

<b>Report of:</b>	<b>Head of Housing</b>
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<b>Key Decision:</b>	<b>No</b>
<b>Report Track:</b>	<b>Cabinet 17/1/13</b>

<p style="text-align: center;"><b>HOUSING POLICY DEVELOPMENT COMMITTEE</b></p>
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<p style="text-align: center;"><b>28 NOVEMBER 2012</b></p>
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<p style="text-align: center;"><b>AFFORDABLE HOUSING DELIVERY</b></p>
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<p><b>1 Purpose of Report</b></p>
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- 1.1 To outline the delivery mechanisms that currently secure the delivery of affordable housing.
- 1.2 To consider the findings of the Economic Viability Assessment of Future Development of Affordable Housing in Cannock Chase.

<p><b>2 Recommendations</b></p>
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- 2.1 That the Housing Policy Development Committee considers the Economic Viability Assessment and recommends to Cabinet that the future Supplementary Planning Document (SPD) for Affordable Housing should contain the following policies:
  - To seek 20% on site affordable housing on sites of 15 or more dwellings with a tenure split of 80% social rent and 20% intermediate tenure that meet the Homes and Community Agency Design and Quality Standards and Level 3 of the Code for Sustainable Homes. In exceptional circumstances i.e. a development of flats it may be more appropriate to accept a financial contribution.
  - To seek a financial contribution on sites of between 5 to 14 units (inclusive) as an alternative to on-site affordable housing provision based on the formula outlined in section 5.18.

<p><b>3 Key Issues and Reasons for Recommendation</b></p>
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- 3.1 Adams Integra were appointed in July 2012 to undertake a high level review of development viability across the District and produce locally derived housing targets that are economically viable.

- 3.2 The report identified seven key recommendations to inform future affordable housing policy that will be more widely consulted on to develop the SPD for Affordable Housing:
- On S106 sites the affordable housing target should be to seek 20% on sites of 15 or more dwellings.
  - It is considered appropriate to lower the affordable housing policy threshold and for sites of between 1 and 14 units (inclusive), a financial contribution should be sought and these monies used to fund affordable housing provision elsewhere in the District in partnership with Registered Providers. However, the report detail in Section 5 outlines that a more pragmatic approach would be to enforce this policy on sites of between 5 and 14 units (inclusive).
  - The starting point for negotiation on S106 sites will generally be an expectation of 80% social rent and 20% intermediate tenure.
  - Policy should be clearly worded so as to set out genuine targets with the approach acknowledging the role of viability and application of flexibility where required.
  - Where a developer considers a site has particular viability issues the developer should put forward a case which will then be subject to independent assessment (the cost of any assessment to be funded by the developer).
  - Adams Integra have assumed that the majority of schemes in the District should be able to absorb a Community Infrastructure Levy (CIL) rate of £40 per m2 and deliver 20% affordable housing.
- 3.3 Affordable housing is delivered in the District that isn't solely reliant on planning obligations via S106 agreements. Land is brought forward by Registered Providers or other public bodies that wish the site to deliver 100% affordable housing. The Council also discount land for affordable housing that is no longer serving a useful purpose i.e. former garage sites and land following the demolition of two former sheltered schemes.
- 3.4 Subject to Cabinet approval of a final Development Brief, the Council is also proposing to build up to 65 new Council houses for social rent. It is anticipated that 60 of these will form part of the redevelopment of the Moss Road Estate in Chadsmoor, Cannock.
- 3.5 The Homes and Communities Agency (HCA) administer the £4.5 billion Affordable Homes Programme. Registered Providers use their allocated funds to put social housing grant into schemes which has assisted affordable housing delivery in the District. The HCA's current position is that grant should not be used on S106 schemes as the S106 itself should be securing affordable housing. Grant can also only be used for affordable rent and intermediate tenure units, not social rent.
- 3.6 On 15 November 2012 Cabinet received a report on the Cannock Chase Local Plan Part 1. Members were asked to note the representations made during public consultation and to agree recommended changes together with the updating of evidence. This included the following paragraph relating to the updated evidence contained within the Economic Viability Assessment:

*'Affordable housing provision is identified as a priority recognising an annual requirement of 197 affordable houses. The ability to meet affordable housing need is curtailed by issues of viability. An affordable housing viability study commissioned by Cannock Chase Council in 2012 concludes that at the time of the study, provision of 20% affordable is viable on sites of 15 or more units and that for sites of less than 15 units, and in exceptional cases, some sites of 15 or more units, it is viable and more appropriate to obtain a financial contribution towards delivery on other sites.'*

- 3.7 Prior to the formulation of the SPD for Affordable Housing a further report outlining the approach to affordable housing delivery will be presented to Cabinet on 17 January 2013.

