



**Independent Examination into the Soundness of the  
Core Strategy Development Plan Document**

**Topic Paper 9  
CS10 Affordable Housing**

**Statement by Eden District Council**

## Policy CS10 Affordable Housing

**Issue: Whether policy CS10 and its supporting text at paragraphs 6.14 - 6.21 are justified by robust, up-to-date evidence, effective in terms of appropriateness and delivery, and are consistent with national policy set out at paragraph 29 of PPS3.**

### **1. Clarification is required of the evidence used to justify the policy and its supporting text at submission.**

At the *submission* stage of the Core Strategy the evidence was principally the Survey of Housing Need (ED39) conducted on a ward basis (2006), the draft Strategic Housing Market Assessment's (FD1-FD4A), and evidence of local incomes and experience of negotiating elements of affordable housing in development schemes.

Additionally reference was made to previous options considered and appraised and consulted on at the preferred options stage, and subject to sustainability appraisal

### **2. Is this evidence sufficiently robust?**

At the time of producing the submission version of the Core Strategy, that is leading up to the submission of the documentation to the Inspectorate in April 2009, this evidence base was considered by the Council's officers to justify the thresholds and targets set out in the *submitted* policy CS10. However, in the light of the Blyth Valley Court of Appeal decision, the legal challenge to the Wakefield Core Strategy, comparable cases elsewhere nationally *and* evidently changed circumstances as a result of the financial crisis and resultant recession, the evidence at submission may have been judged to have been insufficient, as it did not *at that time* include a District wide Economic Viability Assessment (EVA). This deficiency has since been addressed (See 4 below.)

### **3. Do policy CS10 and its supporting text satisfy the requirements of PPS3 paragraph 29? Clarification is required in respect of each of the requirements of the PPS.**

Each of the requirements of paragraph 29 of Planning Policy Statement 3 Housing, are referred to separately in the following paragraphs.

**Target for Affordable Housing:** Paragraphs 6.4 to 6.8 of the Core Strategy address the issue of targets for housing as a whole, including Figure 1. The Housing Trajectory. The Core Strategy uses the overall target in the RSS i.e 239 units per annum, hitherto the Council had been working to the JSP target of 170 dwellings. Paragraphs 6.14 to 6.21 of the Core Strategy are the supporting text for Affordable Housing. At paragraph 6.16 there is a reference to an annual affordable housing shortfall of approximately 200 units i.e the amount of affordable housing that would be required *to meet all identified need*. The target set in the Council's

corporate plan for annual provision of affordable housing is 50 units. Such a figure could easily be incorporated in the supporting text to CS 10. This would accord not only with the Council's corporate plan but would also broadly accord with the findings of the EVA, in that a figure of 50 units is approximately 30% of the historical JSP target. Further reference could be made to raising the target when economic circumstances permit to align fully with the RSS target.

**Summary:** The requirement is not fully met, in that there is no numerical target for affordable housing in CS10 or supporting text, but this can be readily remedied.

**Separate Targets for Social Rented and Intermediate Affordable Housing:** Currently there are no separate targets for social rented housing and intermediate affordable housing (shared equity/stair casing etc) in policy CS 10 or in supporting text. This level of detail *had* been thought more appropriate to be delegated to the Housing DPD. However, the survey of housing need has concluded in broad terms that the split is 70 percent need for social rented to 30 per cent intermediate ( shared equity purchase and similar ). Furthermore the EVA similarly assumes this same split for most of the modelling undertaken and in the conclusions of the study. Whilst local circumstances would inevitably determine the exact split on particular developments, both in terms of meeting local need and in terms of the viability of particular schemes – a 70/30 split could be incorporated in supporting text.

**Summary:** The requirement is not currently met in the CS, but this can be easily remedied and fully evidenced.

**The Size and Type of Affordable Housing:** As with all of the requirements of the paragraph 29 of PPS 3, local authorities are *not necessarily* enjoined to fully satisfy these requirements in *Core Strategies*, rather “in Local Development Documents.” Indeed this requirement makes particular reference to “the findings of the Strategic Housing Market Assessment...” It is in our judgement appropriate, not to say *necessary*, to delegate this level of detail to the Housing DPD, on which work is advancing behind the Core Strategy.

