

EXECUTIVE SUMMARY

- In May 2007 Adams Integra was instructed by North Hertfordshire District and Stevenage Borough Councils to study how development viability of market housing sites is impacted by a range of potential policy options for planning-led affordable housing.
- This resulting study report necessarily contains some technical terms, which are explained in the text, but for simplicity also in the Glossary at Appendix IV.
- The Councils' brief was written and the study carried out in the context of seeking to maintain the supply of housing sites overall, whilst securing an optimal contribution to affordable housing need provided through market-led housing developments.
- The requirement for market-led schemes to provide affordable housing impacts on development viability because the levels of financial receipt available to the developer are significantly reduced in comparison to market sale receipt levels for the completed homes. The affordable housing requirement is regarded in much the same way as other planning obligations – a cost to the scheme, which is largely passed on to the landowner by way of a reduced sum available for land purchase (reduced land value when compared with a scheme which provides solely market housing).
- Under the Local Plan Policies being reviewed, North Hertfordshire District Council required 25% affordable housing on sites of 20 or more new dwellings, and Stevenage BC 25% on sites of 25 or more. Following the publication of the Government's Planning Policy Statement 3: Housing (PPS3) in late 2006, both Councils have sought to implement a reduced threshold of 15 dwellings for negotiation purposes.
- The Councils sought to explore the impacts of, and seek our recommendations on, a range of potential policy options and therefore the scope to reduce thresholds and/or increase the proportions sought. This is in the context of the high levels of affordable housing need locally.
- As a part of the project brief Adams Integra was also required to advise on the impacts of affordable housing tenure mix on scheme viability, and to make recommendations on the likely scale of appropriate payments in lieu of on-site provision where that route of contribution is mutually agreed as more appropriate than on-site provision, or where a policy may be considered to collect payments in lieu on the smallest sites.

- The study involved carrying out developer type appraisals on a range of notional development scheme types agreed with the Councils, aimed to reflect a typical range of scheme types likely to come forward.
- Adams Integra's modelling concentrated on notional schemes ranging from 5 to 100 dwellings in size, of varying mixes (see Appendix I – Development Scenarios). This was to ensure that we tested viability at a range of potential threshold sizes, as well as at affordable housing proportions from 20% up to 50% depending on site size.
- Our results found that a 40% level of affordable housing provision on market schemes of 25 or more dwellings could be supported in viability terms, as a target. This level of provision would be in line with that in other South East Local Authority areas where high levels of need and similar development markets exist. It is subject to evidence of need continuing and being updated, in all cases.
- While the viability outcomes from increasing requirements in this way are significant, the area covered by the two Councils is a relatively high value one in terms of property and therefore land values. On initial examination of the local resale (overall) market, it is evident that some areas within Stevenage Borough see values at the lower end of the range we have considered. On closer review of new build prices however, we have seen more consistency of values across the study area. Whilst there is still, and will always be (as in any area), a range of values relevant to new build, we do not consider that overall there are distinctions significant enough to merit separate policy positions on the headline targets for the two Authorities. It is worth noting that in some Local Authority areas where we have seen a high level of new build values even more consistently occurring, or where thresholds are already at 15, we have encountered policy and been able to support policy targets of 40% taking effect on sites of 15 or more dwellings. It is because we have to acknowledge some lower value instances here, that we have tempered our recommendation for this stage of policy development, so that the 40% would impact only sites which have been providing affordable housing (albeit it at a lower level) under local plan policy. This is related to our statement that the steepest viability impacts are seen on sites which are expected to provide affordable housing for the first time.
- We consider that the affordable housing trigger threshold could potentially be taken to a level below 15 dwellings without unduly compromising site viability, providing the proportion of affordable housing sought on smaller sites is judged appropriately and practicalities of provision are taken into account. This means, in our view, considering reduced proportions on sites of less than 25 dwellings. There may be various options for these positions, as the report discusses.

