

Affordable Housing Provision in New Residential Developments

A Guidance Note on the Implementation of the Policy

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SECTION A: BACKGROUND INFORMATION

1. Introduction

This guidance note relates to the Council's Planning Policy in respect of Affordable Housing Provision in New Residential Developments*. Its purpose is to set out the current housing situation in the borough and how affordable housing needs are currently being interpreted and assessed in line with this policy. Thus it provides additional guidance to all those who provide and control new residential developments. It will be used by the local planning authority in conjunction with the Planning Policy and the supplementary planning document (SPD) on affordable housing+ in negotiating and determining planning applications.

The Council's Planning Policy has now been operational since April 2006 and progress has been made in securing affordable housing on new residential developments granted planning permission since then. This note has now been updated to give more detailed guidance and to reflect changes in the local housing market over the year.

Given that the note deals with an ever-changing local housing market, it will continue to be reviewed regularly.

2. Context

This note is set in terms of the Council's desire to meet the housing needs of all of its residents. In particular it looks to link the operation of this planning policy with fulfilling the Council's overall Affordable Housing Strategy 2005-10. This strategy has the overall aim of "An affordable home for all within a balanced community" and sets out the following key targets:

- To provide 530 units of affordable housing over the next 5 years with half being produced for owner-occupation.
- To provide these homes where they are most needed and to improve the balance of local housing markets.

This overall strategy has been formulated from evidence from the various Housing Needs studies (2003 and 2005) and from information on the local housing market. Its key funding and targets are based on the Housing Needs Update 2005, carried out by our consultants, David Couttie Associates. It will be implemented via a variety of policies, but one of the principal ways will be via the Affordable Housing Planning Policy.

This note sets out some current housing affordability information and then seeks to explain how this planning policy will be used to maximise its contribution to the Council's affordable housing objectives and which takes account of market issues.

Policy R1H of the Replacement Unitary Development Plan
+ Affordable Housing provision in New Residential Developments

3. Affordability Information

The usual method of establishing the affordability of property in a particular area is to look at the ratio of incomes to house prices. Previously we have measured median house prices to median incomes, however, recent national guidance recommends comparing lower quartile incomes to lower quartile house prices.

Income Statistics (Wigan Borough)

Average (median) income in Wigan for 2006 was £20,254, an increase of 2.3% on the previous years figure, £19,884 (Annual Survey of Hours and Earnings, ASHE 2006 and 2005). The data also indicates that 25% of residents earn below £11,687

It has been calculated that three quarters of new households are now unable to afford to buy their own home. In the past this has typically been less than a half. Given the small size of the private rented and the Registered Social Landlord (RSL) sectors this means that more people are turning to the Council for help.

House Prices (Wigan Borough)

There continues to be considerable variation in house prices across the borough, however, there has been a moderate increase in average house prices in 2006/07 but no where near the levels seen 2003/04 and 2004/05, this is consistent with what has happened nationally. According to current Land Registry figures there has been an annual rise of 7.4%, lower than the Greater Manchester (8.6%) and England and Wales (8.7%). With average prices rising from £106,224 to £114,081.

NB. The Land Registry has introduced a new methodology for monitoring changes in house prices. The House Price Index (HPI) records changes in the sale price for the same property over time, therefore, only includes previously sold property. Hence the average figures are lower than previous data supplied by the Land Registry. The House price index begins from April 2000 at a baseline value of 100 tracks the change in prices over time from the original value. See our "Housing Market Update 2006/07" for further details.

Housing Affordability Index (lower quartile earnings/ lower quartile house prices)

According to government figures the current affordability index for Wigan is 5.45, slightly lower than the north west average.

Affordability Index

	2003	2004	2005	2006
England	5.23	6.27	6.82	7.12
North West	3.28	4.42	5.00	5.61
Wigan	3.29	4.53	4.96	5.45

(DCLG)

In comparison to other neighbouring authorities, Wigan remains a relatively affordable borough.

	2005	2006
England	6.82	7.12
North West	5.00	5.61
Greater	4.88	5.57

Manchester		
Bolton	4.78	5.22
Bury	6.12	6.08
Manchester	3.88	5.20
Oldham	4.00	5.02
Rochdale	5.00	5.24
Salford	4.73	5.50
Stockport	6.51	7.06
Tameside	5.19	5.91
Trafford	8.24	8.06
Wigan	4.96	5.45
St Helens	5.03	5.44
Warrington	6.29	7.78

Homelessness

- Now established at a high level (around 3000 presentations per annum)
- Number of Homeless cases accepted as having Priority Need has risen from 495 cases in 1999/00 to 962 in 2005/06, peaking in 2004/05
- Major reason for homelessness is relationship breakdown.
- Homelessness increases have coincided with increases in house prices.