#### 4 Relationship to Corporate Priorities

- 4.1 This report supports the Council's Corporate Priorities as follows:
- (i) Place – improved living environment. The need for affordable housing continues to be a priority for the Council and the Economic Viability Assessment gives the Council the information it requires to develop affordable housing policies that are economically viable.

#### 5 Report Detail

- 5.1 Housing Policy Development Committee on the 13<sup>th</sup> August 2012 received a report on the findings of a Southern Staffordshire District Housing Needs Study and Strategic Housing Market Update (SHMA) 2012. The study was commissioned to set out the potential scale of future housing requirements in the District and provide a sound evidence base for the Local Plan and future policy decisions. Committee were also informed of the commissioning of the Economic Viability Assessment (EVA) and agreed to receive a further report on the findings of this study.
- 5.2 The SHMA identified an affordable housing need in the District of 197 units per annum, with a recommended tenure split of 80% social rent, 10% affordable rent and 10% intermediate tenure. The study suggested a size mix of 63% 2 bed, 24% 3 bed and 13% 4 beds. The EVA provides the Council with options and recommendations on how best to achieve this need and maximise affordable housing.
- 5.3 The Government's definition of affordable housing as set out in national planning policy includes:
- **Social Rented Housing** – Rented housing owned and managed by registered social landlords, for which guideline target rents are determined through the national rent regime.
  - **Affordable Rented Housing** – Rented housing let by registered providers of social housing to households who are eligible for social

rented housing. Affordable rents should not be higher than 80% market rent for a property of equivalent size and location in the District.

- **Intermediate Housing** – Houses at prices and rents above those of social rent, but below market price or rents. These can include shared ownership products, other low cost homes for sale and intermediate rent but do not include affordable rented housing.

5.4 The table below shows the affordable housing units that have been delivered in the District during the last 5 years and as a percentage of overall housing completions:

	2007/08	2008/09	2009/10	2010/11	2011/12
Affordable Housing Delivery	86	59	157	155	21
Affordable Housing Target	-	50	75	100	55
Total Housing Completions	356	254	209	265	112
% affordable achieved from total completions	24%	23%	75%	58%	19%

5.5 The table below shows the number of units that are currently predicted to be delivered up to 2015/16. It is difficult to give an accurate picture beyond 2012/13 as sites may come forward that we are currently unaware of, some sites may be delayed and deliver in later years and it's difficult to predict delivery on larger schemes that will have a number of phases and a long build period. These figures should therefore be treated as approximate numbers and it should also be noted that the Council will receive more nomination rights to units on the Rugeley ERZ site but as further phases haven't been agreed, this scheme hasn't been included in the figures beyond 2012/13. The assumptions have also been made based on our current policy threshold of 14% affordable housing on sites of 15 or more units.

2012/13	2013/14	2014/15	2015/16
116 * includes 10 nominations to the Rugeley ERZ site	51	174	76

5.6 The following affordable housing delivery mechanisms secure the delivery of affordable housing in the District:

- **Affordable Homes Programme** – The HCA administer the Affordable Homes Programme. Registered Providers use their allocated funds to put social housing grant into schemes which assists affordable housing delivery in the District, including delivery of the Elizabeth Road redevelopment scheme.
- **Council Housing** – Subject to Cabinet approval of a final Development Brief, the Council is proposing to build up to 65 new Council houses for

social rent. It is anticipated that 60 of these will form part of the redevelopment of the Moss Road Estate in Chadsmoor, Cannock.

- **Land Opportunities** – The Council have also discounted land to enable Registered Providers to develop affordable housing schemes including land following the demolition of two former sheltered schemes and former garage sites that are no longer serving a useful purpose. Land is also brought forward by Registered Providers or other public bodies that wish sites to deliver 100% affordable housing.
- **S106 agreements** – A S106 agreement ensures that developers contribute to the provision of affordable housing in the District. 14% affordable housing is currently requested on all sites of 15 or more units.

