Provision of Advice on Affordable Housing and the Use of a Single Dwelling Threshold for West Oxfordshire District Council

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1 Introduction and projects aims

The Council have commissioned Andrew Golland Associates to provide advice on a range of issues and matters relating to the provision of affordable housing through small residential schemes, including in particular the application of a single dwelling threshold for affordable housing provision and the potential use of commuted sums or payments-in-lieu.

More specifically, the aims of the project are to:

1) Advise whether the use of a single dwelling threshold for affordable housing provision is justifiable in West Oxfordshire including whether there would be any benefit to increasing the threshold and whether there are likely to be any potential issues with the use of such a low threshold inhibiting the delivery of new housing.

2) Advise whether there is a minimum threshold number of dwellings below which a commuted sum will be the most appropriate and practical solution or whether this should be considered on an individual case by case basis.

3) In cases where a commuted sum is appropriate, to advise on how this should be calculated so that it is viable, simple to understand and able to be easily updated to take account of changing circumstances.

4) Provide wording for a standard unilateral undertaking that landowners/developers can enter into in cases where a commuted sum is appropriate and applicable.

5) Advise whether there are any other potential alternative approaches that the Council could adopt in dealing with the provision of affordable housing on small-scale residential schemes or whether commuted sums are likely to be the most effective mechanism.

6) Provide advice on appropriate forms of intermediate housing and any threshold above or below which such housing is most applicable. Advice is sought as to any evidence of impediments to the delivery of discount market housing and appropriate enabling mechanisms.

7) Advise whether there are any particular considerations the Council should take into account to facilitate the viability of affordable housing delivery on small-scale schemes (e.g. collection of commuted sums on completion in order to assist with cash flow)'.

As part of the project a workshop was held on 31st August 2012 and the minutes are attached at Appendix 2.

2 Plan policy position in West Oxfordshire and delivery

It is helpful in answering questions about the future direction of policy to summarise the current policy position and look, where feasible, at levels of delivery.

West Oxfordshire Local Plan 2011 (adopted 2006)

The West Oxfordshire Local Plan (adopted 2006) states that:

'An element of affordable housing will be sought on the following basis:

On land allocated in [the] Plan for residential development or mixed uses including housing: 30% on sites in the towns of Witney and Carterton and up to 50% in the remainder of the District.

On unallocated land, which comes forward in accordance with the locational policies of [the] Plan, up to 50% affordable housing will be sought where: the site is in Witney, Carterton, Chipping Norton or Eynsham and has an area of 0.5 Ha or greater or when 15 or more dwellings are proposed or; elsewhere, when a development of 2 or more dwellings are proposed.'

Affordable Housing Supplementary Planning Document (SPD) 2007

The adopted Supplementary Planning Document (SPD) of April 2007 supports the Local Plan policy position. SPD policy suggests a policy split of 70% Social Rent to 30% Intermediate affordable housing.

Thresholds are applied at 15 for developments in Witney, Carterton, Chipping Norton and Eynsham (0.5 Hectare sites) and at 2 dwellings elsewhere in the District. This is again consistent with the Local Plan policy.

It is important to stress that a policy of taking affordable housing contributions from smaller sites has therefore existed for some while now, albeit outside of Witney, Carterton, Chipping Norton and Eynsham.

Importantly, the SPD states (Paragraph 3.23) that commuted sums will be sought on an equivalent basis.

West Oxfordshire District Council's Draft Core Strategy (January 2011)

Building on the earlier preferred option consultation in 2010, the Council published its draft Core Strategy in January 2011. Draft Policy CS10 – Affordable Housing was based on a threshold of a net gain of one or more dwellings and introduced a split approach in relation to the level of provision with at least 50% affordable provision on undeveloped sites and in relation to other types of land (previously developed) at least 35% in Witney and Carterton and at least 40% elsewhere.

A summary review of delivery in the District

Table 1 below sets out overview figures for housing delivery in West Oxfordshire for the past six years. The data provides a good contextual background showing the balance of delivery between larger and smaller sites, and between rural and urban sites.

Table 1 – Overview of Housing Delivery in West Oxfordshire (2006 – 2012)

Year	Witney	Carterton	Ch Norton	Eynsham	Rural areas	Total Dwellings	Total Affordable	% Affordable	Rural Areas (1 Dw) %	Rural (2 or more Dw)*
2006/07	371	252	89	2	96	810	113	14	36%	53%
2007/08	354	250	95	6	160	865	186	22	26%	74%
2008/09	216	112	22	19	209	578	94	16	47%	47%
2009/10	194	65	34	11	80	384	22	6	60%	34%
2010/11	145	54	4	47	174	424	163	38	36%	27%
2011/12	39	24	15	81	200	359	181	50	23%	22%

*Should be required to provide Affordable Housing.

The table shows that whilst the main towns have supplied the bulk of new homes (2,501) the rural areas have delivered housing in significant numbers (919).

In terms of affordable housing, a total of 759 affordable dwellings have been built in the six year period, equating to 22% of the total number of homes built. Information provided by the Council indicates that of these 759 affordable dwellings, 545 (72%) were built in the main towns and 214 (28%) were built in the rural areas. As a total proportion of the number of homes built in each area, the percentage of affordable dwellings delivered in the rural areas and main towns has been very similar (at around 22% - 23%). The majority of affordable dwellings in the rural areas (155) have been provided through rural exception sites (RES) or allocated sites (127 on RES and 28 on allocated sites).

The table shows that a substantial number of the homes built in rural areas have been developed on single dwelling sites (see the penultimate column from the right hand side). In one year (2009/10) this figure is as high as 60%. Typically it is between 30% and 40%.

In context, this could suggest that there is a degree of 'threshold dodging' taking place (i.e. because the threshold is two, many one dwelling schemes are being taken forward).

The relatively high number of single dwelling schemes is considered to lend support to the use of a single dwelling threshold which would help to ensure a maximum contribution to meeting identified housing need.

There is further, more detailed data relating to individual developments. These are recent planning permissions and the full tables are presented in Appendix 1.

The tables are helpful in showing the nature of sites coming forward. In particular, it is instructive to note the relatively high level of single dwelling schemes which are built on garden land. These schemes are built in both urban and village locations and thus under the current Local Plan policy, avoid an affordable housing contribution.

Whether the proliferation of single dwelling garden schemes is explained by the affordable housing policy, or because these schemes genuinely would be unviable at two or more dwellings including affordable housing, is uncertain. Certainly it is to be expected that very significant uplifts resulting from the grant of planning permission are to be expected even for single dwelling schemes.

3 Approach to viability

It is important to link the analysis carried out in recommending a commuted sum calculation with the previous approach adopted in the previous Affordable Housing Viability Study (AHVS) published on behalf of the Council in November 2009 and updated in May 2011. The section makes the link and demonstrates that the approach has been consistently supported through precedent.

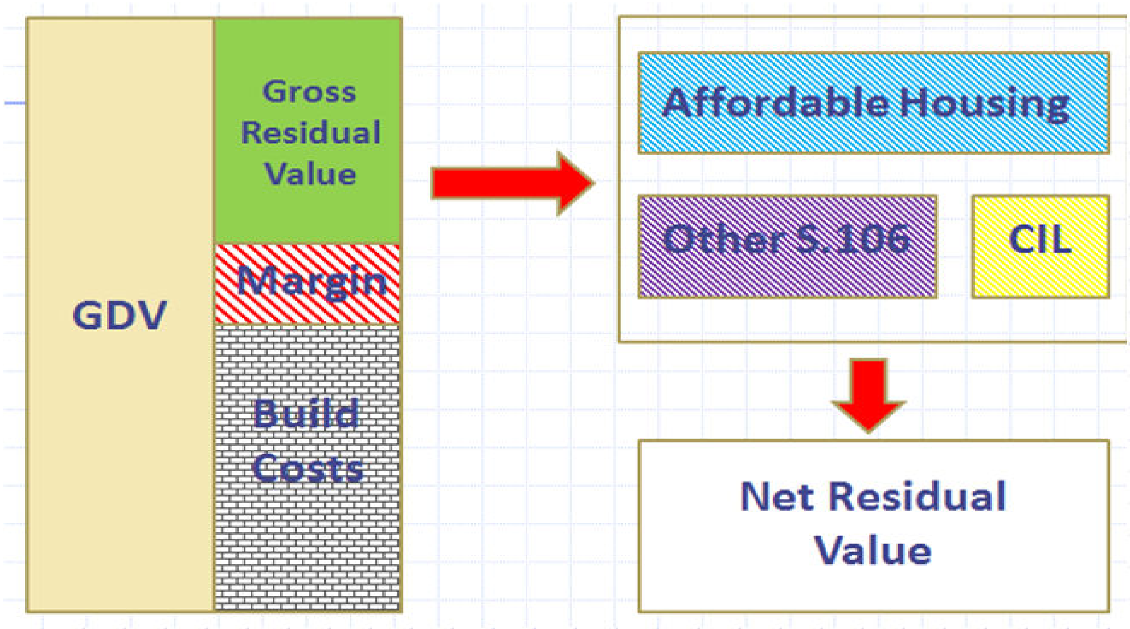
3.1 Overview

The appraisal model adopted by the Council in its negotiations for affordable housing and other Section 106 contributions is the West Oxfordshire DC Toolkit. This model underpins the analysis in the AHVS and its Update Study. The model operates in around 150 local authorities across England and Wales. It is regarded as the industry standard.

