

REPORT TO: PLANNING
CABINET MEMBER – REGENERATION

DATE: 10TH MARCH 2010
17TH MARCH 2010

SUBJECT: INFORMED ASSESSMENT OF THE ECONOMIC
VIABILITY OF AFFORDABLE HOUSING IN SEFTON
STUDY - CONSULTATION DRAFT

**WARDS
AFFECTED:** ALL

REPORT OF: ANDY WALLIS – PLANNING AND ECONOMIC
DEVELOPMENT DIRECTOR
ALAN LUNT – NEIGHBOURHOODS AND INVESTMENT
PROGRAMMES DIRECTOR

**CONTACT
OFFICER:** Alan Young – Strategic Planning and Information Manager
Tel: 0151 934 3551

Jim Ohren – Principal Manager
Tel: 0151 934 3619

**EXEMPT/
CONFIDENTIAL:** No

PURPOSE/SUMMARY:

The purpose of this report is to inform Planning Committee and Cabinet Member – Regeneration of the findings of the draft Informed Assessment of the Economic Viability of Affordable Housing in Sefton Study and the intention to carry out a formal public and stakeholder consultation on this study.

REASON WHY DECISION REQUIRED:

No decision required. Report for information only.

RECOMMENDATION(S):

That Planning Committee and Cabinet Member – Regeneration note this report

KEY DECISION: No

FORWARD PLAN: No

IMPLEMENTATION DATE: N/a

ALTERNATIVE OPTIONS: None

IMPLICATIONS:

Budget/Policy Framework: None

Financial: The cost of the study (£25,000) is being met from the Regional Housing Pot Capital Grant in 2009/10

<u>CAPITAL EXPENDITURE</u>	2009 2010 £	2010/ 2011 £	2011/ 2012 £	2012/ 2013 £
Gross Increase in Capital Expenditure				
Funded by:				
Sefton Capital Resources				
Specific Capital Resources	£25,000			
<u>REVENUE IMPLICATIONS</u>				
Gross Increase in Revenue Expenditure				
Funded by:				
Sefton funded Resources				
Funded from External Resources				
Does the External Funding have an expiry date? Y/N	When?			
How will the service be funded post expiry?				

Legal: N/a

Risk Assessment: N/a

Asset Management: N/a

CONSULTATION UNDERTAKEN/VIEWS

N/a

CORPORATE OBJECTIVE MONITORING:

<u>Corporate Objective</u>		<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		✓	
2	Creating Safe Communities		✓	
3	Jobs and Prosperity	✓		
4	Improving Health and Well-Being	✓		
5	Environmental Sustainability	✓		
6	Creating Inclusive Communities	✓		
7	Improving the Quality of Council Services and Strengthening local Democracy		✓	
8	Children and Young People		✓	

LIST OF BACKGROUND PAPERS RELIED UPON IN THE PREPARATION OF THIS REPORT

PPS3: Housing, CLG, November 2006

INFORMED ASSESSMENT OF THE ECONOMIC VIABILITY OF AFFORDABLE HOUSING IN SEFTON STUDY - CONSULTATION DRAFT**1.0 Background**

- 1.1 Members may recall last year (i.e. at Planning Committee on 6th May 2009, Cabinet Member – Regeneration on 6th May 2009 and Cabinet on 14th May 2009) that a decision was taken to commission a study on the economic viability of affordable housing in Sefton. Subsequently our retained specialist consultants on affordable housing viability, Three Dragons, were commissioned to undertake this study.
- 1.2 In accordance with best practice in this area of work, Three Dragons are independent of the Strategic Housing Market Assessment process (which assesses housing needs, including affordable housing) that was undertaken by Fordham Research for the Council and previously reported to Members last year (i.e. at Planning Committee on 19th August 2009, Cabinet Member – Regeneration on 2nd September 2009 and Cabinet on 3rd September 2009).
- 1.3 The need to carry out an economic viability study on affordable housing is set out in Planning Policy Statement 3. This requirement was reinforced by the landmark Blythe Valley Legal Decision, which essentially concluded that a Core Strategy could be found unsound if its affordable housing policies were not supported by such a study.
- 1.4 Notwithstanding the above, based on legal advice, we are currently applying affordable housing policies to specific qualifying sites, as set out on the Council's website at www.sefton.gov.uk/planningstudies
- 1.4 Importantly, the approach adopted by the Council in negotiating affordable housing fully recognises, consistent with PPS3 advice, that individual sites may need to be subject to an economic viability assessment and this is built into the overall affordable housing appraisal process.

2.0 Draft Informed Economic Assessment of Affordable Housing Study

- 2.1 Three Dragons were formally appointed to undertake the study in early August 2009. As part of the evidence gathering and engagement programme a workshop was held on 19th August 2009 at Bootle Cricket Club. At this meeting representatives from a range of organisations involved in the provision of affordable housing were present, including developers, registered social landlords, private sector landlords, neighbouring authorities and government housing and development agencies.
- 2.2 The workshop was useful in that it helped clarify some of the issues specific to Sefton that determine the viability of affordable housing. The information

gathered at this event was important to ensure that the draft study would be relevant to Sefton, would help in understanding local affordable housing issues and would be robust enough to help shape future affordable housing policy in the Borough.

