



Summary report

What Price Sustainability?

Keeping service charges affordable in high density mixed tenure development

Delivering high density, mixed tenure development is central to the Government's strategy for increasing the supply of affordable housing. High density housing can bring a range of community and environmental benefits, but to be sustainable, it needs intensive local management and well designed communal space and community facilities. A new research project by HACAS Chapman Henty for three housing associations has identified serious problems with the way the costs of these services are met for residents of affordable housing in section 106 schemes, which could jeopardise the sustainability of future development.

Key findings

- The need to find ways of limiting service charge costs for affordable housing residents was a key driver in shaping service provision in the high density case study schemes examined for the report, with implications for scheme design and layout. In three of the four case studies, affordable housing residents receive lower levels of service than residents of market housing, and a degree of tenure separation is the norm. Current funding arrangements may encourage unsustainable approaches to designing services out and a greater degree of tenure separation than is desirable.
- Even where some services are "designed out" for residents of affordable housing, service charges could still make up as much 20%-25% of the gross rent payable by social housing tenants in new high density schemes.
- In the London case study schemes, gross rents (including service charges) account for over 30% of net income where household earnings are at or below lowest decile earnings levels (around £295 per week in the London Boroughs examined). Gross rents at this level increase the likelihood of benefit dependency, creating a poverty trap for those in low paid work.
- The flat rate housing allowance proposed as part of the reform of Housing Benefit would exacerbate affordability problems if linked to target rents because these do not include service charges. Where tenants have a choice about whether or not to accept housing on a high density estate, they may opt for cheaper alternatives. This has implications for the socio-economic profile of high density estates.
- Unless sources of finance can be identified to supplement local authority imposed service charge caps, developers may resort to unsustainable measures such as differential charging between market housing and affordable housing, an approach potentially open to legal challenge. There is also less scope to integrate tenures, as housing providers are encouraged to separate out the servicing arrangements for market and affordable housing to keep costs down.
- Case study evidence shows residential leaseholders are bearing the costs of maintaining the public realm, including public parks and riverfront. This adds to the burden of costs faced by residents of affordable housing.





Conclusions

Investing to reduce service charges for tenants of social rented housing is critical to the sustainability of new high density mixed tenure communities. Government intervention is urgently needed. High density housing has a cost and decisions are needed on how these costs should best be met.

The report examines a range of options for subsidising service charge costs. These include:

- Leaseholders of market housing pay a higher proportion of charge than affordable housing residents – referred to as differential charging. This is potentially open to legal challenge, as well as divisive for the community, and is therefore not recommended as a way forward.
- Ground rents payable by all residents (including the RSL on behalf of the social rented tenants) are collected by a charitable trust and used to subsidise certain services for social rented tenants. This could have potential benefits. While it may be seen as a cost to developers (who typically sell the value of future ground rent income), it has the advantage of creating a freeholder dedicated to the sustainable management of the site.
- Developers subsidise service costs for social rented tenants through the planning gain system. This is recommended as an option for further examination.
- RSLs contribute from within their margins, or by offsetting subsidy against identified savings/efficiencies. While there may be some scope for RSL savings to offset service charge costs for tenants, their capacity to contribute more generally from within their margins will become increasingly limited as the amount of high density development grows.
- Providing higher levels of social housing grant, above subsidy levels typically required to support planning gain, to reflect the costs of essential high density amenities. This is recommended as an option for further consideration.

- Local authority subsidy to limit charges (using powers to provide financial assistance), or through adoption of public realm. This is recommended as an area for further examination.

Assuming new money cannot be found, any solution is likely to use existing planning contributions or public funds. This would have an impact on overall affordable housing outputs, unless the Government takes the opportunity presented by the Barker Review and incentivises local authorities to use planning contributions for affordable housing and direct impact mitigation.