Social Housing Situation

- Wigan and Leigh Housing continue to report high demand for all accommodation. (over 5000 on the waiting list)
- Although there has been a reduction in the number of sales this year, major losses in social housing stock are occurring from right to buy (806 lost in 2003/04, 694 in 2004/05 and 264 in 2006/07)
- Supply of Socially Rented Housing (available for new lets per year) has increased slightly in 2006/07 to 2337, although this is still significantly below the 1999/2000 figure of 3596

Thus since 2000 the numbers of homelessness acceptances has increased threefold whilst the supply of socially rented housing has diminished by around 40%. The main issue within this fall in available housing has been the decline in tenants moving out of socially rented accommodation.

Tenure

- Compared with the national picture Wigan has a high proportion of owner occupation, (76%) a slightly above average supply of socially rented stock (20%) but a small private rented sector (4%).
- The proportion of socially rented housing by township varies considerably from 28% in Wigan to only 5% in Orrell/ Billinge/ Winstanley.

SECTION B: ADVICE / GUIDANCE

This section concentrates on the basic principles of the Council's affordable housing policy and in particular deals with current housing factors that will be taken into consideration by the Council when interpreting this policy. It therefore complements

the policy and the supplementary planning document and should be read in conjunction with them.

Application of the Policy

Under the Council's Affordable Housing Planning Policy the provision of affordable housing will be required on all sites for which planning permission is applied for and which are for

- (a) development of 25 or more dwellings, or
- (b) housing sites of 1 hectare or more, irrespective of the number of dwellings

The policy will be applied to all dwellings proposed regardless of any existing dwellings to be demolished on the site to make way for the development.

Where an applicant is applying for outline planning permission for residential development for a site where the policy is likely to apply, a condition will be attached requiring details for the provision of affordable housing to be provided under the subsequent reserved matters application.

Where there is an existing planning permission for residential development (obtained prior to the adoption of the Replacement UDP) on a site and changes are made this may require changes to the conditions. Examples are given below

- Sites granted planning permission for residential development prior to the adoption of the Replacement UDP where development has commenced - Where a subsequent planning application increases the number of units on the development by 25 or more units the affordable housing requirement will apply to the additional units only.
- Sites granted outline or full planning permission for residential development prior to the adoption of the Replacement UDP where development has not commenced – Where a subsequent planning application is made the affordable housing requirement will be applied to the revised scheme. The application will be treated as a new proposal and the affordable housing policy will be applied to it.
- Sites with outline planning permission granted prior to the adoption of the Replacement UDP – For a reserved matters application only the requirement will not apply to the scheme.

4. Negotiation Process

Implicit within the Affordable Housing Planning Policy is the need for the Council and Developers to enter into negotiations on affordable housing at the earliest possible stage of the planning process and the following description illustrates the Council's views on how negotiations should take place.

- Developers should consult the Council at the earliest opportunity to determine planning requirements on a particular site they may be interested in prior to an application (including affordable housing);
- All parties concerned should then enter into pre-application discussions to identify the amount, type and location of affordable housing provision in respect of that site. Where it has been agreed that a Registered Social Landlord (RSL) should be involved in the provision and management of affordable housing on a site, they should be party to the pre-application discussions;
- A statement of intent to make affordable housing provision should then be agreed in writing, preferably through a draft Section 106 Agreement, and submitted at the time of making an application. Without such a statement applications will be considered to be incomplete and as a result may not be considered acceptable for registration; and
- Planning applications will then be processed based on the outcome of negotiations and a condition attached to any permission granted to secure the provision of affordable housing in relation to the development. The condition will be set out via a Section 106 Agreement.
- The Council has drafted a Model S106 Agreement that is available to applicants on request. This sets out the alternative mechanisms for the delivery of affordable housing and will be used as a framework for all agreements. Unilateral Undertakings will not be acceptable due to the complex nature of affordable housing conditions.

5. Affordability Benchmark

Clearly a major issue within the Affordable Housing Planning Policy is the key question of what constitutes affordability. Whilst the different affordable housing options are clearly set out in the overall policy and an overall definition is outlined, actual costs / values were not included. This is because the relationship between house prices and incomes is dynamic and will vary over relatively short periods of time.

