activity rates are

7 Kent Housing Group, SILK and DTZ (August 2011) Better Homes: Older People's Housing Needs and Aspirations
8 Kent Housing Group – Kent Social Care Accommodation Strategy: Better Homes, Greater Choice.

relatively low in the 65-69 and 70-74 age bands, even if rates were doubled, there would not be a significant increase in the overall resident workforce.[9]

In terms of the group that is most likely to need specialist housing provision, those in advanced older age, aged over 85, the ONS 2014 based projections anticipate that there will be an extra 67,900 people aged over 85 in Kent & Medway by 2039 (Figure 8). The size of this group is expected to more than double over the 25 years from 2014. KCC forecasts are broadly in line with the ONS projections. KCC recently developed a social care accommodation Strategy – Better Homes, Greater Choice – to guide the provision of accommodation for older people who need care and support.

Figure 8: Indexed Population Projections for Older People Aged 85+, Kent & Medway 2016-36



Source: KCC Housing Led Forecast September 2017

Better Homes, Greater Choice identifies how the provision, demand and aspiration for housing, care and support services will be met for adult social care clients should they need to move to access care. KCC's vision is that people should live independently in their own home whilst receiving the care and support. However, if that option is no longer suitable, the right accommodation solutions have to be in the right places across the county, and they have to be the right type, tenure and size.

The Strategy identifies the need for more Extra Care accommodation to promote independence amongst older people needing care. It also identifies specific geographies within the County where there is under provision of this and other types of accommodation to meet growing needs. Scaling up the development of this type of housing is a challenge however and has been stalled over the last 18 months whilst the

9 Kent Planning Officers Group (November 2011) A Housing Methodology for Local Plans

Government consulted on changes to funding of Supported Housing. The barriers to delivery and some potential solutions are discussed in the Housing LIN report 'Housing with Care for Older People in Kent'.[10]

It is important to emphasise the majority of older people will live in the mainstream housing stock, rather than in specialist accommodation. Indeed, it is Government policy that older people are supported and enabled to live in their own homes for as long as possible. There is likely to be continued demand for adaptations from older people, drawing on the available but over-subscribed funding from Disabled Facilities Grants and for the activities of Home Improvement Agencies.

2.4.1 Integrating housing, health and care

There are opportunities on the horizon from the closer integration of health and social care and this has particular relevance to the housing choices of older people. The Department of Health's remit was extended in 2018 to cover social care. With an ageing population and budget pressures on the NHS, the benefits of an integrated health, housing and social care system are increasingly recognised. Changes to health and social care present opportunities for the sectors to work closely together to improve patient experience and plan for better services in future. One immediate implication of this further integration is the Disabled Facilities Grant Funding is now administered via the Better Care Fund. Kent's Winter Warmth Programme is also an integrated housing and health project which is funded via public health and administered by district private sector housing teams.

Housing is increasingly seen as a key part of providing appropriate care, particularly as Government and local authorities aim to support people in their own homes. Housing is recognised a key determinant of health and wellbeing in the Marmot Review and can play a key part in reducing health inequalities if housing interventions are joined up with health programmes. Kent's Think Housing First framework has taken the first important step in acting on this. The responsibility for public health has moved back under the remit of local authorities and Health & Wellbeing Boards have been created to identify health priorities and to target funding at reducing health inequalities. It will be important that housing is represented on the Health & Wellbeing Board and that the housing sector within the County makes a strong case for investment. The NHF's guidance 'Prescription for Success' sets out how housing can make the economic case to health.

In August 2015, the NHS launched a 'Healthy New Towns' programme and is inviting bids from housing associations and interested organisations. NHS England with support from Public Health England are inviting leading local authorities, housing associations and the construction sector to identify development projects where they would like NHS support in creating health-promoting new towns and neighbourhoods in England. Up to five long-term partnerships will initially be selected from across the country, covering housing developments of different sizes. Each site will benefit from a programme of support including global expertise in spatial and urban design, national sponsorship and increased local flexibilities. These areas are expected to show how this new approach will help:

- Build new communities that support social cohesion, physical and mental wellbeing, walking cycling and sports in place of our current 'obesogenic' built environments.
- Leapfrog old ways of providing community health and social care services by designing-in the use of new digital technologies to help people live independently in their own homes.
- Share land and buildings infrastructure such as new NHS clinics, schools, police and fire stations and other public services.

10http://www.housinglin.org.uk/Topics/browse/HousingExtraCare/ExtraCareStrategy/HousingStrategyExamples/?&msg=0&parent=975&child=9472

The prospectus states that the 'NHS will work with selected areas to redesign local health and social care services, in line with the NHS Five Year Forward View, taking advantage of absence of legacy constraints to transform local communities and the public attitudes to healthy living. Alongside the vanguard sites launched earlier this year, these areas will serve as exemplars of what is possible and support learning to be used elsewhere. The scheme aims to strengthen communities, meet the health needs of local people and help people live independently for longer.'

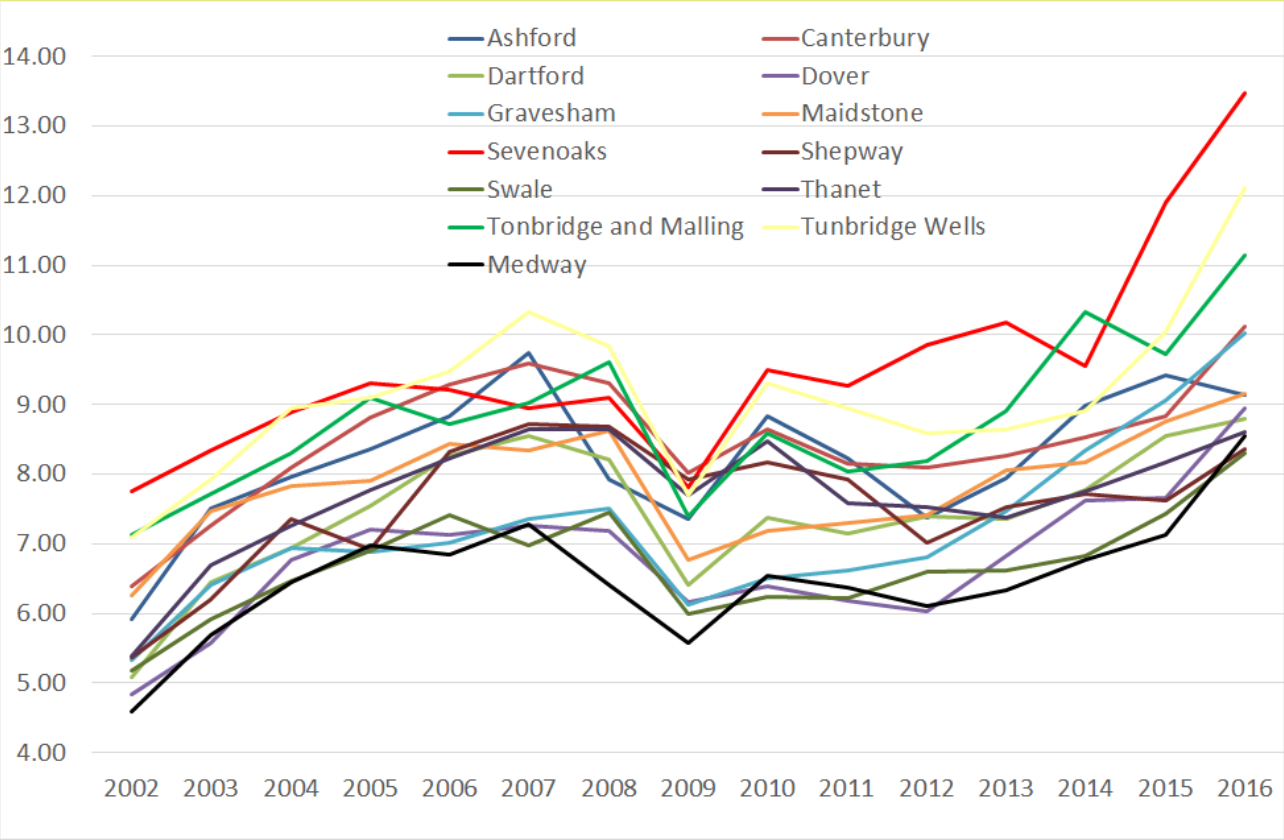
In conclusion, in the future, older people in Kent and Medway are most likely to be home owners. Their decisions about work and housing will impact on the mainstream housing market, particularly if most continue to choose not to downsize. Following work on the Kent Older People's Housing Needs and Aspirations Study, Kent Housing Group developed an Older Person's Housing Protocol to help develop consistency across the County. A Social Care Accommodation Strategy has also been developed to plan for the needs of older people requiring specialist housing provision such as Extra Care but also residential and nursing care. Funding for and delivery of Supported Housing for older people, remains a significant challenge for the County.[11]

