

## WESTMINSTER HOUSING COMMISSION

### MEETING 3 27<sup>th</sup> FEBRUARY – QUINTAIN ESTATES MINUTES FROM PUBLIC SESSIONS

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#### ATTENDANCE

##### The Commission

Richard Best	Chair	RB
Sarah-Jane Curtis	Retail Director, Grosvenor Estate	SC
Natalie Elphicke	Joint Head of Affordable Housing Group, Denton Wilde Sapte Solicitors	NE
Prof. Chris Hamnett	Professor of Human Geography, Kings College	CH
Cllr Angela Harvey	Cabinet Member for Housing, Westminster City Council	AH
Kelvin MacDonald	Director of Policy and Research, Royal Town Planning Institute	KM
Nick Raynsford, MP		NR
John Socha	Vice Chairman, National Landlords Association	JSocha
Anu Vedi	Chief Executive, Genesis Housing Group	AV
Mike Youkee	Head of Housing Initiatives, Quintain Estates and Development plc	MY
Sir George Young, MP		GY

##### Apologies

Kate Barker  
Sir John Egan  
Sir Terry Farrell  
Jeremy Swain  
David Lunts

##### Panel Members

###### *Imperial Wharf*

John Heron	St George plc	JH
Charmaine Young	St George plc	CY
Daniel Lynch	Dominion Housing Group	DL
Ian Ruegg	LB Hammersmith and Fulham	IR
Simon Wallace	LB Hammersmith and Fulham	SW

###### *Planning Delivery*

Gordon Chard	Director of Planning and City Development, WCC	GC
Simon Devitt	Dominion Housing Group	SD
Robert Heskett	Land Securities	RH
Wally Kumar	Director, Development Securities	WK
Adrian Penfold	Head of Planning and Environment, British Land	AP
Charmaine Young	St George plc	CY

The Commissioners attended a site visit to Imperial Wharf in Hammersmith & Fulham to see an example of a development where 50% on-site affordable housing was agreed.

The formal meeting followed.

## **1. Imperial Wharf Q&A**

RB invited Commissioners to question the panel members.

GY asked what made Imperial Wharf so different that 50% affordable housing could be achieved there, but not in other places. Was the issue just having enough Social Housing Grant?

DL responded that in Westminster, higher costs would mean a 50% requirement would probably encounter difficulties in terms of making the scheme financially viable, with or without grant. Grant was crucial to Imperial Wharf as it made the shared ownership units affordable to those on lower incomes.

RB asked what level of affordability could be achieved without the scheme becoming financially unviable. He suggested that as long as there was sufficient grant, 100% affordable housing was possible and asked for clarification on how the social housing grant fed into the numbers at Imperial Wharf.

CY responded that there were two responses to this question: a financial one and a social one. While grant could increase numbers of affordable homes to higher levels, this might not achieve a strong community.

JH added that the input of social grant was only one element of the overall viability of the scheme. Providing 50% general needs social housing might attract the most grant, but might make the development unviable in practical as well as commercial terms. If Hammersmith and Fulham had insisted on 50% general needs for social rent, the scheme would not have gone ahead. The phasing of grant and the infrastructure requirements were also important considerations.

RB asked how many houses were funded by grant and how many were achieved by planning gain.

JH: All the general needs rented housing in the outline plan (515 approximately), plus 125 Shared Ownership; plus 50 elderly extra care were grant funded. Student housing and discount market rent were built without grant.

NE mentioned the issue of catering for the two ends of the market and not the middle and asked whether St George had considered bringing down the cost of some of the homes or whether they attempted to get the maximum value for maximum number of flats.

JH explained that in 1997/98, when the scheme was being planned, there was total flexibility. St George could have built a greater number of smaller units for sale, but

this would not have generated enough income to fund cross-benefits. Infrastructure considerations (eg highways) constrained the total number of units on site.

SC commented that this would be a key issue for a site like Chelsea Barracks.

NR asked for clarification on the middle section of the market - how did the intermediate housing work and what need did the discounted market rent / sale meet?

JH/DL/IR responded:

- Discounted sale was a 30% discount on market price, so a 2-bed flat at £400k would sell for under £300k.
- Discounted rent: meant that rent for 1-bed was approx £170-£175 per week, 2-bed approx £220-£225 per week (including service charges), compared with market rent for a 1-bed in Fulham now at about £250 even in the lowest quartile. This compared with Social housing rents of approx £75-80 for 1-bed and £105-110 for 2-bed, (plus service charges).
- Shared ownership sales in Phase 1: £240k for 1-bed, up to 430 for the most expensive 2-bed. The minimum was 25% equity, but the average was 44-45%. A rent of 1% of value was charged on unsold equity.