A definition of Affordable Housing was set out in the Affordable Housing SPD (Section 5) but this has been superseded by national guidance set in Planning Policy Statement 3: Housing where the definition below was given;

“Affordable housing includes social rented and intermediate housing, provided to specified eligible households whose needs are not met by the market. Affordable housing should:

- *Meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and local house prices.*
- *Include provision for the homes to remain at an affordable price for future eligible households or, if the restrictions are lifted, for the subsidy to be recycled for alternative affordable housing provision.”*

This definition will now be used by the Council.

The key element to meeting the above definition is to establish the current level of local incomes and their relationship to house prices or rents and to monitor and review the relationship over time.

PPS 3 defines affordability as a measure of whether housing may be afforded by certain groups of households. In establishing affordability, most authorities look at methodologies based on housing costs as a proportion of household income or based on income to mortgage ratios and then relate this to practical experience within the housing market.

In terms of the current position the average household income for the Wigan Borough was £20,254 (ASHE 2006), assuming a similar increase of 2.3% for 2007 this gives a current estimate of £20,720.. Whilst the income to mortgage ratio varies depending on household circumstances it is between 2.5 to 4.0 times income, for the purposes of calculating an affordable value, the Council has assumed a ratio of 3.5 x income.

$$3.5 \times \begin{array}{l} \text{average household income} \\ \text{£20,720} \end{array} = \text{£72,520}$$

Thus the current affordable housing benchmark for the borough is approximately *£73,000*

In the current market conditions, a typical two bedroom starter home will range from £120,000 to £170,000 depending on the location. This would equate to a typical discount of 39% to 57% in order for the property to be available at an affordable level.

6. Level of Contribution Required From Developers

Against this financial background and in order to ensure that the levels of subsidy required from developers are consistent, it is proposed that the contribution sought from developers will be 6% of the total sales value of the scheme. This represents a discount on each shared equity / discounted market housing unit of 30% of the average open market valuation of all units on the development, assuming a 20% affordable housing quota.

Table 1 below explains this relationship:

Table 1

Affordable Housing Quota Contribution	X	Financial contribution / discount	=	Developers total affordable housing contribution/ discount (6% contribution of the total scheme value)
(20% of total site capacity)		(30% of average open market value)		

Where on-site provision of affordable housing is required, the total affordable housing contribution will be applied as a discount on a number of units allocated as affordable housing units following negotiation between the developer and the Council. Developers should note that the Council will still seek to ensure that residential developments incorporate a good mix of dwelling size, type and affordability.

In applying the contribution the Council will seek to achieve affordable sales values with regard to the affordability benchmark set out above and it may be that on certain sites the Council will apply the agreed total discount (on the 20% site capacity) to a fewer number of units in order to achieve affordability.

Where a residual amount remains from the total contribution after applying the discounts to the affordable housing units, the remaining amount will be due as a commuted sum payment.

The calculation set out in table 1 will also be the basis for contributions by the developer of a commuted sum in-lieu of on-site affordable housing provision.

An administration fee will also be payable in addition to the affordable housing contribution in all cases, regardless of the type of provision requested. This is set as 1.75% of the total affordable housing contribution. The administration fee will be utilised to fund additional staffing, administration and other cost generated by the affordable housing policy.

Developers will be required to submit a full schedule of accommodation and valuation, completed by an Independent Chartered Surveyor, for the whole development in order that the total affordable housing contribution and administration fee can be agreed. See Appendix B for a worked example of contributions due.

Abnormal Development Costs

Only in exceptional circumstances will the affordable housing contribution be reduced or waived. When negotiating the affordable housing contribution due, it will be assumed that the applicant has purchased the site at a price that reflects all known obligations and development constraints, including affordable housing.

Where there are additional and substantial costs that were unforeseen, these will be considered by the Council and a decision made as to whether they are accepted as justifying a reduction in the affordable housing contribution. The applicant will be required to submit a full independent financial appraisal of the development listing all costs, with supporting information, such as surveys, where appropriate.

All information provided by the applicant in relation to the development costs will be assessed by the Council's Asset Management Team and will be treated as confidential.

7. Type of Provision

As already stated the overall target set out within the Affordable Housing SPD is 530 dwellings over the next 5 years (106 per year) of which approximately half should be for rent and half for owner-occupation. This is in line with the recommendations made by our consultants in the Housing Needs Update (2005). However they also made particular reference to the preference of prospective households towards owner-occupation (79%) and the lack of such affordable options in the borough since the recent price rises.