11 http://www.kent.gov.uk/__data/assets/pdf_file/0018/14634/Kent-Social-Care-Accommodation-Strategy.pdf

2.5 Affordability and House Prices

Figure 9 appears to show that affordability improved across Kent and Medway and its sub-regions over 2008-09, worsened again in 2009-10, then remained relatively stable. However, it appears that affordability is worsening again across Kent at the end of 2016 (latest data) and in some authority areas, particularly West Kent, affordability is poorer than before the downturn. This measure tracks the *relationship* between lower quartile house prices and lower quartile incomes but in recent years changes in affordability are largely due to rising house prices, since incomes have remained relatively stable.

Figure 9: Affordability – Ratio of Lower Quartile House Prices to Lower Quartile Earnings



Source: ONS

Evidence presented earlier in this report suggests that *average* earnings within Kent and Medway have risen since 2014 after remaining broadly stable following the economic downturn. Lower quartile earnings within Kent and Medway have followed the same pattern, though there was variability between Districts. However lower quartile earnings have only experienced very minor increases over the last 2 years. Lower quartile earnings in Kent are just £1,100 (9%) higher than a decade ago.

Thus changes in affordability for those at the entry level of the housing market will have been driven by price changes of lower quartile dwellings. Whilst lower quartile house prices fell sharply over 2008 and 2009, they recovered sharply in 2010. Lower quartile rents have risen by more than 10% since 2010 in Kent and Medway. This confirms that, for those on lower quartile earnings, the rise in housing costs is likely to have impacted on their living standards.

This indicates that there are continuing problems of **affordability** explained by limited growth in earnings and incomes in recent years. This is compounded by problems with the **accessibility** of home ownership – which has been limited by mortgage availability and stricter credit conditions since the downturn.

Research undertaken since the original SHMA in 2010 examined the issue of housing delivery in rural areas where affordability problems are particularly acute. This resulted in a Kent Housing Group Protocol 'Rural Homes: Supporting Kent's Rural Communities – A Protocol for delivering affordable local needs housing in rural Kent'.

The Kent & Medway SHMA predicted that home ownership had reached a peak and was likely to remain stable or decline in the future whilst remaining the dominant form of tenure. This view was supported by a number of commentators. David Miles[12] argued that the need for buyers to provide larger deposits was bearing down on first-time buyer numbers, as they were forced to postpone their purchase, resulting in the average age at which people were able to buy their own home rising and continued declines in owner occupation. In the short term, Miles predicted this would create transitional problems, particularly for house-builders.

The English Housing Survey 2016/17 shows that the proportion of home owners in England has remained stable since 2014 following a period of declining home ownership, at 63% of all households. This compares to 71% at the peak of home ownership in 2003. However, there are more outright owners in 2016/17, whilst the proportion of home owners buying with a mortgage has continued to fall. This is at least partly explained by the ageing of the population. Over the last decade, the fall in the proportion of younger households (25-44) in owner occupation has been pronounced.

The private rented sector has continued to grow and now accounts for 20% of households (which has remained steady over the last 2 years), with the social rented sector stable for the last 10 years at around 17% of all households.

The government is seeking to address the difficulties in accessing home ownership with initiatives that are grouped under the 'Help to Buy' banner. These include Help to Buy Equity Loans where buyers can borrow up to 20% of the purchase price from Government and only need 5% deposit; Help to Buy ISAs, where Government will boost savings by 25% for savings of up to £200 per month and Shared Ownership, where buyers can purchase a proportion of their home and pay rent on the remainder. The Starter Home Initiative also aims to provide new build homes at a 20% discount, though there are few properties that have been completed under this scheme as yet.

The Kent Local Authority Mortgage Scheme was launched in three local authority areas; Tunbridge Wells in September 2012, Gravesham in February 2013 and Shepway in August 2013. All three schemes collectively have helped almost 100 households to buy their first home with mortgage lending equating to almost £15m.

Tunbridge Wells has a maximum loan size of £350,000 and has supported 51 households and the local authority's indemnity is now almost utilised (Indemnity of £2m with £1.865m used to date). Gravesham has a maximum loan size of £166,250 and has supported 22 households and has used £631,000 of the £2m total indemnity meaning that the scheme is still able to support in the region of 60 additional mortgages. The third Scheme launched in Shepway has a maximum loan size of £160,000 and has supported households and is almost 50% utilised (Indemnity of £1m with £458,000 used to date).

In the longer term a lower rate of owner-occupation and a larger rental sector need not be a negative outcome. Changes in house prices would have less impact on the economy, making management of the economy economic and monetary policy easier. But the larger rented sector also has creates risks. It makes households more vulnerable to increases in rental costs which has a knock on effect on their disposable incomes and living standards. It is also where the majority of poor condition properties are found, with the

12 Speaking to the Northern Housing Consortium in November 2011

most vulnerable tenants who are generally those least able to secure improvements because of the fragile security the sector offers. Local authorities with limited private rented sectors are likely to experience a greater pressure on affordability as more households compete for a small number of rented properties and push up rental prices.

In conclusion, affordability and accessibility of home ownership continue to be a problem in Kent and Medway. Home ownership levels have fallen since the peak in 2003, particularly amongst younger households, though home ownership is likely to remain the dominant tenure and the tenure to which most households aspire. The implication is that the privately rented sector will continue to play an increasingly important role in future housing growth, particularly for younger households. The cost of renting will be critical in determining the disposable incomes and living standards of tenants. In recent years, rents have risen faster than earnings, putting pressure on living standards of those on lowest incomes. The quality and condition of the private rented sector will play a key role in the wellbeing of an increasing number of households, including the most vulnerable.

2.6 Housing Need

The SHMA 2010 identified substantial levels of housing need in Kent and Medway and anticipated that these were likely to grow in the future. In 2010 there were just over 40,000 households on local authority waiting lists within Kent and Medway. This rose to 55,000 households in 2012, but has fallen back to just under 40,000 over the 5 years to 2017. [13] However, waiting lists are an imperfect measure of housing need over this period since the waiting lists of the Kent authorities have undergone review in response to guidance on allocation policies from central Government.

The number of households accepted as homeless and in priority need in 2010/11 was 1,150. There was little change in this figure up to 2013/14 but has since risen to 1,850 in 2017 (year up to end Q3 2017). The use of temporary accommodation to house homeless households has increased. At the end of 2010, there were around 520 households in Kent and Medway living in temporary accommodation. At Q3 2017 this had risen threefold to 1,535 households.[14] This gives a clear indication of rising housing need pressures in the County and also reflects changes in the housing benefit system and welfare reform which have left some households unable to afford their rent. There are also emerging pressures on Kent waiting lists as demand from care leavers aged 16-17 increases over time. There are increasing numbers of 16-17 year olds coming into care in Kent, many of which will need affordable housing in the future.

