

**Report of Director of City Development**

**Report to Development Plan Panel**

**Date: 27<sup>th</sup> September 2016**

**Subject: Affordable Housing Benchmarks Update**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of main issues**

1. Policy H5 of the Core Strategy sets the principle that new Affordable Housing in Leeds should be made affordable enough for households on lower quartile and lower decile earnings. Affordable benchmark figures set the price that housing developers sell affordable dwellings to Registered Providers (RPs).
2. Historically, Leeds Affordable Housing benchmarks had related to UDP Policies; these have now been superseded by Policies contained in the adopted Core Strategy. The report suggests an updated methodology for setting new affordable housing benchmarks to accord with Policy H5 of the Leeds Core Strategy.
3. The benchmark figures have previously been updated annually using a methodology devised in the early 2000's, however this has been updated for the 2016 figures. The Chief Planning Officer normally deals with benchmark updates through Delegated Powers. However given the change in approach following Core Strategy adoption, it is considered appropriate to obtain views from Development Plan Panel.

**Recommendations**

4. Development Plan Panel is invited to note and comment on the contents of this report.

## 1 Purpose of this report

- 1.1 The purpose of this report is to seek the support of Development Plan Panel for updating Leeds' Affordable Housing benchmark prices.

## 2 Background information

- 2.1 Since adoption of the Unitary Development Plan (UDP) in 2001, planning Policies have expected new housing developments to provide an element of affordable housing. Affordable Housing benchmarks provide consistency and clarity on what price developers should make affordable housing available at.
- 2.2 To help implement the Unitary Development Plan (UDP) Affordable Housing Policy Supplementary Planning Guidance (SPG) was published in 2002. An Annex to the SPG was published annually to update the benchmark figures for the following fiscal year. This update was then published on the City Council's website.
- 2.3 According to the SPG, benchmark figures are required for sub-market housing and social rented affordable housing. The original sub-market figures were created using a methodology which calculated what households on lower quartile earnings in Leeds could afford. Social rented figures were agreed in conjunction with registered providers and have not been updated since they were originally agreed, therefore have stayed £520/sqm over the last several updates.
- 2.4 Since the adoption of the Leeds Core Strategy in 2014, the new Affordable Housing Policy (H5) has created the need to review the approach taken for updating the affordable housing benchmarks. The Policy is consistent with the National Planning Policy Glossary definition of affordable housing, "...*Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices.*"
- 2.5 Policy H5 of the Core Strategy states:

### **POLICY H5: AFFORDABLE HOUSING**

**The Council will seek affordable housing either on-site, off-site or financial contributions from all developments of new dwellings. Housing developments above a certain threshold should include a proportion of affordable housing to be normally provided on the development site.**

#### **On-site provision**

**On site affordable housing will normally be expected at the targets specified for developments at or above the dwelling thresholds in the following zones:**

<b>Zone</b>	<b>Target</b>	<b>Threshold</b>
<b>1</b>	<b>35%</b>	<b>10</b>
<b>2</b>	<b>15%</b>	<b>15</b>
<b>3</b>	<b>5%</b>	<b>15</b>
<b>4</b>	<b>5%</b>	<b>15</b>

### **Off-site provision for smaller schemes**

For housing schemes below the on-site size thresholds<sup>1</sup> in Zones 1 and 2, an offsite commuted sum will be sought tapered down proportionately from the equivalent cost of on-site provision at the lowest size threshold.

Affordability of affordable housing should be designed to meet the identified needs of households as follows;

- 40% affordable housing for households on lower quartile earnings
- 60% affordable housing for households on lower decile earnings

The affordable units should be a pro-rata mix in terms of sizes and types of the total housing provision, unless there are specific needs which indicate otherwise, and they should be suitably integrated throughout a development site.

Applicants may choose to submit individual viability appraisals to verify that the affordable housing target cannot be met. In such cases, affordable housing provision may be reduced accordingly.

Affordable housing provision should be on site, unless off site provision or a financial contribution can be robustly justified.