The Toolkit compares the potential revenue from a site with the potential costs of development before a payment for land is made. In estimating the potential revenue, the income from selling dwellings in the market and the income from producing specific forms of affordable housing are considered. The estimates involve (1) assumptions about how the development process and the subsidy system operate and (2) assumptions about the values for specific inputs such as house prices and building costs.

It is important to understand how viability is assessed in the planning and development process. The assessment of viability is usually referred to a residual development appraisal approach. Our understanding is illustrated in the diagram below. This shows that the starting point for negotiations is the gross residual site value which is the difference between the scheme revenue and scheme costs, including a reasonable allowance for developer return.

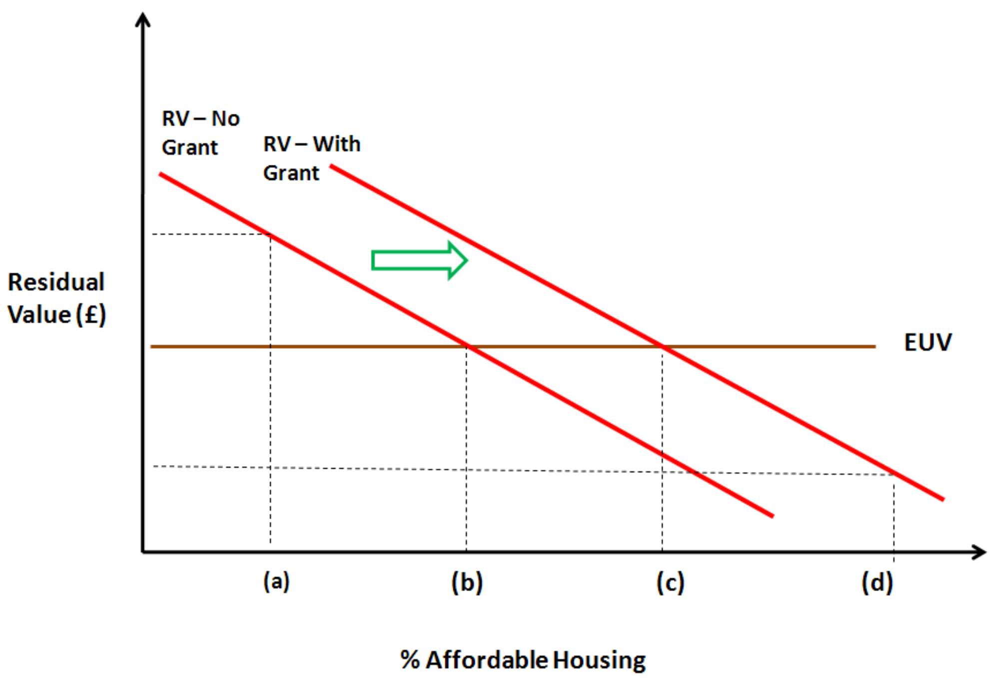
Once CIL or Section 106 contributions have been deducted from the gross residual value, a 'net' residual value results. The question is then whether this net residual value is sufficient in terms of development value relative to the site in its current use.



Calculating what is likely to be the value of a site given a specific planning permission, is only one factor in deciding what is viable.

3.2 Assessing viability

A site is extremely unlikely to proceed where the costs of a proposed scheme exceed the revenue. But simply having a positive residual value will not guarantee that development happens. The existing use value of the site, or indeed a realistic alternative use value for a site (e.g. commercial) will also play a role in the mind of the land owner in bringing the site forward and thus is a factor in deciding whether a site is likely to be brought forward for housing.



The diagram shows how this operates in theory. Residual value (RV) falls as the proportion of affordable housing increases. At point (a), RV is greater than Existing Use Value (EUV) and provided that this margin is sufficient for the land owner to bring the site forward, then it will be viable.

At point (b) the RV is equal to the EUV and there is relatively little incentive in theory to bring the site forward.

Beyond points (a) and (b), the scheme will not come forward as the developer will not be able to pay the land owner enough relative to the land owner's EUV.

Where grant is available (points (c) and (d)), viability for affordable housing is enhanced. Up to point (c) RV is greater than EUV and there is a land owner incentive. At point (c) RV is equal to EUV and so, whilst a higher affordable housing contribution is likely than say at point (b), in principle the land owner is in exactly the same position as at (b).

At point (d), the scheme will not be viable even with grant.

Under all circumstances, the Council will need to consider whether a realistic and justifiable AUV (Alternative Use Value) applies. Where the AUV is higher than the EUV, and can be justified, then the AUV becomes the appropriate threshold value against which RV is judged.

Cases and precedent supporting the approach outlined above:

In 2009, the Homes and Communities Agency published a good practice guidance manual ‘Investment and Planning Obligations: Responding to the Downturn’. This defines viability as follows: “a viable development will support a residual land value at level sufficiently above the site’s existing use value (EUV) or alternative use value (AUV) to support a land acquisition price acceptable to the landowner”.

A number of planning appeal decisions provide guidance on the extent to which the residual land value should exceed existing use value to be considered viable:

Barnet & Chase Farm: APP/Q5300/A/07/2043798/NWF

Here it is stated that**: ‘**the appropriate test is that the value generated by the scheme should exceed the value of the site in its current use. The logic is that, if the converse were the case, then sites would not come forward for development’.

Bath Road, Bristol: APP/P0119/A/08/2069226

The key quotation from this case is that: ‘the difference between the RLV and the existing site value provides a basis for ascertaining the viability of contributing towards affordable housing’.

Beckenham: APP/G5180/A/08/2084559

The statement on the definition of viability is here less clear cut, although the approach to defining viability is nevertheless implicit in the statement: ‘without an affordable housing contribution, the scheme will only yield less than 12% above the existing use value, 8% below the generally accepted margin necessary to induce such development to proceed’.

Oxford Street, Woodstock: APP/D3125/A/09/2104658. This case, consistent with the previous one outlined here, focuses on the margin required over and above the Existing Use Value in order to achieve to a change of use of the land:

‘The main parties’ valuations of the current existing value of the land are not dissimilar but the Appellant has sought to add a 10% premium. Though the site is owned by the Appellants it must be assumed, for valuation purposes, that the land is being acquired now. It is unreasonable to assume that an existing owner and user of the land would not require a premium over the actual value of the land to offset inconvenience and assist with relocation. The Appellants addition of the 10% premium is not unreasonable in these circumstances.’

The approach has been very much bolstered in the report by Mr Keith Holland, the Examiner appointed by the Mayor of London to evaluate the London Community Infrastructure Levy. The planning Inspector stated in response to an alternative (and ‘market value’) approach being promoted by the Royal Institution of Chartered Surveyors

‘The market value approach is not formalised as RICS policy and I understand that there is considerable debate within the RICS about this matter. The EUV plus a margin approach was used not only by the GLA team but also by several chartered surveyors in viability evidence presented to the examination. Furthermore the SG at paragraph 22 refers to a number of valuation models and methodologies and states that there is no requirement for a charging authority to use one of these models. Accordingly I don’t believe that the EUV approach can be accurately described as fundamentally flawed or that this examination should be adjourned to allow work based on the market approach to be done’.

4 Review of different approaches to assessing commuted sums

4.1 Link to approach set out in Chapter 3

The approach to viability assessment set out in Chapter 3 follows closely the approach adopted in policy development work (setting targets and thresholds) and in site specific negotiations. This approach is backed by the courts through judicial precedent as a way of defining what is, and what is not, viable.

The principles set out in Section 3 provide an overarching set of rules for defining viability whether the affordable housing contribution is taken in the form of on-site provision, or whether a commuted sum is taken.

Within that overall context, consideration is given below to a number of different approaches to assessing commuted sums.

