

Report of Director of City Development

Report to Development Plan Panel

Date: 7th March 2017

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 Historically, Leeds Affordable Housing benchmarks had related to UDP Policies; these have now been superseded by Policies contained in the adopted Core Strategy.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 views of Development Plan Panel for updating Leeds' Affordable Housing benchmark prices.

2 Background information

- 2.1 It is usual practice for the City Council to seek provision of affordable housing in association with planning applications for major housing development. Planning policy sets out how much and what types of affordable housing should be sought. It is also necessary to control the affordability of affordable dwellings so that private developers and Registered Providers (RPs) know what is expected. Adoption of the Core Strategy in 2014 has meant that the Council's affordability benchmarks need to be updated.
- 2.2 The benchmarks govern the price that affordable dwellings are sold by developers to RPs; if the benchmarks were increased or decreased the effect would be firstly be felt by RPs. It is unlikely that any price/rent changes would be passed on to existing tenants unless the benchmarks were substantially changed. Future tenants/residents would be affected depending upon each RPs' rules for rent setting and shared ownership/sale products.
- 2.3 RPs are the principle vehicle for delivering new affordable dwellings in Leeds and the Council works closely with the sector to achieve Leeds' target of 1158 affordable dwellings annually. Therefore consultation with RPs on the effects of changing the affordable housing benchmarks has been important to ensure delivery of affordable dwellings in Leeds will not be adversely affected.

Affordable housing benchmarks

- 2.4 The Unitary Development Plan (2001 and 2006) was silent on affordability. Instead affordable housing benchmarks were set out in an Annex to Supplementary Planning Guidance of 2003. The benchmarks provide £/sqm figures for how much affordable dwellings should be sold by developers to Registered Providers. Both the development industry and Registered Providers have been supportive of the use of benchmarks because they provide clarity and consistency.

Core Strategy Policy

- 2.5 The Core Strategy was adopted in November 2014 with a new affordable housing policy (Policy H5) which contains new standards for the affordability of affordable dwellings:

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**

- 2.6 The affordable housing benchmarks originally agreed in 2003 now need to be updated to accord with these affordability standards. Ideally, the benchmarks should have been prepared and adopted at the same time as the Core Strategy in November 2014, but other priorities prevented this. A start was made in February

2016 to update the benchmarks, including consultation with RPs and Members that is described below.

3 Main issues

Establishing the methodology

- 3.1 The new affordable housing benchmarks need to translate the affordability standards of Policy H5 into workable £/sqm figures that provide clarity on the price that RPs will pay developers for affordable housing.
- 3.2 Reliable lower decile and lower quartile earnings figures are published for local authority residents annually by the Office of National Statistics. A series of steps(see Appendix 1) translates these earning figures into the affordable benchmarks:
- i Ascertaining lower quartile and decile annual earnings of individuals
 - ii Recalibrating individual earnings into household earnings
 - iii Affordability criteria applied. Dwellings for sale to RPs use standard mortgage multipliers. Dwellings for rent in Private Rented Schemes (PRS) use 25% of gross income.
 - iv Translating affordable prices and rents into square metre figures. This means only one benchmark is needed, rather than a set of figures for different sized dwellings.

The Proposed New Benchmarks

- 3.3 The new benchmarks are set out in comparison with the current benchmarks.

Comparison with old benchmarks: Lower Decile (Social Rent)

TRANSFER TO RP FOR SOCIAL RENT	CURRENT BENCHMARKS/SQM	PROPOSED BENCHMARKS/SQM
HOUSE	£520	£645
SUBURB APARTMENT	£520	£702
CITY CENTRE APARTMENT	£520	£804

- 3.4 The proposed lower decile benchmark needs to be compared with the current social rent benchmark. The social rent benchmark was established in 2003 by simply asking RPs what they could afford. The £520/sqm figure agreed then has not been adjusted at all since. By comparison house prices have risen significantly since 2003, and RP rents rose 68% between 2002 and 2015¹.
- 3.5 The proposed methodology means that the proposed Lower Decile Benchmarks are generated from the household income of people in Leeds on lower decile earnings. Appendix 1 explains the approach step by step..