**Summary:** This requirement will be met in full in the Housing DPD.

**The range of Circumstances in which Affordable Housing will be Required:** The PPS refers to “thresholds”, and specifically the ability of local planning authorities to set lower thresholds than the national indicative minimum of 15 dwellings. Additionally the PPS refers to different proportions of affordable The PPS further refers to the economic viability thresholds to support / evidence both the thresholds and proportions. The PPS further refers to supporting low cost market housing in formulating housing planning policies. Three of the above requirements are met in the revised CS10 with the threshold of four or more units and the minimum proportion of thirty per cent affordable units being fully supported by the evidence in the EVA. As for the policy stance on low cost market housing, this had been intended to be addressed in the Housing DPD.

**Summary:** The requirements are, in the main, met in the Core Strategy and EVA.

**The Approach to seeking Developer Contributions:** The revised policy CS10 contains a clear commitment to requiring developers of between one and three units to provide a financial contribution towards the provision of affordable housing in areas of highest need. Furthermore policy CS6 addresses the issue of Developer Contributions generically, placing affordable housing as first in a list of nine examples of areas where developer contributions may be directed. Clearly however, there remains more detailed work to be undertaken, for example as to the means of calculating contributions and the administration and direction of a fund. It is considered that it is sensible, when approaching this highly contentious issue, not least in political terms, to first establish the *principle* of developer contributions at the Core Strategy stage of the LDF, before moving forward in detail in the Housing DPD.

**Summary:** In terms of the Core Strategy content, it is considered that the requirement is now met.

#### **4. What additional evidence has been obtained to justify policy CS10 and its supporting text post-submission?**

The Economic Viability Appraisal (EVA) produced on behalf of the Council by DTZ (published October 2009 - FD28) and the final publication of the SHMA's (FD30).

#### **5. Clarification is required that their methodologies follow recognised best practise.**

In relation to the SHMA's, the methodology follows government guidelines contained in SHMA Guidance version 2 and previous guidance available during the 2006 Guidance.

In relation to the EVA there is no such recognised best practice guidance currently available. One of the main reasons why EDC commissioned DTZ to undertake the EVA was that they have recently worked very closely with the Homes and Communities Agency analysing the likely consequences of future housing market scenarios for the delivery of affordable housing across the country as well as assessing the viability of affordable housing delivery in the North West for 4NW. As such, DTZ are widely recognised as being leading consultants in this field.

The EVA methodology uses standard techniques of development appraisal which are commonplace in the development industry. This entails the use of Discounted Cash Flow (DCF) analysis to calculate the profitability for developments with particular characteristics. The EVA calculates the profitability under a range of different development scenarios in terms of the location, sales value, density of hypothetical developments designed to be broadly representative of the type of sites that have come forward for development in the study areas. A scheme is deemed to be viable if it achieves defined profit targets.

DTZ opted for a 3 stage process in assessing the financial impact of different affordable housing options.

**Stage 1** involved market research to determine existing land values, unit sizes, unit mix and capital values of both private and affordable units. The selection of development scenarios was examined and was also informed by a policy review undertaken in its initial stage.

**Stage 2** DTZ agreed the assumptions regarding key variables with EDC and a range of stakeholders – which resulted in some assumptions changing from the original findings in Stage 1.

**Stage 3** involved financial modelling to test the viability of development on hypothetical sites, and how this would be affected by the application of different requirements for affordable housing and local occupancy in different market scenarios.

The methodology is therefore tailored to the specific requirements and circumstances of Eden District. It takes account of a range of circumstances existing across the study areas but does not seek to capture analysis of the specific circumstances of individual housing sites in the study areas. To do this would have been impossible in practical terms and inappropriate to a strategic study which is designed to inform policy development.