RB: Given that the prices of discounted sales were no less than prices of the cheapest home in the local market, what did this arrangement add for H&F?

IR said that when the scheme was planned, the idea was to cater for a range of housing needs, and to provide a housing ladder. The discount market sale might not be appropriate in today's market conditions since there were probably few key workers on the Council's list who could afford these prices.

CY added that it was important that a range of options were provided in the development to cater for a range of differing affordability levels. The 6 "tenures" provided this, and helped to prevent the development becoming polarised between rich and poor.

NR added that if St George was doing the development again, would it have increased the element of shared ownership in place of discount market sale?

JH felt that Shared ownership was more flexible since the proportion of equity sold could be varied; the disadvantage of discount market sale was the fixed 30% covenant.

CY commented that another issue with shared ownership was that buyers could staircase to 100% and the public subsidy was lost from the scheme. With discount sale, the covenant could be maintained in perpetuity.

AH asked what was the definition used of "key worker".

DL recognised that ODPM's narrow definition for the shared ownership and discount rent was used.

IR: Discount sale did not receive grant funding, so the Council could nominate from its four priority bands: i.e. former council/HA tenants; key workers (using the ODPM definition); H&F key workers (including probation and special medical cases); and those providing essential services in H&F.

AV asked if a lettings plan had been developed for the general needs housing.

IR explained that a plan was agreed for 50% to be transfers, and 50% from the waiting list. An open day was held for the social rented housing so potential applicants could see what they were choosing through Choice Based Lettings (Locata). It was felt important to house people who actually wanted to live there.

AV: What pressure was placed by the housing development on other public services, eg GP surgeries, schools?

JH responded that demand for school places was looked at very closely. There was capacity in local primary schools; and the scheme had generated fewer children than anticipated. Funding was identified for expansion as a result of the housing in Stage 2. A pre-school facility was to be provided on-site. Addressing health needs was more difficult as there has been no commitment from health services to take part in the scheme. It was considered that this probably would not be clarified until stages 2 or 3.

RB added whether putting affordable housing into the context of all the things developers are asked to provide, was it the most significant in terms of investment or potential profit foregone?

JH replied affirmatively; he said that, for example, the railway station will cost less than £2m, so was in no way comparable.

CY added that, recently, education and transport have moved up the agenda of purchasers very quickly.

SC asked if the impact on profitability and/or marketability was worse on small or large sites.

JH replied that this depended on the configuration of the scheme and customer perceptions. On balance, marketability was probably worse on smaller sites as there was less flexibility.

IR clarified that the process that was followed in 1997/98 was not the one followed now. For larger developments, a local education impact study which looked at capacity of local schools, was now required. He referred Commissioners, in the context of health provision, to the example of Invermead Close (the former Queen Charlotte's Hospital site) which had been recognised as an outstanding example of meeting housing need and improving facilities available to the local community, with an extra care sheltered scheme and a health centre.

MY pointed out that extra care housing counted as affordable housing, while a nursing home did not. He felt it was important that student housing was treated as

affordable housing as well, since all these forms of housing contributed to mixed and balanced communities.

CY supported this view and pointed out that elderly people entering a care facility would often be releasing family homes. Student housing and extra care housing also meant that the age range of a community was broader.

A discussion followed about the pros and cons of the Government's proposed demands for Planning Gain Supplement. It was felt that the PGS was perhaps more appropriate to greenfield sites than brownfield development. The fact that PGS was a centrally collected tax and not directly related to the infrastructure/services created by the development was also seen as problematic. Developers and LAs needed to be able to show what benefits were related to a development. The uplift in value of a brownfield site was also very difficult to determine.

## **2. Delivery through the Planning System: Q&A panel session**

RB: Broadly, this discussion was about whether the planning system could deliver the homes that were required or was it impeding the process. RB asked GC to introduce Westminster's position.

GC stated that the planning system had limitations: it could not deliver everything. He added that Westminster was increasingly reliant on the private sector to produce affordable housing. But if the Council demanded too much, it ran the risk of getting nothing, because of the alternative uses for which the site could be developed.

RB asked about the Council's recent change of policy.

GC: The UDP currently required 30% units to be affordable, and 70% market. Following a Direction from Government Office for London which indicated 30% was valid within Central Activity Zone (CAZ) but not elsewhere in the City, where 50% affordable housing should be sought, the Council had negotiated an alternative policy which was currently on deposit. The basic change was that the new policy will require 50% on sites outside the CAZ in specified circumstances and in appropriate locations.