¹ <https://www.gov.uk/government/statistical-data-sets/live-tables-on-rents-lettings-and-tenancies#history>

- 3.6 The methodology prepared by officers in spring 2016 resulted in a more significant increase in the Lower Decile benchmark than proposed now. The increase would not have been off-set by reductions in the Lower Quartile benchmark (see below), resulting in an overall increase. Consultation with RPs in May 2016 revealed that RPs were unhappy with that scale of increase; Members also raised concerns. As a result, officers reviewed and revised the methodology to include part time earnings (step 1, paragraph 3.2). With the adjustment made in response to RP concerns, the increase is less significant than proposed in the consultation with RPs in May 2016.

Comparison with old benchmarks: Lower Quartile (Sub-Market)

TRANSFER TO RP FOR SUBMARKET SALE	CURRENET BENCHMARKS/SQM	PROPOSED BENCHMARKS/SQM
HOUSE	£984	£828
SUBURB APARTMENT	£1230	£904
CITY CENTRE APARTMENT	£1476	£1036

- 3.7 The proposed lower quartile benchmark has been generated in a similar way to the sub-market benchmark which it will replace. The sub-market benchmark was established in 2003 and derived from lower quartile earnings in Leeds. Unlike the social rent benchmark the sub-market benchmark has been increased each year in line with earnings. The new methodology uses a more robust formula for translating individual earnings to household earnings. The result is that the proposed lower quartile (sub-market) benchmarks for apartments and houses are lower than the current ones, which will off-set the proposed increase in the lower decile benchmarks.

Comparison with other local authorities

- 3.8 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 are more affordable than comparable local authorities. The average of the 6 proposed benchmarks for Leeds is £820/sqm. Harrogate charge £1,100/sqm² and £1,050/sqm² for houses and flats respectively (assuming no grant) and Scarborough have a social rented transfer price of £840/sqm². Sheffield's Transfer Price of £850/sqm is based on the provision of homes for Affordable Rent so is not strictly comparable, but the average of Leeds' benchmarks is lower.

Impact of Proposed Benchmarks on development schemes

- 3.9 Officers have calculated what RPs would have to pay for 30 affordable dwellings on a range of hypothetical development schemes, ranging from 100% high density flat schemes in the city centre to schemes of large houses only (Appendix 2). The mix is policy compliant with 60% of the affordable dwellings sold at lower decile benchmarks and 40% sold at lower quartile benchmarks. The exercise enables the total price using current benchmarks to be compared with the total price using the proposed benchmarks. The exercise shows that the combination of proposed benchmarks would result in very little change to the overall price for the 30 affordable dwellings. This means that for housing developments providing a policy

compliant mix of affordable dwellings the proposed benchmarks will have a neutral effect on both developers and RPs.

Private Rented Sector (PRS) Developments

- 3.10 PRS is new form of housebuilding typically involving city centre flats built for rent. Instead of dwellings being sold, they are built for a management company to rent out. Some schemes in Leeds have been approved with an arrangement for the management company to rent out dwellings at affordable rents and take nominations from the Council waiting list. In this circumstance there is a need for benchmark rents to be derived from the affordability standards of Policy H5. The proposed calculation follows the steps in 3.2 above, with an assumption that affordable rents should not exceed 25% of gross earnings, and the assumption of a 48sqm dwelling size to create a weekly £/sqm figure.