## **6. To what extent are the methodologies of the additional evidence contained in the SHMA and the Economic Viability Assessment agreed by stakeholders? Details and clarification are required.**

The Cumbria Housing Group has sought stakeholder comments both at ongoing Research and Information Group meetings and through consultation exercises. Initially the group tried to get housing developer representation for some time principally through the Home Builders Federation; however this has been problematic as for the last 18 months there has been no HBF representation in the North West due to the closure of offices, despite contact having been made at the time. However we have informed representatives through a group called the Enterprise and Housing Group, a sub-group of the CSP where there is representation from private developers (Russell Armer), where drafting of the SHMAs has been raised as a topic at several meetings. The R&I Group decided that the best way forward would be to seek developer representation at the Stakeholder Consultation stage. The R&I Group is comprised of not only district, county and national park officers but includes representation from CRHT, Cumbria Vision, and RSLs. We found limited interest from RSLs in attending meetings, and felt that input could be obtained through the consultation process.

The Consultation exercise for the 2009 SHMAs took place between 05/05/09 – 15/06/09 for local parish councils and 31/07/09 – 11/09/09 for wider groups (see Methodology for full list of consultees). 30 general responses were received and 11 responses that relate directly to Eden's SHMAs. Comments mainly suggested formatting and clarification within the documents and suggestions for additional observations. One comment

expressed concern over the methodology used to define boundaries. Queries relating to other methodological points were from Mr. Tatton of Pioneer Property Services in his letter dated 10/09/09. These have been addressed on the Consultation Response form. In addition a meeting was held on 30/09/09 where other queries/concerns were raised and we currently await further questions from Mr Tatton before a full response can be made (further written clarified comments from Mr Tatton were requested by 30/11/09).

In relation to the EVA, consultation with stakeholders has been a core element of the commission and DTZ's methodology was built around the creation of an initial stakeholder workshop and a range of feedback meetings, telephone interviews and e-mails with stakeholders in order to fully test and explore the methodology and assumptions made within the EVA and reach as much agreement as possible before the viability modelling began. The stakeholder workshop on 25<sup>th</sup> August comprised housebuilders, agents, planning consultants and housing associations as well as representation from the EDC and DTZ. Section 4 of the EVA fully outlines the stakeholder consultation process and Appendix 5 of the EVA provides a list of invitees and attendees to the event.

The feedback from the stakeholder workshop and the subsequent stakeholder meetings, telephone interviews and correspondence showed that there was in general a broad agreement with the approach and methodology undertaken by DTZ, however, there were certain assumptions which were challenged by the stakeholders; namely some of the proposed densities; land values; affordable housing values; interest rates; profit margins; build costs; and the proposed housing mix. As a result of the stakeholder feedback received DTZ amended the assumptions relating to land values, interest rates, build costs; affordable housing values and housing mix. For further information please refer to Appendix 1 of the EVA which sets out the initial baseline assumptions for the EVA, a summary of the stakeholder comments together with the final assumptions indicating what was amended following stakeholder feedback.

## **7. What are the main findings of the additional evidence contained in the SHMA and EVA? How does this differ from the conclusions of the submission evidence?**

Alterations to the SHMA documents following consultation included formatting and some additional comments to clarify the purpose of the documents. The main alteration regards an amendment to the net affordable housing requirement following re-examination of the supply side of affordable units. This has reduced the annual requirement from 264 to 227. This has not altered the gross split of affordable and market housing (40.5%/59.9%).

The main findings of the EVA can be found within sections 5 and 6 of the EVA. In summary the main findings are as follows:

- When testing EDC's submission policy position which required 100% local occupancy and 50% affordable housing on sites over 10 units and 33% on sites 2-9 units, **20% affordable housing was deliverable in the current climate** ensuring all other remaining properties were for local occupancy. This was based upon local the occupancy requirement reducing the value of the property by 15% as well impacting upon the rate of sale. All further results below have eliminated the requirement for local occupancy in order to determine the baseline position.
- On average without any local occupancy requirement a figure of **30% affordable housing seems sustainable in the current market conditions** as this is deliverable on more than 50% of the schemes tested. The difference between 30% and 40% affordable housing is significant (circa 43% decline in viability). Following further testing it is clear that the tipping point for viability lies at 34%. Any percentage above this figure is viable on less than 50% of the sites tested.
- Additional S106 contributions over and above affordable housing have a significant effect upon viability.
- As you would expect, as sales prices increase a greater proportion of affordable housing can be delivered. Convexly, as revenues decrease the delivery of affordable housing is put under pressure and it is difficult to sustain anything over 20% housing on the majority of sites tested.
- In relation to build costs, relatively small changes in build costs can result in significant changes in viability.
- When considering the height of the market (Q1 2007) the results show that 40% affordable housing would be viable across all tenure splits and 30% of the sites tested would be viable with 50% affordable housing. This is without the requirement of local occupancy.
- In the current market small sites are less affected by an increase in affordable housing in comparison to larger sites. This reflects the longer build period and sales period associated with larger schemes. Therefore, the modelling suggests a uniform single requirement across the district.
- Different levels of viability ranged across the four market areas. The lower value area of Alston is the most severely affected by increasing affordable housing.