- In our view, the Councils would also need to demonstrate the wider justification for lowering thresholds in terms of need, local site supply and market characteristics. Government Guidance within PPS3 is framed in terms of a “national indicative minimum site size threshold” of 15 dwellings. As above, this is behind both Councils’ new stance in negotiations. However, at paragraph 29, the PPS does now give more scope for flexibility and local consideration than previously existed. It states that Local Authorities “can set lower minimum thresholds where viable and practicable...” There need no longer be a distinct approach to thresholds and related policy in rural areas where more potential flexibility previously existed. In our view the widened scope for flexibility could apply in all areas – smaller and larger settlements, rural and urban.
- So in tandem with these viability outcomes, the Councils will need to consider the type and number of sites likely to come forward alongside housing need, and the delivery which could flow from various approaches.
- Should the Councils propose to introduce a lowered affordable housing policy threshold as a possible policy option, for example affecting sites of 5 dwellings or more, then we would recommend introducing the affordable housing requirement at a lower proportion, not in excess of 20%, on the smaller sites which will be newly ‘captured’ to give a dampening effect to the policy introduction given that newly captured sites are those which show the greatest impacts.
- A graduated or sliding scale type of approach to affordable housing targets could be considered – as site size increases. This might start at a 20% contribution, increasing through a further step or steps to 40% on the sites of 25 or more dwellings. The study sets out possible options and covers this possibility in more detail.
- The Councils’ initial brief asked Adams Integra to consider how its viability outcomes related to much larger schemes – for example potential Major Development Areas such as the potential Stevenage extension which could come forward under Joint Area Action Plans put forward by the two Councils. Adams Integra’s advice at this early stage of such proposals has to be that this type of scheme will need particular consideration once much more is known about it. Affordable housing contributions would need to be considered as a part of the whole essential package of measures and infrastructure needed to bring it forward – the collective infrastructure package or burden, as it is sometimes known. Notwithstanding this, in the meantime there is no current reason to recommend that the 40% target would again not be a suitable one in this context. The study goes on to mention circumstances where site specifics might justify an increased target for the negotiations to consider.

- We have not modelled any scenarios of less than 5 dwellings for this study. We are, therefore, not able to either support or advise against any future policy direction which may be aimed at sites of fewer than 5 contributing in some way to affordable housing need. This was beyond the scope of the brief. While it would need to be tested, given general North Herts and Stevenage values, in pure viability terms this could probably be considered for a future policy development phase subject to the wider evidence base and justification for it, and if based on appropriately pitched requirements. We suggest that it would be appropriate, however, to consider such policy development in steps in response to the delivery results from, and impact of, the sort of changes now being considered and tested here. There would be practical issues to consider too, as are applicable to the slightly larger sites the study does cover. In our view, the smaller the site, the more in focus the practical issues tend to be – design/mix, affordability, management/dispersed stock, etc. The issues around ensuring sufficient incentive to the land owner and developer to still pursue the scheme also come sharply into focus. The role of some level of financial contribution may be relevant, as picked up again below.
- The effect of the Councils' position on rounding of affordable housing numbers should also be considered in pursuing new policy positions and ultimately the detail added through Development Plan Documents (DPDs) or Supplementary Planning Documents (SPDs). Particularly on the smaller sites, of the type likely to be in focus should the Councils consider a lowering of thresholds below 15, the rounding can have a significant impact. Proportions can be misleading or become distorted once rounding is applied. However, the tone of results we have found through this study is generally positive in site viability terms. Therefore, providing the Councils bear in mind any rounding implications as a part of considering detail and wider site specifics in the context of the target-led, negotiated approach, there should not be major issues.
- Given the points we raise about the practicalities of affordable housing delivery on smaller sites, the potential issues with numbers rounding and the steepest viability impacts normally being on newly captured sites, it is possible that the Councils could consider the collection of payments in lieu of on site provision on smaller sites. Those sites could be in the 5–10 or 5–14 dwellings size range. This could be a policy option, and it is one that we are currently exploring with a number of Local Authorities.
- As with all payments in lieu (“commuted sums”) approaches, the Councils would need a strategy for using such sums and transparent approach to record keeping related to that.