Alternative forms of affordable housing are set out in Section 8 of the SPD and subsequent national guidance has been given in PPS3: Housing and "Delivering Affordable Housing" Policy Statement (November 2006) and whilst accepting all

forms of affordable housing options set out in the guidance the Council currently particularly encourages the emergence of an intermediate housing market via the development of discounted housing for sale with occupancy controls to ensure that the properties remain as affordable homes for those in need of affordable home ownership in the future.

The size and type of property needed will vary in terms of both the location and the developers' preferred development mix on any given site. It would, therefore, be a matter for negotiation and developers are encouraged to seek early discussion with the Housing Strategy Section over the current requirements for affordable housing. However it should be noted that from evidence presented by our consultants and from the Council's own waiting list the need is for a range of different types of smaller properties, although there appears to be little demand for one bedroom accommodation. There is also some demand for larger type properties and bungalows in certain localities.

The Council embraces the government objectives of providing mixed communities with a range of property tenures, types and sizes to meet a range of current and future housing needs. It is envisaged that on larger sites the affordable housing provision will comprise a mix of property types and sizes that is representative of the development as a whole and would not normally comprise one particular type only unless local need indicates otherwise.

Shared Equity/ Discounted Sale Housing

Given that this type of scheme seeks to allow people on or below average income the chance to buy a property, prices will need to be around affordability benchmark level. However this may vary according to location and type of property. We aim to provide smaller 1 and 2 bedroom apartments that are affordable to single earners but accept that there are more likely to be joint earners in the case of larger family housing.

Where apartments are proposed as affordable housing, likely service charges will be taken into account when establishing the affordability of the properties, in terms of monthly housing costs.

From the affordability information available and from experience on current affordable housing negotiations, we aim to achieve affordable sales prices within the ranges given below.

Property Type	Affordable Sale Price
1 bedroom apartment	£60,000 - £65,000
2 bedroom apartment	£65,000 - £70,000
2 bedroom house	£70,000 - £75,000
3 bedroom house	£72,000 - £85,000
4 bedroom house	£80,000 - £90,000

Occupancy controls will be imposed on all shared equity/ discounted sale housing to ensure that the properties remain as affordable dwellings available to those in housing need on future occupations. The Council has set out how shared equity and discounted sale housing will be allocated and controlled in its "Affordable Housing Allocations Scheme" adopted in November 2006, which is available on request.

Shared Ownership

Where shared ownership housing is proposed it must be sold (by freehold) at a price that will secure the involvement of an Registered Social Landlord (RSL) or other suitable organisation approved by the Council. This will be at least the equivalent discount of shared equity/ discounted sale properties. The sale value will be agreed in consultation with the proposed RSL or other landlord but it will be expected that the price will allow the shared ownership properties to be provided without the need for additional subsidy from other sources.

Where an RSL is involved occupancy will be controlled via their occupancy criteria and/ or nomination agreement. The Council will require information in relation to the proposed share available to purchasers and rent to be charged by the landlord on the remaining share in order that the affordability of the shared ownership property can be assessed. The total monthly housing costs will be expected to be at a similar level to that for a discounted sale property of the same type.

Rented Housing

Where a developer is proposing to dispose of affordable rented housing the discount will be related to the level that secures the involvement of an RSL or other suitable landlord agreed by the Council, this will be at least the equivalent of the shared equity / discounted market housing discount and is likely to be at levels in excess of this. Where the involvement of an RSL or other approved landlord is proposed, the level of discount will be agreed in consultation with them.

Where affordable rented housing is proposed, this must be provided via an RSL or other suitable landlord approved by the Council. In order to be acceptable as an affordable property, rent levels must be at local target rents, as set by the Council, and future increases limited in order to ensure affordability in the long term.

Where an RSL is involved occupancy will be controlled via their occupancy criteria and/ or nomination agreement.

8. Location of the Affordable Housing

Whilst there is a well researched overall shortage of affordable housing in the borough as a whole, this is greater in some parts of the borough than others. Also certain parts of the borough have weaker housing markets and are subject to regeneration schemes aimed at providing more balanced communities.

In order to maximise the Affordable Housing Policy's contribution towards creating more affordable homes and yet ensuring housing markets become more balanced the following advice regarding the location of the affordable housing is given.