2.6.1 The Impact of Welfare Reform

Since 2011 a range of measures have been introduced with the aim of reforming the welfare system and reducing the benefit bill, particularly the cost of Housing Benefit. The changes to Housing Benefit have included:

- The LHA single room allowance, which covers the rent of a room in a shared house, has been extended to those aged under 35; previously those aged 25 years and over would have been eligible for housing benefit to cover the rent of a 1 bed property. This means that those aged 35 or under and in housing need have to find additional resources to afford independent accommodation. Some may choose to live with parents, friends or family rather than finding independent accommodation. Others may not have this option and may end up in poor condition properties or they may move to another area to find cheaper accommodation.

- The LHA was set at the 30th percentile of market rents rather than the 50th percentile (median average) in April 2011. This means that households receiving the LHA to rent within the private sector may have to find extra resources to be able to afford their existing home. Around one third of Discretionary Housing Payments in the County are claimed by households unable to pay their rent because of changes to LHA, with the payments essentially designed to tide them over whilst they look for cheaper accommodation or find more or better paid employment.

- Reductions in benefit entitlements for those under-occupying social housing have had implications for existing affordable housing tenants as well as new ones. With under-occupation by 1 bedroom resulting in a 14% reduction in housing benefit and 2 bedrooms by 25%, affordability has been adversely affected. Over 5,500 (5.8%) housing benefit claimants in Kent and Medway are affected by these benefit reductions.[15] Reductions do not affect pensioner households or working households not receiving benefits. Some local authorities, eg Sevenoaks working with West Kent Housing Group, are jointly funding under -occupation officers to help older people interested in downsizing. Anecdotally some RPs are experiencing difficulties in rehousing those who are willing to downsize.

13 CLG Housing Statistics
14 Business Intelligence Statistical Bulletin Homelessness bulletin 2017 Q3
15 Welfare Reform Review July 2017 – Business Intelligence Report

- Phased changes to the dependents' allowance for those receiving housing benefit in the social rented sector were introduced in April 2013. This affects households with dependents who are over the age of 18. These households experienced a reduction (called an allowance) in their housing benefit in the expectation that those over the age of 18 can contribute to the rent. This allowance is being increased to catch up with RPI and has the effect of reducing housing benefit for these households unless the dependents move out.

- A cap on the total benefits a household can receive was introduced in April 2013. Couples and households with children were limited to £500 per week –£26,000 per annum. Single people were limited to £350 per week - £18,200 per annum. The cap has since been reduced to £20,000 for couple and families outside of London. The Government's Equality Impact Assessment of the benefit cap predicted that the majority of 'capped' households would be those with more than three children. Since the cap was reduced from £26,000 to £20,000, the number of households affected in Kent and Medway has increased fivefold from 317 in October 2016 to 1,532 in February 2017. This will place further pressure on family households, unless they are able to increase their incomes through earnings. It has also had implications for RPs and their ability to fund the development of new homes, particularly 3 bedroom and larger properties since RP's are unable to charge rents above the benefit cap unless they let the property to those not in receipt of benefits.

The introduction of a cap on the level of benefits is expected to have a number of impacts on the affordability of housing in Kent and Medway:

- Larger families with children lose out compared to the current system which means they can afford to spend less on housing costs.

- These households may decide to move out of more expensive areas within Kent and Medway. This is a particular issue for North and East Kent authorities, given the existing flow of vulnerable households from London. The numbers of households on Housing Benefit migrating to their areas may increase, putting pressure on housing and services within these areas.

- Some households may decide (or be forced) to live in over-crowded or poor conditions as a means of reducing their housing costs. This will have knock-on impacts for children in these households. The effect of overcrowded and poor condition housing on health and education outcomes is well established.

- If households see their overall budget reduced they will be forced to make decisions about what to prioritise spending their money on. Not all will choose to pay their rent first and this may lead to increases in arrears and ultimately homelessness, with additional pressures on social landlords and housing authorities with responsibilities in these areas. Homelessness levels have increased sharply in recent years with increasing use of temporary accommodation.

- One unknown impact is the extent to which a cap will reinforce a two tier affordable housing system where households in the private rented sector struggle to pay their rents as their entitlement falls whilst those in the social rented sector, who enjoy significantly lower rents, are able to live within their means. If this is the case, it will increase pressure on local authority waiting lists as households try to secure social rented accommodation. It will also provide a significant incentive to remain in social rented housing once tenants have secured accommodation. This effect could reduce turnover within the stock of social rented homes and constrain local authorities' ability to meet priority housing need.

It is relevant to comment on the response of Registered Providers to these changes in Housing Benefit and the overall benefit cap. Most Registered Providers have been careful to set rents under the new Affordable Rent tenure to take account of entitlements under Housing Benefit and benefit caps. Providers operating

within Kent and Medway have broadly set Affordable Rents at 80% of market levels, with most also applying a cap on the rent according to the local housing allowance rate and/or the benefit cap.[16]

However, this has had the consequence of reducing the number of larger homes (3 bed +) that can be viably developed by RPs, since they would be unaffordable to households under the benefit cap. If this pattern continues over the long term, it is unclear how the housing needs of larger families will be met if RPs are unable to develop new larger homes. It is likely to lead to greater waiting times for families on local authority waiting lists as they compete for a small pool of larger properties.

The alternative for these families is likely to be the private rented sector, though they will be unlikely to secure appropriately sized accommodation under the benefit cap, forcing them into overcrowded and/or poor condition accommodation.

Many RPs have also begun working with their tenants to identify those impacted by the changes to benefits and those vulnerable to falling into arrears. Some RPs have worked intensively with vulnerable tenants to help them manage their budgets, maintain their tenancies and reduce their debts. This has allowed RPs to prevent tenants falling into arrears, despite reduction in tenants' incomes and thus reducing the impact of the benefit changes. This approach has required RPs to invest in their data systems, programmes and teams to support tenancies. Whilst this can be seen as a positive development, all other things being equal it is likely to mean the RPs have less to invest directly in the development of new homes.

The difficulties that tenants in Kent and Medway are facing in paying their rents is reflected in the scale of Discretionary Housing Payments. Discretionary Housing Payments in Kent and Medway in 2014/15 were £3m in total, of which one third were paid to help tenants impacted by the 'bedroom tax'. A further third were paid to help tenants transition under the LHA changes and 26% in response to the benefit cap.

2.6.3 Social and Affordable Housing Stock

The Kent and Medway SHMA identified that part of the reason for high levels of housing need was the limited supply of social rented accommodation which means that, over time, a backlog of need builds up. The SHMA presented evidence that showed there was less social rented accommodation within Kent and Medway in 2009 than in 1997, despite the local authorities securing affordable housing delivery through new development.

Figure 10 updates this data. The base year has been set at 2002 since data before 2002 is not directly comparable due to a change in methodology. The chart shows that the stock of social rented housing within Kent and Medway as a whole has recovered somewhat since 2009/10 following a period of decline.[17] The stock of social rented homes in absolute terms in Kent and Medway is now larger than in 2002. However, since 2012, intermediate rented housing has been included in this data which is likely to have boosted the figures. In practice, this may not be affordable to the majority of households on local authority waiting lists.

