

Appendix B

MINUTE EXTRACT

SCRUTINY COMMITTEE

19 October 2023

4. Review of Affordable Housing Planning Requirements

The Chair formally thanked the developers who had responded to the consultation by submitting their comments in writing, a summary of which had been appended to the report, and also thanked Mr Aust who had agreed to address the Committee to give his views and respond to Members' questions.

The Chair invited Councillor Yule, Cabinet Member with responsibility for Planning and Coastal Management to introduce her report ES/1703. The Head of Planning and Coastal Management explained that the Affordable Housing Supplementary Planning Document was an important document in relation to the questions asked. He confirmed that affordable housing was a key driver for the Council bearing in mind the number of people on the housing lists but there were many constraints including developer viability as the costs had increased significantly, the planning system had its challenge and there were macro economic issues. He added that the Council was doing reasonably well in delivering housing across the district including affordable housing, which was helped by having up to date Local Plans and being proactive in delivering housing schemes. It was noted that the Government's position regarding housing was currently in a state of flux.

The Chair thanked the Cabinet Member and Officers for a very detailed report and invited questions from the Committee. In response to questions on temporary accommodation and social housing, Members were reminded that these were outside the scope of the current review but would be relevant as part of the Committee's Social Housing review taking place in November. The Head of Planning and Coastal Management clarified that the Planning Team worked within definitions in the National Planning Policy Framework (NPPF) to bring forward affordable housing.

In response to a number of queries from Members it was noted that:

- Local Plans were based on evidence; housing numbers and delivery were based on the Strategic Housing Market Assessment (SHMA) which detailed the existing position and gave future predictions based on demographics.
- Suffolk Coastal's percentage of affordable housing required was deemed to be reasonable, in terms of viability. The percentage varied for different areas in Waveney due to viability. In some cases there might be planning reasons to justify lesser numbers being provided.
- Affordable housing in planning terms was not looked at in terms of cost or rent but in occupancy, and this was controlled to ensure it was there in perpetuity for use as affordable

housing as set out in the Local Plan policy but it was appreciated that across the district there were different sub-sets of housing where some were more valuable but that did not bear any effect on affordable housing being delivered across the district.

- Commuted sums were now less common but where they were collected through Section 106 instead of the housing being provided on site, monies could now be spent across the whole district rather than just the area it had been collected for. There were no rules as such, although there were time limits, and sums could be used by the Council or given to RPs to deliver affordable housing so Officers identified projects where money could be used to benefit communities the most. On several occasions the money had been used to purchase affordable housing to put it into the Council's housing stock.
- Affordable rent was defined in the NPPF as up to 80% of market rent so the cost would vary depending on the market rent in an area. Similarly discounted market sales were up to a percentage of market sale rate which traditionally was up to 80% but for recently introduced First Homes this was up to 70% so effectively the discount was 30% of the market rate. There would be differences between areas where the market value was higher and where the market value was lower that would affect the value and cost of affordable housing.
- Since the Government changed the threshold in 2013 up to a minimum of 10 dwellings, it was now less common for developers to split sites to avoid having to provide affordable housing but if Officers thought there was a linkage then developers were told what they needed to provide.
- Officers already encouraged developers to think about providing dedicated storage for bikes etc to encourage active lifestyles and good access.
- The variety of opportunities for delivering affordable housing by all means was difficult due to the location of East Suffolk with half the catchment area being the North Sea so there were fewer national scale builders in the district, many smaller builders had been lost due to the market crash and there was limited scope for Community Groups and Land Trusts.
- Some of the Council's own developments were providing affordable housing and if they wished Members could decide that it should be provided within all Council developments in future, however, in places like Lowestoft the value was not there to encourage private developers to build.
- There was guidance in the SPD on how affordable housing should be designed and the guidance was that it should be "tenure blind" so it could not be identified within a development. There should also not be a reduction in quality and in some instances the affordable housing was actually better quality than the private housing. The affordable housing should also be spread across the whole development site to help it be "tenure blind".
- There was a significant uplift in costs for building to Passivhaus standard.
- The majority of applications had secured affordable housing due to the Local Plan being subject to viability testing, however, a number of applications had successfully sought to reduce or remove the requirements for affordable housing although a commuted sum had been secured instead.
- The SHMA had been produced in 2017 and was a key part of the evidence base of Local Plans which were relatively recently adopted and there were no time limits as to when a SHMA was considered to be out of date. The important thing was that the findings were included in the Local Plans. Evidence would be reviewed when the Local Plans were reviewed and the affordable housing needs identified in the SHMA considered the needs up to 2036 and informed the policies within the Local Plans.

The Chair invited Martin Aust, Planning Consultant to address the Committee. Mr Aust outlined his credentials including the fact that he had previously been the Group Strategy and Growth director for the largest Housing Association in the region, building up to 1,000 affordable homes a year. For the last 12 years he had run his own consultancy business focused mainly on helping private sector clients make affordable housing work for them. Two recent commissions were working for Saffron Housing Trust and their private housebuilding arm Crocus to see a step change in their delivery of both affordable and market housing as well as working with two nearby Councils to produce an Affordable Housing Delivery Plan with the aim of delivering more affordable housing. Mr Aust explained that for a market housing scheme to deliver anything (including affordable homes through the S106) two things had to happen:

- The residual land value had to be sufficiently attractive to the landowner to release the site. If the residual land value was not sufficient the development would not come forward.
- There had to be a sufficient margin (or anticipated profit) to protect the lender and incentivise the developer to take the risk. The PPG said 'For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers'. Anticipated profits at levels lower than this would simply lead to projects being un-fundable.