On-site Provision

Within the majority of the borough, (see map in appendix B) the Council will generally demand that affordable housing provision be provided on-site as part of the development. As identified in the Affordable Housing SPD (section 7) on-site provision of affordable housing should be addressed sensitively. We will expect that the design of the affordable housing units are consistent with the overall scheme and

are not visually distinguishable from the market dwellings and that they are dispersed across the development, thus creating an integrated community.

In these areas, only in limited circumstances will the Council accept affordable housing provision to be provided partly or wholly off-site. Generally the onus is on the applicant to demonstrate to the Council's satisfaction why affordable housing provision should not be provided on-site bearing in mind the Council's priority to provide inclusive developments.

There may be limited instances where the Council feels that it is actually preferable to provide affordable housing off-site and will enter into negotiations on this basis. This would be after consideration by the Council of:-

- local housing needs of the area
- effect of the proposed development on the area's housing market
- proximity of local services, facilities and access to public transport
- evaluation of the ability of the development to fully integrate the range of house types they provide including any affordable provision.

If off-site provision is agreed it will be necessary for the developer to demonstrate that the off-site provision is of equal or greater value than the amount of on-site housing which would be required under the policy.

Off-site Provision / Commuted Sums

Within the borough there are areas which do not have well balanced housing markets. These areas are subject to regeneration efforts by the Council. A map defining these areas is attached in appendix B. It is based on two sources:-

- Work commissioned by the Regional Housing Board (CURS 2003) which set out unbalanced housing markets.
- The borough's Index of Multiple Deprivation.

Within these areas the Council will generally look to the affordable housing provision to be met off-site via the methods set out in the planning policy document. This is justified by the fact that on-site provision is often not compatible with the Council's regeneration priorities which generally aims at broadening local housing provision / choice. Also other forms of contribution such as a commuted sum could allow more flexible investment within existing defective local housing eg bringing empty homes back into use or could allow investment in other parts of the borough which face greater affordable housing shortages.

In certain circumstances the Council will accept on-site affordable housing provision within these areas. Generally the onus is either on the applicant to demonstrate to the Council's satisfaction why provision should be provided on-site or there may be instances where the Council feels that it is actually preferable to provide affordable housing on-site and will enter negotiations on this basis.

This would be after consideration by the Council of:-

- local housing needs of the area
- effect of the proposed development on the areas housing market

- effect on the Council's regeneration proposals in the area
- proximity of local services, facilities and access to public transport

In both instances the determination of whether the affordable housing should be on or off-site would benefit from the preferred early negotiation arrangements set out in this document.

8 Conclusion

This document provides additional guidance based on the current housing situation to developers and housebuilders. It will be used to help the Council in determining the preferred way of implementing the Affordable Housing Policy. Given that circumstances can and do change it is envisaged that this guidance will be regularly reviewed. It also demonstrates the absolute need for early discussion between prospective developers and the Council.

Appendix A

Property schedule and affordable housing contribution - example

A developer is proposing a development of 75 units with a mix of property types.

Property Type	Beds	Size sqft	OMV	No of units	Total size sqft	Total OMV
House A	4	1050	£190,000	20	21000	£3,800,000
House B	4	1100	£210,000	15	16500	£3,150,000
House C	3	900	£170,000	15	13500	£2,550,000
House D	2	750	£145,000	10	7500	£1,450,000
Apart E	2	650	£125,000	10	6500	£1,250,000
Apart F	1	520	£105,000	5	2600	£525,000
			TOTAL	75	67600	£12,725,000
					6% contribution	£763,500

Administration fee £13,361.25

The total contribution required will be £763,500 plus and administration fee of £13,361.25


After negotiation with the developer it is agreed to provide discounted sale properties on the site and the affordable prices are agreed and the contribution applied to achieve the affordable sale prices.

Property Type	OMV	Affordable Sale Price	Discount %	Discount value	No of units	Total discount
House C	£170,000	£85,000	50%	£85,000	4	£340,000
House D	£145,000	£72,500	50%	£72,500	2	£145,000
Apart E	£125,000	£68,750	45%	£56,250	3	£168,750
Apart F	£105,000	£63,000	40%	£42,000	2	£84,000
				Total	11	£737,750

The residual amount remaining after securing the affordable units

Total affordable housing contribution	£763,500
Total discount applied	-£737,750
will be payable as a commuted sum	=£25,750

Appendix B - Affordable Housing Strategy Map

 = areas which are subject to regeneration effects and / or have less balanced housing markets. We will generally require off-site provision of affordable housing in these areas

