

REPORT TO COUNCIL

REPORT OF: Economic Development Portfolio Holder

REPORT NO: PLA 804

DATE: 21st January 2010

TITLE:	Core Strategy Development Plan Document – Amendment to Affordable Housing Policy (H3)	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	Key Decision	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Cllr Frances Cartwright Economic Development Portfolio Holder	
CONTACT OFFICER:	Karen Sinclair, Planning Policy Service Manager 01476 406438 k.sinclair@southkesteven.gov.uk	
INITIAL IMPACT ASSESSMENT:	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required: No
Equality and Diversity		
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Local Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS:	Cabinet Report PLA723 dated 6 th October 2008 Non Key Decision PLA795 dated 9 th November 2009 Submission Core Strategy DPD January 2009 Letter from Programme Officer, 12 th October 2009 Notes of Core Strategy Examination Pre Hearing Meeting 22 nd October 2009 Affordable Housing Viability Assessment Report, Levvel, December 2009 Cabinet Report PLA803 dated 4 th January 2010	

1. RECOMMENDATION

That the amendments to Policy H3 set out in Appendix B be agreed and, following consultation, be submitted to the Core Strategy Examination.

2. PURPOSE OF THE REPORT

- 2.1 To approve a proposed amendment to Policy H3 of the Submission Core Strategy.
- 2.2 Policy H3 of the Submission Core Strategy DPD sets out the Council's approach to the provision of affordable housing. The adoption of an affordable housing policy in the Core Strategy would support the Quality Living Priority Theme.

- 2.3 The Cabinet considered a report on this matter on the 4th January 2010 when the recommendation to approve the amendments to Policy H3 were approved.

3. DETAILS OF REPORT

- 3.1 The Core Strategy Development Plan Document (DPD) was submitted to the Secretary of State on the 21st August 2009 for examination. The hearing sessions of the examination process are timetabled to take place in January 2010 over seven sitting days, although the hearing session on Housing Needs will not be held until the 17th March.
- 3.2 Following submission, the Inspector appointed to examine the Submission Core Strategy DPD raised in a letter to the Council dated the 12th October 2009, her concerns that *'a viability assessment of the targets and thresholds in Policy H3 does not appear to have been provided to inform the examination into the soundness of this aspect of the Core Strategy.'*
- 3.3 In response to this, it was considered essential a viability assessment of affordable housing provision across the District was commissioned in order to support the inclusion of a robust and deliverable policy in the Core Strategy and ensure that the Inspector was in a position to find the Core Strategy 'sound' on this matter.
- 3.4 Following a procurement process, Levvel were appointed to undertake the assessment to establish whether the thresholds and proportions of affordable housing contained in Policy H3 of the Submission Core Strategy were economically viable and, if this was not the case, to establish the minimum viable and deliverable thresholds and proportions.
- 3.5 The final report has been received and concludes that the proportion of 40% affordable housing set out in Policy H3 is not viable in all of the four towns or Local Service Centres (LSCs) and/or for the whole of the Core Strategy plan period. However, on the basis of the work undertaken by Levvel a figure of up to 35% could be justified. It needs to be recognised that this remains a challenging target and may not be deliverable in all cases. However, Inspector's have, in recent Core Strategy examinations, been prepared to include in Core Strategy's such challenging targets where they are robustly evidenced.
- 3.6 The threshold of 15 units for on site provision is considered appropriate but not the proposed 2 unit threshold which would have applied in the rural parts of the District. The assessment does, however, indicate that a commuted sum in lieu of on site provision would be viable for sites of between 5 and 14 units in all of the four towns and LSCs, although the level of contribution that could be sought on such sites varies across the District.
- 3.7 The executive summary provides more detail on the above and an extract from it is attached as Appendix A to the report.
- 3.8 In light of the assessment findings it is proposed to amend the wording of Policy H3, as set out in Appendix B. The proposed Affordable Housing Supplementary Planning Document (SPD) would provide more detail on viability

across the four towns and Local Service Centres, as set out in the Affordable Housing Viability Assessment Report. As SPDs can be more easily updated this would provide flexibility around changes in viability over the period of the Core Strategy.