Mr Aust added that people used to say the rule of thumb was that 1/3 of the value was the build price, 1/3 was the land value and a 1/3 was profit but that was wrong now because the CIL/S106 taken was generally worth more than either the land value or profit by some margin. House prices had reduced and the Nationwide House Price index had reported a drop in values over the last year on average of 3.13% which put pressure on the viability of schemes, however, costs had risen. The BCIS tender price index showed that build prices had risen by 15.8% over the last two years. Equally, the cost of borrowing development finance had risen sharply. He continued that construction standards through the Building Regulations were being driven upwards (for all the right reasons) but the increased costs (estimated at a further 10% by 2025) would not lead to an increase in the value of houses but placed schemes under more financial pressure so viability would become even harder.

Mr Aust stressed that all this affected the delivery of affordable housing because the percentage to be delivered by developers was set in the Local Plan having being subject to rigorous viability testing and subject to public examination. One of the constraints on the proportion of affordable homes was what RPs would pay developers for these homes. Currently RPs paid about 50% of market value for a rented house so it was expensive in terms of the economics of the overall scheme. The current / emerging picture was that the level of interest from RPs and capacity in acquiring homes was decreasing and was likely to get worse in the short term. This was a real risk for the Council in the delivery of affordable housing. Many RPs preferred to develop their own schemes, they had vastly increased maintenance spend due to Government policy and rent level increases had been reduced to below inflation levels which all put pressure on them. A greater proportion of affordable housing would reduce land values or profits in most places to a level that would see developments not being brought forward and if they were built to Passivhaus standard, which was incredibly expensive, there would be very low levels of affordable housing.

Mr Aust stated that there was a long track record of Local Authorities working with RPs (and their local developer partners) to bring forward 100% affordable housing schemes. Delivery numbers had been significant in the past but had gradually reduced over more recent years. Such projects of 100% affordable housing schemes had the ability to lever in Homes England grant funding ensuring

their viability and generating land values at the market level in many cases. The success of this strategy in the past was built upon a real priority of working with RPs to facilitate their investment in East Suffolk by asking what the Council could do to help and it was not generally about money. He gave an example in a neighbouring Authority where an RP was delivering two 100% affordable housing schemes, one of 90 homes, one of 150 plus an extra care scheme for the elderly, and more were coming through. He stressed that this type of working with RPs coupled with the direct provision of housing by the Council could help. Mr Aust concluded that it was difficult to see how a greater proportion of affordable housing could be secured through S106 agreements by housebuilders without viability being impacted in a way that would cause developments to not come forward. However, in the district there had been a strong track record previously of delivery through 100% affordable housing schemes which if rediscovered might offer a robust solution to increasing the supply of affordable housing in East Suffolk.

The Chair thanked Mr Aust for his extremely interesting presentation and invited questions from Members. In response to those questions Mr Aust explained:

- Viability guidance in the PPG produced by RICS stated that a minimum land value had to be achieved to bring a site forward so for brownfield sites it would be the current existing use value plus a premium percentage to stop it being used as such and to bring it forward for development and most local authorities set the premium at about 20%. Often it was the same as a greenfield site value if the existing use was productive but in the case for example of the Sanyo site the existing use value was very low in comparison to a productive site. The real problem were the abnormal costs eg to clean the site up and additional foundation costs which were usually phenomenal and that was why it was very difficult to make derelict land viable.
- To get 100% affordable housing schemes it was about being passionate about East Suffolk and getting RPs to develop here rather than elsewhere. Talking to them about what they wanted in order to develop in East Suffolk and generally it was not about money but perhaps could be a different percentage of shared ownership would help make a scheme more attractive for them.
- Modular Passivhaus standard units were quicker to erect but were far more expensive.
- Building costs were about the size of a property and its specification. Affordable housing specifications were often different because RPs were more interested in them being hard wearing rather than glitzy but they were not necessarily more expensive so reducing the specification was not really the issue, however, meeting environmental standards were driving up costs.
- The more houses the Council built the better but there was still a need for RPs to help meet the demand.

The Head of Planning and Coastal Management stressed that development had to be deliverable and, although the Council could not enforce delivery of affordable housing, every aspect of a proposal was challenged to provide housing, including affordable housing.

There being no further questions, Members debated and made the following points:

- It was clear that Members wanted more affordable and efficient housing, however, having Passivhaus standard would impact on the number of houses being built so there was a need to find a balance between deliverable and environmentally friendly housing.

- Discussions should be held at a very senior level and at every opportunity with Housing Associations to encourage and support them to build in East Suffolk.
- Members wanted more information about the options, challenges and risks for providing 100% affordable housing developments in the district.
- Given the world had changed since the SHMA had been produced eg Ukraine War and Covid etc consideration should be given as to when this and the Local Plans should be reviewed to ensure they were still relevant and that environmental sustainability was included.

The Chair thanked everyone for their attendance and on the proposition of Councillor Deacon, seconded by Councillor Folley, it was

RESOLVED

That the Scrutiny Committee note the contents of the report and defer any recommendations until after the Review on Social Housing being held in November.