RB asked whether the stepping up from 30% to 50% was dependent upon the number of units in the scheme.

GC responded that it was, but outside CAZ and where land is of a low existing use value, 50% would be required irrespective of the size of development. On high value sites, there would be steps between 30% and 50%.

GY: Referred to the Background Paper prepared for this session and noted (from page 8) that £25 million had been received in commuted sums, but less than half had been spent. Why was there difficulty in reinvesting this money? And why, where it had been reinvested, was the grant per unit very low?

GC explained that there was an additional £9 million committed to schemes in the forward programme. There were difficulties for the Housing Department in terms of finding appropriate sites to fund because land for housing was scarce. This was the main reason not to seek contributions, but to require on-site development.

Westminster did not have a “buy-out” option in its development plans. The policy was very firm in requiring on-site provision of affordable housing. Only in a very limited range of circumstances was money accepted instead:

- 1) Where a Housing Association was not prepared to manage the units, for example if there were only 2 or 3 units on site; and
- 2) Where, if Westminster insisted on delivery on site, the development would not happen at all.

NR raised 2 points in response:

First, referring to Imperial Wharf, he observed that the only real constraint appeared to be the availability of grant to ensure affordable housing was in fact affordable, but Hammersmith & Fulham was still able to achieve a 50% outcome. Why couldn't this happen in Westminster?

Secondly, could more be done to facilitate Housing Associations to deliver affordable housing, since only £21 million has been committed?

GC replied that The Council can only spend what has been received. More may have been agreed through s106, but if the private development had not begun, then the Council had not received the money. The key point was that Imperial Wharf was a very large site of low existing use value. On sites such as this, there would be no problem delivering a similar scheme in Westminster: on the Chelsea Barracks site the Council was preparing a Planning Brief to do just that. It is a different matter, however, on sites with very high values. If the Council tried to insist on the 50% affordable housing, the site would not be developed at all.

NR felt there were two approaches: on large sites you could pursue the H&F approach to secure a good element of affordable housing; while the money raised through commuted sums could be used on infill sites.

GC: Added that he could see no reason that smaller infill sites of low value, such as depots, could not take a higher proportion of affordable housing as well (although, in Westminster there are few such sites).

NE asked, in relation to extra care housing for the elderly or nursing homes, whether the policy was to allocate from the affordable housing quota.

GC: In Westminster, the Planning Department achieves the affordable housing units and the Housing Department is responsible for appropriate allocation. In terms of percentages, 25% was for social rented housing, delivered through housing associations traditionally, while 5% was for intermediate housing (key workers). The Housing Department was better placed to answer questions about priorities for different types of housing.

RB sought clarification on where the decision lay in relation to use of commuted sums.

GC: When a developer approached the Council about a specific site, at the first opportunity a joint meeting was held between them, the Planning Department and the Housing Department. A partner housing association would generally be nominated by the Council, and in most cases the developer would accept that partner. Where the developer did not agree to the partner RSL, a legal agreement was drawn up to clarify when and where the affordable housing would be provided.

NE asked who decided on the value for money aspects of spending the grant, given the difficulty that has been shown in spending commuted sums.

GC explained that the Planning Department used a formula, either units on-site or an appropriate amount of money. The nature of scheme and use of the money was decided by the Housing department.

KM noted that this was done on a site by site basis rather than through an overall policy. Since the Council would have a Housing Needs Study, and maybe a new Housing Market Assessment, that would show the sort of housing required, so, was it not the role of Planning to set that framework?

GC replied that Housing Need Assessments did influence the negotiations which Planning and Housing had with developers. They would be even more important in relation to the new policy, where the increase to 50% affordable would allow much more flexibility as to the nature of housing sought above the 30% level. The emerging priority seemed to be key worker housing.

RB asked whether the Planners were making the decisions on the split between social renting and the various forms of intermediate housing.

GC responded that the initial split was set as a policy within the UDP. The nature of affordable housing beyond the 30% was open to advice from the Housing Department

SC asked if the 25%:5% split had ever been challenged.

GC explained that it was always challenged on an individual site-by-site basis. The policy was challenged at UDP Inquiry, but withstood the challenge.

NR asked if there were variations in what was sought according to the different needs in different parts of the borough, or whether it was decided on the basis of site characteristics.

GC said it was decided on a geographical basis. The Housing Department advised on what type of housing needed in particular parts of the borough and negotiation proceeded on that basis.