Elderly persons sheltered housing and low cost market housing should not expect the requirement for affordable housing to be automatically waived or reduced, although individual viability appraisals will be taken into account. Secure arrangements in the form of S106 agreements, must be agreed to ensure delivery and that affordability embodied within affordable housing is maintained for future people of Leeds in housing need.

- 2.6 Policy H5 sets out that Affordable Housing should be affordable for households on lower quartile and lower decile earnings. This is slightly different to the approach adopted in the Supplementary Planning Guidance (SPG) adopted in 2002. Therefore an updated methodology is needed to create new affordable benchmark figures that translate affordability of housing for lower quartile and lower decile earners into simple prices and rents that can be used to ensure that developers deliver genuinely affordable housing. It should be noted that this approach is considered to be entirely consistent with national planning guidance (the NPPF) and the approach of the Core Strategy.

### **3 Main issues**

- 3.1 The proposed affordable benchmarks are using an updated methodology for this year's publication. This methodology is based on earnings data with adjustment to account for households on benefits. The main stages of the methodology are:
- i Ascertaining lower quartile and lower decile earnings
  - ii Translating individual earnings to household earnings
  - iii Applying affordability criteria
  - iv Translating affordability into square metre benchmarks.

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<sup>1</sup> In May 2016 the Government won its appeal against a High Court judgement concerning the lawfulness of Government policy to prohibit local authorities from seeking affordable housing from housing developments of 10 dwellings or fewer. Effectively, this means that this paragraph of Policy H5 seeking commuted sums for small schemes below the thresholds cannot be implemented.

### *Step 1 – lower quartile and decile earnings*

- 3.2 The earnings figures were taken from the Annual Survey of Hours and Earnings (ASHE)<sup>2</sup> which are published annually and can be easily and quickly inserted into our methodology to update the benchmarks when needed. Figures are for male and female earnings of individuals resident in Leeds and are provided as quartiles and deciles.

### *Step 2 – household earnings*

- 3.3 The ASHE source only provides earnings data for individuals, not households and no alternative regular reliable free data sources for household earnings could be identified. Therefore, the methodology translates individual earnings into household earnings. Data from the Office of National Statistics 2015<sup>3</sup> was used to understand the distribution of different sizes and types of household in Leeds. Using the earnings of individuals enabled the earnings profiles of typical single and family households to be generated. It should be noted that the earnings of childless “couple” households has deliberately not been factored into single households because this would have the effect of exaggerating the benchmark prices for flats, making them unaffordable for many single households.

### *Step 3 – affordability criteria*

- 3.4 Affordability will be different depending on whether affordable dwellings will be sold to a registered provider or rented directly in developments of private rented sector (PRS) dwellings. Sale dwellings are subject to standard mortgage multiplier maximums whereby single households are typically able to borrow 3 x gross salary and family households are typically able to borrow 2.5 x gross salary. A 5% deposit is then added onto those figures. For rental dwellings it is assumed that rents payable should not exceed 25% of gross earnings to be regarded as affordable.<sup>4</sup>

### *Step 4 – square metre benchmarks*

- 3.5 The practice of requesting, negotiating and agreeing affordable housing with developers is helped by having benchmarks in a £/sqm form. It takes away the complexity of setting a multitude of different benchmarks for different dwelling sizes and it offers developers ability to quantify the cost of affordable housing in Leeds before they buy land. Some assumptions have to be made to translate affordability benchmarks into a £/sqm form. Generally speaking it is expected that single person households would be suited to living in 1 or 2 bedroom dwellings and therefore it would be appropriate to use single household affordability to calculate a square metre figure for apartments. Likewise, given that family households are thought to be suited to living in dwellings of 3 or more bedrooms it would be appropriate to use family household affordability to calculate a square meter figure for houses. Using the nationally described space standards it is assumed that a

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<sup>2</sup> ASHE link:

<http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearnings/pensiontables/2015-02-26>

<sup>3</sup> <https://www.gov.uk/government/statistical-data-sets/detailed-data-for-modelling-and-analytical-purposes>

<sup>4</sup> Leeds SHMA (2011) assumes that a household is considered able to afford market housing in cases where the rent payable would constitute no more than 25% of their gross household income.