- We do not consider that a 50% proportion of affordable housing is likely to be a sustainable target, viability-wise, on a broadly applicable or District and Borough area-wide basis. Our appraisal results show potential scheme viability issues on a range of site sizes in lower and even more typical value development instances within the area based on this assumption. This is particularly when that level of potential requirement is judged alongside an expectation that a high proportion of affordable rented accommodation will be sought with no grant input assumed. PPS3 requires Local Authorities to consider likely funding availability in setting local criteria.
- If the Councils were to be flexible on tenure, potentially consider a wider range of affordable housing and embrace the role that grant funding might play, then our results indicate that up to 50% affordable housing on certain sites could be achievable, however. Any such circumstances would most likely be on particular allocations – potentially strategic sites, greenfield releases or where there is public ownership involved. In this type of situation, the sites would come forward and be guided through DPDs and SPD – in practice there would effectively be development briefs setting out the terms on which such opportunities could come forward whilst meeting planning criteria. So community infrastructure expectations (including affordable housing) relating to their delivery could be consulted on, set out clearly and established very early on. On some such sites there may also be a different valuation scenario, potentially influencing viability, if there were no realistic high value existing or alternative use.
- Therefore, while we would not rule out a higher level of provision than 40% in particular or strategic cases, to be considered on their merits as a potential boost to overall affordable housing supply, we caution that a range of issues would need to be taken into account. The likelihood is that significant grant funding might be needed to support such an approach involving a high proportion of affordable rent, or at least more flexibility exercised on tenure mix. It is more likely that a balanced affordable tenure mix would need to be considered.
- Regardless of the detailed policy options that the Councils may seek to take forward, affordable housing requirements must be expressed as clear targets, which can then form the basis for practical negotiations with developers where site circumstances lead to a departure from the targets. In setting out policy and supporting text the Councils should make clear their approach, including outlining the general circumstances in which a departure from targets might apply.
- Development viability will vary from site to site, and there will be no substitute for scheme specific discussions. The context of this study is the setting of clear policy targets as a basis for a, necessarily, negotiated approach to provision.

- Factors which may influence the viability of proposals on any particular site could include the incidence of abnormal development costs, the scale of the overall planning obligations requirements (sometimes called the collective infrastructure burden), existing or competing land use values for the site, the landowner's particular circumstances and aspirations, or indeed, a combination of some or all of these factors.
- That leads us to say that there can be no clear cut-off points, given by way of policy positions or guidance, at which schemes will or will not always work. However, allied to a practical approach the 40% target on sites of 25 or more dwellings should be a workable one as the headline, and help the Councils to bolster delivery as larger sites come forward. It would apply to all site types, including for sheltered or elderly persons' housing.
- The introduction of an affordable housing requirement on smaller sites, albeit at a lower starting proportion would also make a valuable contribution to meeting housing need, as is discussed.
- As considered in the study, a target tenure mix in the range 65 – 80% affordable rent would be a sound starting point from a viability point of view, again providing a practical, adaptable approach is adopted. Tenure mix targets will need to be judged according to local need and kept under review. It is appropriate in our view that the two Authorities might, if required, adopt different starting points on this whilst moving towards more aligned headline policy on overall targets (thresholds and proportions) for affordable housing.
- Scheme viability as expected looks at its least favourable when the affordable housing element comprises 100% affordable rent. Whilst it appears that that might be sustained on pure viability grounds in some cases, particularly away from the lower value development instances, we comment that there are perception issues which may not be aided by such a dominance of affordable rent. We consider that a range of affordable housing tenure models may have a place in the local context, again depending on site type and location, and local need. Balanced against the need to seek a majority of affordable rented accommodation, the Councils will need to maintain an understanding of viability and funding issues which can flow from this, together with sustainable communities objectives, and be practical in terms of the tenure mix ultimately delivered.
- In our view, Local Authorities will increasingly need to secure a significant level of subsidy through landowners and developers. This is consistent with strong current messages for the Housing Corporation (to be re-branded the "New Homes Agency") around not funding standard planning-led (section 106) provision. Given local value levels, a grant free route as per our

appraisal assumptions could be considered. A nil cost land (often nil cost serviced land) route is an increasingly common and, in our view, workable methodology for this. However, with an emphasis on affordable rent (which usually produces relatively low payment sums to developers for completed affordable homes) the approach might ultimately mean compromises in tenure mix on more occasions. Linked to this, and from the point of view of optimal affordable housing provision, in our view the Councils should not assume no grant being available for schemes locally. They should also consider how grant bids made by its development partners could be most competitive and ensure the “additionality” in provision which the Housing Corporation requires from its grant allocations. Dialogue with the Housing Corporation is encouraged.

- The study considers and gives some guidance on the likely level of payments in lieu, should the Councils and developer interest agree that to be a more appropriate solution to on-site provision in the particular circumstances. Our thinking is based around the cost of purchasing the land which would be needed to provide the affordable homes elsewhere.
- Other recommendations include the bringing forward of Supplementary Planning Documents or Development Plan Documents to clearly bring to life the more detailed aspects of this policy area, and set out the Councils’ working approach – map out the process and give as much certainty to developers and landowners as possible. Encouragement should be given to discussion about sites coming forward, at the earliest possible stage.
- This type of work, revolving around an understanding of the local market, and the policy positions ultimately selected, should be kept under review and revisited periodically in light of the delivery and experiences which result from those new policy positions.