As the EVA was only published in October 2009 there wasn't any evidence relating to economic viability at the submission stage.

#### **8. To what extent are the conclusions of the SHMA and EVA agreed by stakeholders? What are the issues of disagreement?**

In relation to the SHMA's, please see point 6 above. It is felt from the consultation exercise that stakeholders are largely in agreement with the main findings but that more in-depth analysis on certain points was needed e.g. the need and delivery of accommodation for older people

(recognised in the documents but not felt appropriate to give a policy response in the SHMA). It is hoped that these have been adequately addressed on the Consultation Response form. The Council has also very recently received further consultation comments from Mr Tatton of Pioneer Property Services relating to the methodology of the 2006 Housing Needs Survey which are potentially relevant to the methodology of the SHMA's. However, as these comments have only recently been provided it is anticipated that they will be discussed in greater detail at the hearing on Thursday 17<sup>th</sup> December.

In relation to the EVA and as a result of the timetable for meeting the deadline for consulting upon the required changes to CS10, it was not possible to circulate the final draft EVA to stakeholders and obtain their comments before the Council needed to publish the amended policy CS10. The final draft report was issued to all stakeholders on 19<sup>th</sup> October 2009 shortly after it was issued to the Council. DTZ offered to discuss any aspect of the final EVA with stakeholders but due to the extremely tight timescales the Council asked stakeholders to provide any comments via the formal consultation exercise in relation to CS7 and CS10 which ran from 26<sup>th</sup> October until 4<sup>th</sup> December.

Having analysed the stakeholder feedback following the stakeholder consultation event on the 25<sup>th</sup> August 2009, the main differences in opinion regarding the study's main assumptions related to build costs and the percentage value of GDV for Greenfield and brownfield land. Following the feedback both assumptions were amended to reflect the comments received. However, in general the majority of the study's assumptions were agreed with stakeholders.

Having also analysed the feedback from stakeholders relating to the revised policy CS10, the large majority of the consultations relate to the proposed policy wording rather than the conclusions of the EVA. One stakeholder has suggested that the EVA fails to take into account the difference between greenfield and brownfield land values, however, the EVA did recognise this differential (10% for greenfield and 20% for brownfield) but the study tested all sites against the brownfield 20% to ensure full robustness and that the worst case scenario was tested in each case. Another respondent also claimed that the baseline modelling failed to take into account additional S106 requirements and private infrastructure costs. The reason for this was because the EVA models hypothetical sites, not real sites, and therefore the S106 costs and infrastructure costs are therefore unknown and would be determined on a site by site basis. However, the EVA did test a range of scenarios to address this very point and in particular scenario's 3 and 5 addressed additional S106 contributions and build costs.

### **9. To what extent do the findings of the SHMA and EVA justify submission policy CS10?**

In relation to the recently published SHMA's, the headline net affordable housing requirement for the District is 227 per annum. It is considered that

this level of affordable housing need would in part justify a 50% affordable housing requirement if a 50% requirement was economically viable.

In relation to the EVA it is clear that following the deterioration in the national economic circumstances since Q1 2007, the findings of the EVA do not justify the proportions or thresholds set out in the submission policy CS10. As such it was considered that amendments were required to the policy to ensure soundness and for the policy to be based upon robust and credible information.

**10. What amendments are proposed to the policy and its supporting text as a consequence of the SHMA and EVA? How have the publicity and SA implications of any suggested changes been met?**

The change to CS10 is set out below: For clarity the *old* clause is set out in italics below it:

Revised Policy CS10

At least 30% affordable housing will be provided as a proportion of all housing developments of four or more units in the District.