4.2 Overarching approach to commuted sums

There are two broad generic ways in which commuted sums can be calculated:

a) Site by site, reflecting the very particular circumstances of the schemes, and by reference to existing use value or some other relevant benchmark value.

b) By formula: this approach sets out a calculation which is intended to give an indication of what should be paid by the applicant.

<u>Under all circumstances, the applicant will have the right, according to principles engendered in the NPPF, to fall back on a claim that the scheme is 'not viable' Under these circumstances, what a local authority's commuted sum formula states may be of less significance</u>.

Nevertheless formulaic approaches are helpful in that they may reduce the burden of negotiation and provide some transparency in settling affordable housing contributions.

4.3 Formulaic approaches to commuted sums

A number of approaches to assessing commuted sums are identified below based on past experience and a recent review of current practice elsewhere.

In considering different approaches, Paragraph 50 of the NPPF provides the guiding framework for commuted sums. This states that:

'Where they have identified that affordable housing is needed, set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified (for example to improve or make more effective use of the existing housing stock) and the agreed approach contributes to the objective of creating mixed and balanced communities. Such policies should be sufficiently flexible to take account of changing market conditions over time'.

Local authorities generally adopt two main approaches to the calculation of commuted sums:

Value driven calculations;
Cost driven calculations;

These can be further broken down to into five main models. These are:

i) 'Residual Value'
ii) 'Affordable Housing Land Value'
iii) 'Market Value'
iv) 'Gap Funding'
v) 'Affordable Housing Cost Replacement'

These broad approaches are set out in the table which follows, which includes an assessment of the relative merits of each approach by criteria.

It is important to stress that ultimately, all approaches are subject to the test of Existing Use Value.

4.3.1 Residual Value Approach

The Residual Value approach (described previously in Section 3) is one which upholds the principle of equivalence; i.e. it puts the land owner in exactly the same financial position whether there is an on-site affordable housing contribution, or an off-site one. The mechanics of the calculation are set out in the recommended approach below.

The commuted sum is calculated as follows:

Step 1 Calculate scheme Residual Value assuming no Affordable Housing;

Step 2 Calculate scheme Residual Value assuming an Affordable Housing contribution is made;

Step 3	Calculate the difference between the figures produced at Step 1 and Step 2.

Example:

RV with affordable housing	£1.5 million
RV with no affordable housing	£2 million
Commuted sum (difference between the two)	£500,000

The RV approach is entirely consistent with the ethos of the Section 106 process and is therefore transparent and easy to understand. It is consistent with the NPPF which requires financial contributions to be of broadly equivalent value (to the impact of on-site affordable housing). It does not (unless some form of discounting is employed), incentivise payments in lieu. The monitoring burden is relatively light, since a formula can be set and updated by reference to headline indices; most obviously the HM Land Registry House Price Index and the RICS BCIS (Building Cost Information Service) indices.

4.3.2 Affordable Housing Land Value approach

The 'Affordable Housing Land Value' approach is adopted by some authorities where commuted sums are agreed. This works broadly as follows:

Step 1	Open market value (OMV) of the relevant or comparative market property divided by the size of that property and multiplied by the affordable housing property size equivalent (to assess the imputed market value of a suitably sized affordable home);
Step 2	Multiply by the residual land value percentage (e.g. 30%) – to get to the base plot value for that home;
Step 3	Add (e.g.) 15% to the step 2 figure, to reflect site acquisition and servicing costs (this gives the per unit sum – approximate value of the serviced plot for that property type – free serviced land basis).
Step 4	Apply the resulting per unit sum(s) to the relevant site number and proportion (i.e. Step 3 per unit sum x number of dwellings x e.g. 20% affordable housing).

Example:

Open market of market property	£300,000
Size adjustment based on market property at 120 sq m and affordable at say 80 sq m	£200,000
Calculation to get land value at 30% of adjusted value (£200,000 x 0.3)	£60,000
Add 15%	£69,000
Apply at policy (at say 20%)	£13,800

There are several weaknesses of this approach. The main one is that it provides a huge incentive to the land owner to achieve a payment in lieu since the liability to pay a commuted sum is based on a figure which reflects broadly only the cost of an affordable housing land plot, and not the actual advantage to the land owner created by the uplift in residual value generated by not having an affordable housing requirement.

The formula is therefore non compliant in terms of what the Section 106 process is set up to achieve. It is also highly questionable whether this approach is consistent with the NPPF (in the sense that the NPPF requires financial contributions that are 'broadly equivalent' to that which would be provided on site).

An additional problem is that the formula is not sensitive enough to local market circumstances. The GDV (Total gross value):LV (land value) ratio needs to be carefully set to fit sub markets. It will vary significantly from one place to the next.

The monitoring burden is also high due to the lack of data on land market transactions.

4.3.3 The market value approach

The market value approach is one which has tended to be adopted by local authorities in the north, where discount market housing has been the preferred tenure.

The formula is usually very simple and takes a commuted sum as a percentage of open market value selling prices.

Example:

Open market value of unit say	£150,000
At say 70% open market value	£105,000
Difference = commuted sum	£45,000

This approach is generally satisfactory in terms of transparency where the loss in RV equates with the discount to market value.

The approach does have to be considered (as indeed do most approaches to commuted sums) in light of housing affordability. That is to say, the 70% of open market value has to be affordable in principle; it may not be so to all households.

4.3.4 Gap funding approach

Gap funding approaches are historically probably the most extensively used. The approach usually tries to get the land owner/developer to plug the gap or shortfall between, on the one hand, the actual cost of the construction, and the capital sum which can be raised by a housing association. As follows:

Commuted sum requirement = Total cost of construction less capital sum raised by a housing association for the affordable unit.

Example:

Total cost of build say	£100,000
Amount capable of being raised by a housing association	
(Based on a mortgage) say	£60,000
Commuted sum	£40,000

There is some logic in this approach, although frequently the test of equivalence is failed as land value is not taken into account. In other words, the amount of money shortfall between build costs and what a RP can pay is met via the commuted sum, but the land value is not covered.

To some extent, this problem was overcome in formulae that were linked to standard cost indices (e.g. the old English TCIs, or Total Cost Indicators, or the current Welsh ACGs – Acceptable Cost Guidance) as these indices had (have) an implicit land value incorporated. That is to say, instead of just construction costs being the basis of the calculation, both construction costs and land value are included. Where this happens, the gap between total costs (land and build) and what the RP can raise is greater.

4.3.5 Affordable Housing Cost Replacement

Some commuted sums have been based on a type of replacement cost approach. This approach has the advantage of being adequate in terms of achieving affordable housing as needed. However generally, the approach may put the land owner in a more advantageous position with a commuted sum than it does with on site provision of the affordable housing contrary to the intention of the NPPF.

Example:

Cost of providing an affordable dwelling in the local market £100,000

Policy at say 30% £30,000

The issue is thus that the amount required is usually lower than the devaluation in the site according to the affordable housing policy.

The table below summarises the relative merits of the five approaches outlined above.

	Approach	Basic Formula	Equivalence to land owner	Incentivises payments-in-lieu	Transparency of principle	Monitoring Burden	Need for Negotiation
1	Residual Value	RV at 100% Market Housing less RV at AH policy	✓	x	Good	Light	✓
2	AH Land Value	OMV x Unit Size Conversion x GDV:RV Ratio x AH %	x	✓	Poor	Heavy	✓
3	Market Value	% of Market Value assuming no AH	x	✓	Poor	Heavy	✓
4	Gap funding approach	Cost indicator (e.g. TCI:ACG) at % not covering RP borrowing	x	✓	Fair	Moderate	✓
5	AH Cost replacement	Comparative approach taking (up to) total cost of replacement)	x	✓	Fair	Light	✓

4.4 Recent case studies

A number of local authorities are currently going through the process of setting affordable housing thresholds and commuted sums in relation to smaller residential schemes. Set out below is a summary of the different approaches being taken together with a commentary on the progress being made.

Mole Valley DC

Policy position

The Council's current policy is contained in their Core Strategy CS4 'Provision of Affordable Housing'. It states that in order to achieve the affordable housing target:

a) 'On all housing development of 1 to 9 gross dwellings, a financial contribution equivalent to providing 20% of the total number of dwellings as affordable is made:
b) That on all housing developments of 10 to 14 gross dwellings, 30% of the total number of dwellings are affordable, and:
c) That on all housing developments of 15 gross dwellings or more, 40% of the total number of dwellings are affordable

The presumption is that at least 50% of the total number of affordable homes provided on site will be for social rented accommodation. Where the Council considers it is appropriate, a higher level of social rented accommodation may be sought.