55 square meter dwelling would provide a reasonable proxy for apartments, whilst an 85 square meter dwelling would provide a reasonable proxy for houses.

3.6 The new benchmarks are as follows:

APARTMENTS				RENTAL BENCHMARKS						
				25% OF GROSS INCOME £			£/sqm at 55 sqm AVERAGE		LOWER DECILE: INCOME ADJUSTED	
ALL (M + F)	INCOME PW £	INCOME PCM £	ANNUAL INCOME £	PW	PCM	PA	PW	PCM	PW	PCM
LOWER DECILE	286	1239	14872	71.50	309.83	3718			1.17	5.07
LOWER QUARTILE	363	1573	18876	90.75	393.25	4719	1.65	7.15		

				SALE BENCHMARKS			
ALL (M + F)	INCOME PW	INCOME PCM	ANNUAL INCOME £	3 X GROSS ANNUAL SALARY £	5% DEPOSIT	£/sqm at 55 sqm AVERAGE	INCOME ADJUSTED
LOWER DECILE	286	1239	14872	44616	46847		766.58
LOWER QUARTILE	363	1573	18876	56628	59459	1081.08	

HOUSES				SALE BENCHMARKS			
FAMILY HH*	INCOME PW	INCOME PCM	ANNUAL INCOME £	2.5 X GROSS ANNUAL SALARY £	5% DEPOSIT	£/sqm at 85 sqm AVERAGE	INCOME ADJUSTED
LOWER DECILE	484	2096	25151	62878	66022		699.05
LOWER QUARTILE	617	2672	32060	80149	84157	990.08	

3.7 The figures for apartments are based on single household earnings and for houses on family household earnings. This is a reasonable assumption, even though it is accepted that some single households and couples will live in houses and some family households in apartments. There is a simplicity and consistency of approach, to the £/sqm figures applying to all sizes of dwelling, whatever the number of bedrooms.

3.8 For the lower decile figures, a 10% discount has been applied to take account of those who would be claiming benefits and therefore would not be accounted for by the ONS earnings figures. Earnings figures are used due to Policy H5 of the Leeds Core Strategy quoting 'lower decile earnings' and lower quartile earnings'. The figure was only used for the lower decile benchmarks as those who could afford lower quartile housing would most likely not be claiming benefits.

*Comparison with other local authorities*

3.9 As part of the updating process, the proposed figures for Leeds have been compared with other Local Authorities. The City Council's proposed new benchmarks also are comparatively similar to local planning authorities such as Sheffield and Harrogate. Harrogate charge £1,100/sqm<sup>2</sup> and £1,050/sqm<sup>2</sup> for houses and flats respectively (assuming no grant), whilst Sheffield's Transfer Price, is based on the provision of homes for Affordable Rent, and is currently set at £850/sqm<sup>2</sup>. Scarborough's social rented transfer price is £840/sqm<sup>2</sup> and Selby Council's is about £750/sqm<sup>2</sup> for a 1 bed flat.

*Comparison with Leeds' SPG Benchmarks and Worked Examples*

3.10 The following Table compares the new benchmarks with those of Leeds' most recent Supplementary Planning Guidance Annex (2014). Please note that the terms used in the SPG Annex are different to those used in Policy H5 of the Core Strategy. The term "submarket" equates to "lower quartile" and the term "social rent" equates to "lower decile".

<b>TRANSFER TO RP FOR SUBMARKET SALE</b>	<b>2014 BENCHMARKS/SQM</b>	<b>2016 BENCHMARKS/SQM</b>
HOUSE	£984	£990.08
APARTMENT	£1,230/£1,476*	£1081.08
<b>TRANSFER TO RP FOR SOCIAL RENT</b>	<b>2014 BENCHMARKS/SQM</b>	<b>2016 BENCHMARKS/SQM</b>
HOUSE	£520	£699.05
APARTMENT	£520	£766.58
<b>EQUIVALENT SOCIAL RENT</b>	<b>2014 WEEKLY RENT/SQM</b>	<b>2016 WEEKLY RENT/SQM</b>
APARTMENT	£0.80	£1.17

\*Previous benchmarks considered benchmarks for flats within the City Centre (£1,476) and outside the City Centre (£1,230).