RB noted that the Commission had heard a lot about the need for family housing due to overcrowding etc. He asked whether the provisions in PPS 3 would make a difference to the role of planners in specifying the sizes of units.

GC replied that this was already in the plan: Westminster expected 33% of market housing to be family units (3 bedrooms or more).

AV referred to the case study outlined in the Background Paper (p12). At West End Quay, only 5% of original purchasers intended to live there; 61% purchased for investment purposes; and the Council received £3m in lieu of affordable housing. Was this a typical case, or was this an aberration?

GC said that WEQ was one of the first regeneration sites within the Paddington Special Policy Area – an area the Council wanted to see regenerated by predominantly commercial, but also residential use, to soak up some demand from the central part of Westminster. This site kick started the entire development and at that time the financial formula was not as developed as it is now. The key issue here was about purchasers not living in their properties, but to what extent the planning system could prevent units being sold off-plan to investors was not clear. WCC had a short term lettings team that tackled breaches in planning control and managed to return 400-500 units to full residential use in an average year. It was very difficult to insist, on new-build developments, that permanent residents lived there.

SC made the point that this was providing more accommodation for the private rented sector.

NR argued that if the proportion of affordable or intermediate housing was raised, then that would contribute to sustainability as those residents live there for longer.

RB asked representatives from the private sector if, from their perspective, the planning system was doing its best to reconcile the different interests, and was able to achieve a balance between providing affordable housing while still enabling developers to make a profit.

AP added that, from his experience of developing around the country, Westminster had particular characteristics. Affordable housing had to be cross-subsidised from other uses, this cross-subsidy generally came from increasing the quantity and quality of developments to get the most valuable combination of uses on site to maximise profits. High land values had already been mentioned, but other constraints included:

- The already high density of the City, which made further development difficult;
- Conservation areas which covered large parts of the City;
- The role of the CAZ area had to play in terms of London's role as a world city because retailing, cultural, employment, leisure uses also had to be accommodated.

These characteristics would not be true in most other parts of London including the southern part of Hammersmith & Fulham where Imperial Wharf was.

RB asked for AP's opinion on commuted sums being preferable to housing provision on-site, or, conversely, not giving cash but other accommodation off-site.

AP noted that, from a purely development angle, it was much easier for developers to make payments. But British Land is also an investor in residential properties, so that presented another opportunity. In terms of providing the units off-site, there was scope to do much more. The credits system, for example, where Westminster was doing innovative work, should be explored further. There could also be a role for a public agency like the LDA or English Partnerships, to be more proactive in identifying sites. This had the potential to secure greater numbers of affordable housing units where that was the objective.

WK raised two points:

- Many developers do not have another site on which to place the affordable housing and there was a risk, if the two were tied together, of not being able to develop the principal site for lack of the satellite site. This might not be a problem for larger development companies with large land holdings, but for smaller companies focused on individual sites, the advantage of commuted sums was that this allowed development on the principal site to go ahead more rapidly, which might be important in terms of economic and physical regeneration.
- In relation to on-site provision, in smaller developments where there were, consequently, smaller numbers of affordable units, making this work physically could be very difficult (spatial layouts, segregating facilities etc). In mixed use developments, for example with commercial, market and affordable residential, you might end up having to treble facilities such as entrances, lifts, waste storage etc which made the development very inefficient and uneconomic. He considered that Westminster's thresholds were on the low side (with 10 units as the trigger for affordable housing), and that on small sites commuted sums was the way to go.

RB sought clarification that affordable housing was not sought on developments below 10 additional units.

GC replied that this was the case, the 10 unit threshold was recommended by Government, but if it was felt appropriate, the local authority could seek affordable housing contribution on smaller developments.

RH explained that Land Securities was not a typical Westminster investor. It had been involved there for 50 years. On Cardinal Place, a new scheme near Victoria, there was no residential since it had been agreed that this could be provided on another site in the area. Land Securities also had another site going through the same process: this was a pragmatic approach as it put all the residential units in one development rather than in a commercial scheme. But this was atypical. Most of the developments in Westminster were on a much smaller scale and providing one or two units of affordable housing within a commercial scheme presented difficulties. A much better approach would be to provide the money to a separate agency whose sole remit was to develop the housing. But, with the difficulty of finding sites within Westminster, he did not believe it was necessary for the solution to be always found within Westminster.

RB asked, with regard to the agency being suggested, what its remit should be.

RH said an agency would cover the whole remit of affordable housing and how it was provided, whether through credit systems, commuted sums, shared equity products etc. This would enable it to develop expertise in negotiating affordable housing delivery.