The approach adopted is an Affordable Housing Land Value Approach (as set out previously). This involves the calculation of an imputed 'open market' value of an affordable unit, the further calculation of an imputed 'land value' and then calibration by the appropriate percentage of affordable housing.

Policy CS4 states that on sites of 10 or more (gross) dwellings, affordable housing should be provided on-site and secured through a Section 106 (S106) agreement. Only in exceptional circumstances will off-site provision be considered appropriate i.e. the provision of units on an alternative site.

How is it going?

Feedback from the Council suggests that the policy normally generates financial contributions in the range £8,000 to £20,000 per unit. The contribution liability can be worked out on a calculator on the website. The policy appears to be working so far, although it is very unpopular with local applicants.

Part of the problem seems to be small builders and self builders are liable for contributions. This group does not engage as well with the Section 106 process as larger house builders.

The Council find applicants with schemes between 10 and 14 units would prefer to pay a commuted sum rather than have on site affordable housing; i.e. they would prefer the option to pay a commuted sum on larger schemes than policy currently allows for.

It is believed that Elmbridge have adopted a similar approach, with apparently similar experiences.

Harborough DC

Policy position

The Core Strategy Policy CS3 sets out requirements for affordable housing. The policy splits the District into five sub market areas, subject to either 30% or 40% affordable housing requirement. The threshold for contributions is set at 1 dwelling district wide. The policy applies in all cases where the result is a net increase in dwellings, including changes of use and conversion of existing buildings.

Policy CS3 indicates that on proposed developments of 1 and 2 units, a commuted sum payment in lieu of the on-site affordable housing requirement will be made in order to pool sums and assist development elsewhere in the area. Commuted sums will be based on the equivalent cost of on-site provision and will be used to contribute to other local affordable housing provision.

The commuted sum payment has been calculated using accurate house price data (from Housing Intelligence East Midlands (Hi4em)) for the five sub markets and takes into account the average payment a Registered Provider would make to a developer in order to purchase the property, based on a range of tenure types. This average payment has been set at 50% of the open market value (OMV) of a property, based on discussions with Harborough District's Registered Provider (Housing Association) Partners.

An average of the commuted sums across the five sub market areas is then calculated. This is the basis on which the commuted sum to be applied is derived and is currently established as £28,885. A series of discounts is then applied to derive the payable sum per dwelling based on the size of the dwelling proposed.

	Square Metres					
Average Commuted Sum value (£28,885)	30-60	61-85	86-110	111-135	136-160	161
Discount Applied	90%	80%	70%	60%	50%	0
Charge with the % discount applied	£2,888	£5,777	£8,665	£11,554	£14,442	£28,885

How is it going?

The policy of making smaller sites contribute to affordable housing raised a lot of interest in the local press. The policy has proven contentious. It has not been without difficulties, although there is a slow acceptance of the policy and it should be noted that the policy is only just really kicking in. Within 3 to 5 years, the difficulties are anticipated to lessen as the policy beds down.

Chiltern DC

Policy position

Policy CS 8 of the Core Strategy (2011) states that 'The Council will aim to achieve the following targets for the provision of affordable housing. In new developments which contain 15 dwellings or more, at least 40% of dwellings within the development shall be affordable. In developments with less than 15 dwellings, there should be:

At least four affordable housing units on sites which have 12 to 14 dwellings;
At least three affordable housing units on sites of 10 or 11 dwellings;
At least two affordable housing units on sites of 8 or 9 dwellings;
At least one affordable housing unit on sites of 5 to 7 dwellings;

On sites of 1 to 4 dwellings, a financial contribution for each new dwelling towards the provision of affordable housing elsewhere in the District.

In line with Policy CS8, the Council's Affordable Housing SPD (2012) establishes that on sites where one to four additional dwellings are proposed (net), a financial contribution of £125 per square metre of floor space (Gross Internal Area) created* by the additional dwellings would be required.

Example:

A scheme of 3 new dwellings is proposed. One dwelling has a GIA of 75 sq m and two have a GIA of 90 sq m. (There are no existing dwellings on the site).

The contribution required would be calculated as follows:

- 75 x £125 per sq m GIA = £9,375, for the smaller dwelling.

Plus

- 90 x £125 per sq m GIA x 2 = £22,500, for the two other dwellings in total

So the total contribution for the 3 dwellings proposed would be <u>£31,875.</u>

How is it going?

The Council is reliant on the commuted sum policy to a significant extent because there are a large number of small sites in the District. Policy can only operate to a maximum commuted sum of £25,000 per unit and this limits the liability of small land owners to the affordable housing policy.

So far the policy is settling down and there have been no financial contributions actually collected.

There are a number of other recent cases of local authorities bringing forward affordable housing policies at very low thresholds.

Melton Borough Council is intending to introduce a commuted sum following the Residual Value approach, which will be consistent with the NPPF. In recent years the Council have delivered affordable housing to a policy target of 40% (although this has been mainly achieved on larger sites).

Bournemouth BC takes affordable housing contributions from very small sites (down to one dwelling) according to the DPD Affordable Housing policy:

Policy AH1

All residential development (including mixed use schemes containing residential development) sites shall contribute towards meeting the Borough target of 40% affordable housing. When considering individual development sites the Council will seek 40% affordable housing provision in order to achieve the Borough target. Where the Council has identified specific sites for residential development through the LDF process it may be appropriate to seek a higher percentage depending on individual site circumstances.

The policy is implemented by reference to the following guidelines:

5 Financial Contributions Towards the Cost of Affordable Housing Quotas

5.1 In the recent past the Council has had no social housing grant set aside to contribute to the delivery of affordable housing. Therefore, developers are strongly advised that they should work on the basis that social housing grant will not be available and that affordable housing quotas should be delivered without input of public subsidy i.e. social housing grant either from the Homes and Communities Agency or the Council.

5.2 If an RP is to acquire the affordable housing it will be expected to contribute towards the cost of each unit being acquired from the developer. The contribution will reflect the amounts that the RPs can borrow against the target rents of the affordable housing units. For social rented units current indicative contributions are set out on the Council's website and will be subject to annual review by the Council. The amounts that RPs can pay for other forms of tenure will vary between individual RPs depending on the scheme and the RPs ability to borrow. This is subject to negotiation with the Council.

5.3 An alternative delivery route is for the Council to use developer contributions and leveraging that capital with prudential borrowing to fund the remainder, which would be secured by rent streams.

In practice, the amount paid is subject to agreement between the Council and the applicant on the basis of the viability of the individual site.

Where a consistent approach is adopted, the process is unproblematic, but it is important that local authorities take a constant approach to the benchmark used to assess viability, otherwise significant variations can occur between the two sides to the negotiation.

5 Viability and the single dwelling threshold in the West Oxfordshire DC area

5.1 The single dwelling threshold – residual values

In order to ascertain whether the Council might introduce a single dwelling threshold, it is important to look at residual values on smaller sites. Two key examples have been looked at in this respect. A site for a single detached dwelling and a site for one detached unit and two semis.

Table 5.1 shows residual values for the single dwelling. It shows RV at 100% market housing. As expected, the RV is very high across all sub markets. At the top end, RV is over £300,000 per plot; yet at the bottom of the market, RV is over £130,000 per plot.

Scheme - Detached House (Infill/Garden, etc)				
Sub Markets	Policies	Residual Values		Equivalent Value per Market Unit
		100% Market	At AH policy	
Prime West Oxon	50%	£313,000	£164,000	£149,000
Woodstock and Rural East	50%	£246,000	£122,000	£124,000
Chipping Norton and Rural North	50%	£228,000	£112,000	£116,000
Witney Higher Value	40%	£224,000	£131,000	£93,000
Rural South	50%	£207,000	£98,000	£109,000
Eynesham, Mid Rural and Rural East	50%	£203,000	£97,000	£106,000
Carterton and Brize Norton	35%	£139,000	£81,000	£58,000
Witney Lower Value	40%	£135,000	£69,000	£66,000
Policy at 50%				
Policy at 40%				
Policy at 35%				

Table 5.1 Residual values for a single dwelling

If an affordable housing contribution is required, then RV is still substantial. At the top end of the market, the plot value, even taking account of an affordable housing contribution (of 50%), is over £160,000. At the bottom end of the market, the RV for the plot is almost £70,000 (at 40% affordable housing).

Many of the single plots are developed on garden land. Under these circumstances, the prime concern of the land owner is likely to be whether the devaluation to the existing dwelling is greater than the residual value after the affordable housing contribution is taken into account. Clearly every scheme will be different and EUV will vary. What the figures show is that at the top end of the market, the existing house can fall by some £160,000 before the decision to develop in a garden becomes a marginal one. At the other end of the market, the value of the existing house can fall by some £70,000 before the decision to develop in the garden becomes marginal.