- 2.3 Using the information gathered at the workshop and a range of other evidence (such as data on past affordable housing projects, land values and house prices) a draft of the study has been completed by Three Dragons and is now ready for public and stakeholder consultation. A copy of the draft study can be viewed at www.sefton.gov.uk/planningstudies

3.0 Key Findings of the Draft Informed Assessment Study

- 3.1 Some of the key findings of the draft study are:

(i) Identification of housing sub-markets in Sefton

- 3.2 It is apparent that the local variation in house prices has a significant impact on the viability of affordable housing in a particular scheme. A broad analysis of house prices in Sefton using HM Land Registry data was undertaken and identified seven viability sub markets -

- Prime Sefton (broadly Birkdale, Ainsdale and Blundellsands)
- Formby
- Crosby, Hightown and Rural Hinterland
- Maghull and Aintree
- Southport
- Litherland, Orrell and Netherton
- Bootle and Seaforth

- 3.3 These different sub-markets have significant differences in the residual value able to cross subsidise affordable housing. For example, a housing scheme in Prime Sefton with 30% affordable housing, at 40 dwellings per hectare (dph), will generate nearly £3 million residual value per hectare. The same scheme in Bootle will have costs of almost £0.5 million per hectare greater than its revenue (i.e. will have a negative residual value). On this basis, a single affordable housing target for the Borough would be a very difficult policy position to defend.

(ii) Testing the viability of a range of housing developments to deliver affordable housing

- 3.4 A number of development models were tested, using a range of size, house types and densities. These examples were chosen to reflect the range of sites that have been and are currently or likely to be available for development in Sefton. This testing showed that higher density development (over 80dph) looks marginal even without an affordable housing element in locations such as Bootle,

Seaforth, Litherland and Orrell. However, in higher value areas, affordable housing contributions on higher density schemes should be viable.

- 3.5 The introduction of external grant makes a significant difference in the mid to lower sub markets, although in the weakest sub-market areas grants may not be enough to 'rescue' schemes seeking an affordable housing element.
- 3.6 The analysis also shows that residual values are very sensitive to changes in house prices, both in the short and long term, and that additional costs, such as remediation works or the Code for Sustainable Homes can have significant impacts on scheme viability, most clearly in the lower value sub-markets. Viability is also highly sensitive to the relationship between existing (or, where relevant, alternative) use value. In this regard, affordable housing will often be viable on sites, for example, in back or garden use. However, small-scale redevelopment and conversion schemes (typically under 5 units) 'will be significantly challenging on viability grounds'.
- 3.7 The analysis of Sefton's supply of sites (based on extant unimplemented planning consents and the five year land supply) suggest that smaller sites (less than 15 units) makes a significant contribution (i.e. about 30%) to housing supply. Given this, Sefton's current policy approach (i.e. applying affordable housing requirements to sites 15 dwellings or more) is likely to 'miss' a significant opportunity to provide affordable housing in some parts of the Borough. From a housing management perspective the study did not find any, in principle, objections to the on-site provision of affordable housing on small sites, although a financial payment for off-site approach could be considered in certain circumstances.

(iii) Conclusions and Policy Recommendations

- 3.8 The report recommends that Sefton adopt the following key affordable housing policy positions through its Local Development Framework:
- Based on strict viability approach apply a dual target broadly splitting the main urban area of Sefton, including Bootle and Seaforth and Litherland, Orrell and Urban Sefton (called 'lower value Sefton') versus the remaining higher value sub-markets. On this basis, Three Dragons propose a 30% target for the higher value areas and a 15% target for the lower value areas. Alternatively, a more location specific based approach may be considered, including a three-way policy target, to the level of affordable homes required in housing schemes. This would set a target of 30% for Prime Sefton (Ainsdale, Birkdale and Blundellsands) and Formby; 25% for Crosby, Maghull and Southport; and, 10% for Litherland, Orrell, Bootle and Seaforth.
 - That the Council should adopt a dual threshold approach for when the affordable housing target is implement, with a size threshold of 15

dwellings in the Pathfinder area and a size threshold of 5 dwellings elsewhere. Three Dragons think a size threshold below 5 dwellings would be difficult to justify in viability terms anywhere in the Borough.

- If there is any doubt about viability on a particular site, Three Dragons note that it will be the responsibility of the developer to make a case that applying the Council's affordable housing requirement for their scheme makes the scheme not viable. (This is currently the approach that Sefton applies where the viability of a proposal to deliver affordable housing is in question).
- In cases where it may not be feasible or appropriate to provide affordable housing on-site, Three Dragons consider that a commuted sum payment (based on the equivalent amount which would be contributed by the developer/landowner were the affordable housing provided on site) could be sought. This would require the Council to have a clear strategy to ensure the money is spent effectively on delivering affordable housing elsewhere and in a timely manner.

4.0 Next Stages

- 4.1 In accordance with best practice it seek wider public and stakeholder comment, the draft study will be made available for formal public and stakeholder consultation for a six-week period during late March and April/May 2010. This will include a further workshop aimed at developers/housebuilders, landowners, and registered social housing providers to discuss the study recommendations in detail.
- 4.2 It is anticipated that the comments received during consultation will inform the final study for which will be drafted by Three Dragons in late May or early June 2010. This, in turn, will inform the Core Strategy preferred strategy later this year. The final Informed Assessment of the Economic Viability of Affordable Housing will be reported to Planning Committee, Cabinet Member – Regeneration and Cabinet for approval in the July cycle.

RECOMMENDATION(S):

That Planning Committee and Cabinet Member – Regeneration note this report