Recommendations

- The way forward lies in a new approach to assessing the costs and associated subsidy requirements of high density provision. The affordability of social rented housing should not be judged solely with reference to target rents; whole housing costs, including service charges, must be considered. For social rented housing tenants, service costs must be considered as part of overall scheme costs and not as a separate, self-financing revenue cost.
- The Office of the Deputy Prime Minister should take the lead in determining the extent service charges should be limited and subsidised for social rented housing, working in partnership with other key agencies including the Housing Corporation and English Partnerships. This work is central to the sustainable communities agenda and to delivering regional affordability targets.
- The Department for Work and Pensions and ODPM should specifically address the issues raised by the study relating to the reform of Housing Benefit. If provision for service charges is not incorporated within the flat rate housing allowance being considered for social renters, the viability of high density affordable housing will be threatened.



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- ODPM should work with the Housing Corporation to evaluate the feasibility and costs of establishing a target or guideline for service charge levels, and, linked to this, should encourage local authorities to ensure planning contributions are used effectively to support the whole costs of affordable housing provision, taking account of the costs of servicing high density communities. This evaluation should address the impact of local authority approaches towards use of planning contributions to provide public realm, and the service charge implications of diverse approaches to the adoption of public realm. The scope for allowing housing providers to use social housing grant to offset the costs of services should also be addressed.
- The study provides a qualitative look at the service charge issue, based on the experiences of four case study schemes. The government needs to take the lead in carrying the study forward, undertaking additional research to quantify the scale of the problem nationally and to examine residents' aspirations in relation to the costs and benefits of high density housing.
- More research is needed to examine the range of circumstances in which it is cost effective or otherwise advantageous to deliver affordable housing within high density, mixed tenure schemes at the upper end of the market in high cost locations. Further consideration is needed of the value for money implications of keeping social rented housing affordable in the context of "luxury" development.
- Better quality information is needed about service costs and charges in high density schemes to assist negotiations between RSLs, developers and local planning authorities. This would provide a clearer understanding of what are reasonable costs in the high density context. This will also underpin any move towards subsidising service charge costs.
- Better use of the planning system could be made, and ODPM should provide guidance to local planning authorities to help achieve this. Local planning authorities should be aware that the imposition of service charge limits, without consideration of the way in which the difference between costs and charges will be financed, may encourage tenure segregation or unsustainable approaches to apportioning charges between market and affordable housing residents. Authorities should ensure development proposals are underpinned by sustainable arrangements for delivering affordable charges.
- While costs faced by residents of affordable housing may be reduced through sensitive approaches to design, it must be recognised that even where services tailored to the needs of the private sector market are taken out of the equation, charges in very high density schemes are likely to remain above affordable levels. Planning authorities need to work with developers and RSLs to examine a wider range of mechanisms to control service charge levels, drawing on the recommendations in the main study report.
- Management issues were not central to the study, but the case study visits suggest this is an area requiring further attention. Key issues identified include the need to ensure management practices are consistent for residents of all tenures, and tensions around the content and enforcement of tenancy conditions. Mixed tenure high density development presents new challenges for private sector managing agents, developers and RSLs. As the scale of mixed tenure development grows, it is essential housing providers in the private and social sector develop their capacity to deliver new joint management solutions tailored to the demands of high density living.

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About the study

The context for the study is a growing awareness of the problems posed by high service costs and service charges in high density housing schemes delivered under section 106 of the Town and Country Planning Act 1990. The study was commissioned to examine the way services are funded for residents of social rented and intermediate housing in mixed tenure schemes. It also looks at the affordability of charges for low income groups. The study also examines whether and how planning authorities seek to influence the affordability of service charges, and to identify whether new approaches might be beneficial.

The research examined four high density case study schemes; three in London and one in Bristol. Drawing on the findings of fieldwork visits, the study develops a range of options for funding services in high density schemes and recommends a number of approaches for further evaluation.

Further details

The study was carried out by HACAS Chapman Hendy for Moat Housing Group, London & Quadrant Housing Trust and Ujima Housing Association. Legal advice was provided by Devonshires. Funding was provided by the three RSLs, with additional support from Meridian Delta Limited, the London Housing Federation and the Housing Corporation.

Copies of the full report are available from Moat Housing Group at a cost of £20.

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