Taking a middle market example of a detached house with an open market value of £400,000 with a garden planned for development for one dwelling:

Existing Use Value	£400,000
Devaluation to existing house from garden loss, say 10%	£40,000
RV 1 new home including affordable housing contribution	£130,000
Net gain resulting from grant of permission	£90,000

This is likely to be a viable scenario in most instances.

Table 5.2 shows a similar analysis, but for three dwellings. The table shows that at 100% market housing, RV is over £600,000 at the top end, and over £250,000 at the bottom end.

Table 5.2 Residual values for three dwellings

Scheme - 3 Units - 1 Detached and 2 Semis

Sub Markets	Policies	Residual Values		Equivalent Value per Market Unit
		100% Market	At AH policy	
Prime West Oxon	50%	£642,000	£317,000	£108,333
Woodstock and Rural East	50%	£500,000	£228,000	£90,667
Chipping Norton and Rural North	50%	£456,000	£201,000	£85,000
Witney Higher Value	40%	£443,000	£242,000	£67,000
Rural South	50%	£410,000	£173,000	£79,000
Eynesham, Mid Rural and Rural East	50%	£396,000	£165,000	£77,000
Carterton and Brize Norton	35%	£273,000	£144,000	£43,000
Witney Lower Value	40%	£261,000	£117,000	£48,000

Policy at 50%
Policy at 40%
Policy at 35%

Where affordable housing is included in the scheme, then RV is over £300,000 at the top of the market, and over £100,000 at the bottom.

Taking a middle market example of a detached house with an open market value of £400,000 with a garden planned for development for three dwellings:

Existing Use Value	£400,000
Devaluation to existing house from garden loss, say 20%	£80,000
RV of 3 new homes including affordable housing	£200,000
Net gain resulting from grant of permission	£120,000

This is a substantial uplift that is not seen to reflect unrealistic circumstances in the District and presents a viable scenario.

5.2 Commuted sums

Having regard to the various different approaches outlined above including their respective strengths and weaknesses, it is recommended that West Oxfordshire District Council pursues an approach towards the calculation of commuted sums which is based on the residual value approach. This meets the 'equivalence' criteria set out in the NPPF aiming to put a land owner in the same position whether the affordable housing contribution is made on site or in the form of a commuted sum.

The commuted sum is calculated as follows:

Step 1	Calculate scheme Residual Value assuming no Affordable Housing;
Step 2	Calculate scheme Residual Value assuming an Affordable Housing contribution is made;
Step 3	Calculate the difference between the figures produced at Step 1 and Step 2.

In all events, the quantum of the commuted sum will be subject to a viability test where applicants cannot meet a formulaic approach. The viability test considers the impact of Affordable Housing and other Section 106 contributions on residual value and considers this alongside the Existing Use Value of the site.

Baseline example:

A 0.15 Ha brownfield site in Witney (40% Affordable Housing) with a scheme plan for 4 houses.

RV at 100% Market Housing	£500,000
RV at 40% Affordable Housing	£250,000
Commuted sum therefore (difference between 2 figures)	£250,000

If however the EUV of the site is say £350,000, then the maximum commuted sum payable will be:

£500,000 (RV at 100% Market Housing) less £350,000 (EUV), therefore:

£150,000.

If the EUV had been however, £249,999, the commuted sum liability would be the difference between £500,000 and £250,000; i.e. £250,000.

The tables above (Tables 5.1 and 5.2) show also equivalent figures for the increase in residual values created by the dispensation from an on-site affordable housing contribution at varying policy targets for the sub markets in the West Oxfordshire District.

The RVs have been calculated using the local authority's bespoke Toolkit with updated data for house prices, build costs and affordable housing revenues.

The first table relates to the development of a single dwelling. By way of explanation using the example of Prime West Oxon, the increase in scheme value to the land owner, as a result of not having an on-site affordable housing (this is clearly imputed for mathematical reasons), will be £149,000. This is the difference between the RV at 100% market housing, and the RV at 50% affordable housing.

As a further example, the increase in RV to a land owner in Carterton, where affordable housing is taken as a payment-in-lieu, is £58,000.

These figures are based on one market unit.

In the second table, the scheme of 3 units is tested. The calculations work on the same principles. Therefore, as an example, scheme value rises by £77,000 per market unit in Eynsham, once the affordable housing (on site) contribution has been converted to a payment in lieu.

These figures are helpful in shaping starting points for commuted sums. It should be noted that development mix impacts on RV, and the scheme for 3 units, including two semi detached houses, generates a lower relative figure.

Assuming the Council wish to set commuted sums in a wholly equivalent way, then a range of sums, taking into account differences in sub markets might be:

Prime West Oxon:	£120,000 per market unit;
Woodstock & Rural East:	£110,000 per market unit;
Chipping Norton and Rural North:	£100,000 per market unit;
Rural South:	£90,000 per market unit;
Eynsham, Mid Rural & Rural East	£80,000 per market unit;
Witney:	£70,000 per market unit;
Carterton and Brize Norton:	£50,000 per market unit

If these figures are aggregated to meet latest policy thinking, then the following commuted sums will apply:

Carterton	£50,000 per market unit;
Witney	£70,000 per market unit;
Rest of District	£105,000 per market unit

As always, the test of viability relates to the relationship between RV and EUV. Therefore these indicative figures will only be deliverable assuming RV is above the EUV of the sites in question.

I comment further on these figures in the Conclusions and Recommendations section of this report.

6 Conclusions and recommendations

In drawing conclusions and recommendations I have returned to the key questions posed in the project brief. I answer these in turn.

6.1 Can a single dwelling threshold be justified?

- This is not a straightforward question. Evidence from financial appraisals will invariably show that in comparison with larger sites, small (and very small sites) are equally, if not more viable. There will, in the case of West Oxfordshire, be a very substantial uplift from existing use value on e.g. single dwelling schemes, which are frequently, according to the planning data, developed on garden or back land. There are very many such small sites, and the Council would in effect, be discriminating against the owners of large sites, by exempting these sites from an affordable housing contribution.

- On the other hand, the very small sites, and sites for a single dwelling, often involve self build schemes, or development built by small builders and to ask for a financial contribution from these schemes involves cash flow challenges for the operator.

- There is no doubt however, on the basis of evidence from case studies and the workshop, that there is a concern about an approach to affordable housing provision that is applied to both small and large sites in an equal way. Whether this is to do with a genuine lack of viability on small sites, or a misunderstanding about the wider function of planning is uncertain. The analysis here suggests the latter since the evidence points towards considerable land owner returns on smaller sites.

- On balance, reducing the threshold to one dwelling (probably on a net basis given issues over demolition and EUV) is the correct course of action. There is evidence of threshold avoidance in the figures, West Oxfordshire is very high value and housing needs are correspondingly high. Whilst it is not the task of land owners to meet housing needs, it is undoubtedly up to them to recognise the fact that the planning system provides land owners with windfall gains and thus a justification for the local authority to require some form of planning gain.

6.2 Are there any potential issues with a low threshold inhibiting the delivery of new housing?

- This is a difficult question to answer as it requires a much more longitudinal analysis of the housing market and its relationship with planning. Planning has no power to affect underlying land values and the performance of the economy is the proper yardstick against which the impact of the policy is judged.

- That having been stated, residual values in West Oxfordshire are amongst the highest in the country and these apply on small as well as large sites. In this respect, a low threshold should not at all inhibit delivery.

- The data shows that small sites have been delivered in rural areas, although it should be stated that a significant number of these are single dwellings.

- The workshop found generally that small site contributions are not an unreasonable policy position for the Council to take, although the concern was that the scale of the contribution (on smaller sites) should be reasonable.

6.3 Is there a minimum threshold (e.g. 5 or 10 dwellings) below which a commuted sum will be the most appropriate and practical solution or whether this should be considered on an individual case by case basis?

- There is no particular ‘magic figure’ here and to a significant extent the Council will need to balance its relative need to develop housing, against policies outside its boundaries. One of the points made in the Workshop was that developers will move between local authority areas to avoid affordable housing contributions. This is a classic ‘prisoner’s dilemma’ for the Council (in only being able to control the situation within a limited area).

- Clearly the relationship between the target and the threshold needs critical consideration since it affects the mathematics of the payment in lieu. There is no viability reason however why for example on a scheme of two dwellings in a higher value area (where the 50% affordable housing target applies), one of these units should not be affordable.

