

AGENDA ITEM 19

REPORT TO CABINET

16 April 2009

**REPORT OF CORPORATE
MANAGEMENT TEAM**

COUNCIL DECISION / CABINET DECISION / KEY DECISION

Regeneration and Transport – Lead Cabinet Member – Councillor Cooke

LOCAL DEVELOPMENT FRAMEWORK: ECONOMIC VIABILITY OF AFFORDABLE HOUSING REQUIREMENTS IN STOCKTON

1. Summary

Arc4 were commissioned to test the economic viability of the affordable housing requirements set out in Policy CS8 in the Core Strategy DPD Publication Draft. The report (Economic Viability Of Affordable Housing Requirements In Stockton: Report for Stockton Borough Council) is attached at appendix 1 (agenda Cabinet 16th April 2009). The executive summary is attached at appendix 2. The methodology used was the subject of a consultation exercise with the development industry and a report detailing this is attached at appendix 3 (agenda Cabinet 16th April 2009).

The report found that, in the still relatively favourable market conditions of late 2007, most sites would be viable with at a level of 15-20% affordable housing provision and with a tenure split of 80% social rent and 20% shared ownership.

The report recommended that the baseline policies for affordable housing provision should be established in the context of market conditions in late 2007. However, it also recommended that these policies would need to be applied with considerable flexibility whilst the market is in recession.

The report does not support a threshold for affordable housing provision that is below the national indicative figure of 15 dwellings. Therefore, it is recommended that the threshold for affordable housing provision in Policy CS8 be raised to 15 dwellings.

2. Recommendations

Members are recommended to:

1. Note the contents of this report.
2. Agree the recommendations of the Economic Viability Of Affordable Housing Requirements In Stockton Report for inclusion in the housing policies of the Core Strategy Development Plan Document
 - Maintain the affordable housing target of 15-20%
 - Raise the threshold for affordable housing provision to 15 dwellings

3. Reasons for the Recommendations/Decision(s)

The Tees Valley Strategic Housing Market Assessment has identified an annual affordable housing requirement for the Borough of 866 dwellings. Planning Policy Statement 3: Housing (PPS3) states that the target for affordable housing should also reflect an assessment of the likely economic viability of land for housing within the area. The PPS3 requirement has been reinforced by a Court of Appeal decision. The Court upheld an earlier legal decision, which found that the affordable housing requirement stated in the Blyth Valley Core Strategy was not supported by an economic viability study, and is not, therefore, valid.

The target of 15-20% in Policy CS8 of the Core Strategy Development Plan Document Publication Draft has been informed by an affordable housing viability exercise, which reviewed residential planning permissions that have been granted since 2004. Whilst considerable value is attached to this work, it is also recognised that additional value is to be gained from a more in-depth research exercise. Therefore, Arc4 have been commissioned to test the economic viability of affordable housing requirements in Stockton.

4. Members' Interests

Members (including co-opted Members with voting rights) should consider whether they have a personal interest in the item as defined in the Council's code of conduct (**paragraph 8**) and, if so, declare the existence and nature of that interest in accordance with paragraph 9 of the code.

Where a Member regards him/herself as having a personal interest in the item, he/she must then consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest (**paragraphs 10 and 11 of the code of conduct**).

A Member with a prejudicial interest in any matter must withdraw from the room where the meeting considering the business is being held -

- in a case where the Member is attending a meeting (including a meeting of a select committee) but only for the purpose of making representations, answering questions or giving evidence, provided the public are also allowed to attend the meeting for the same purpose whether under statutory right or otherwise, immediately after making representations, answering questions or giving evidence as the case may be;
- in any other case, whenever it becomes apparent that the business is being considered at the meeting;

and must not exercise executive functions in relation to the matter and not seek improperly to influence the decision about the matter (**paragraph 12 of the Code**).

Further to the above, it should be noted that any Member attending a meeting of Cabinet, Select Committee etc; whether or not they are a Member of the Cabinet or Select Committee concerned, must declare any personal interest which they have in the business being considered at the meeting (unless the interest arises solely from the Member's membership of, or position of control or management on any other body to which the Member was appointed or nominated by the Council, or on any other body exercising functions of a public nature, when the interest only needs to be declared if and when the Member speaks on the matter), and if their interest is prejudicial, they must also leave the meeting room, subject to and in accordance with the provisions referred to above.

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REQUIREMENTS IN STOCKTON**

SUMMARY

Arc4 were commissioned to test the economic viability of the affordable housing requirements set out in Policy CS8 in the Core Strategy DPD Publication Draft. The report (Economic Viability Of Affordable Housing Requirements In Stockton: Report for Stockton Borough Council) is attached at appendix 1 (agenda Cabinet 16th April 2009). The executive summary is attached at appendix 2. The methodology used was the subject of a consultation exercise with the development industry and a report detailing this is attached at appendix 3 (agenda Cabinet 16th April 2009).

The report found that, in the still relatively favourable market conditions of late 2007, most sites would be viable with at a level of 15-20% affordable housing provision and with a tenure split of 80% social rent and 20% shared ownership.