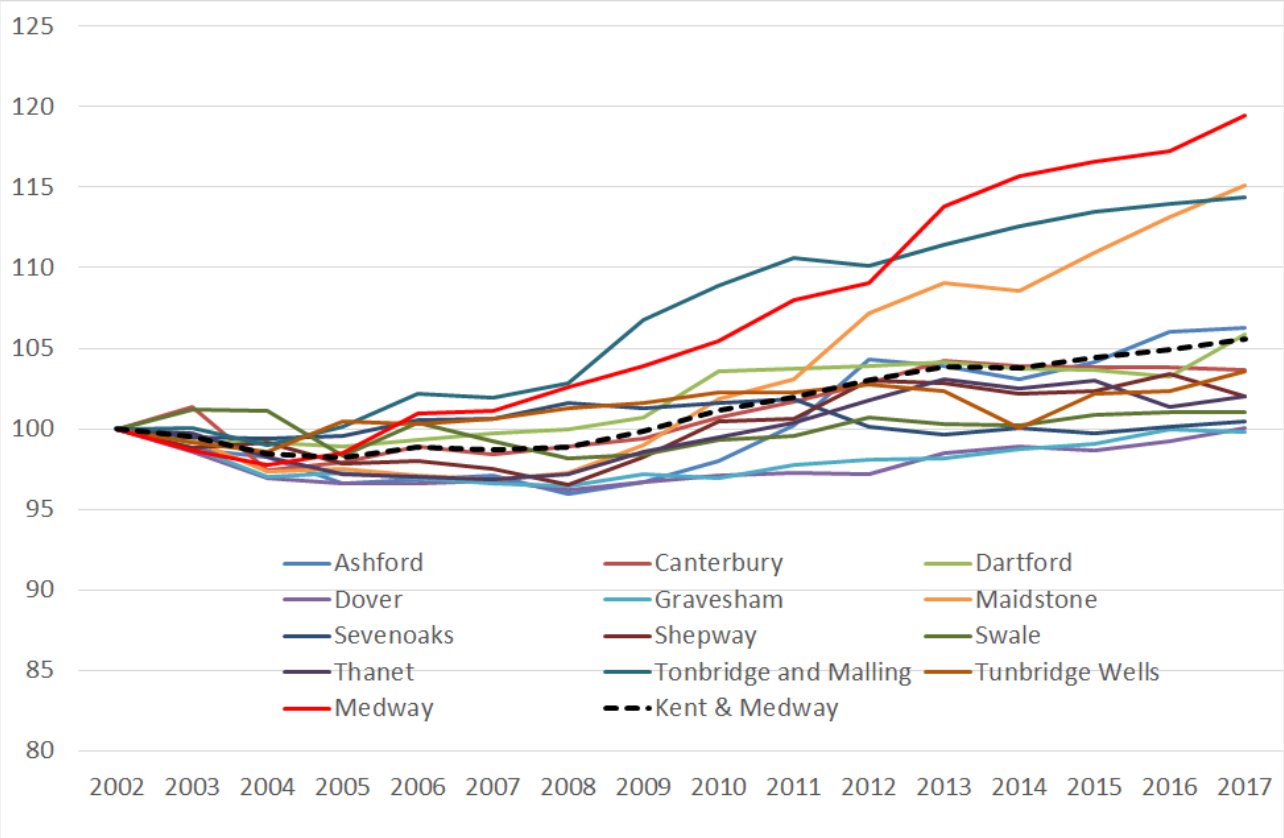
Significant numbers of new affordable homes were delivered in 2008-09 and 2009-10 as housing associations and local authorities took advantage of additional resources for additional affordable housing made available by Government as part of a housing market rescue package. 2,400 and 2,750 affordable were delivered in Kent and Medway in 2008-09 and 2009-10 respectively, rising to levels last seen in the mid-1990s. Some developers were also willing to re-negotiate affordable housing quotas on sites as a means of improving cash flow whilst market homes were difficult to sell.

16 Based on an informal survey of 12 providers within Kent and Medway by DTZ (now Cushman & Wakefield) in January 2012

17 Revisions to CLG data have also been made to stock from 2006 onwards to take account of the stock held by some small Registered Providers

In the most recent years, delivery has fallen back to more modest levels. In 2016/17, around 1,600 affordable homes were delivered across Kent and Medway. 53% of homes were delivered as affordable rent and 45% as intermediate home ownership properties. To some extent, this may reflect changes in the Affordable Housing Programme, with greater emphasis on Starter Homes and affordable home ownership in recent years before a shift back to funding a mix of tenures in the Housing White Paper in 2017. This highlights the difficulty in maintaining momentum from one year to the next as Government funding streams are changed.

Figure 10: Index of Social/Affordable Rented Housing Stock within Kent and Medway (2002 = 100)



Source: CLG Housing Statistics

On balance, housing need pressures have increased since the 2015 Market Review, reflected in rising levels of homelessness and the number of households living in temporary accommodation in the last two years. Substantial increases in the delivery of new affordable housing across Kent and Medway over the two years following the downturn has stemmed the tide of declining social housing stock, though delivery has been more modest on average in the last 2-3 years. Changes to Housing Benefit and welfare reform since 2011 has reduced the budgets of households in need and, all other things being equal, has made it harder for households to access affordable accommodation. As housing takes up a larger proportion of the budgets of those reliant on benefits, there is inevitably less available for other essentials including fuel and food. This has wider implications for the condition of the housing stock and the health and wellbeing of occupants.

2.7 The Condition of the Housing Stock

Overall, there has been good progress within all of the authorities of Kent and Medway on improving the condition of social rented homes, through the implementation of the Decent Homes programme since 2001. The Kent and Medway SHMA highlighted that the challenge remains around the problem of poor condition within the private sector rented stock. These poor condition properties within Kent and Medway are inextricably linked to deep seated problems of deprivation in the urban and coastal areas because they are typically the properties where the most deprived and vulnerable people are accommodated.

The introduction of the Housing Health and Safety Rating System means that housing conditions are assessed using a risk assessment approach. Dwellings are now given 'hazard scores' for up to 29 health and safety hazard areas. The scores are based on the 'risk of harm' to an occupier of a dwelling which results from the condition of the dwelling. A category 1 hazard poses the most risk. It is not just about the condition of the dwelling per se but also the suitability of its use e.g. overcrowding or features which would be hazardous to children or older people but not necessary to other occupants. In Kent and Medway as a whole, around 1,800 homes in the private rented sector were found to have a Category 1 hazard following inspection by the local authority, almost 6 times the level found in the local authority housing stock.[18] PRS properties inspected by local authorities are only likely to be a fraction of the number of properties with Category 1 hazards.

The Survey of English Housing reveals that falls have overtaken cold homes as the major cause for Category 1 hazards in the home.[19] This is consistent with the experience of Environmental Health Officers within Kent and Medway. However with fuel costs rising following the recession, the problem of fuel poverty increased. Those on low incomes are reducing the amount of heating and reducing ventilation to their homes and consequently condensation and mould problems are increasing and have become the main reason for complaint from tenants in Kent and Medway.

The Kent and Medway Sustainable Energy Partnership is a county wide strategy group composed of local authorities and housing providers, established to undertake the retrofitting agenda to improve the energy efficiency of the housing stock in Kent and Medway. The partnership is delivering the Warm Homes programme, using Energy Company Obligation funds to install retrofitting measures. The programme works with public health, drawing in additional funding to support the most vulnerable residents in Kent and Medway.

Kent Housing Officers were concerned about rising levels of overcrowding following the downturn and as benefit cuts began to kick in after 2011. This was been reflected in data at the national level from the English Housing Survey (2013/14) which showed that overcrowding in the private and social rented sectors increased from 2009. It has remained stable since 2013/14 according to the 2016/17 English Housing Survey but has not fallen back to pre-recession levels.

Kent is one of the most proactive areas in tackling poor housing conditions. One area where Kent leads the country is in tackling empty properties. Empty properties constitute a wasted resource that could provide homes as well as reduce the pressure for new housing growth. They also often have a negative impact on local neighbourhoods by their visual appearance and a tendency to attract graffiti, vandalism, squatting and anti-social behaviour.