3.11 Compared with the 2014 benchmarks, the proposed approach sees the benchmarks for affordable dwellings being transferred to Registered Providers for **social rent** (affordable for lower decile earnings) increasing. This is because the 2014 transfer price benchmark had previously been negotiated with Registered Providers in 2003 and had not been subject to any annual updates. It has no connection to Core Strategy Policy H5's expectation for dwellings to be made available to households on lower decile earnings. Even with the adjustment to account for low income (as opposed to low earnings) as set out in paragraph 3.8, a consequence of this is that generally the proposed lower decile benchmark

provides an increase which may be favourable to developers and less favourable to RPs.

3.12 Conversely, compared with the 2014 benchmarks, the proposed approach sees the benchmarks for affordable dwellings being transferred to Registered Providers for **submarket sale** (affordable for lower quartile earnings) decreasing for apartments, but staying almost the same for houses. Such change is likely to be favourable for Registered Providers and ~~un~~ less favourable for developers. The difference in the benchmarks reflects changes to the methodology of calculation. There are three aspects to this:

- i In 2014 the methodology grouped the earnings of single male, female and average earnings to create average household<sup>5</sup> earnings figures, one for lower quartile earners and one for lower decile earners. The proposed methodology uses evidence from the Office of National Statistics of the actual balance of household types in Leeds to translate individual earnings into household earnings (see Step 2 in paragraph 3.3 above). This generates a single household earnings figure and a family earnings figure, rather than a generic household figure as in the 2014 methodology.
- ii The mortgage multipliers (see Step 3 in paragraph 3.4) are different. The proposed methodology, reflecting common practice amongst mortgage providers, uses a multiplier of 3 for single borrowers and 2.5 for combined borrowers. Because the 2014 methodology had created one generic household, it used a multiplier of 2.75 to represent an average of the two mortgage multipliers.
- iii The sizes of the average hypothetical dwellings used to create the square metre benchmarks (see Step 4 in paragraph 3.5) are different. The 2014 methodology used 50sqm for city centre apartments and 60sqm for apartments elsewhere. The proposed methodology uses a single 55sqm figure for the whole of Leeds.

3.13 The change in benchmarks will have an effect on how much RPs/HAs will be expected to purchase affordable properties off housing developers. The examples below set out the differences in price RPs/HAs will be expected to pay\*:

*According to the **2014** benchmark figures, a 2 bed (3 person) house (72m<sup>2</sup>) would have had a transfer price of **£70,848 for submarket sale**. According to the updated **2016** benchmark figures, it would now have a transfer price of **£71,337.60**.*

*According to the **2014** benchmark figures, a 2 bed (3 person) house (72m<sup>2</sup>) would have had a transfer price of **£37,440 for social rent transfer price**. According to the updated **2016** benchmark figures, it would now have a transfer price of **£50,331.60**.*

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<sup>5</sup> It used this formula  $(a + ((b+c)/2))/2$  where:

a = Single person earnings (all, male and female),

b = Couple earnings (single male + single female)

c = Couple assuming children present (single male + ½ single female)

According to the **2014** benchmark figures, a 1 bed (2 person) flat (51.5m<sup>2</sup>) would have had a transfer price of **£63,345/£76,014 for submarket sale**. According to the updated **2016** benchmark figures, it would now have a transfer price of **£55,675.62**.

According to the **2014** benchmark figures, a 1 bed (2 person) flat (51.5m<sup>2</sup>) would have had a transfer price of **£26,780 for social rent**. According to the updated **2016** benchmark figures, it would now have a transfer price of **£ 39,478.8**.