The report recommended that the baseline policies for affordable housing provision should be established in the context of market conditions in late 2007. However, it also recommended that these policies would need to be applied with considerable flexibility whilst the market is in recession.

The report does not support a threshold for affordable housing provision that is below the national indicative figure of 15 dwellings. Therefore, it is recommended that the threshold for affordable housing provision in Policy CS8 be raised to 15 dwellings.

RECOMMENDATIONS

Members are recommended to:

1. Note the contents of this report
2. Agree the recommendations of the Economic Viability Of Affordable Housing Requirements In Stockton Report for inclusion in the housing policies of the Core Strategy Development Plan Document Submission Draft;
 - Maintain the affordable housing target of 15-20%
 - Raise the threshold for affordable housing provision to 15 dwellings

DETAIL

1. The Tees Valley Strategic Housing Market Assessment (published in January 2009) shows an annual affordable housing requirement for the Borough of 866 dwellings. In relation to the average annual dwelling requirement for the Borough stated in the Regional Spatial

Strategy (557 dwellings) the annual requirement of 866 affordable dwellings equates to an affordable housing requirement of 155.5%.

2. In deciding the level at which to set regard also has to be had to advice in Planning Policy Statement 3: Housing (PPS3) which states that the target for affordable housing should also reflect an assessment of the likely economic viability of land for housing within the area. The PPS3 requirement has been reinforced by a Court of Appeal decision. The Court upheld an earlier legal decision, which found that the affordable housing requirement stated in the Blyth Valley Core Strategy was not supported by an economic viability study, and is not, therefore, valid.
3. Policy CS8 in the Core Strategy DPD Publication Draft states “Affordable housing provision within a range of 15-20%, depending on the needs of specific areas, whether a site is brownfield or greenfield, will be required on site of 10 dwellings or more”. It further sets out in relation to tenure mix that “The mix of affordable housing to be provided will be negotiated on a site-by-site basis but the starting point for negotiations will be 20% intermediate and 80% social rented tenures...”
4. The target of 15-20% has been informed by an affordable housing viability exercise, which reviewed residential planning permissions that have been granted since 2004. This exercise showed that 15% affordable housing provision has been agreed (through Section 106 Agreements) on some brownfield sites, including those with significant costs such as remediation. Whilst considerable value is attached to this work, it is also recognised that additional value is to be gained from a more in-depth research exercise. Therefore, Arc4 have been commissioned to test the economic viability of affordable housing requirements in Stockton.

Approach of the Study

5. The study was based on fourteen notional sites, referred to as “beacon” sites. The “beacon” sites represented different sectors of the market and were informed by actual opportunities and real-world intelligence but should be taken as examples of a typical site rather than reflecting any specific site. This approach is considered best suited to informing strategic policy, which the study is designed to do. It is not designed to be a viability appraisal of specific sites and does not attempt to take into account site-specific factors that may arise on some sites such as flood risk, contamination, noise intrusion and the need for major highways improvements. Where relevant these factors will be taken into account at the planning application stage through officer negotiation.
6. It was essential to ensure that the study will be demonstrably robust in the event of the current house price volatility continuing, that is to say that its findings will not be rapidly invalidated by a continuing decline in house prices. In order to address this the Report modelled three main scenarios for property market conditions using the beacon sites. These were:
 - House prices and land values in late 2007 when the market was still relatively favourable. This is the “base” scenario.
 - A position that reflects about a year later, late 2008 with average 15% fall in prices.
 - A position reflecting a 25% fall in prices based on widely predicted further falls in house price falls.
7. In addition the impact on economic viability of a number of specific scenarios was modelled. These included the following:
 - Affordable housing provision at 0, 5, 10, 15, 20 and 25% (the purpose of testing at 0% was to establish whether a site is economically developable at all, that is to say even with no affordable housing).

- The introduction of Level 4 of the Sustainable Code for Homes (scheduled to be introduced in 2013).
- Affordable housing tenure splits of 80/20 and 50/50 for social rented / shared ownership.

Consultation

8. The approach adopted for the study has been the subject of consultation with the development sector. A consultation paper was issued and three weeks given for responses. There was feedback from one major RSL, from the HBF as a composite response, and from one other developer. These responses resulted in detailed changes to the approach.

Findings of the Study

9. In the still relatively favourable market conditions of late 2007 most sites would be viable at a level of 15-20% affordable housing provision and with a tenure split of 80% social rent and 20% shared ownership. The viability of provision improves slightly if the tenure split is 50/50 and more sites become viable at 20% affordable housing provision.
10. The introduction of Level 4 of the Code for Sustainable Homes seems on present estimates to reduce the viability of development. A 10% affordable housing target may become the most that can reasonably be achieved on most sites.
11. The assessment of the effects of house price falls of 15% showed that 10% affordability provision would be achievable on most of the sites that remain economically developable and that 15% may be achievable on a minority of sites in higher value areas. This assessment assumes a 50% fall in land values and a 5% fall in building costs.
12. The assessment of the effects of house price falls of 25% showed that 5-10% affordability provision would be achievable on most of the sites that remain economically developable. This assessment assumes a 70% fall in land values and a 10% fall in building costs.