- 3.9 The Inspector has advised that substantive changes to the Core Strategy would require both a Sustainability Appraisal and public consultation if she were to be able to consider them as potential changes to the Submission Core Strategy, however, as there is no legislative provision for consultation on proposed changes at this stage the nature of that consultation would be at the discretion of the local authority. It is considered that the proposed amendments to Policy H3 do amount to a substantive change and consultation will, therefore, be necessary. It is, therefore, proposed to consult with all those who made representations to Policy H3 of the Submission Core Strategy when it was published in January 2009 and any other relevant stakeholder e.g. developers.

4. OTHER OPTIONS CONSIDERED

- 4.1 Do not amend Policy H3. Although ultimately it will be for the Inspector to determine whether the Council's proposed amendment to Policy H3 is appropriate, proposing a change to the Policy ensures the Inspector is aware of the Council's formal view on this matter.

5. RESOURCE IMPLICATIONS

- 5.1 There will be some costs associated with consultation on the proposed amendment to Policy H3 but these will be minimal as the majority of consultations will be undertaken electronically.

6. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA QUALITY)

- 6.1 None identified.

7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT

- 7.1 None. The Core Strategy, and the policies within it, was the subject of an equality impact assessment. This concluded that they not have any adverse differential impacts on any of the identified equality groups and, as a consequence, a full impact assessment was not required. The overall tenor of the Policy is not altered by the proposed amendments and, therefore, the conclusions of the impact assessment are unaltered.

8. CRIME AND DISORDER IMPLICATIONS

- 8.1 None arising from this report.

9. COMMENTS OF SECTION 151 OFFICER

- 9.1 I have no specific financial comments to make in respect of this report. All costs associated with the development of the Core strategy will be adequately resourced as part of the service budget planning process.

10. COMMENTS OF MONITORING OFFICER

- 10.1 The submission core strategy was approved by Cabinet at its meeting on the 6th October 2008 and by full Council as a policy development document at its meeting on the 30th October 2008. The original submission included a policy H3 making provision for affordable housing whereby a target of 40% of the total capacity of the scheme should be affordable. The Inspector requested a viability assessment. This was carried out and, in the current economic climate, recommended the required changes to the policy H3.

Cabinet considered the proposed changes to the policy H3 at its meeting on the 4th January 2010 and make this recommendation to Council as part of its policy development framework. The Council alone can approve policy framework in accordance with article 4 of the constitution.

11. APPENDICES:

Appendix A Affordable Housing Viability Assessment Report Executive Summary

Appendix B Proposed amendment to Policy H3

APPENDIX A

Affordable Housing Viability Assessment Report – Executive Summary (extract)

Executive Summary

Key Findings

Comprehensive analysis of the results of all notional schemes assessed can be found in section 5 of the main report.

Sustainable Urban Extensions

Two notional Sustainable Urban Extension (SUE) schemes have been assessed in two value areas. We have assumed appropriate phasing for each scheme.

In respect of the 4000 unit notional SUE in Grantham, the requirement for infrastructure contributions in excess of £10,000 per unit reduces the overall viability of development (infrastructure contributions of £10,000, £14,000 and £23,000 were assessed), and the greater the contribution per unit, the more adverse the viability position.

Furthermore, should middle market conditions only be achieved, it is likely that public subsidy would be required to achieve circa 20% affordable housing assuming infrastructure requirements are not in excess of those tested. Should upside market conditions prevail, the viability position is improved and affordable housing percentages in excess of this are likely to be achievable.

A 1500 unit notional SUE site was assessed in Grantham and Stamford, with reduced levels of infrastructure requirements to the 4000 unit SUE. In respect of Stamford, up to 35% affordable housing was likely to be achievable without grant assuming the market achieved middle conditions. In the lower value area of Grantham, achieving a viable position assuming an affordable housing contribution at this level was more challenging, and delivery of up to 30% affordable housing in the early years would likely require grant funding. Viability pressures do however ease in the later years of the Plan and, given the scale and phased nature of developments of this type, the Council may wish to negotiate affordable housing on a phased basis to take advantage of improvements to the viability position which may occur over time.

General development sites in excess of 15 units

A variety of notional development sites were assessed. The ability to deliver affordable housing varies dependent upon a number of factors including value area, level of S106 contribution, existing or alternative land values of the site, scheme density and the availability of public subsidy.

In the value areas of Stamford and Local Service Centres it is less challenging to achieve higher levels of affordable housing and 30% to 40% affordable housing is likely to be achievable over the life of the Plan without recourse to public subsidy in most market conditions with the exception of the downside.