*\*House sizes have been taken from the Nationally Described Space Standards.*

- 3.14 Compared with the SPG 2014 benchmark prices the broad effects of the proposed changes are to increase lower decile prices for both houses and flats, to keep lower quartile prices for houses roughly the same and to reduce lower quartile prices for flats. The SPG 2014 benchmark for social rent sale (lower decile sale) of £520/sqm had been agreed in 2003 without any update since and is significantly lower than benchmarks set by comparable local authorities.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 Housing Services have been consulted with regards to the update of methodology and have been actively involved since the start of the process since February 2016. Registered providers have also been consulted and their main concerns about the new benchmarks, related to the increase in the Social Rent figures. A group of local registered providers, "The Alliance", in a letter to the Director of Environment and Housing submitted a report with significantly lower income levels for Leeds. However, Core Strategy Policy H5 refers specifically to the use of *earnings* upon which to base calculations of affordability. Nevertheless, their feedback has resulted in the adjustment to lower quartile figures to account for households on benefits, who have a lower income than households on lower decile earnings.

### **4.2 Equality and Diversity / Cohesion and Integration**

- 4.2.1 The Council's current policy to seek Affordable Housing from developments of new market housing will generally be of benefit to individuals and families associated with low incomes. The effect of altering the affordable benchmark prices is less clear cut. Registered providers may absorb price increases for lower decile affordable dwellings as they already have rent structures that are unlikely to change. Affordable apartments at lower quartile prices will become more affordable.

### **4.3 Council policies and Best Council Plan**

- 4.3.1 Affordable benchmarks allow the Council to put Core Strategy Policy H5 into effect. The benchmarks are also an important component of Section 106 Agreements.
- 4.3.2 The City Council's Best Council Plan references the importance of Affordable Housing within its 21<sup>st</sup> Century Infrastructure and Good Growth sections. It states that:



*'We will work with partners in both the public and private sectors to enable affordable ultra-fast broadband; low carbon and low cost energy; **affordable housing** for families, first time buyers and the elderly; and transport that connects communities, cities and regions'*

and

*'Building more homes, including **affordable and social housing** is also key, and our Core Strategy sets ambitious targets for this.'*

4.3.3 The Best Council Plan 2016-17 update also highlights the need for *'good quality, **affordable** homes within clean and well cared for places'*.

#### **4.4 Resources and value for money**

4.4.1 Affordable Housing benchmarks have no direct financial effect on the City Council , however it is important to produce an accurate and balanced figure in order to ensure Affordable Housing is a viable process for registered providers and housing developers.

#### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 It should be noted that the Chief Planning Officer has authority to approve affordable housing benchmarks and related methodology under delegated powers.

4.5.2 The benchmarks would be used in S106 Agreements that are used to legally bind developers to deliver Affordable Housing so that it is made available for people in need at affordable levels. Hence they need to be sufficiently robust in terms of evidence and consistency with Core Strategy Policy. There is no decision that would be subject to call-in. .

#### **4.6 Risk Management**

4.6.1 Affordable housing price benchmarks in use since 2003 have seen only small annual adjustments over the years to reflect earnings inflation. The proposed change in methodology proposed now would introduce more significant change overnight. Whilst the lower decile prices are proposed to increase and the lower quartile prices are proposed to decrease helping to maintain equilibrium in most cases, the exact effects will differ depending upon the mix of affordable housing agreed. It is possible that particular developments may need to be reviewed in the light of these changes and on their merits and it needs to be acknowledged that for a limited period of time development, investment and land acquisition decisions will have been taken without factoring in the changes. Also, the use of the rental benchmarks with the Private Rented Sector model of affordable delivery is comparatively untested. Therefore, it is considered appropriate to accept a "bedding-in" period of 12 months whereby delivery issues in achieving the new benchmarks can be considered in planning decisions.

4.6.2 It should be noted that following the enactment of the Housing and Planning Act (2016), further guidance is still awaited regarding the full scope and implementation of "Starter Homes" and how this provision related to existing policy guidance

relating to the delivery of Affordable Housing. Without knowing the detail of the Starter Home guidance there is a risk that Leeds' approach to affordable housing, including price benchmarks, may need to be reviewed.

## **5 Conclusions**

- 5.1 The update to the Affordable Housing benchmark methodology is necessary to ensure the benchmarks are properly aligned with Core Strategy Policy H5. As the proposed price benchmarks depart from the long established trend of minimal delivery issues in achieving the new benchmarks can be considered in planning decisions.

## **6 Recommendations**

- 6.1 Development Plan Panel is invited to note and comment on the contents of this report