Arc4 Policy Advice

13. Arc4 provided policy advice based on the findings of the study. The following paragraphs are a summary of this advice:
14. As the market conditions will change during the currency of the Local Development Framework, the policies for affordable housing provision should be applicable to a broad range of house prices and land values.
15. The baseline policies for affordable housing provision should be established in the context of market conditions in late 2007. In those circumstances, a target of 15-20% affordable housing provision would be economically viable for most sites.
16. However, these policies will need to be applied with considerable flexibility whilst the forecast sale prices remain significantly below these late 2007 levels, otherwise housing development may be substantially discouraged.
17. It is not appropriate to set a planning policy for 2013 based on the forecast impact of the introduction of Level 4 of the Code for Sustainable Homes (a 10% affordable housing target may become the maximum that is reasonably achievable) as this forecast is subject to a number of significant uncertainties. This should be reviewed nearer the implementation date.
18. There is not a strong argument for reducing the threshold for affordable housing targets below the national indicative figure (in PPS3) of 15 dwellings. This opinion is based on an

assessment of the practical issues arising for smaller sites and the likely disincentive to new development this would cause.

Implications

19. The report identifies that the Credit Crunch has had a major effect on the viability of sites and their ability to provide affordable housing, with Arc4 commenting that the policy on affordable housing will need to be applied more flexibly to accommodate these current financial constraints.
20. Policy CS8 in the Core Strategy DPD Publication Draft indicates that a lower amount of affordable housing will only be accepted where a robust justification is provided, which demonstrates that provision at the standard usually required would make the site unviable.
21. Negotiations for affordable housing will begin at 15-20% as identified within Policy CS8. Where this is challenged by a developer an 'open book approach' will be used. This approach has been used in the past to determine if information provided by a developer regarding a housing site is robust and a suitable affordable housing requirement agreed. A working group with representatives from spatial planning, development services and housing strategy will be set up in order to establish how this policy can be implemented.
22. The viability of inner urban regeneration sites is likely to be under the greatest pressure; this underlines the issues that certain sites will require specific assessment to establish how far affordable housing can be provided
23. Whilst the current economic climate persists the amount of affordable housing secured through the planning process may reduce considerable. This will have a knock on effect on the meeting of indicators such as NI 155: provision of affordable homes.

FINANCIAL IMPLICATIONS

24. There would be negative financial implications in respect of either of the two legal scenarios detailed below scenarios (costs arising from delays to the LDF process and from meeting a High Court challenge).

LEGAL IMPLICATIONS

25. The legal implications are that if the affordable housing targets in Policy CS8 were not supported by robust evidence with regards to economic viability then there would be a risk of the Core Strategy DPD being found unsound in the Inspector's Report due to a lack of compliance with PPS3. Equally, there would be a risk of a legal challenge if an Inspector reached positive conclusions about the affordable housing targets but without the support of robust economic viability evidence (the Blyth Valley scenario).

RISK ASSESSMENT

26. This (subject matter of report) is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

SUSTAINABLE COMMUNITY STRATEGY IMPLICATIONS

Economic Regeneration and Transport

27. Policy CS8 promotes regeneration by supporting sustainable, mixed communities and the provision of affordable housing contributes to the attainment of this aim.

Safer Communities

28. Policy CS8 does not specifically promote the creation of safer communities. Safer communities are a key principle of the Core Strategy and this will be replicated within other emerging policy documents as part of the LDF.

Children and Young People

29. Policy CS8 does not specifically mention children and young people.

Healthier Communities and Adults

30. As an evidence base document for the LDF the report does not specifically promote the creation of healthier communities and adults. It is a key principle of the Core Strategy to create healthier communities and this will be replicated within other emerging policy documents as part of the LDF.

Liveability

31. As an evidence base document for the LDF the report does not specifically promote liveability. It is a key principle of the Core Strategy to improve liveability and this will be replicated within other merging policy documents as part of the LDF.

EQUALITIES IMPACT ASSESSMENT

32. This report is not subject to an Equality Impact Assessment because the Economic Viability Of Affordable Housing Requirements In Stockton Report is a technical background paper.

CONSULTATION INCLUDING WARD/COUNCILLORS

33. The report was taken to the Planning Committee of 8 April 2009.

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Background Papers

Planning Policy Statement No 3: Housing

Economic Viability Of Affordable Housing Requirements In Stockton: Report for Stockton Borough Council

Economic Viability Of Affordable Housing Requirements In Stockton: Executive Summary

Economic Viability Of Affordable Housing Requirements: Summary of Consultation feedback and comments

Tees Valley Strategic Housing Market Assessment

Ward(s) and Ward Councillors:

All ward councillors

Property

The report does not impact on the Capital Programme and Asset Management Plan.