EQUIVALENT SOCIAL RENT	CURRENT WEEKLY RENT/SQM	PROPOSED WEEKLY RENT/SQM
APARTMENT	£0.80	£1.23

EQUIVALENT SUBMARKET RENT	CURRENT WEEKLY RENT/SQM	PROPOSED WEEKLY RENT/SQM
APARTMENT	£2.06	£1.58

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 The City Council relies upon RPs to help with the delivery of the majority of affordable housing. Typically, a percentage of dwellings are built by house builders to be sold to RPs at a price based on the affordable benchmarks. Officers consulted with the RP Steering Group in May 2016 on initial proposals. The local RPs making up the “Alliance” group raised concerns particularly about the proposed increase in the lower decile benchmark and a failure to account for the lower incomes of people on benefits. As a result, officers have included part time earnings (step 1, paragraph 3.2), which means that the overall price to be paid by RPs for policy compliant packages of affordable dwellings should not change (see paragraph 3.9).

- 4.1.2 The Council’s Elected Members Steering Group held on 21st November 2016 gave its endorsement to this revised approach. Subsequently, the RPs were re-consulted in December 2016 on the revised proposals and no objections were received.

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. Given that the proposed new benchmarks will result in very little change to the overall price payable by an RP for a full package of affordable

dwellings (see paragraph 3.9 above) there will be no reason for RPs to increase or decrease rents or prices of home ownership products affecting those households on low incomes or any other equality group.

4.3 Council policies and Best Council Plan

4.3.1 Affordable benchmarks translate Core Strategy Policy H5 into effect. The benchmarks are used in Section 106 Agreements so there can be consistency in the price that affordable dwellings are sold by developers to RPs.

4.3.2 The City Council's Best Council Plan references the importance of Affordable Housing within its 21st 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 product 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 to calculate affordable housing figures in S106 Agreements that are used to legally bind landowners 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 raise the price of Lower Decile affordable dwellings whilst reducing the price of Lower Quartile affordable dwellings, having a neutral effect overall on policy compliant mixes of affordable dwellings. It is accepted that there could be more significant changes for schemes that do not have a policy compliant mix of dwellings. 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 where binding commitments made prior to adoption of the new benchmarks can be considered in planning decisions.

- 4.6.2 The recent publication of the Government’s Housing White Paper introduces potential complexities. It suggests that Starter Homes can be a component of affordable housing provision sought by local authorities in association with market housing developments. There is a minimum percentage of 10% for affordable home ownership units. Paragraph 4.17 states:

...we intend to amend the NPPF to introduce a clear policy expectation that housing sites deliver a minimum of 10% affordable home ownership units.

- 4.6.3 It is not yet clear whether local authorities will have choice to set their own affordability benchmarks for starter homes or apply Government rules. The Government still has to digest responses to the White Paper and then make any changes to the National Planning Policy Framework and Planning Practice Framework, and regulations if necessary.

- 4.6.4 The Council has recently commissioned consultants to undertake a new Strategic Housing Market Assessment in 2017 to support the selective Review of the Core Strategy. This work will advise the Council on affordable benchmarks including implications of the Housing White Paper. This work will feed into a review of the affordable housing policy (Policy H5) of the Core Strategy which will be published for consultation at the end of 2017. It is nevertheless necessary to adopt revised affordable housing benchmarks now, even though they might need to be reviewed again as part of the Core Strategy Review. This is not only because they will replace out-of-date benchmarks that do not accord with Core Strategy Policy H5, but also because they will provide an important steer on the broad level of affordability that has worked well for Leeds in the past that will help guide the preparation of evidence in the SHMA.

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. The Chief Planning Officer has delegated powers to adopt new benchmarks but seeks the view of Development Plan Panel before proceeding with the proposed amendments.

6 Recommendations

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

APPENDIX 1: NEW AFFODABLE HOUSING BENCHMARK METHODOLOGY

1.1 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

Step 1 – lower quartile and decile earnings

1.2 The earnings figures were taken from the Annual Survey of Hours and Earnings (ASHE)² which are published annually and can be easily and quickly inserted into our methodology to update the benchmarks when needed. Figures are for a combination of full time and part time³ male and female earnings of individuals resident in Leeds and are provided as quartiles and deciles.

