

## **Affordable Housing Thresholds**

The affordable housing threshold is currently 15 as set out in SPG, schemes above this capacity must provide affordable housing. The Economic Viability Assessment (EVA) (June 2010) examined a number of scenarios in relation to scheme viability and thresholds focusing on those sites which were viable when the unit threshold was set at 15 units and tested to see what levels of affordable housing could be supported as this threshold was decreased. This enabled analysis to determine whether a sliding scale of percentage requirements for affordable housing is appropriate on smaller schemes.

The Economic Viability Assessment examined three market scenarios, baseline (recession level), pre-recession level (height of the market), and a midpoint position. A set of assumptions covering a range of site sizes, market areas, density, dwelling mix, revenues and costs were considered to determine what development is viable.

The EVA also distinguishes between locations within the market zones to reflect high, medium and low value areas, by using beacon locations within these areas. No viability was seen at the baseline position (current/ recession) for sites in the City Centre or inner areas and therefore no analysis of thresholds in these areas has not been undertaken.

### **Baseline (recession) Housing market scenario**

An analysis of thresholds was carried out at the baseline position, in the golden triangle area viability is most heavily affected around the 8- 11 units mark with the tipping point in difference being about 10 units. This is replicated to a certain extent in the outer area market with the tipping point being at 9. The mix of tenure is important however. This modelling of thresholds had been undertaken assuming that social rented and intermediate units are delivered in equal percentages. If this were tipped in favour of social rented units it is likely that the impact on viability will be more severe and the tipping point would increase to over ten units. If the tenure balance were shifted to provide a higher level of intermediate tenure then this may result in a lowering of the possible threshold

### **Height of the housing market**

At the height of the market, when the housing market is at its height, an analysis of thresholds was also carried out, in the golden triangle area viability is most heavily affected around the 8-15, with a tipping point about 10 units, and for medium value areas about 11 units. Again this will depend on the tenure split of dwellings.

In the Golden Triangle area at the height of the market a threshold of 8 units, for medium value areas a threshold of 15. For the other area 11 units for both high and medium value areas. The results of this modelling focusing on small sites shows that the difference in viability between sites of 15 units and sites of 10 units is marginal. However, below a threshold of 10 units the level of affordable housing which can viably be delivered varies across all of the scenarios tested. The EVA highlights that when considering varying thresholds this would need to be carefully considered, and cannot be looked at in isolation but within the context of other policy considerations such as mix of tenure, benchmarks and targets, therefore an SPD is seen as the most appropriate place to set that level of detail, by doing this a flexible approach to delivery will be achieved.

### **Mix of Tenure**

Another factor which is important is the mix of tenure on sites of less than 10 units as for this analysis a 50/50 split between social and submarket has been assumed. However if more social rented units were provided, then the impact on viability will be more severe and the

tipping point would increase to over ten units. If the tenure balance were shifted to provide a higher level of intermediate tenure then this may result in lowering of the possible threshold.

### **Administration costs**

There are administration costs associated with a reduced threshold, as any reduced threshold would mean more viability assessments for those schemes where developers wish to provide a lower level of affordable housing than set out in the policy. The time involved in assessing small schemes is not likely to be less proportionate than that involved in assessing larger schemes. The unit cost of administration per affordable housing unit secured is therefore likely to be greater for small schemes than for larger schemes. Therefore it is probable that there is a point at which the costs of reduced thresholds would outweigh the benefits given the staff time that a large number of small schemes will take up or the delay in the processing of planning applications.

### **Community Infrastructure Levy (CIL)**

The Government has delayed production of the final CIL Regulations until the new year. These will set out whether the definition of infrastructure is changed so that the CIL receipts can be spent on affordable housing.

In setting the CIL Charging Schedule it may be possible to distinguish between different sized schemes which therefore do or don't provide affordable housing. This could mean that subject to viability, a higher rate could be set on schemes which don't provide affordable housing, and although in itself that would not create more affordable housing, it would create a larger overall CIL receipt and potentially allow for offsetting additional funds which the Council chose to spend to that regard. However, the CIL Regulations require that if differing charges are set, then they must relate to differing uses, and so it should be noted that this approach to splitting up the broad residential category into different 'uses' based solely on provision of affordable housing has not yet been tested at Examination anywhere in the country.

At the very least, even if the CIL cannot distinguish housing schemes without on-site affordable housing, it could be acknowledged in the Core Strategy that a portion of the CIL receipts raised might be used to help provide affordable housing in recognition of small housing developments that cannot provide on-site affordable housing. This should then provide recognition that affordable housing is one valid cause when apportioning CIL receipts.

### **Conclusions**

The evidence in the EVA demonstrate that there is evidence to support reducing the threshold from the current 15 to 10. However there are a number of other considerations including administration costs of reducing the threshold below 15 units, the management of single units on sites and whether the percentage requirement should remain the same despite a reduced threshold. An Affordable housing Supplementary Planning Document will provide up to date guidance on targets, within the context of core Strategy ranges.