- The Council’s policy position is seen to be reasonable at a 5 dwelling ‘threshold’ between on site and commuted sums. This is consistent with other authorities and has the practical advantage that some scope for negotiation might be reduced; in particular where a formulaic approach is adopted.

6.4 What methods can be used for implementing a commuted sum approach? Is a tabular approach correct and if so, what should it look like?

- I have set out five general approaches to commuted sum formulae. With the exception of the Residual Value approach, I have two main concerns. First, about the efficacy of some formulae (most notably the Affordable Land calculation) since many of these formulae may not be NPPF compliant. Second, and as an inherently linked point, about the (in some instances) massive incentive they provide for commuted sums relative to on site provision.

- For these main two reasons, I would recommend a formula that is in line with the NPPF and the principle of equivalence.

6.5 A recommendation should be made on the most appropriate approach for West Oxfordshire. The level of financial contributions suggested should be at a level which is viable and advice should be provided on whether there is a maximum level (e.g. £X per dwelling) above which a financial contribution should not be sought.

- The precise approach should I feel follow the figures I set out in Section 5. These were:

Prime West Oxon:	£120,000 per market unit;
Woodstock & Rural East:	£110,000 per market unit;
Chipping Norton and Rural North:	£100,000 per market unit;
Rural South:	£90,000 per market unit;
Eynsham, Mid Rural & Rural East:	£80,000 per market unit;
Witney:	£70,000 per market unit;
Carterton and Brize Norton:	£50,000 per market unit

  As previously, if these figures are aggregated to meet latest policy thinking, then the following commuted sums will apply:

Carterton	£50,000 per market unit;
Witney	£70,000 per market unit;
Rest of District	£105,000 per market unit

- These figures are equivalent to the increase in residual value generated by exempting a site from an affordable housing contribution. Arguably they are not high enough, since I have made no adjustment for house prices where the site reverts to 100% market housing.

- This being stated, the figures I set out above are higher, and significantly so in some instances, than commuted sums sought elsewhere, some of which are capped at £25,000 per unit. In large part this is because commuted sum formulae in some authorities do not pass the equivalence test.

- With respect to all these points, the Council may choose to strike a balance between what would be paid under a truly 'equivalent' formula, and what is likely to be paid (and hence avoids protracted negotiations) under some other approach.

- An approach which could work is to take a multiplier of the figures above and adjust this on an annual basis according to the level of supply. In other words, raise the multiplier where supply continues to flow, or decrease it where supply begins to slow. In doing this however, the Council will need to be clear that they set a policy that is potentially not in line with the NPPF.

- From experience of other local authorities, where a ceiling (often around £25,000) appears to apply, West Oxfordshire might go along the same route. One approach would be, given the significantly higher house prices in the area, to set this at the bottom end. This would mean, broadly, taking 50% of the figures above as a starting point.

- The Council may choose to express the commuted sum payment on a per square metre basis. Assuming a dwelling size of around 80 sq metres, this would mean a range of payments from around £750 per sq m at the top end, to around £300 at the bottom.

- These figures might seem to be high, but they are very significantly below what land owners would have to pay, should an on site contribution be required. The figures are thus not unfair although clarity in managing the approach through to smaller land owners will be required.

6.6 Are there any other potential alternative approaches that the Council could adopt in dealing with the provision of affordable housing on small-scale residential schemes or whether commuted sums are likely to be the most effective mechanism?

- Commuted sums would appear to be the neatest and most clear cut way of resolving contributions from small sites. From the evidence, applicants seem to like the financial payment approach as it gives clarity, particularly where backed by a formula.

- However, off site provision is feasible, but it depends on either developers or housing associations having sites which they can 'juggle' in order to deliver what the local authority wants.

- The same applies to land swaps, which are undertaken more extensively abroad, although in those circumstances, they often rely on (where available), local authorities having significant land holdings.

- There are clearly up and downsides to these approaches. Commuted sums, whilst being a more clear cut solution, often generate issues about spending, which are sometimes protracted over long periods.

6.7 With respect to intermediate housing and any threshold above or below which such housing is most applicable. Advice is sought as to any evidence of impediments to the delivery of discount market housing and appropriate enabling mechanisms.

- This is really an issue relating to targets, not thresholds it might be argued. In so far that the Council has taken a view on targets, and are happy with this, then Intermediate Affordable Housing may be helpful in achieving the overall policy target, where EUV mitigates against an Affordable tenure more in line with the standard policy.

- From a non viability aspect, the views of housing associations should be taken into account. This should occur on a site by site basis taking local circumstances into account.

- On viability, development mix and density, as well as location will feature strongly in determining the scale, proportion and tenure of affordable housing. Discount Market housing will usually be more likely to recover a scheme than mainstream affordable housing such as Social Rent.

6.8 Are there any particular considerations the Council should take into account to facilitate the viability of affordable housing delivery on small-scale schemes?

- If the Council wish to facilitate the delivery of small schemes, it may wish to incentivise them relative to larger sites. The formula set out above (i.e. at a percentage of the equivalent on-site contribution) does precisely this.

- The existence of a tabular formulaic approach should also make it easier for applicants to see what impacts they are liable for.

- Collection of sums on completion will assist in many cases but will remain a problem for the self builder who will not be selling the unit on. Deferred payments, staged with the scheme are another option.

Appendix 1

<u>1st April 2009 – 31st March 2010</u>

Ref	Location	Number of units		Existing use	Notes
		Gross	Nett		
09/1218	Within hamlet	1	1	Garden	Ancillary
09/0130	Open countryside	1	1	Field	Ag-tag
09/0922	Within town	1	1	Garden	
09/1186	Town periphery	1	1	Garden	
09/0265	Open countryside	1	1	Garden	Ancillary
08/1420	Within town	13	13	Car parking and garages	Affordable
09/0426	Within town	1	1	Garden	Ancillary
09/0664	Within town	3	2	House & garden	
09/1353	Edge of village	12	12	Field	RES
09/1030	Within town	1	1	Shop	FOS
09/0310	Within town	1	1	Garden	
09/0674	Within town	1	1	Garden	
09/1496	Within town	1	1	Garden	Attached
10/0026	Within town	1	1	Garden	Attached
09/1567	Within town	4	4	Day nursery & outbuildings	
09/1476	Edge of town	1	1	Garden	Ancillary
10/0144	Open countryside	1	1	Garden	Ancillary
09/1005	Within village	5	5	Disused sheltered flats	Affordable
09/0781	Within town	1	1	Garage block	
08/1265	Edge of town	40	40	Field	RES
09/1008	Within town	1	1	Garden	
09/1160	Open countryside	1	1	Ex scrapyard	CLUED
09/0857	Within town	1	1	Garden	Ancillary
09/1174	Within town	6	6	Garden	
08/1791	Within town	1	1	Garden	
10/0119	Within village	1	1	Garden	Ancillary
09/0553	Within hamlet	1	1	Convert outbuilding	Ancillary
09/1199	Within village	1	1	Garden	
09/0159	Within village	1	1	Garden	
09/1251	Within village	1	1	Garden	
08/1732	Within village	7	6	Garden	2 units affordable
09/0355	Within village	1	1	Garden	
10/0076	Within village	1	1	Garden	
09/0346	Within village	1	1	Garden	

09/0703	Within village	1	1	Garden	
09/0595	Within village	1	1	Garden	
08/1272	Within town	3	3	Garden	
09/0964	Within town	1	1	Garden	Ancillary
07/1970	Within town	14	13	Garden	
09/0820	Within town	1	1	Garden	
09/0403	Within town	1	1	Garden	Ancillary
09/0721	Within town	2	2	Garden	
09/1624	Within town	1	1	Garden	
09/1192	Within village	1	1	Garden	
08/1729	Edge of village	8	8	Field	RES
08/1730	Edge of village	16	16	Field	RES
09/0244	Within village	8	8	Garden	2 units affordable
09/1363	Edge of village	8	8	Field	RES
		182	**179**		

1st April 2010 – 31st March 2011

Ref	Location	Number of units		Existing use	Notes
		Gross	Nett		
11/0053	Within town	1	1	Garden	
10/1314	Within town	2	2	Petrol station	Replacement petrol station and flats
09/1555	Open countryside	1	1	Farm yard	Ag-tag
10/0866	Within town	3	3	Industrial/storage	
10/1596	Within town	7	6	Public house & car park	
10/1719	Within town	1	1	Garden	Ancillary
10/1767	Within town	1	1	Garden	
10/0362	Within village	1	1	Garden	
10/1413	Edge of village	8	8	Field	RES
10/1770	Within village	1	1	Garden	
10/1126	Within village	9	8	Public house & car park	
09/1275	Edge of village	24	24	Field	RES
10/0521	Open countryside	1	1	Garden	Ancillary
10/1334	Within village	1	1	Convert domestic garage	Ancillary
10/1161	Within village	1	1	Garden	
10/0225	Within village	10	10	Redevelop unused sheltered units	Affordable
10/1797	Within village	1	1	Garden	
10/0314	Open countryside	1	1	Garden	Ancillary

