

Eden District Local Plan Examination

Issues and Questions for Examination at the
Hearing Sessions

Issue K: Policy HS1

Statement by Eden District Council

April 2016

Issue K - Policy HS1 – Affordable Housing

Is the policy justified, effective and consistent with National Policy and Guidance?

Will the policy and the overall Development Strategy result in the requirement for affordable homes within Eden District being satisfied?

Paragraph 47 of the National Planning Policy Framework states that LPAs should:

“To boost significantly the supply of housing, local planning authorities should use their evidence base to ensure that their Local Plan meets the full, objectively assessed needs for market and affordable housing in the housing market area”.

We have produced our Strategic Housing Market Assessment (Taking Stock – Parts 1-4) (EB030), which established the affordable housing need at a figure which averages at 60 new affordable homes per year, taking into account the re-letting of existing stock. A full trajectory detailing these calculations can be found on pg. 69 of the above document.

Policy HS1 requires 30% affordable housing; that must remain affordable in perpetuity with occupancy being restricted to those in the locality. The only exception to this requirement will be if it can be demonstrated that the requirements of the policy will render a development unviable. In these cases fewer affordable homes will be acceptable if a financial appraisal provides evidence justifying a lower level.

Our assumption of a supply of 56 new affordable homes per year over the period 2014-2018 and 60 thereafter is above past trends.

The figure of 56 affordable homes per year between 2014 and 2018 represents committed supply and therefore we can be reasonably confident that this will be delivered. However, our subsequent 30% target remains aspirational and actual delivery is based on viability considerations. If we look at the annual average, proportion of affordable housing provision delivered over the last five years it is 28.5% which on the face of it indicates that supply is achievable. These figures are influenced by large 100% affordable housing schemes which have been delivered in Penrith.

Based on a housing target of 200 homes per year we could expect the supply of affordable housing to slightly outstrip need.

Is the seeking of 30% of all new housing as affordable homes a viable and effective solution to the need to provide affordable housing?

Yes. Paragraph 50, bullet point three in the NPPF states that LPAs should:

“where they have identified that affordable housing is needed, set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified (for example to improve or make more effective use of the existing housing stock) and the agreed approach contributes to the objective of creating mixed and balanced communities. Such policies should be sufficiently flexible to take account of changing market conditions over time.”

The explanatory text in paragraph 4.8.5 of the Local Plan makes it clear that although it is important for those in need in the district to benefit from affordable housing, the Council will not request a level of affordable housing contributions that will render schemes unviable. It confirms that a degree of flexibility will be applied where it can be shown that rendering contributions might make a scheme unviable.

The evidence which the Council used to arrive at the figure of 30% affordable housing comes from a several assessments. The first assessment took place in 2009 when the Council commissioned DTZ to undertake an Affordable Housing Economic Viability Appraisal for the District. This assessment has been updated periodically, in 2013, and most recently in 2016.

NPS were instructed by the Council to provide a professional opinion on whether the assumptions used and conclusions reached in the DTZ study remain appropriate. The updated viability evidence confirms our assumptions in relation to the percentage of affordable housing which is viable on schemes in Eden. The updated viability evidence concludes that, with the exception of Alston Moor, greenfield sites of a low or medium density¹ with a low or moderate developer contribution² are viable. Similarly, low or medium density schemes with high developer contributions³ remain viable for small to medium sized sites; however viability issues are experienced on large sites, in some scenarios where the developer contribution reaches £10,000 per unit.

Brownfield site scenarios have not been specifically tested as part of this study, due to the wide range of variables and the small proportion of allocated sites on

¹ Low Density is 30dph and Medium Density is 35dph in Penrith and

² Up to £5,000 per unit

³ Over £5,000 per unit

brownfield land. However, the evidence concludes that it is safe to assume that without some form of cross-subsidy, i.e. retail development, these schemes will be unable to provide the full quota of affordable housing.

The adopted Core Strategy contains a policy which requires the same provision of affordable housing; this policy has operated effectively since its adoption in 2010. The Viability Study – Refresh (2016) (EB033) provides detailed analysis of affordable housing provision on recent schemes across Eden.

Is the site threshold of four units viable and appropriate?

Yes. The Council anticipates a significant amount of new housing development will come forward on sites of four units or less. This requirement reflects the past and predicted future patterns of house building in Eden, the high level of housing which is needed and the limited supply of larger sites in the majority of the District. However, it is essential that any proposed contribution does not inhibit development or prejudice the overall supply of new housing.

The Economic Viability Appraisal – Update 2016 confirms that the site threshold is viable.

What impact is the Starter Home Initiative likely to have on the provision of affordable housing?