Council tax records suggest that there were a total of 18,770 vacant dwellings in Kent and Medway in 2016.[20] There were a total of 5,820 long term vacant dwellings in Kent and Medway – an increase on the

18 Local authority housing statistics data returns 2016/17

19 CLG Survey of English Housing - Summary Statistics Table SST4.1: Health and safety - dwellings, 2009

20 Business Intellligence Statistical Bulletin July 2017 Vacant and Empty Dwellings in Kent Local Authorities 2016

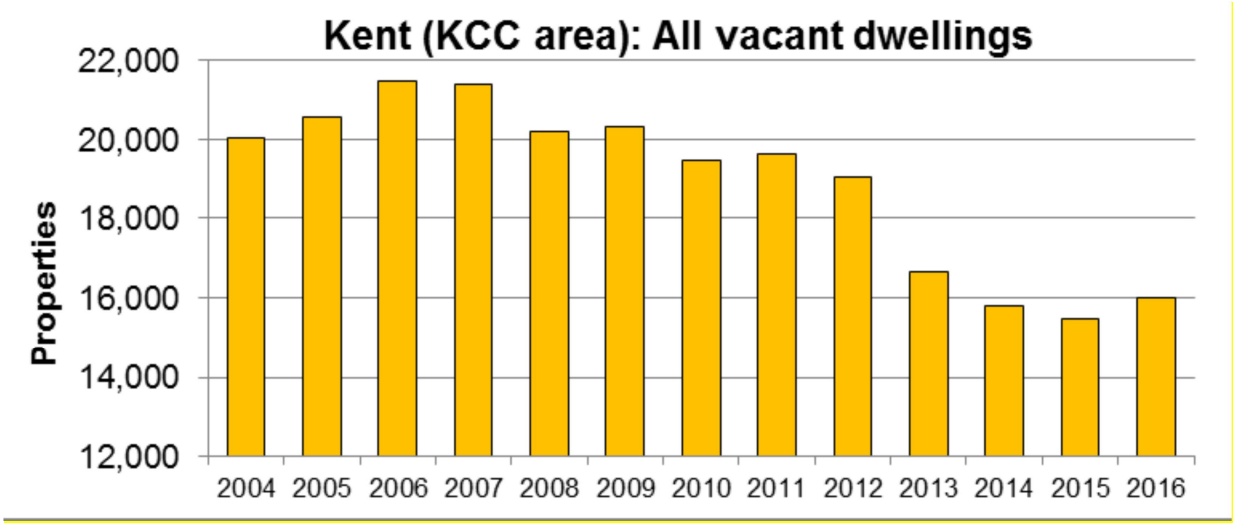
previous year.[21] Long-term empty homes are those dwellings which have been unoccupied and substantially unfurnished for over six months. The number of long term vacant dwellings in Kent had declined for six consecutive years up to 2014 (a reduction of 42%) but has risen in the last year.

KCC's award winning **No Use Empty** initiative, working in partnership with all 12 district councils, celebrates has been running for over 10 years. Originally operating across the East Kent authorities (2005-2008), it has established itself as the longest running empty property initiative in the UK and has been extended countywide (2009). NUE aims to substantially increase the numbers of long term empty homes returned to use as quality housing through a range of interventions including financial assistance to owners by the way of secured short term interest free loans which are recycled.

As well as returning empty homes back into use, NUE continues to be innovative and has provided financial support for the conversion of former redundant commercial sites (offices) which have planning permission in place to convert into new homes. The average cost to renovate a unit is £44k (often worst properties), with the average KCC loan awarded at £20.6k. NUE has:

- Returned 5,365 empty properties back into use for housing.
- Awarded £20.9m secured loans awarded
- Leveraged £25.4m of public/private contributions

Figure 11: Decline in Long Term Empty Properties in Kent



Since the New Homes Bonus (NHB) was introduced and extended to empty properties, £8.6m of NHB has been secured through bringing empty properties back into use within Kent. This equates to over £2m in each year NUE has operated representing 10% of the total sum Kent has received £88.2m.

Since 2012, NUE has also taken advantage of HCA funding to bring empty properties back into use for affordable housing. Over the two year period 2013/14 – 2014/15, 42 affordable homes have been provided through bringing empty properties back into use. This has been supported by £750k of funding from HCA and £1m from KCC. NUE will make a further bid to HCA in 2015/16 having secured a further £1m from by KCC to continue this programme over the period 2015 to 2020.

21 Figures rounded to nearest 10

In the future, NUE will continue to return empty properties back into use as well as develop new products which will focus on unlocking empty commercial space/sites (including empty shops).

Kent's NUE initiative has been widely praised and taken up by other local authorities as a model of good practice (Welsh Government have based their own Loan Scheme on the Kent model). NUE is not the answer to the housing shortage and on its own it is unlikely to make a major difference to the overall stock condition as empty homes only represent 3% of the total stock. However the results, impact and investment NUE has achieved since its inception should not be underestimated and without the intervention only a proportion of these properties would have been brought back into use.

A further example of Kent's proactive approach in tackling poor condition homes and regenerating neighbourhoods is provided by the Live Margate Initiative. A new strategy for regeneration in Margate was put in place in 2010 by Thanet District Council and Kent County Council (KCC), recognising the worsening circumstances in the area and the changing funding environment. At the same time the Margate Task Force, a multi-agency organisation, was set up to ensure the effective coordination of all public services in the priority area to address the high level of need.

The strategy that TDC and KCC have been pursuing entails a combination of enforcement action to ensure tenanted properties are improved, undertaken in conjunction with a selective licensing scheme; combined with the purchase and improvement of 'problem' properties, be they empty or abandoned properties or Category 3 HMOs which have been a focus of anti-social behaviour. These interventions are focused on changing perceptions of Cliftonville West and creating the conditions where owner occupiers will look to take advantage of low property values and invest in improvement, thus re-balancing the local population.

£23.1m is being invested in the programme by KCC, Thanet District Council and Home England which will run until 2026. To date, 7 projects have been completed, including the acquisition and redevelopment of the notorious Hotel Leslie, a Category 3 HMO, which has been developed into five high quality units through a mixture of new development and conversion. There are currently three projects underway at Godwin Road, Sweyn Road and Warwick Road. All of these projects have involved the conversion of HMO and bedsit problem properties into larger, better quality accommodation.

Kent County Council is using Growing Places Funding to progress proposals to purchase prominent sites and non-residential buildings on the seafront for new-build residential development. Further funding was secured through the South East Local Enterprise Partnership Growth Deal for initiatives three authorities – Thanet, Hastings and Tendring in recognition of the relationship between housing and economic development in this coastal area and the potential for learning to be shared with other coastal towns in the SELEP.

Stronger links have begun to be made between housing and health programmes in Kent as a result of 'Think Housing First (2013-15)'. This initiative was developed by the Kent Housing Group and Joint Policy Planning Board to set out the role of the housing sector, its relationship to health inequalities and what can be done in Kent in addition to current housing interventions. It aims to share good practice and resources to improve the impact of housing on health inequalities. It builds on 'Mind the Gap' – the Kent Health Inequalities Action Plan which investigates all the factors that impact on health inequalities.

In conclusion, housing conditions remain a challenge for Kent and Medway. There are some successful initiatives operating but the wider economic environment and more limited public funding will make it difficult to sustain improvements in the stock. Whilst significant progress has been made in areas with concentrations of empty properties and poor condition houses with vulnerable tenants, there are risks that changes to Housing Benefit and Welfare Reform will increase the flow of vulnerable people to these places and constraining efforts to turn these neighbourhoods around. A

considerable challenge for Kent and Medway is to secure funding for programmes to improve the housing stock in the County whilst funding for private sector renewal is being cut back.