In Grantham, the viability position of higher density schemes (70 dph) is particularly challenging and even at 50dph, 10% affordable housing may only be achievable with grant even if the market achieves the middle scenario. In the later years of the Plan this position improves.

On lower density schemes in Grantham, the viability of schemes is improved and should the market achieve the upside, 21% to 30% affordable housing is likely to be deliverable without grant. Should middle market conditions prevail, public subsidy may be required (albeit in some cases at 'lower' levels) to achieve circa 21% affordable housing until around 2021 when the viability position improves and from then on higher levels (30%) of affordable housing are more likely to be viable.

In Bourne and the Deepings, despite the location, development economics reflect more the situation in Grantham than in Stamford and the Local Service Centres. That is that development viability is challenging to achieve higher levels of affordable housing albeit the viability pressures are relatively less acute than in Grantham. As with Grantham, density issues apply and lower density schemes can generally achieve greater levels of affordable housing than higher density schemes.

We do however recognise that within this value area there are likely to be particular 'pockets' where residential sales values are in excess of those assumed within this study and development coming forward in these locations are likely to be able to make a greater contribution to affordable housing provision than the levels assumed within section 5 of this study.

Sites below 15 dwellings

We considered the ability of schemes of 5-14 dwellings to deliver a commuted sum in lieu of on site affordable housing. Our analysis found that it was possible to deliver affordable housing below the current PPS3 threshold, but that the proportion of affordable housing that could be viable differed dependent upon the location of development, it's current or existing use and the gross development value of the scheme.

The higher value areas of Stamford and the Local Service Centres could generate a commuted sum equivalent to a maximum of 20% affordable housing on sites of between 5 and 14 dwellings.

The lower value areas of Grantham and Bourne and The Deepings could generate a commuted sum equivalent to a maximum of 10% affordable housing on sites of between 5 and 14 dwellings.

It should be considered that schemes of this size are much more sensitive to assumptions about overall values and tenure mixes, thus relatively small scale increases/decreases from the S106 assumptions used (and other cost and value assumptions) will have an impact upon sites of this size delivering affordable housing by commutation.

Finally, it should be noted that if the market does not perform to at least the middle scenario, it is unlikely schemes of this nature will be able to provide affordable housing contributions.

Commuted sum Methodology

Any methodology for assessing commuted sum payments should be based on the equivalence principle supported by Circular 05/05, PPS3 and Delivering Affordable Housing. The commuted sum should be equivalent to the contribution that would have been provided if the affordable housing had been provided on site and the scale of the developer subsidy should equate to the difference in residual value between a scheme unencumbered by affordable housing and a scheme with affordable housing, having regard to the established existing or alternative use value.

APPENDIX B

Suggested amendments to Policy H3 arising from the Affordable Housing Viability Study Report

Proposed deletions are shown as struck through text

Proposed additions are shown in **bold**

All developments comprising **5 or more** dwellings **should make** appropriate provision for affordable housing either:

- within the development site (**sites of 15 or more units**), or
- **As an off site contribution in lieu of on site provision (on sites of between 5-14 units)**

Where affordable housing **is to be** provided **on site**, a target of **up to 35% of the total capacity of a scheme should be** affordable. **The affordable element will be expected to include a mix of socially rented and intermediate housing appropriate to the current evidence of local need.**

All units should be of an appropriate size and type to meet the need identified by the current evidence of housing need for that ward. To achieve this, targets for affordable housing will be set on every allocated site.

In addition, the council will seek to identify suitable opportunities to deliver about 10 rural affordable housing units each year through the allocation of rural exception sites.

Rural exception sites should be in or adjacent to a village where there is a proven need for local affordable housing. Such houses should be available in perpetuity for local need. Sites should be suitable for development in all other respects and meet all other policy requirements for development.

Together with Registered Housing Providers (RHPs) and land owners the council aims to deliver additional affordable housing in the rural area to meet identified local need. To achieve this, the Council will investigate and identify specific sites or areas of search to allocate specifically for local affordable housing development (exception sites).

In negotiating the level of affordable housing on sites, the Council will have regard to the overall viability of individual development schemes. An Affordable Housing Supplementary Planning Document will set out in detail how these requirements will be calculated on a site by site basis.