It is proposed that a sentence be added to paragraph 5.3.17 to say that use of the CIL will be explored to generate contributions for affordable housing in relation to housing developments of fewer than 10 dwellings.

Also, given that some Members at Development Plans Panel 2<sup>nd</sup> July 2012 were not clear that the provisions of Policy H5 are designed to set overall parameters for an Affordable Housing Supplementary Planning Document rather than for considering planning applications directly, greater clarity would be provided by inserting the words "for a Supplementary Planning Document".

Suggested Changes (additions in *grey italics*, deletions in ~~strikethrough~~)

### **Affordable Housing**

- 5.2.11 In conformity with national policy guidance, affordable housing will be required to meet local needs. The policy has been informed by the evidence base, including the Leeds Strategic Housing Market Assessment (Update 2011) (as referred to in PPS3, Annex C) and the Economic Viability Assessment 2010 (in accordance with PPS3 Para 29).
- 5.2.12 Since affordable housing planning policy was first developed in the early 1990s, Leeds has always been able to demonstrate a need for affordable housing (UDP paras 7.5.14 – 19, Assessment 2001/02, Assessment 2003, Assessment 2007 and Assessment 2011). Following national practice guidance, need for affordable housing was calculated to be 480 per annum 2003 and 1889 per annum in 2007. The most recent Strategic Housing Market Assessment (2011) identifies an annual need of 1158 affordable housing dwellings. Not all of this need will be met by the planning system, other methods of delivery such as grant funded schemes also play an important role in the delivery of affordable housing.
- 5.2.13 The Economic Viability Assessment 2010 explored what percentages of affordable housing and what mixes for example social rented /sub-market types of affordable housing would be viable. It did this for different geographical areas of Leeds and for different states of the market, firstly baseline (the depressed period of 2010), secondly mid point and thirdly height of the Market (2007). It concludes that in periods of buoyancy affordable housing could be delivered at 50% in high value areas but that in periods of adversity some areas are hardly able to sustain any affordable housing.
- 5.2.14 Affordable housing should meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and house prices. It should include provision for the home to remain at an affordable price for future eligible households or, if these restrictions are lifted, for the subsidy to be recycled for alternative affordable housing provision.
- 5.2.15 Households vary in their ability to afford housing. The Strategic Housing Market Assessment 2011 (SHMA) uses evidence of household earnings combined with forecast growth in different types and sizes of household to assess affordability. The profile of earnings in Leeds is polarised and this is forecast to continue with growth in well paid professional and managerial jobs on the one hand and growth in low paid sales, service and elementary occupations on the other whilst the growth in medium paid occupations is predicted to be modest. This means there will continue to be a large proportion of households in Leeds that can afford very little. The SHMA concludes that 60% of affordable housing should be of the “social rented” type. Given changes in national definitions and funding for affordable housing, it is possible that the definition “social rented” as very low rent housing may be blurred with the meaning of “affordable rent”. As such it is important that the Core Strategy clarifies what is meant by different levels of affordability so that identified needs are met.
- 5.2.16 The SHMA suggests that households need earnings of at least £15,000 to afford more than “social rented” housing. This equates to approximately the lowest decile of earnings in Leeds. The affordability of affordable housing should be designed to meet identified needs of households in both lower quartile and lower decile bands of earnings. From an initial starting point of 40% of affordable housing to meet needs of households in lower quartile earnings and 60% lower decile earnings, an SPD will

advise how these percentages may vary in different areas of Leeds and may vary over time as new evidence emerges.

5.3.17 Policy H5 provides an overall framework for the provision of affordable housing. It is appropriate that details such as thresholds and targets is provided through a Supplementary Planning Document. This will reflect market conditions and can be reviewed as economic conditions change and the life of the Core Strategy within the context of Policy H5. *For schemes that are below the threshold to require the provision of on-site affordable housing, the City Council will explore use of the Community Infrastructure Levy to generate contributions toward affordable housing provision.*

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

Housing developments above a certain threshold should include a proportion of affordable housing to be provided on the development site. The affordable housing provision should provide for a tenure mix in terms of submarket and social rented housing. Over the plan period to 2028 the threshold, amount of affordable housing and tenure splits may vary depending on housing needs and market conditions applicable at the time. An Affordable Housing Supplementary Planning Document will therefore provide up to date guidance on targets and provision sought, which may vary depending on the local area. An annual update to the SPD of affordable housing price benchmark figures will also be provided.

The broad range of provisions *for a supplementary planning document* will be:

- i) A threshold between 10 and 15 dwellings will apply – affordable housing will be sought on any development at or above the threshold. There is no site size threshold.
- ii) Overall targets for affordable housing will vary from 5 to 50%.
- iii) Affordability of affordable housing to be designed to meet identified needs of households as follows;
  - 40% affordable housing for households on lower quartile earnings
  - 60% affordable housing for households on lower decile earnings

During the Core Strategy plan period, Affordable Housing SPDs will determine what particular thresholds, targets and affordability mix will apply to which areas of Leeds.

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.

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