

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager

SUBJECT: Affordable Housing
Development Programme

TO: Head of Housing & Property
Services

DATE: 30 August 2012

C.C. Chief Executive
Head of Finance
Housing Strategy Manager
Development Officer

1. Introduction

- 1.1 In accordance with the Audit Plan for 2012/13, an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where appropriate. This topic was last audited in March 2010.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2. Background

- 2.1 The Affordable Housing Development Programme is the 'pipeline' for the delivery of affordable housing. It relates to the building of new affordable housing as opposed to the maintenance of the affordable housing stock that is already in place.
- 2.2 Currently, any housing developments of more than ten properties in urban locations and three properties in rural locations are required to provide a minimum of 40% affordable housing.
- 2.3 Affordable housing comes in three different forms, and a certain percentage of each type of tenure must be present within the total made available:
- 'social' rent (50%)
 - affordable rent (which can be up to a maximum of 80% of market rent) (30%)
 - shared ownership (20%).

3. Scope and Objectives of the Audit

- 3.1 The audit was undertaken to test the management and financial controls in place.
- 3.2 In terms of scope, the audit covered the following areas:
- Consultation and guidance
 - Monitoring

- Partnership working
- S106 agreements

3.3 The audit programme identified the expected controls. The control objectives examined were:

- Appropriate staff have been consulted, ensuring that affordable housing is included within individual developments and future plans for the district as a whole
- Guidance provided to developers is appropriate
- Housing needs within the district are understood
- Housing Strategy staff are aware of progress on developments so that affordable units nearing completion can be advertised appropriately
- Affordable housing developments stick to the guidelines with regards to the different types / tenures
- WDC work effectively with partners to ensure affordable housing is provided
- Affordable housing is appropriately included in new developments
- Commuted sums are used appropriately for the provision of affordable housing.

4. Findings

4.1 Consultation & Guidance

- 4.1.1 The Development Officer (DO) advised that she is a statutory consultee on planning applications received that will require the building of an affordable housing element.
- 4.1.2 Triggers are set within the Planning section in order to ensure that the DO is advised of the relevant planning applications received and, whilst the system used in Development Services is not sophisticated enough to automatically add the DO as a consultee for the relevant cases, the DO advised that it is fairly easy for case officers to determine which applications need referring to her as the triggers are numerical, based on the number of properties that are to be built within the development (as set out in 2.2 above).
- 4.1.3 Without trawling the system to try and identify all relevant cases individually, it was not possible to obtain a list of all cases that the DO should have been consulted on. However, an extract was provided by the Searches Information Assistant showing all cases since 2003 where 'Housing' had been consulted.
- 4.1.4 All applications identified for the current calendar year were reviewed and it was confirmed that the DO had provided comments as appropriate in all relevant cases.
- 4.1.5 The DO advised that for strategies etc. the consultation is not as formal, with Housing Strategy being just another consultee rather than a statutory one. However, she advised that she works closely with the Senior Planner in the Planning Policy team and will make comments as appropriate on the proposed new Local Plan.
- 4.1.6 She advised that comments have, in the past, been made on relevant strategy documents, including the Supplementary Planning Document (SPD) on Affordable Housing. However, she indicated that these would have been made on an ongoing basis during discussions with the Senior Planner as they were working in partnership, so no documentary evidence had been retained.
- 4.1.7 The DO advised that guidance is available to housing developers which sets out the council's requirements for affordable housing provision within the district and highlighted that that the aim is to review the guidance every couple of years. However she indicated that the current advice document available on the WDC website was out of date, specifically (but not limited to) the affordable rent changes that have come into force. However, she suggested that it had only recently been decided what line WDC will take on this subject to allow for this guidance to be updated.
- 4.1.8 Whilst it was clear that the document available needed updating, no formal recommendation is included as it was clear to Internal Audit that the DO was fully aware of the situation and that it was in hand to be addressed.
- 4.1.9 The DO also added that the guidance may require further amendments after the new Local Plan is agreed as, whilst the broad figures relating to

affordable housing may not change (i.e. the 40% affordable housing requirement), the detail regarding methods of delivery may change.

4.2 Monitoring

- 4.2.1 A Strategic Housing Market Assessment (SHMA) has been undertaken by consultants on behalf of the council to ascertain the needs of the housing market as a whole.
- 4.2.2 The DO advised that, based on the outcome of this assessment, developers are being informed that the requirements for affordable housing are mainly two or three bedroom houses with a small number of two bedroom flats, unless these needs cannot be met on the development site. Four bedroom houses are only generally agreed if there is to be a minimum of 20 affordable units on site. These requirements are formalised in the S106 agreements that are entered into.
- 4.2.3 A model S106 agreement and a sample 'live' agreement were provided, with the sample agreement including details of the exact number and type of properties to be constructed as affordable houses. The figures included in the agreement were in line with the abovementioned requirements.
- 4.2.4 The DO advised that she is often made aware of developments prior to formal applications being received. She provided a copy of the site list spreadsheet that she maintains to track sites where have affordable housing provision has been agreed or needs have been identified.
- 4.2.5 Whilst there was evidence on the site list of recent updates, one of the recent planning applications that had been commented on by the DO was not included on the list.
- 4.2.6 It was also noted that the spreadsheet maintained does not list the individual plots that have been set aside as affordable housing units and, as a result, there is nothing recorded to show which plots are nearing completion to ensure that they are placed on the Home Choice system.
- 4.2.7 However, the DO advised that the monitoring spreadsheets are for her own purposes and did not feel that this level of detail was required. Individual files are maintained for each development which include detailed plans, with individual plots being marked. The DO also advised that the registered providers, who take ownership of the completed properties, keep her informed of progress.
- 4.2.8 A standard clause is included within the S106 agreements that sets out the general timescales for delivery (i.e. the developer cannot build all of the private units before building the affordable units) and this was seen in the model and sample S106 agreements provided.
- 4.2.9 The DO advised that, whilst the optimum aim is to achieve a 50 / 30 / 20 split in affordable housing tenures (see 2.3 above), this cannot always be achieved. The split is site specific, so any shortfall in one development will not automatically be made up by another developer, although if a developer is working on more than one site, an agreement may be reached where they