2.8 Delivery of New Housing

The SHMA (2010) identified the delivery of new housing as a key challenge for Kent and Medway and anticipated that the market context for development of new homes over the rest of the decade was likely to be challenging. The report expected that the failure to provide adequate levels of new homes would manifest itself in:

- Increasing numbers of adult children living at home into their 20s and 30s
- Increased overcrowding and people forced into shared accommodation
- Growing poverty as housing costs absorb a higher proportion of incomes.[22]

In the last Market Report (2015), these patterns were evident in the data and remains the case in 2018. The IFS report (2014) found that young adults were being hit hardest by falls in income and increasing numbers of 22-30 year olds were living with their parents.[23] The English Housing Survey (2013/14) showed that overcrowding has increased at the national level in the private and social rented sectors since 2009/10 and the latest English Housing Survey (2016/17) confirms that levels of overcrowding have not improved since 2014.

The IFS report also finds that, although average incomes have just stabilised after the recession, poorer households are worse off in absolute terms and changing housing costs have had a significant impact on living standards, particularly amongst renters who have been forced to spend more of their net income on housing as rents have increased.

Across England housing completions have fallen significantly since 2007. In England as a whole, 170,000 new homes were completed in 2007/08; in 2010/11, only 108,000 new homes were completed, a 36% decline over the period 2007/08-2010/11. Housing completions have increased since 2013/14 and completions were 147,930 in 2016/17 – but still below levels before the downturn. This is despite robust rises in house prices in recent years. However, nationally, the planning permission pipeline has improved including new starts, indicating that the number of completions should continue to improve in the short term.

In Kent and Medway, activity is at its highest level since 2007/08. 7,800 dwellings were completed (net) in the year ending March 2017 across Kent and Medway. This compares to 8,175 at the peak in 2007/08.[24] However, completions are only just climbing back to levels seen a decade ago, with more than 5 years of lost output between 2009/10-2014/15 where completions fell far short of target levels.

There are a range of factors which have contributed to the downturn in house building and are shaping the recovery of completion levels:

- Reduced mortgage lending because demand from buyers has fallen as household incomes have fallen and because of continued constraints on mortgage availability.
- The continued difficulty for house builders in securing development finance from lenders.
- The challenge of maintaining affordable housing delivery as funding regimes have changed and continued uncertainty for developing RPs as tenants experience cuts in their benefits.

22 DTZ (Winter 2011) Pulling Up the Ladder
23 IFS (2014) Living Standards, Poverty and Inequality in the UK: 2014
24 Business Intelligence Statistical Bulletin (December 2014) Dwelling completions in Kent local authorities 2013/14

- Expectations of future interest rate rises which will affect demand from households and discourage housebuilders from expanding their output.

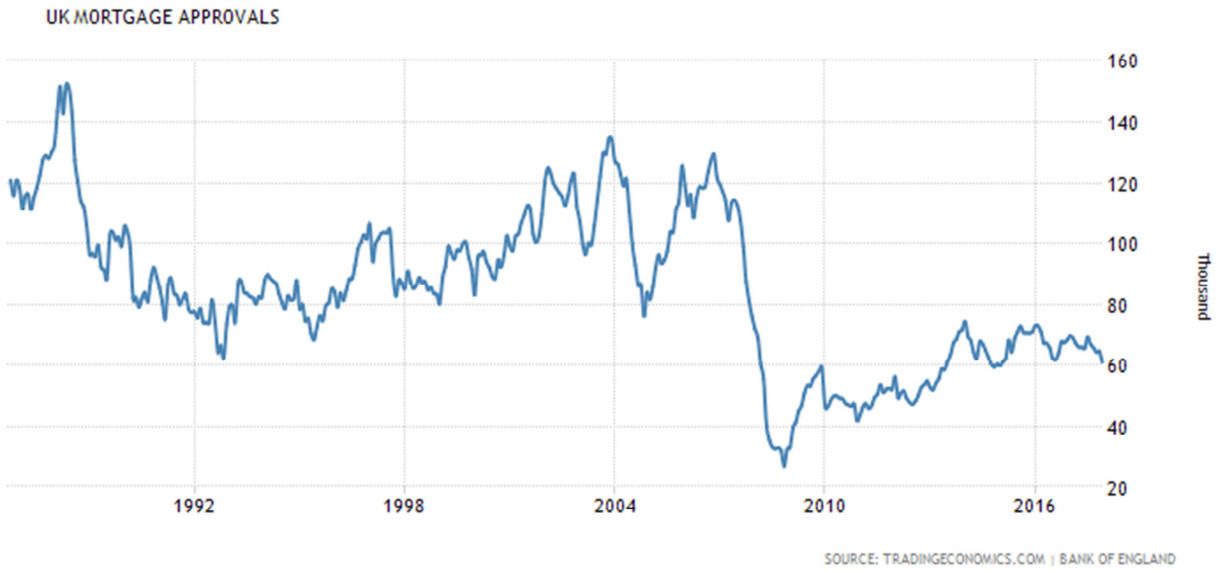
A key part of Kent and Medway's response to the delivery challenge has been to invest in infrastructure to unlock housing sites. A brief description of investment, led by the SELEP and Growth Infrastructure Framework is included below along with discussion of the factors affecting housing delivery.

2.8.1 Mortgage Lending

Mortgage lending (volumes and value) has fallen to around half of the long term average observed in the period 2000-07 (Figure 12). During the downturn, confidence among borrowers fell, and so demand for mortgages has fell. As household earnings and incomes fell during the downturn and are only just beginning to recover in terms, this has affected the ability of households to afford to buy a home. The economic and financial crisis also reduced lenders ability and willingness to lend.

The financial crisis has reshaped financial institutions. The consequence of this is that the numbers of mortgage lenders and products have fallen dramatically from the period 2005-07; and lending practices are much tighter with higher deposit requirements, meaning that borrowers have to find a 20% deposit to get the best deals, and struggle to secure a mortgage offer with a 10% deposit.

Figure 12: UK Mortgage Lending, Number of Approvals Over the Long Term (Thousands)



Source: TRADINGECONOMICS.COM; Bank of England

The Government has sought to address these issues through various schemes to support households wishing to buy a home, particularly first time buyers most recently under the 'Help to Buy' banner which includes assistance to buy new build properties through equity loans and shared ownership products which allow households to purchase a share of a property. The Kent Local Authority Mortgage Scheme also provides locally tailored support.

The mortgage market is likely to continue to be tighter than in the decade to 2007, with persistent problems of *accessibility* to home ownership which were highlighted in the SHMA (2010). This is particularly the case for potential shared owners with fewer lenders operating in the market than before the downturn.

One positive note in the current credit environment is that, for those that can access a mortgage, interest rates are low by historic standards, although the Bank of England has signalled that it is likely to raise interest rates in the future to manage rising inflation. This may moderate any rise in demand for mortgages.

2.8.2 Development Finance

The second key constraint on the delivery of new homes is development finance. Risk aversion, deleveraging and more limited availability of wholesale finance have increased the costs and reduced the availability of development finance. Housebuilders experienced considerable difficulty in the first phase of the credit crunch. Some national housebuilders went into administration and some firms have withdrawn from the housebuilding sector. Many smaller housebuilders ceased trading.

However, most of the larger housebuilders have restructured and have been refinanced. However development finance is expensive and lenders, having lost much money on property loans, now impose much tougher requirements on those seeking to borrow. The result is that availability of development funding is much tighter. This has not applied to Registered Providers to the same extent. Many have been able to access finance at low rates, including through the Government's Affordable Housing Loan Guarantee Scheme. RPs are also having to be more innovative in finding other funding sources as government funding has reduced.

However, RPs borrow funds on the basis of the value of their assets (their housing stock) and their projected income stream (rents from their homes). Both of these elements are coming under increasing pressure from the measures outlined in the Summer Budget of 2015 – the extension of the Right to Buy to housing association stock and reductions to the rents that RPs can charge on their properties. This impacts on RP's ability to obtain finance from lenders and, indeed, to meet the conditions of their existing loans if their ability to retain their stock is affected by RTB.

