

Executive

5 October 2010

Report of the Director of City Strategy

Affordable Housing Viability Study

Summary

1. This report advises Members on the production of the Affordable Housing Viability Study (AHVS) for York as required by national planning guidance in Planning Policy Statement 3 (PPS3) Housing.
2. The AHVS was considered at the LDFWG on the 5th July 2010. Members recommended that the Study be approved, that the principles of the Dynamic Model and the conclusions of the study form the basis for formulating the Core Strategy policy and that the targets and thresholds in the Study be adopted in the interim for Development Control purposes.
3. At the LDFWG meeting Members heard three registered speakers and received a presentation from Dr Richard Fordham from Fordham Research who was commissioned by the Council to produce this study.
4. At the request of Members, officers have met with representatives of the Property Forum and other local developers and agents in order to discuss the issues raised.
5. A full stakeholder event was held on 25th August in order to receive the results of the Fordham Study, and to give attendees the opportunity to absorb and question the findings. This follows an event held earlier in the year, which received strong support for the new approach to affordable housing target setting. Annex 1 summarises the issues raised at the event, including comments received through correspondence from a number of developers (nine at the time of writing this report) post the event, Fordham's response, the Property Forum's view and officer comments.
6. Members are asked to approve the AHVS dynamic model approach and note the continuing positive engagement that is taking place between the Property Forum, CYC Officers and Developers to ensure that the assumptions fed into this approach are appropriate. Both CYC Officers and the Property Forum are working together to gather evidence in order to test the assumptions set out in the Study. Following this a report is scheduled to be brought back to Members in November 2010, which will

set out any considered changes as well as headline conclusions and results. It will also request the publication of the AHVS (with any necessary changes) and interim adoption of targets and thresholds for Development Control purposes, as agreed by LDFWG on the 5 July 2010.

Background

7. PPS3 sets out the government policy on planning for housing. Paragraph 29 sets out the need to carry out an assessment of the likely economic viability of land for housing within the area. The requirement for such studies was enhanced by the Blyth Valley judgement, which has had important implications for all Development Plan Documents in its interpretation of the guidance set out in PPS3. The inclusion of statements within planning policy to the effect that viability factors will be assessed on an individual basis is not seen as sufficient. To date no government guidance has been produced to assist in how these assessments of viability should be carried out.
8. In light of this, and as part of the ongoing work associated with the Local Development Framework, Fordham Research was appointed last year to provide an assessment of the viability for affordable housing in York and to give advice on policy direction. The overall objective of the study was to test the viability of the proposed Core Strategy affordable housing preferred options and to inform future policy development based on a sound evidence base.
9. The Model designed by Fordham Research is a bespoke model. Its aim is to overcome a dilemma created by the recession and subsequent market recession, with the affordable housing targets being assessed annually based on 3 indexes. This method has been positively supported by the LDFWG and through the consultation events (see table in annex 1 for further details).
10. The AHVS was reported to the LDFWG on the 5 July 2010, who agreed:
 - the AHVS be approved for publication as part of the Local Development Framework evidence base,
 - the principles of the Dynamic Model and the conclusions of the study be approved as the basis for formulating the Core Strategy Policy,
 - the targets and thresholds in the Study be adopted for Development Control purposes and the Dynamic Model principles as an interim approach until the Core Strategy is adopted.
11. At Members request officers agreed at the LDFWG meeting to hold discussions with speakers who had registered concerns. (See consultation section for further details).

Consultation

12. A Stakeholder Workshop, which focused purely on the methodology, assumptions used in the study (development profit, land and cushion values etc) and the idea of using a 'dynamic model' was held at the end of January 2010. Attendees included local developers, housebuilders, agents and Registered Social Landlords. The elements presented were positively received and strong support was obtained for this approach to affordable housing target setting.
13. Following concerns raised by 3 speakers at the LDFWG on the 5 July 2010 positive meetings have been held with a Sub-group of the Property Forum set up specifically to work with us on the AHVS, other local developers and agents and an additional stakeholder event was held on the 25 August 2010.
14. The stakeholder event was attended by 17 representatives and began with a presentation by Richard Fordham. It then provided an open opportunity for stakeholders to discuss the assumptions, methodology and the Dynamic Model with Fordham Research and Council Officers.
15. A number of written responses (nine so far) have been received since the event opposing the Study and its results, with concerns centring around land values being too low, no provision should be required from small sites, and that the affordable housing target should be 15% for both brown and greenfield sites as a target higher is not viable. Many of the comments in the letters were also raised as the Stakeholder Event and therefore comments have been included in Table 1.
16. Officers together with representatives from the Property Forum are now carrying out additional research into some of the assumptions, as set out in table 1 in Annex 1. Agreement has been reached with the Property Forum Sub-group on many of the issues. The two key outstanding issues centre on land values/cushions and developer profit.