Developers will be required to commission a viability assessment by consultants appointed by the Council at the developer's expense to objectively justify the proportion of affordable housing.

The Council will require developers of schemes of between one and three units to provide a financial contribution towards the provision of affordable housing in areas of highest need.

The type and tenure of the affordable housing element in a development will be determined with reference to evidenced need at a parish level.

Submission Version CS10

*On larger sites i.e. **10 or more units** at least 50% affordable housing will be provided as a proportion of all new housing developments.*

*At least 33% affordable housing will be provided as a proportion of all new housing developments (**2 or more units**) in the District.*

*Developers will be required to commission a viability assessment by a consultant appointed by the Council at the developer's expense to objectively justify the proportion of affordable housing.*

*The Council will require developers of individual units to provide a financial contribution towards the provision of affordable housing in areas of highest need.*

In essence the main change refers to the conclusions of the EVA which highlight that without a requirement for local occupancy, 30% affordable housing is viable in more than 50% of the schemes tested. In addition it is proposed to have a single proportion of 30% covering all sites over and above 4 units (the largest scheme which mathematically will deliver a single affordable unit) rather than a split between less or more than 10

units as the evidence within the EVA suggested in the current economic climate larger sites are no more viable than smaller sites. This is because there is greater cash flow pressure affected by the drop in sales rates.

No amendments have been proposed to the supporting text. In relation to publicity of the suggested changes, it is considered that the Council has complied with the regulations whereby the revised policy has been consulted upon for a 6 week period, all stakeholders were notified of the changes and the consultation period, and an advert was placed in the local press amongst other things. In relation to the sustainability appraisal we have tested the amended policy against the sustainability framework and it was deemed that the impact of the amended policy were not significant.

**11. Detailed clarification is required of how the amended policy meets all of the criteria of paragraph 29 of PPS3.**

This has been addressed in response to Question 3 above.

**12. Detailed clarification is required that the suggested amended policy is precise, clear, capable of being implemented and monitored, and is 'future proof' to changing economic circumstances.**

The wording of the policy is considered to be precise and clear to all as the minimum percentage of affordable housing and the thresholds are set out explicitly. Both the percentage and the threshold are based on the clear conclusions set out in the EVA. For further clarity, precision and relative ease of implementation, the threshold has been set at a level where the requirement of affordable units may be rounded down, thus the requirement for a development comprising four units in total would be expected to yield one unit of affordable housing. The policies are capable of being implemented as they are clear, transparent, equitable and are evidenced by the EVA and generally understood and supported by the local construction industry. It is nevertheless considered important to emphasise that in terms of practical implementation, negotiations between the Council and Developers will always need to take account of the particular circumstances of a particular site and *in extremis*, and with supporting evidence from site based economic viability assessments a lower proportion of affordable housing may be preferred to a development being stalled entirely. Certainly the monitoring of the success of the policy will be undertaken. The current system records accurately on a monthly basis the number of permissions, commencements and completions of affordable homes and the proportion of the total number of dwellings that these represent. This will be continued with a view to assessing the efficacy of the policy. Whilst it is considered that 'future proofing' of anything is impossible for mortals to guarantee, every effort has been made both in the undertaking of the EVA by DTZ and Council Officers in framing the revised policy to build in sensitivity to changes in markets.

**13. What would be the Council's fallback position if both the submitted and suggested amended policy were found to be unsound?**

The Council has attached the greatest importance to the provision of affordable housing, both in terms of its Corporate Priorities and in terms of giving practical effect to this aspiration, in its planning policies. To achieve these ends, a huge amount of effort, commitment and expenditure has been committed, both in corporate and personal terms. In the event of both the submitted policies *and the* suggested amended policies being found unsound, one would suppose that the Council *corporately* would wish to fully understand the reasons for a finding of unsoundness, giving that it had done all that that was asked of it and sought to satisfy each and every constituency and reasonably expressed point of view. In terms of a 'fallback position' therefore, this would be likely to expect a direction as to what would constitute a sound affordable housing policy.