Housebuilders are managing their business with a much greater focus on cash flow. This works against large developments that require heavy up front finance. It is much more attractive to build houses than flats, because development can be adjusted to sales rates, while flatted development requires heavy upfront investment. With fewer first time buyers and investors demand for flatted is now weaker than houses.

The government has attempted to tackle this issue by providing a number funding programmes to kick start stalled developments by providing loan finance. Get Britain Building provided 3 finance options, made up of commercial loans and equity stakes that were be provided on a recoverable basis. Schemes located within Kent secured funds for around 820 units, which equated to 3.5% of the total number of homes funded, in line with the Kent share of the population. This scheme has now closed. A second scheme covered the period 2015-17 – the Builders Finance Fund –aimed to restart or speed up developments of up to 250 units to address the difficulty some schemes have in accessing development finance. The 'Build to Rent' programme also provided loans or risk sharing to help developers to build schemes for the rental market.

Current support for house builders is available through Homes England's Home Building Fund. £3bn is available to provide development finance and infrastructure finance in the way of loans to private developers of up to £250m.

The government launched the 'Large Sites Infrastructure Programme' in 2014 which builds on previous funding pledges (around £1.5bn since 2012) to support the development of complex sites with multiple challenges. The programme will run up to 2020. There are currently 3 schemes within Kent that are identified for support in Ashford, Dartford and Dover. This has now been extended and relabelled as the Housing Infrastructure Fund, with £5bn pledged by Government (2017/18 to 2020/21) to unlock development sites. There are two types of funding available to local authorities (rather than direct to the development industry):

- The Marginal Viability Fund (available to lower tier authorities) where infrastructure funding is available to get additional sites allocated or existing sites unblocked quickly. Local authorities can apply for up to £10m under this fund.
- The Forward Fund (available to upper tier authorities) where funding is available for strategic and high impact infrastructure. Local authorities can apply for up to £250m. Allocations are yet to be announced and are expected in Autumn 2018.

The first wave of funding under the Housing Infrastructure Fund has been announced, with 3 local authorities within Kent benefiting:

- Maidstone is to received £658k under the Land Release Fund to unlock a Council owned site
- Thanet is to receive £2.5m for improved roads and junction
- Dover is to receive £15.8m for a Bus Rapid Transit System

2.8.3 Infrastructure Funding in Kent and Medway

In recent years, Kent has benefited from public investment in infrastructure provision including in the Thames Gateway and Ashford and High Speed 1 rail services. In the future, overall investment in infrastructure will be lower and so more creative ways will be needed to deliver the infrastructure required to support new development. Overall, the Kent and Medway local authorities are likely to be operating in a more constrained funding environment.

The South East Local Enterprise Partnership has become the main mechanism for bidding for infrastructure funding from Government. Local Enterprise Partnerships were established following the abolition of the Regional Development Agencies in 2010. LEPs prepare economic strategies for their areas and decide what the priorities should be for investment in infrastructure to support economic growth. The South East LEP covers Kent, along with parts of Essex and Sussex.

The LEP's key purpose has been to bid for growth funds from Government to support projects within the area. The LEP's Growth Deal and Strategic Economic Plan put forward proposals to accelerate housing supply and deliver 100,000 homes across the LEP area between 2015 and 2021. A key part of the strategy is to invest in housing renewal in the coastal communities which act as a drag on the economy and to unlock the potential of these areas. The SELEP has benefited from three Growth Deals from 2014 to 2017. In total the SELEP Growth Deal with Government bring almost £590.8m of investment to East Sussex, Essex, Kent, Medway, Southend and Thurrock. This included an initial allocation of £2m to the coastal towns, including Margate to help improve homes as part of economic regeneration plan. Over the lifetime of the Deal (2015-2021) SELEP is committed to delivering 78,000 jobs and 29,000 homes.

A key objective of the Growth Deal is to deliver new homes. This will be supported by a capital investment programme focused on key transport projects which will unlock priority sites and a recyclable South East-wide investment fund (SEFUND), which will invite bids from housebuilders and developers to bring forward new housing, commercial and energy infrastructure schemes. Alongside SEFUND, Kent County Council will provide matching funding of at least £10 million per annum to accelerate the delivery of housing and commercial developments – investing in those that are close to the tipping point of viability as well as supporting the delivery of those that are further away from the market. In future, it is possible that Local Enterprise Partnership arrangements may be devolved to lower geographical levels.

Kent County Council has developed a Growth and Infrastructure Framework to examine the infrastructure required to support all kinds of development in the County, and to estimate the costs of providing this, the funding required and the gaps. It is designed to be reviewed regularly so that it provides the reference document for Kent' Infrastructure needs.

2.8.4 Challenge of Delivering Affordable Housing

Public funding to support the building of affordable housing has also been a victim of the economic downturn. The Government's budget for housing was reduced from £9bn over the three year Spending Review period 2008-11 to £4.5bn in the four year Spending Review period 2011-15, the equivalent of a 62% reduction in the annual housing budget. The affordable housing programme for 2015-18 had a budget of around £1.6bn. This has since been increased to £4.7bn for the 5 year period 2016-2021 but with funding focused on affordable home ownership.

The Shared Ownership and Affordable Housing Programme prospectus 2016-2021 initially focused all funding on shared ownership and other forms of affordable home ownership, older persons housing and Rent to Buy. An addendum was added in 2017 to allow the inclusion of bids for Affordable Rented homes; though the Government still expects the majority of expenditure to support home ownership and sees the inclusion of affordable rent more as a means to support faster build out of home on new sites.

Affordable housing completions fell in the last two years (2015/16 and 2016/17) after reaching a high of 60,000 in 2014/15 the AHP (2011-15) came to an end. Completions of all forms of affordable housing in England in the last two years were the lowest in over a decade. Affordable housing completions in Kent & Medway in 2016/17 were 1,590. This is an increase on the previous year and comprised over 50% affordable rented dwellings. This reflects the fact that Kent RPs and authorities secured over £59m of funds from the HCA to build 3,455 homes (in the 2011-15 AHP). Collectively, this was one of the largest allocations within England and equated to 5% of the overall budget in both value and number of units. Kent and Medway's share of the population of England is 3% and this suggest the area as has punched above its weight in securing affordable housing programme funds in the period 2011-2015. Allocations for the 2015-18 Affordable Homes Programme provided for £30m of funding for 1,769 homes (subject to contracts going forward).[25] It is likely that future delivery (2016-2021) will be affected by the increased emphasis on shared ownership rather than affordable rent.

2.8.5 Right to Buy

In 2012, the Government increased the discounts available to tenants wishing to buy their Council home. Since RTB was introduced in 1980, around 2 million Council homes have been sold in the UK. However, under the original scheme, the discounts were capped at £16,000 in the regions and £38,000 in London. Sales of homes through RTB had fallen in the years to 2010 and, according to the Government, this was partly as a result of the falling value of the discount.

The Government consulted on 'reinvigorating' the Right to Buy and introduced legislation in 2012 which increased the discounts available on the purchase price to tenants of up to £75,000 in the regions and £102,000 in London. These caps are being increased in line with CPI each year. As part of this change, the Government has channelled the receipts from sales back into the development of new affordable homes. This is part of a '1 for 1' pledge to ensure homes sold through RTB are replaced; albeit as affordable rented homes rather than social rented.

Just over 12,000 homes have been sold under RTB in England in the latest year (to Q2 2017/18) – this is more than four times the number of sales under the previous discounts. In Kent and Medway, there were 185 RTB sales in the year to Q2 2017/18. This is low by historic standards but represents an increase in the most recent years as a result of the increased discounts available. Nevertheless, 185 dwellings equates to more than 10% of affordable housing completions. So whilst affordable housing completions are adding to the stock of affordable housing, there are also 'losses' to the stock through RTB.