### ***Economic Viability Assessment of Future Development of Affordable Housing in Cannock Chase***

- 5.7 The objectives of the Economic Viability Assessment were to produce:
- A district wide affordable housing viability assessment for housing delivery over the lifetime of the Core Strategy/Local Plan.
  - A viability assessment which supports the affordable housing requirements that will be set out as policy in the emerging Core Strategy/Local Plan and other documents that will form part of the Local Plan.
  - An assessment of potential development scenarios of sites that reflect viability in the district overall, in terms of scope to deliver the affordable housing requirements.
  - An Economic Viability Assessment that takes account of different potential levels of Community Infrastructure Levy (CIL).
  - Consideration of specific factors that could impact significantly on the viability of schemes including residential values, Code for Sustainable Homes, Lifetime Homes etc.
- 5.8 In order to establish the wider viability position for all forms of development on which a Community Infrastructure Levy could potentially be charged, a separate piece of evidence is currently being produced jointly on behalf of Cannock Chase, Lichfield and Tamworth Councils by the District Valuer. This covers office, retail, leisure, industrial and warehouse development in addition to housing. In the event that the District Valuer conclusions differ from Adams Integra, further work will need to be produced to ensure a robust and consistent evidence base. The Council need to ensure that land values in the District can absorb both the Community Infrastructure Levy and an affordable housing contribution. A detailed report on these issues will be presented to Cabinet on the 17 January 2013.
- Delivery above the 15 unit affordable housing threshold***
- 5.9 The Council's current policy position is based on the 15 unit threshold which was regarded as the "National indicative minimum" as set out by the Government's previous statement on planning for housing (PPS3). This is now superseded by the National Planning Policy Framework which no longer contains a suggested threshold. 14% affordable housing is currently requested as per the findings of a previous Viability Study undertaken in 2010.

A target of 75% social rent and 25% intermediate tenure has been sought on all sites of 15 units and above.

- 5.10 The EVA used notional scheme information based on a range of types taken from the Strategic Housing Land Availability Assessment (SHLAA) and past completion records to test a range of scenarios. The scenarios were appraised to assess the viability of the approach to thresholds and proportions of affordable housing alongside other costs that may affect the viability of residential development (e.g. design standards, other planning obligation costs etc). Schemes were tested at 0%, 10%, 15%, 20% and 25% affordable housing and the results suggest that 20% affordable housing is an appropriate policy target for sites of 15 or more dwellings with a provision of 80% social rent, 20% intermediate tenure. All appraisals assumed compliance with Level 3 of the Code for Sustainable Homes and HCA Design and Quality Standards.
- 5.11 The current policy position is to request 14% affordable housing on sites of 15 or more units. Increasing this to 20% will obviously increase the affordable homes that will be delivered on development sites in the District.
- 5.12 The EVA emphasises that it is important that a flexible and negotiated approach to policy application is adopted to ensure the continued supply of residential development land. The aim is to provide clear and robust targets for guidance to developers and landowners in appraising and bringing forward sites. Policy should acknowledge the role of specific site viability and applications of flexibility where required. The presumption should always be for an on site contribution on sites of 15 or more units but there may be exceptions i.e. a development of flats where it is more appropriate to accept a financial contribution towards delivery on other sites.

***Delivery below the 15 unit affordable housing threshold***

- 5.13 The Council do not currently seek a contribution to affordable housing, either on-site or a financial payment on sites of 14 units or below.
- 5.14 Adams Integra state that scheme size is not a determinant of viability in itself and this is a consistent finding common to all their studies. There is no viability reason why smaller sites shouldn't make an appropriate, carefully judged level of contribution towards meeting affordable housing needs.
- 5.15 The EVA argues that sites below 15 units should be making a contribution to affordable housing through financial payments being made (in lieu of on-site affordable housing requirements) from schemes within the size range of 1 to 14 units. The thinking behind this is the need to optimise overall contributions towards meeting affordable housing needs by seeking some level of provision from the numerous smaller sites which typically make up a significant proportion of our housing delivery.
- 5.16 Whilst the Council could seek a financial contribution on all sites in the District, this could potentially constrain development on small problematic sites and stop smaller sites coming forward. A more pragmatic approach would be to request a financial contribution on sites of 5 to 14 units (inclusive). The higher

threshold will also ensure that all developments being built for commercial gain will make a contribution to affordable housing in the District.