Options

17. Members have two options:
 - a. Adopting the Study as presented to the LDFWG on the 5 July 2010.
 - b. To agree the Study approach but allow Officers additional time to carry out further research into the assumptions to ensure that these reflect local circumstances and meet the requirements of the Study.

Analysis

Option 1

18. The AHVS is an independent study, carried out by very experienced consultants. Whilst stakeholders have voiced concerns over a number of issues, Fordham Research have responded clearly to each of these and believe that they could defend and validate the Study at Inquiry. Current negotiations show that the targets proposed do seem reasonable (for e.g. Terry's 30% and Nestle 25% both align with the figures coming out of the Study).
19. The Study is a broad brush Study and reports from Planning Inspectors are clearly recommending that assumptions set out in viability studies reflect the norm – the longer term – rather than the down market we are currently faced with. This is to ensure longevity of the Study. Interim adoption of the targets, as well as the final Core Strategy Policy, will allow individual appraisals to be submitted if a developer can not meet the target but site-specific appraisals will need to be very robust in order to demonstrate why the reduced target cannot be met. The Dynamic Model is a new approach and will be reviewed through the Annual Monitoring Report to ensure the delivery of affordable housing in York is not compromised.

Option 2

20. The Dynamic Model approach in the AHVS has been welcomed. Adopting this method allows the targets to react and stay aligned to market changes. However, it is important that the assumptions are fully tested with the development industry. Officers have built an excellent working relationship with the sub-group of the Property Forum and consider that there is merit in carrying out further research in order to fully test the study findings.
21. The Affordable Housing Viability Study forms an important part of the evidence base for the LDF. It will be a key piece of evidence used to guide future affordable housing policy and delivery in the City.
22. Allowing an extra month to further explore assumptions used is considered very worthwhile; it accords with government statements, which advise closer working with the development industry, and has full support of the York Property Forum Sub-group. The short delay in the adoption of AHVS will not delay the production of the Core Strategy Submission draft.
23. Officers intend to report back to Members in November 2010 following this joint working and further research. This will highlight any changes to assumptions considered necessary and will ask Members to approve the AHVS as part of the evidence base for the Local Development Framework. It will also recommend interim adoption of the targets and thresholds for Development Control purposes.
24. The targets in the AHVS as it stands now, clearly lower the percentage of affordable homes required for all sites in York except urban sites less than 15 dwellings, when compared to the existing 50% policy target.

Officers are keen to bring this forward for Development Control purposes as soon as possible. It is thought that will speed up the application process – i.e. if an application submitted meets the revised affordable housing target, and subject to other Development Control considerations, it would be approved - there would be no need for an individual appraisal. This would be a great saving in time and resources required for individual site appraisals.

25. The flexibility of allowing individual appraisals where it can be demonstrated that sites still cannot meet the target will apply. It is never going to be possible to set a target that all sites can meet because of individual site circumstances. However, the strong message from developers is that it should not be brought in yet, until the assumptions have been further explored and evidenced.

Corporate Priorities

26. The Affordable Housing Viability Study supports the following Corporate Priorities:
- It will help to support York's successful economy
 - It will enable the City and its communities to grow and thrive
 - It will help to improve health and lifestyles of people who live in York, particularly the poorest by providing decent affordable homes in the City

Implications

27. The following implications have been assessed:
- (a) Financial** – The cost of preparing the Affordable Housing Viability Study will be met through current budgets provided for the LDF. The adoption of an interim policy which has not been through a formal adoption process could lead to possible cost claims
 - (b) Human Resources (HR)** - None
 - (c) Equalities** - None
 - (d) Legal** - None
 - (e) Crime and Disorder** - None
 - (f) Information Technology (IT)** – None
 - (g) Property** – The results will affect the amount of affordable housing required on the development of any land and buildings in the Council's ownership.
 - (h) Other** - None

Risk Management

28. In compliance with the Council's risk management strategy, there are no risks associated with the recommendations of this report.

Recommendations

29. It is recommended that Members:

- a. Approve Option 2 and approve the principles of the Study and the Dynamic approach, and note the progress since the LDFWG on the 5 July 2010 in respect of the collaborative working of CYC Officers with the Property Forum and Developers to ensure that the assumptions in the AHVS are fully tested, prior to the Study being brought back for final approval.

Reason: So that the Affordable Housing Study is a robust evidence base that can be used as part of the Local Development Framework evidence base.

Contact Details

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Specialist Implications Officer <i>n/a</i>	Report Approved		Date
Wards Affected: All			All
For further information please contact the author of the report			

Background Papers:

Annex 1: Table 1 - Key issues raised at the AHVS Stakeholder Event – 25 August 2010, Fordham’s response, the Property Forums view and Officer comments, including further work being carried

Copy of the LDFWG Report 5 July 2010 and minutes – available from Democratic Services

Developer Letters – available to view in City Development