CH asked what the advantage would be of this being separate from the housing department.

RH responded that it would be taken out of the politics and have a commercial task of finding affordable housing units. The failure in the current system was not in the planning process, but in what happened after that. If Westminster could not find the sites to develop, then the money could not be spent.

NR mentioned Bowater House overlooking Hyde Park, where units would be sold for £20m: was the affordable housing contribution approached there?

GC said what the developers had agreed to provide units on another site in SW1, which would provide more units than would have been developed otherwise.

SC asked if the developers would be required to provide the affordable housing first.

GC said this was the subject of negotiation at the moment. None of the units on Bowater House would be sold without housing on donor site being provided.

SD thought the Housing Department had a critical role, as the market for affordable housing supply is not just what was coming from commuted sums. Government investment through the Housing Corporation was also provided, and the Housing department had responsibility for the overall picture. It also had a role in delivering affordable homes by mixing & matching the funding streams.

KM asked for clarification on whether there was a s106 involvement on all affordable housing schemes, or if all affordable housing was funded through s106.

RB answered that it was the former. Social housing grant was required to develop the affordable housing provided through s106 sites.

SD: The City Council's policy was that the land is provided free, but there was still a role for grant whether this be through the Housing Corporation, or from commuted sums. (Local Authority Social Housing Grant was no longer available).

WK: The assumption that most developers make was that affordable housing is provided on a no gain, no loss basis to the developer, ie no contribution to the land value. That implies that the RSL that will take on the affordable units has the grant funding to cover building costs. There were issues around how much they could afford to pay toward construction costs, which had implications for design etc. The assumption that no contribution toward the land cost was required, was fine in a cost neutral environment, but this was all about to change with Planning Gain Supplement.

CY commented that her knowledge of Westminster was that Housing Corporation bidding rounds were always oversubscribed. RSLs put forward more schemes than could be funded, so the assertion that sites were hard to find might not be accurate.

SD made the distinction between what RSLs bid for and what was deliverable. During his time at Westminster, all those schemes that were deliverable received funding. Also, with the LASHG previous arrangements, Westminster had partnered with other boroughs to develop sites outside the City.

Fergus Coleman (Housing Association Supply Manager, WCC) said that, in the latest bidding round to the Corporation, the number of bids was reduced by two-thirds, but an announcement on funding would not be made until March. In the previous round, a third of bids had been funded. There was the question of how many of the bids were actually deliverable.

Rosemary Westbrook (Director of Housing, WCC) said that, with standard grant rates and higher costs, Westminster schemes looked far less attractive than those in other boroughs. So, in order to make those schemes attractive to the Corporation, WCC topped up the grant from its own resources. A significant proportion of the s106 receipt went in this form of match funding just to make schemes stack up within the current financial regime.

RB asked: Was the constraint, therefore, not that WCC hadn't got the commuted sums or sites, but that the level of grant was too low?

RW replied that the level of grant was an issue because sites in Westminster did not provide the same value for money as in other London boroughs: and also the number of sites was falling.

CY: St George were involved in a small residential scheme in Westminster where affordable housing was provided – 2 units beside million pound properties in Conduit Mews. She understood why developers were saying this might not work on commercial schemes, but it should be possible in residential schemes.

RB asked if PPS3 was going to have an impact on potential viability of schemes.

CY felt this would be more of a threat than Planning Gain Supplement, from a residential-led developer's perspective. The introduction of size, type and affordability criteria, without the detailed guidance being available, left things very uncertain. Principal concerns were:

- Definition of "affordable" being tightened to such a point that it covered little more than social housing; and
- The creation of a National Affordability Unit – which could strongly influence prices for private homes.

GC agreed to circulate the City Council's response to consultation on PPS3.

CH asked whether there were statistics on the number of developers who approached the Council and then walked away because the affordable housing requirements made a scheme unfeasible.

GC responded that there were no figures but, anecdotally, this was said to be a common problem. For example, the Council wanted to see office buildings built in 1960s/70s converted for some residential use: if the Council sought too much, then the threat is that it could end up with just a re-furbished office building. The Council insisted on independent viability assessments to prove what the developer was saying. The first step was to seek on-site affordable housing, if the developer could prove that this could not be viable, then the Council sought off-site provision. Only if no site could be found was money accepted instead.

SC asked whether the Council really want residential development within the CAZ, since this was the commercial heart of London.

GC explained that from the 1980s, this had been a fundamental part of the Council's policy. Housing was a key part of the mix that creates the character of Westminster.

Commissioners' private session followed.