5.17 The methodology advised to calculate the financial contribution is based on residual land values. The land value as a percentage of gross development value is used as it represents a typical land value in the Cannock Chase area. Site preparation and servicing costs are also included in the formula as shown in the table below:

Number of Units		Value Point 1	Value Point 2	Value Point 3	Value Point 4	Value Point 5
5	<b>Residual Land Value</b>	£36,539	£90,102	£161,519	£202,326	£253,659
	<b>GDV</b>	£685,000	£760,000	£860,000	£920,000	£1,000,000
	<b>% to GDV (RLV÷GDV)</b>	5.3%	11.9%	<b>18.8%</b>	22.0%	25.4%
10	<b>Residual Land Value</b>	£77,911	£176,888	£304,760	£382,279	£481,743
	<b>GDV</b>	£1,360,000	£1,505,000	£1,700,000	£1,815,000	£1,970,000
	<b>% to GDV (RLV÷GDV)</b>	5.7%	11.8%	<b>17.9%</b>	21.1%	24.5%
15	<b>Residual Land Value</b>	£107,134	£250,574	£447,224	£558,067	£713,105
	<b>GDV</b>	£2,045,000	£2,265,000	£2,560,000	£2,735,000	£2,970,000
	<b>% to GDV (RLV÷GDV)</b>	5.2%	11.1%	<b>17.5%</b>	20.4%	24.0%

\* **Residual Land Value (RLV)** - This is the amount left for land purchase once all development, finance and land costs have been deducted from the gross development value.

\*\* **Gross Development Value (GDV)** - The total value a developer can expect to receive from the sale of all units within a development, before all costs are subtracted.

Adams Integra suggest that 18% is a fair average residual land figure for sites under 15 units. The RLV as a percentage of GDV is shown as 18.8% at value point 3 (mid range property sales value in the District) for the 5 unit scheme and 17.9% for a 10 unit scheme.

5.18 The financial contribution would be calculated via the following steps:

- a) Gross development value of each housetype.
- b) Multiply by the Residual Land Value percentage – 18%
- c) Add 15% of the result of (a x b) to reflect (as an estimate) site acquisition and preparation/servicing costs.
- d) Apply to the relevant dwelling numbers and types and to the equivalent affordable housing policy proportion – 20%.

5.19 The following is a worked example of the calculation:

Example – Scheme of 5 x 3 bed houses

1.	Open Market Value of 3 bed house	£150,000
2.	Multiply by the Residual Land Value percentage (18%)	£27,000
3.	Add 15% on-costs	£4,050
	Sub-total	£31,050
4.	Apply affordable housing equivalent proportion at 20%	£6,210
5.	Multiply by number of units (5)	
6.	<b>Financial contribution payable</b>	<b>£31,050</b>

5.20 The funds received would be ring fenced for affordable housing and used to provide funding assistance to other schemes and address priority needs.

5.21 The recommendation to collect financial contributions from sites between 5 to 14 units would be a significant change in planning policy and needs to be consulted on widely as part of the consultation exercise that will be undertaken when a draft SPD for Affordable Housing has been produced.

<b>6 Implications</b>
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**6.1 Financial**

The Council does not currently seek developer contributions from housing developments of less than 15. The recommendation is that a financial contribution for developments of 5-14 units, carefully set as to not undermine viability of the development, is sought towards affordable housing provision. In some circumstances it is recommended that a contribution would be demanded for building of flats in developments over 15 units.

A developer will have the right to challenge the viability of the level of financial contribution demanded and have the right to appoint an independent valuer at their own cost to put their views of non viability for Council consideration.

The methodology advised to calculate the financial contribution is based on residual land values and officers should ensure that its calculation is transparent, understandable, covers all scenarios and will stand up to challenge.

**6.2 Legal**

The National Planning Policy Framework issued by the Government in March 2012 provides a set of national planning objectives which include a requirement for local planning authorities to deliver an appropriate mix of housing including affordable housing suited to the needs of people unable to afford market housing . It requires local authorities to prepare Local Plans and and if necessary Supplementary Planning Documents to meet the objectives

based on a robust evidence base. The Economic Viability Assessment will form part of that base.

**6.3 Human Resources**

There are no human resource implications arising from this report.

**6.4 Section 17 (Crime Prevention)**

There are no Section 17 (Crime Prevention) implications arising from this report.

**6.5 Human Rights Act**

There are no human rights act implications arising from this report.

**6.6 Data Protection**

There are no identified data protection implications arising from this report.

**6.7 Risk Management**

The recommendations in the EVA maximise affordable housing delivery in the District. It should be recognised that if some or all of these recommendations are not implemented the number of affordable homes delivered will be lower than could otherwise have been achieved.

**6.8 Equality & Diversity**

Any equality and diversity implications will be assessed as part of the equalities impact assessment for the Supplementary Planning Document for Affordable Housing.

**6.9 Best Value**

Increasing the supply of affordable housing that can be delivered on sites in the District will assist more households to access homes suited to their needs and therefore create sustainable, mixed communities.

**7 Appendices to the Report**

**Previous Consideration**

**Background Papers**

Economic Viability Assessment of Future Development in Cannock Chase – October 2012