10/1425	Edge of village	8	8	Field	RES
10/0299	Within town	1	1	Garden	
10/0367	Within town	1	1	Garden	Ancillary
09/1021	Within town	4	4	Industrial outbuildings	
10/1391	Within town	1	1	Garden	Attached
10/1363	Within town	1	1	Garden	Ancillary
10/1654	Within town	1	1	Garden	
11/0019	Within town	1	1	Convert attached granny annexe	
11/0257	Within town	2	2	Redevelop garage and workshop	Mixed use
09/1528	Within town	1	1	Redevelop garage court	
10/0065	Within town	1	1	Garden	
10/1577	Open countryside	1	1	Redevelop domestic garage	Ancillary
		97	**95**		

1st April 2011 – 31st March 2012

Ref	Location	Number of units		Existing use	Notes
		Gross	Nett		
10/0839	Within village	1	1	Public open space	
11/0512	Open countryside	1	1	Service area in wildlife park	Ancillary
11/0737	Edge of town	5	5	Field	RES
11/0772	Edge of town	15	15	Field	RES
11/1082	Within town	6	4	Housing and gardens	
11/1600	Within town	3	2	House and garden	
11/1933	Within town	1	1	Garden	
11/1926	Within town	3	2	Garden	
11/1951	Within town	1	1	Garden	Attached
12/0023	Within town	1	1	Garden	
11/0954	Within town	2	2	Garden	
11/0968	Within town	1	1	Redevelop garage court	
10/1107	Within town	21	9	Redevelop sheltered flats	Affordable
11/1213	Within village	1	1	Garden	
11/0603	Within village	1	1	Garden	
10/1446	Within village	5	5	Redevelop garage court	Affordable
11/0443	Edge of village	32	32	Field	Includes 16 affordable
12/0174	Within village	2	2	Garden	
11/0284	Within village	2	2	Garden	

11/0860	Within village	1	1	Garden	Ancillary
10/1251	Within town	1	1	Redevelop commercial workshop	
11/0764	Within village	1	1	Garden	
11/1104	Within village	1	1	Redevelop garage block	
12/0167	Open countryside	1	1	Garden	Ancillary
07/1131	Edge of village	8	8	Field	RES
11/0730	Within village	1	1	Garden	
11/0290	Within village	1	1	Ex farmyard	
11/0671	Within village	1	1	Garden	Ancillary
12/0005	Within village	2	2	Garden	Ancillary (1)
11/0716	Within village	1	1	Garden	
11/0370	Open countryside	1	1	Farmyard	Ancillary
10/1065	Within village	11	8	Shop and flats	
09/1300	Open countryside	1	1	Field	Ag-tag
11/0456	Within village	1	1	Garden	
12/0075	Within village	1	1	Garden	
12/0154	Open countryside	1	1	Garden	Ancillary
10/1293	Within village	5	5	Unused sheltered accommodation	Affordable
11/1363	Within village	1	1	Garden	Ancillary
10/1295	Within village	4	4	Unused sheltered accommodation	Affordable
11/0839	Within village	1	1	Garden	
11/0841	Within village	1	1	Garden	
11/0854	Within village	1	1	Garden	
11/0856	Within village	1	1	Garden	
11/0420	Within town	4	4	Garden	
11/0550	Within town	3	2	House & garden	
10/1805	Within town	14	13	House & garden	
11/1622	Within town	1	1	Garden	
11/1612	Within town	6	6	Commercial workshop	
11/1624	Within town	1	1	Garden	
10/0874	Within town	8	8	Public open space	Affordable
11/0570	Within town	1	1	Garden	
11/0153	Within town	35	33	Garage and showroom	
11/1454	Within town	11	10	House & garden	
		237	**213**		

RES = Affordable housing on Rural Exception Site
FOS = Flats over shops
Ag-tag = Agricultural worker's tie
Attached = extension to existing dwelling to form new semi-detached or terraced unit
CLUED = Certificate of lawful use for unit developed without planning permission

Appendix 2 Affordable Housing Workshop – 31st August 2012
Workshop Notes

At - West Oxfordshire District Council

Andrew Golland and Chris Hargraves would like to thank all those who attended the Workshop for their contributions to the debate on this important policy area.

Name	Organisation
Harry St John	Smiths Gore
Brendan O Brien	Empire Homes
Stephanie Ainsworth	Homes and Communities Agency
Graham Flint	Pye Homes
Roger Smith	Savills
Roger Keeling	Sovereign Housing Association
Jayne Norris	Edgars Ltd
Shruti Virgincar	Edgars Ltd
Phil Cringle	Cottsway Housing Association
Graham Soame	Graham Soame Planning and Development Ltd.

The workshop note includes additional feedback from Henry Willis, Willis Homes who gave his apologies to the meeting.

We have summarised the key points as follows:

Overview

Chris gave a brief overview of the current adopted Local Policy H11 – Affordable Housing and the proposed changes introduced in the draft Core Strategy (2011). Questions were raised about the effectiveness of the adopted policy since it was introduced particularly in terms of securing affordable housing in rural areas and in relation to its effect on the size and affordability of market housing.

A request was made by delegates for information on the number of affordable homes that have been delivered on small rural sites through Policy H11 to date. It was agreed that this information would be incorporated into Dr Golland's report.

Definition of viability

Andrew gave a review of the approach taken to defining viability which is set out in the Council's Affordable Housing Study. This looks at viability by reference to the financial relationship between Residual Value and Existing Use Value. This is an approach which is supported by the Planning Inspectorate through the Core Strategy making and Appeals process and is supported as one possible approach in recent RICS guidance.

There were no general objections to this approach although the difficulty in defining land owner return was appreciated by all present.

Small sites and delivery

The view was expressed that most housing in the District comes from large, strategic sites. However, the Affordable Housing Viability Study (2009) showed that between 2006 and 2009 just under 30% of all dwellings permitted were between 1-4 units and that in the smaller settlements only, the proportion of schemes of 1-4 units was around 66%. Thus small sites are highly important in delivering affordable housing, especially in the smaller and rural settlements.

Some delegates were of the view that while small sites may be important, Policy H11 is failing to deliver affordable housing on these sites or financial contributions and is also preventing an appropriate market housing mix.

Delegates were asked whether small sites were less viable to deliver than large ones. There seems to be some evidence to suggest that smaller sites are more expensive to develop. However, it was pointed out by Dr Golland that in many cases, smaller sites are higher value as they have an exclusivity factor. In his opinion they are thus not less viable, but in many cases, more viable. This opinion is supported by evidence from the Valuation Office which shows that small sites generate higher land values.

Some delegates disagreed with this and expressed the view that small sites are more expensive to deliver and that the higher value does not make the sites more viable as the land value is higher to start with. Furthermore, such sites do not benefit from the economies of scale that volume builders can rely on.

It was stated by one developer that small sites do not present standard problems as they vary site to site and therefore cannot be dealt with by 'policy'. This was accepted and it was pointed out that site by site analysis is always ultimately the back stop position in resolving viability disputes. Economies of scale are not possible on smaller sites.

It was pointed out that small sites can come forward on garden land, provided that the residual value of the scheme exceeds the devaluation in the retained dwelling which (now) has a smaller garden.

The point was raised that small sites come from other sources including the demolition of existing dwellings. Some delegates considered that the residual valuation approach taken in the Three Dragon's model does not accurately reflect the situation on the ground.

The threshold and smaller sites

Policy position:

> Building on this approach the Council published its draft Core Strategy in January 2011. Policy CS10 - Affordable Housing adopted the same threshold (i.e. net gain of one or more dwellings) but introduced a split approach in relation to the level of provision with at least 50% affordable provision on undeveloped sites and in relation to other types of land (previously developed) at least 35% in Witney and Carterton and at least 40% elsewhere.
> An updated position statement on affordable housing viability was commissioned and published in May 2011:

There is a danger that policy simply leads to threshold dodging. Indeed, delegates pointed out that currently many single dwelling schemes are being built, and smaller, family type housing, in developments of 2 to 4 dwellings are not coming forward. This was seen as being problematic and it is important that the impact of the affordable housing policy on market housing should be recognised.