may try and weight one type of tenure on one site and others on another if it makes the sites more viable.

- 4.2.10 The comments submitted by the DO in respect of two recent planning applications highlighted that attempts are being made in one case to attain this mix, whereas there is a proposal for flexibility at the other site in order to try and achieve more than 40% affordable housing on the site.
- 4.2.11 The sample S106 agreement seen included the requirement for 23 properties to be affordable of which 18 will be affordable rent (78%) and five will be shared ownership (22%).
- 4.2.12 Whilst social rent levels are based on the Government formula and are, therefore, regulated, affordable rents are agreed following discussions with the developers and the registered social landlords (RSLs).
- 4.2.13 Profiling is performed to ascertain what the rent would be at different percentages of market rent to ascertain what would be an affordable rent. The DO provided a copy of an email showing how this profiling was being looked at for a proposed development which included sample figures for different types of properties.
- 4.2.14 The sample S106 agreement reviewed included details of the level of rent that could be charged, with a figure of 60% of the market rental value being chargeable for the first let. The DO highlighted that the actual charging is undertaken by the RSLs for these properties and, as such, she played no part in the process.

4.3 Partnership Working

- 4.3.1 A joint venture is in place with Waterloo Housing (W2) for the provision of 300 affordable homes over the next three years. Formal documentation is in place setting out this agreement.
- 4.3.2 The DO advised that monthly project board meetings are held between high level staff and there are also monthly feasibility group meetings held between operational staff. These meetings have formal agendas set and are minuted.
- 4.3.3 She also advised that there are no formal agreements with developers or registered providers, although she indicated that there has always been a close working relationship with the RSLs and they will be engaged with on specific projects, will be consulted in relation to relevant planning and housing documents (e.g. the local plan) and best practice will be shared.
- 4.3.4 She informed Internal Audit that meetings used to be held with all RSLs every two months, although these are no longer specifically held due to significant changes being experienced in the way in which affordable housing is delivered. That being said, she advised that a meeting is due to be called shortly to discuss the Strategic Housing Market Assessment (SHMA) and the new Local Plan and the requirement for the reintroduction of regular meetings will then be reviewed.

4.4 S106 Agreements

- 4.4.1 The DO advised that entering into S106 agreements is part of the workflow for planning applications, so they should be undertaken as a matter of course. Planning notify Legal Services who enter into dialogue with developers. The DO is then provided with copies of all of the finalised agreements.
- 4.4.2 As highlighted above, sample S106 agreements were obtained during the course of the audit. However, none of the planning applications that were sampled as part of the 'consultation' testing (see 4.1.4 above) had either reached the stage where an agreement was required or they were not going to require an agreement.
- 4.4.3 Where the inclusion of affordable properties on a development would make the site unviable, agreements are reached with the developers for the payment of a commuted sum to allow for the affordable housing to be provided elsewhere, with grants being paid to developers at other sites to increase the affordable housing provision.
- 4.4.4 The sums agreed are based around the affordable housing that would have been expected on site and the financial viability of the project as a whole, although they are sometimes renegotiated if the developer is experiencing financial difficulties.
- 4.4.5 Some of the agreements reached have conditions attached to them, such as the area in which the monies must be spent and timescales for the expenditure.
- 4.4.6 It was ascertained that approximately £1.2m was currently held in relation to the agreed commuted sums, with a further c£300k outstanding and, of this total held, the time limit for expenditure of approximately £250k was due to occur in the current financial year. However, the DO confirmed that there were plans in the pipeline so that this money would be spent within the deadline.
- 4.4.7 The DO advised that there have not been many grants paid recently from the commuted sums, although she indicated that tentative talks have been held with a provider regarding some rural schemes and that an agreement has been reached in principle. However, the application has not yet reached the relevant stage at which a grant has been formally agreed.
- 4.4.8 There is a sample grant agreement within the W2 agreement that sets out how any grants paid by WDC to Waterloo Housing will be dealt with.

5. Summary & Conclusion

- 5.1 Following our review, we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place for the management of the Affordable Housing Development Programme are appropriate and are working effectively.
- 5.2 One minor issue identified during the audit, in relation to the relevance of the current guidance available to developers, was in hand to be dealt with by the DO and, therefore, no recommendations are thought to be required.

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