[25] Kent Housing Group Dashboard of Indicators Issue 2 – September 2014

The capital receipts received through RTB has not resulted in one to one replacement of affordable homes. There are two main reasons for this. Firstly, the funds raised through sales of Council homes at a substantial discount on their market value have been insufficient to subsidise the building of a new homes given build costs and land values. Secondly, there is likely to be a considerable lag between receiving the sales receipts and delivering a new home on the ground given the complexities of development, not least the difficulty in securing sites.

Over time, if RTB sales continue to increase and replacement homes are either not provided or take many years to come on stream, all other things being equal this will lead to a reduction in the availability of social housing. It is likely to mean more households in need will have to be accommodated in the private rented sector.

In the Summer Budget 2015 the Government extended the Right to Buy to housing association tenants. Around 800,000 housing association tenants already have a Right to Acquire their homes, but the discounts are relatively small, ranging from £9,000 in areas of low house prices to £16,000 in London. The Government planned to extend the right to buy to a further 500,000 tenants, and give much higher discounts. There were few details on how this would be funded (and housing associations compensated) although local authorities would be required to sell the most valuable 200,000 homes from their remaining stock to raise funds. This planned policy represented a risk that there would be further erosion of the social housing stock, because of the difficulty in replacing those properties that are sold. It also represented a significant risk to the housing association sector because of the implications this has for the way they borrow funds against their assets (homes) to invest in new building and other activities. As a result, the National Housing Federation made a proposal to Government to implement *voluntary* RTB in the housing association sector. The Government confirmed in the Autumn Statement 2017 that a large scale pilot of the proposal would be carried out in the Midlands in 2018.

2.8.6 Self-financing for Council Housing

In April 2012 the government ended the Housing Revenue Account subsidy system. This means councils with their own housing stock now keep their rental income and use it to fund their housing stock (known as ‘self-financing’).

This included the one-off payments to or from each council, which were used to adjust their housing debt to reflect the value of their stock. Councils whose existing housing debt was higher than the value of their stock had some debt paid off by the government. Councils whose debt was lower than the value of their stock borrowed to pay the difference to the government.

The key aspect of the reforms is that local authorities have a much freer hand in managing their substantial portfolio of housing in the interests of existing and prospective tenants. They will also be able to manage their asset base to deliver improvements and generate receipts to help finance development of new affordable homes.

Authorities may also wish to encourage tenure diversification and therefore promote development of market homes on land owned by their housing business; and use the receipts to invest in other aspects of their business. The government has also consulted on changes to regulations to give local authorities much more freedom over decisions to dispose of housing and land assets and to retain and use capital receipts.

Under the settlement agreed by the government there are caps on borrowing. The ability of councils to increase borrowing using their asset base or rental income is restricted. However, councils can borrow to fund new development through the current Affordable Housing Programme. The government also made available an extra £300 million Housing Revenue Account borrowing over 2015 to 2016 and 2016 to 2017 to

support Councils wanting to develop new affordable homes. With a growing requirement for affordable housing, the government will be keen to see councils use land held within Housing Revenue Accounts for development; and for councils to use their financial muscle to help finance development.

Many councils have some experience of promoting new development themselves on council estates; others have pursued joint venture arrangements. Once the new arrangements have bedded down, some councils will become more active in developing new homes – though this will happen using a variety of different funding and ownership models. For example, Dartford Council received full planning permission in March to deliver 76 new affordable Council homes across 3 sites which are held within the HRA. These will provide a mix of units, including family housing and apartments with 25 of the homes due for completion in 2017.

However, the changes to rent policy announced in the Summer Budget 2015 have impacted on local authority development programmes as well as those of RPs as social rents are reduced by 1% per annum. Local authorities in Kent developed 105 new social or affordable rented homes in 2016/17.

3 Conclusions and Observations

It is 8 years since the original Kent Housing Strategy was launched. In that time, there have been two general elections and a referendum where UK voters decided to leave the European Union. The political landscape has changed radically and, in part, is contributing to continued economic uncertainty which followed the downturn in 2008/09. Whilst the fundamental drivers of the housing market remain, it is useful to reflect on what has changed in the housing landscape over this period.

1. **Delivering new homes is now a Government priority**: housing has been given new prominence in Cabinet, with the Department for Communities and Local Government being restructured as the Ministry for Housing, Communities and Local Government. The Housing White Paper (2017) set out a range of measures to improve housing supply and affirms the current Government's commitment to improving supply and the affordability of housing. There is now broad political consensus at the national level on the need for more homes – a consensus that was not in place 10 years ago when the undersupply of housing was first given prominence by the Barker Review of Housing Supply. This provides developers with some certainty over the political landscape in the longer term. The National Planning Policy Framework (published in 2012) is in place and no political party is pledging to abolish or revise this. The NPPF sets out a presumption in favour of sustainable development and, in respect of housing, requires local authorities to deliver a significant boost to housing supply. This provides a much more supportive framework for the delivery of new homes than has existed in the last two decades.

2. **Increasing the <u>output</u> of new homes remains a challenge**: despite commitment to housing delivery at the highest level and broad consensus across political parties and between central and local government, increasing housing supply remains a challenge. Government has funded various schemes since the downturn to help unlock and speed up housing delivery. The current Housing Infrastructure Fund will invest £5bm until 2021 to provide infrastructure that will unlock new developments. The Government has also recently announced an independent review to tackle the barriers to building, focusing on why once planning permission is secured, some sites are not built out by developers. Kent's Growth Infrastructure Framework sets out a comprehensive assessment of the infrastructure requirements within the County and provides evidence for the SELEP to bid for funding through the Growth Deal process.

3. **The affordable housing funding environment is more challenging**: Government funding for new affordable housing was reduced substantially over 2011-15 and this impacted on output (despite the implementation of affordable rent which allowed providers to increase rents and offset lower capital funding). Whilst funds for 2016-21 have been increased, the focus is on affordable home ownership which is likely to interrupt supply, if only for the short term as providers adjust. The introduction of greater flexibility in 2017, to allow the funding of affordable rent, should help providers to make schemes stack up, improve delivery rates and provide much needed homes for those on the lowest incomes. Nevertheless, ongoing cuts to housing benefit make the delivery of new affordable rented housing challenging because of the impact on RPs' ability to borrow against future rents to fund new development. This applies to Councils who own their own stock and have development ambitions as well as housing associations.

4. **Greater focus on older persons housing**: the Housing White Paper introduces a requirement for local authorities to plan for housing for older people and there is increasing focus at the local authority level on the range of homes needed to meet the needs of the ageing population and to provide housing with care for vulnerable older people. But there is no magic bullet for the delivery of older persons housing, particularly housing with care which is more costly to develop and experiences slower sales rates compared to mainstream housing. Funding for supported housing for older people, in the way of benefits available to vulnerable people, has also been subject to significant uncertainty over the last 18 months

as Government proposed to apply the LHA cap to supported housing rents. This plan has since been suspended and a new funding model is promised before 2019/20. Nevertheless, this uncertainty has resulted in stalled developments and has reduced output of specialist housing in the last year. The integration of housing with health and social care programmes offers the potential to transform this sector, but this remains a difficult challenge, particularly with NHS and social care budgets under pressure.

5. **Greater attention to housing conditions**: Kent and Medway has led the way in tackling poor condition properties, particularly empty homes through the No Use Empty programme and concentrations of problem HMOs in parts of the County such as Margate through selective licensing and targeted investment in properties. There is now greater attention on housing conditions and support in Parliament for the Human Habitation Bill. The Bill aims to amend the Landlord and Tenant Act of 1985 to ensure rented homes are maintained to a standard that is fit for human habitation. It remains to be seen whether the Bill will progress into an Act of Parliament and the impact it will have on conditions, particularly within the private rented sector, since it is likely to entail greater levels of inspections if it is to be enforced by local authorities.