It was asserted by some delegates that lack of developer interest in small sites is because the current policy makes them unviable and that if a more workable policy was in place, that incentivised land owners and developers, more houses would be built.

It was concluded by most but not all delegates that a threshold of one unit was not an unreasonable policy position, provided that flexibility was employed to deliver sites, in particular the use of appropriate commuted sums.

Housing associations were not averse to the idea of managing small numbers of units on site but this works better in locations where they already have some properties.

Some delegates felt that larger strategic allocations should be required to provide much more affordable housing to help ensure delivery.

Examples from outside West Oxfordshire

Vale of White Horse use a threshold of 5 dwellings so it was stated that some developers go there to avoid the lower WODC threshold of 2 dwellings in rural areas.

Oxford City was quoted as an example of a local authority that has brought in a new policy of 15% of GDV to be paid on small sites of over 3 dwellings. It was stated that this is resulting in avoidance of the threshold by building just 3 and on those of 4 -10 results in lengthy and costly debates over viability and payments.

There was some discussion about the level at which a requirement for provision on-site should kick in. The example of Chiltern is 5 dwellings. Some felt this was too low and should be increased to 10 or 15.

West Berkshire is an authority that sets a specific rate for payment for each market house built towards affordable housing.

Discussion on Rural Exception Sites (RESs)

There was considerable discussion about the potential role for RESs in West Oxfordshire. Some delegates stated that one way to deliver more affordable housing was by way of relaxing the principle that RESs should be schemes of 100% affordable housing only.

Therefore, rural schemes could include a percentage of market housing to cross subsidise the affordable element. Some delegates felt that commuted sums could be used to further assist delivery/viability.

It was stated however that it would be important that any such schemes were applied sequentially; i.e. only where allocations and more mainstream windfall types of sites were failing to come forward.

Commuted sums - principles

Commuted sums can be a helpful alternative to on-site affordable housing provision in some cases.

Support was expressed in principle for the use of commuted sums on smaller sites but they need to be proportionate and fair.

Some delegates expressed the view that it is the level of provision required (%) that is key, not the use of commuted sums. This needs to be set at a workable level.

Some delegates considered that commuted sums should apply to sites of 10-15 dwellings. It was suggested that the money could then be ring-fenced to help bring forward sites elsewhere by incentivising landowners.

Basis

The current approach set out in the Affordable Housing Viability Study is:

> **Commuted sums**
>
> 6.37 Where **commuted sums** are collected a possible approach to calculating the appropriate sum sought is to base this on the equivalent amount which would be contributed by the developer/landowner were the affordable housing provided on site. This is expressed as follows:
>
> RV 100% M = Residual value with 100% market housing
> RV AH = Residual value with X% affordable housing (say 40%)
> Equivalent commuted sum = RV 100% MV minus RV AH

This approach provides an equivalent figure whether an on-site contribution is taken, or a payment-in-lieu.

It was stated that it is important that the formula allows enough money for a housing association to re-provide affordable housing, via a commuted sum, elsewhere off site. Andrew stated that the formula does exactly this.

However, some delegates considered that the example showed insufficient profit to enable funding from banks and expressed concern that the contributions that could be sought using this approach were too high. Some also said they found the model confusing.

There was some discussion about the importance of timing re: payment of commuted sums. It is not easy for small-scale developers to provide upfront finance ahead of development taking place. There can be an issue with self build, where commuted sums are required – individual land owners maybe don't have the cash flow to fund the project. This needs to be taken into account in the policy/approach.

It was stated that every small rural site presents its own unique challenges. It is therefore sometimes difficult to handle these issues by policy or formula. They must be handled on a site specific basis.

GLOSSARY OF TERMS

A

Abnormal Development Costs: Costs associated with difficult ground conditions eg contamination.

Affordable Housing: As defined in PPS3 as housing that includes Social Rented and Intermediate Affordable housing.

Affordable Rented Housing: Housing let at above Social Rented levels and up to 80% of Open Market Rent

Appraisal: development calculation taking into account scheme revenue and scheme cost and accounting for key variables such as house prices, development costs and developer profit.

B

Base Build Costs: including costs of construction: preliminaries, sub and superstructure; plus an allowance for external works.

C

Commuted Sum: a sum of money paid by the applicant in lieu of providing affordable housing on site.

Community Infrastructure Levy: A levy raised by local authorities from developers and land owners in order to cover the costs of providing infrastructure, where the form of provision can include physical, social and environmental infrastructure. The levy is charged on a per square metre basis across a range of development uses.

D

Developer's Profit or margin: a sum of money required by a developer to undertake the scheme in question. Profit or margin can be based on cost, development value; and be expressed in terms of net or gross level.

Developer Cost: all encompassing term including base build costs (see above) plus any additional costs incurred such as fees, finance and developer margin.

Development Economics: The assessment of key variables included within a development appraisal; principally items such as house prices, build costs and affordable housing revenue.

E

Existing Use Value (EUV): The value of a site in its current use; for example, farmland, industrial or commercial land.

F

Finance (developer): usually considered in two ways. Finance on the building process; and finance on the land. Relates to current market circumstances

G

Gross Development Value (GDV): the total revenue from the scheme. This may include housing as well as commercial revenue (in a mixed use scheme). It should include revenue from the sale of open market housing as well as the value of affordable units reflected in any payment by a housing association(s) to the developer.

I

Intermediate Affordable Housing: PPS3 Housing defines intermediate affordable housing as housing at prices and rents above those of social rent, but below market price or rents, and which meet the criteria set out above. These can include shared equity products (e.g. HomeBuy), other low cost homes for sale and intermediate rent.

L

Land Value: the actual amount paid for land taking into account the competition for sites. It should be distinguished from Residual Value (RV) which is the figure that indicates how much should be paid for a site.

Local Development Framework (LDF): a folder of planning documents encompassing DPDs (Development Plan Documents) and SPDs (Supplementary Planning Documents)

M

Market Housing: residential units sold into the open market at full market price to owner occupiers, and in some instances, property investors. Usually financed through a mortgage or through cash purchase in less frequent cases.

P

Planning Obligation: a contribution, either in kind or in financial terms which is necessary to mitigate the impacts of the proposed development. Affordable housing is a planning obligation as are, for example, education and open space contributions. (See Section 106)

Proportion or percentage of Affordable Housing: the proportion of the scheme given over to affordable housing. This can be expressed in terms of units, habitable rooms or floorspace

R

Residual Valuation: a key valuation approach to assessing how much should be paid for a site. The process relies on the deduction of development costs from development value. The difference is the resulting 'residue'

Residual Value (RV): the difference between Gross Development Value (GDV) and total scheme costs. Residual value provides an indication to the developer and/or land owner of what should be paid for a site. Should not be confused with land value (see above)

Registered Provider (RP): a housing association or a not for profit company registered with the Homes and Communities Agency and which provides affordable housing

S

Scheme: development proposed to be built. Can include a range of uses – housing, commercial or community, etc

Section 106 (of the Town and Country Planning Act 1990): This is a legally binding agreement between the parties to a development; typically the developer, housing association, local authority and/or land owner. The agreement runs with the land and bids subsequent purchasers. (See Planning Obligation)

Shared Ownership (SO): Also known as a product as 'New Build HomeBuy'. From a developer or land owner's perspective SO provides two revenue streams: to the housing association as a fixed purchase sum on part of the value of the unit; and on the rental stream. Rent charged on the rental element is normally lower than the prevailing interest rate, making this product more affordable than home ownership.

Social Rented Housing (SR): Rented housing owned and managed by local authorities and registered social landlords, for which guideline target rents are SET through the national rent regime.

Sub Markets: Areas defined in the Viability Study by reference to house price differentials. Areas defined by reference to postcode sectors, or amalgams thereof.

Supplementary Planning Document (SPD): planning documents that provide specific policy guidance on e.g. affordable housing, open space, planning obligations generally. These documents expand policies typically set out in Local Plans and LDFs.

T

Target: Affordable housing target. Sets the requirement for the affordable housing contribution. If say 30% on a scheme of 100 units, 30 must be affordable (if viable).

Tenure Mix: development schemes usually comprise a range of housing tenures. These are described above including market and affordable housing.

Threshold: the trigger point which activates an affordable housing contribution. If a threshold is set at say 15 units, then no contribution is payable with a scheme of 14, but is payable with a scheme of 15. The appropriate affordable housing target is then applied at the 15 units, e.g. 20%, or 30%.

V

Viability: financial variable that determines whether a scheme progresses or not. For a scheme to be viable, there must be a reasonable developer and land owner return. Scale of land owner return depends on the planning process itself.