It may be necessary to review this policy in light of the Government's Housing and Planning Bill 2015-16. The Bill will set out a statutory framework for the delivery of Starter Homes and will be supported by changes to national planning policy.

The Starter Homes Initiative, as proposed, intends to widen the definition of affordable housing, by introducing a new product to meet the needs of first-time buyers aged 40 or under (at the time of purchase). This product will sit alongside traditional affordable housing products, such as affordable rent or discounted sale, however Starter Homes are not proposed to be subject to a perpetuity clause, meaning that Starter Homes will only benefit the initial purchaser unlike traditional methods of affordable housing which benefit all future occupiers. Starter Homes are likely to reduce the amount of traditional affordable housing products delivered within Eden.

House prices in Eden are amongst the highest in Cumbria, the median house price in Eden in 2014 was £192,822, with the median household income just £26,333. This represents an affordability ratio of 7.3, which makes the private housing market inaccessible to many local people. A Starter Home would need to be capped at £118,500, to meet an affordability ratio of 4.5 times the median income of £26,333. Mortgage lenders usually cap the loan-to-income ratio at no more than four and a half times your income, but they now also apply stringent affordability tests. These

changes were brought into effect by the Financial Conduct Authority in 2014 following a comprehensive review of the mortgage market⁴.

The study, Starter Homes – Will they be affordable (2015) produced by the charity Shelter assesses the real affordability of Starter homes.

The study identifies that by 2020 an increasing number of Local Authorities will have median house prices significantly above the £250,000 cap for starter homes, even with the 20% discount. This may not be an issue in Eden where the median house price is still somewhat less than £250,000. Notwithstanding this Eden does face problems in terms of income relative to house prices. As such a discount of 20% on market value could still be insufficient to make starter homes truly affordable in Eden.

If the definition of affordable housing is amended to include Starter Homes then it is likely that the Council's ability to provide affordable housing in the current sense will be undermined as starter homes will make up a proportion of the available mix of affordable housing. As Starter Homes are generally less affordable compared to existing products it is likely that the Council's affordable housing requirement (inclusive of Starter Homes) will need to be increased or at least amended if we wish to address our Affordable Housing Need in real terms (based on households in need).

On what basis is the financial contribution to be derived?

The financial contribution payable on schemes which provide between 1 and 3 dwellings is calculated as 3% of the completed value (open market value) of each applicable property. The methodology for this is set out in the Affordable Housing SPD which will be adopted alongside the Local Plan, but is currently found on pg. 19 of the adopted Housing SPD. As an example, a dwelling valued at £200,000 upon completion would be required to pay a contribution £6,000 to the Council, which will then be used to provide affordable housing in Eden.

Is a discount of 40% on market value viable and effective?

Yes. The Council's viability work indicates that a 40% discount is viable on products other than Starter Homes. The assessment of what would constitute an appropriate affordable housing contribution is set out in the Economic Viability Appraisal (2009), which has been updated in 2013 and most recently in 2016. Based on the assessments in these reports it is concluded that 40% affordable housing is viable.

House prices in Eden are amongst the highest in Cumbria, the median house price in Eden in 2014 was £192,822, with the median household income just £26,333. This represents an affordability ration of 7.3, which makes the private housing market inaccessible to many local people. A discount of 40% on the median house price, results in a value of around £115,000, which is still more than four times the median

⁴ Source: <https://www.moneyadviceservice.org.uk/en/articles/how-much-can-you-afford-to-borrow>

income. Recent schemes, such as Story Homes at Lazonby have proven that there is significant demand for this type of affordable housing product.

Is the Local Occupancy Criteria set out in policy HS1 sufficiently clear and unambiguous?

Yes. We consider the Local Occupancy Criteria set out in Policy HS1 to be sufficiently clear and unambiguous. This criterion has been effectively used in a number of Section 106 agreements issued by the Council in recent years.

A more detailed description of the Local Occupancy Criteria can be found in Appendix 6 of the Local Plan.

Should dwellings provided as Affordable Housing remain so in perpetuity?

Yes. In principle affordable housing should remain so because we believe that affordable housing units should be available for future occupants on the same terms as those offered to the initial occupant. We believe this should apply to homes both for rent and for sale. The Council considers it to be important that affordable homes built in Eden remain available to meet the needs of local people. House prices in Eden are amongst the highest in Cumbria and local people, especially younger people, who are often priced out of the market. In the rural areas of Eden, the need is exacerbated by the high demand for second homes, retirement homes and holiday lets.

Paragraph 4.9.3 in the Local Plan acknowledges that there may be exceptional circumstances:

“Conditions or legal agreements restricting housing to those with a local connection will only be removed if it can be demonstrated that a property has been appropriately marketed for sale for an adequate period of time and no reasonable offers from qualifying purchasers have been received”.