Step 2 – household earnings

1.3 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 2015⁴ 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

1.4 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.⁵

1.5 *Step 4 – square metre benchmarks*

² ASHE link:

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

³ 75% Full Time and 25% Part Time earnings on a 3 year average to dampen volatility of annual change in Part Time earnings

⁴ <https://www.gov.uk/government/statistical-data-sets/detailed-data-for-modelling-and-analytical-purposes>

⁵ 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.

1.6 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 metre figure for houses. With reference to the nationally described space standards it is assumed that a 48 square meter dwelling would provide a reasonable proxy for apartments of a high density city centre character, 55 square metres for suburban apartments, whilst an 85 square meter dwelling would provide a reasonable proxy for houses.

1.7 The benchmarks calculations are as follows:

HOUSES				SALE BENCHMARKS		
FAMILY HH*	INCOME PW	INCOME PCM	ANNUAL INCOME £	2.5 X GROSS ANNUAL SALARY £	5% DEPOSIT	£/sqm at 85 sqm AVERAGE
LOWER DECILE	402	1741	20887	52218	54829	645.04
LOWER QUARTILE	516	2235	26815	67037	70389	828.10

APARTMENTS				SALE BENCHMARKS		Suburbs	City Centre
ALL (M + F)	INCOME PW	INCOME PCM	ANNUAL INCOME £	3 X GROSS ANNUAL SALARY £	5% DEPOSIT	£/sqm at 55 sqm AVERAGE	£/sqm at 48 sqm AVERAGE
LOWER DECILE	236	1021	12255	36764	38602	701.86	804.21
LOWER QUARTILE	304	1316	15791	47372	49741	904.37	1036.26

APARTMENTS	PRS RENTAL BENCHMARKS			25% OF GROSS INCOME £			£/sqm at 48 sqm AVERAGE	
	INCOME PW £	INCOME PCM £	ANNUAL INCOME £	PW	PCM	PA	PW	PCM
LOWER DECILE	236	1021	12255	58.92	255.31	3064	1.23	5.32
LOWER QUARTILE	304	1315.889	15791	75.92	328.97	3948	1.58	6.85

Appendix 2: Benchmark Comparison of Purchase Price of 30 Affordable Dwellings

Type	Lower Decile Affordability										Lower Quartile Affordability								Total Price (£)		Change	
	38	51.5	63	72	76.5	72	81	95.5	103	38	51.5	63	72	76.5	72	81	95.5	103			£	%
Sizes (Sqm)	38	51.5	63	72	76.5	72	81	95.5	103	38	51.5	63	72	76.5	72	81	95.5	103	Current Benchmark	Proposed Benchmark	2016 Change	All 2016 % Change
Hypothetical schemes giving 30 affordable dwellings	Studio APT	1 Bed APT	2 Bed APT	2 Bed APT	3 Bed APT	2 Bed HOU	2 Bed HOU	3 Bed HOU	4 Bed HOU	Studio APT	1 Bed APT	2 Bed APT	2 Bed APT	3 Bed APT	2 Bed HOU	2 Bed HOU	3 Bed HOU	4 Bed HOU				
Apartments high density city centre	6	6	6							4	4	4							1376160	1367975	-8185	-1%
Apartments mix city centre	3	3	6	3	3					2	2	4	2	2					1642368	1632599	-9769	-1%
Mix 2/3 apartments & 1/3 houses		3	6	3		4		2			2	4	2		3		1		1558586	1543554	-15032	-1%
Mix 1/2 apartments & 1/2 houses		3	3	3		3	3	3			2	2	2		2	2	2		1626438	1622469	-3969	0%
Mix 1/3 apartments & 2/3 houses		3	3			6		3	3		2	2			4		2	2	1668630	1678223	9593	1%
Houses small weighting						8	6	3							6	5	2		1670508	1700498	29990	0%
Houses balanced weighting						4	5	4	4						3	3	4	3	1904840	1911498	6658	0%
Houses large weighting								7	10								6	7	2112204	2149690	37486	0%