The policy and text may need to be amended to clarify that this requirement will apply to the existing range of affordable housing products and not Starter Homes, which are likely to be included in the mix of affordable housing when the Housing and Planning Bill 2015-16 is given Royal Assent. Starter Homes will only be required to be sold at a percentage of market value for a period of 5 years, and can be sold within that period at a series of increasing increments of market value.

Response to Representations

In total six respondents made comments on the content of this policy. The first (Respondent ID 52/ Response ID 107) considers the plan to be unsound as it is not justified by evidence. The Council disagrees with this comment, the policy is fully supported by evidence which includes the Economic Viability Appraisal (2009) (EB011) and the Economic Viability Appraisal – Refresh (2013) (EB012). The

Council has also commissioned an update document which is due to be published in April 2016.

All of the above evidence supports the provision of 30% affordable housing, with the exception of Alston Moor. The policy contains sufficient flexibility to negotiate affordable housing provision where viability is proven, through the submission of a financial appraisal, that the viability of a scheme is an issue.

The second (Respondent ID 34/Response ID 41), requests that the threshold for requiring affordable housing should be increased to 11 units rather than 4. However, we consider the threshold of 4 units to be appropriate in our local context and this threshold has been successfully implemented since the adoption of the Core Strategy in 2010. The Council will await the outcome of DCLG's appeal against the High Court's decision to quash the Planning Guidance which excluded developments of ten homes or fewer, or 1,000 square metres or fewer from the requirement to provide or contribute to affordable housing provision⁵. They also suggest that the requirement to provide a financial contribution on schemes of between 1 and 3 dwellings should be deleted from the policy. Again, we disagree with this suggestion; we consider these commuted sums to make a vital contribution to the delivery of affordable housing. In a rural district such as Eden we have a large proportion of small schemes which would otherwise make no contribution to the provision of affordable housing in Eden. One of the requested amendments has been made, please refer to Main Modification MM34.

The changes requested by third representation (Respondent ID: 59/Response ID: 196), have been incorporated into the plan; please refer to Main Modification MM36.

The fourth representation (Response ID 65/Response ID: 241), questions whether the 30% affordable housing requirement is supported by up to date evidence. As discussed above, the policy is fully supported by evidence which includes the Economic Viability Appraisal (2009) (EB011) and the Economic Viability Appraisal – Refresh (2013) (EB012). The Council has also commissioned an update document which is due to be published in April 2016.

A fifth representation (Respondent ID: 70/Response ID: 337) claims that the target of 30% is unrealistic and potentially unachievable. We would dispute this suggestion, as our viability evidence confirms that 30% is an achievable target in the majority of cases. The Council is always open to discussing viability, where there are concerns over the viability of the scheme due to particular site constraints or circumstances.

A sixth representation (Respondent ID 48/ Response ID 94) raised six points regarding Policy HS1. These are discussed below;

In their first point they opined that the Council should provide the basis for financial

⁵ In rural areas a lower threshold of 5 units could apply, but only a financial contribution could be sought on schemes of between 5 and 10 units.

contributions calculation and provision within the Policy itself, its supporting text or as an appendix to the Plan. The Council considered that paragraph 4.8.3 clearly directs applicants to the Housing SPD where the appropriate evidence can be found, and that the information does not need to be repeated in the Plan itself. The Council also pointed out that keeping the calculations out of the Plan means that the method of calculation can be updated without having to resort to a partial review of the Local Plan.

In their second point the respondent stated that the 70/30 split between affordable rented and intermediate housing should be a starting point for further discussion. The Council responded that paragraph 4.8.3 clearly states that this proportion can be discussed and will be considered on a case by case basis.

The third issue raised was that market housing should be discounted at 20% rather than 40%. The Council arrived at the figure of 40% after discussions with its Housing Team and having considered experience gained in the District. The Council's response was that there should be no change to this part of the policy.

In their fourth point the respondent stated that they did not believe that affordable housing should remain so in perpetuity, primarily in order to allow ongoing changes to the NPPF to be considered. The Council is of the view that affordable housing is provided for those in the district who are in need. This approach is supported by the NPPF and the Council considers that this should remain the case for future occupiers. This is particularly necessary in Eden given the significant affordability challenges facing the District.

In their fifth comment the respondent suggested that the local occupancy of affordable housing is overly restrictive and should use a 'cascade approach'. The Council responded that a cascade approach is being proposed, and is explained in detail in Appendix 6 of the Local Plan.

In their sixth comment the respondent voiced their support for the recognition that viability assessments may justify a lower than 30% provision of affordable units, which the Council welcomed.