Local Plan Partial Review – Draft Policies
Policy Formulation Report – October 2016
Diversity of Housing
Policy CH2: Affordable Housing
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1. INTRODUCTION

1.1 LOCAL PLAN PARTIAL REVIEW

1.1.1 The Council is undertaking a Partial Review of its existing Local Plan to ensure it is up-to-date and fit-for-purpose.

1.1.2 The Local Plan Partial Review covers the topics which have not already been subject to recent reviews since the existing Local Plan was adopted by the Council in 2010 (then known as the Core Strategy). As part of this, the topic of housing needs reviewing.

1.1.3 This Policy Formulation Report has been written to explain the reasoning behind Policy CH2: Affordable Housing of the Draft Policies consultation document to a level of detail which cannot be included in that document itself.

1.2 POLICY CH2: AFFORDABLE HOUSING

1.2.1 This topic of the Local Plan Partial Review relates primarily to the following chapters and policies of the existing Local Plan:

   - Chapter 35: Housing Diversity
     - Policy CH1: Housing Targets
     - Policy CH2: Housing Diversity

1.2.2 The issues which the Council considers the Local Plan Partial Review needs to address relating to affordable housing are:

   - Affordable Housing Target
   - Affordable Housing Threshold
   - Affordable Housing Tenure Split
   - Off-site provision of Affordable Housing and Payments in Lieu
   - Viability Assessments
   - Vacant Building Credit
2. ISSUE: AFFORDABLE HOUSING

2.1 INTRODUCTION

2.1.1 The existing Local Plan Policy CH2: Housing Diversity includes criteria on affordable housing. Given the changes at national and regional level on affordable housing since the policy was adopted in 2010, the Council needs to review its planning policies in relation to affordable housing and related issues.

2.2 LEGISLATION, POLICY AND GUIDANCE CONTEXT

NATIONAL

HOUSING AND PLANNING ACT 2016

2.2.1 The Housing and Planning Bill became an Act on 12 May 2016. The Housing and Planning Act 2016 is expected to have significant implications on the delivery of affordable housing. Amongst a range of significant changes affecting planning, the Act introduces a requirement for Starter Homes which will be a new type of affordable housing. The definition of affordable housing is anticipated to be changed to include Starter Homes following a Government consultation on proposed changes to national planning policy\(^1\) published in December 2015. The Act defines Starter Homes as a newly built property (includes conversions) that must be sold to someone who is a first-time buyer between the age of 23 to 40, with a discount of at least 20 per cent off the market value. The price of a Starter Home is capped at £450,000 within Greater London. Councils have a general duty under the Act to promote the supply of Starter Homes through their planning functions.

2.2.2 The Government undertook a technical consultation to formulate the Regulations for Starter Homes. This technical consultation provided further detail that Starter Homes should be required on sites which are either providing 10 units or more or are 0.5 hectares. On qualifying sites (based on the threshold above) the Government is proposing a requirement of 20% of all homes delivered to be Starter Homes. Given the high land values in the Borough and the price cap of £450,000 for Starter Homes, their delivery would require significantly higher discounts than 20% in most parts of the Borough. This is likely to have significant implications for other traditional forms of affordable housing – social/affordable rent and intermediate.

NATIONAL PLANNING POLICY FRAMEWORK (NPPF)

2.2.3 Paragraph 50 of the NPPF requires Councils to plan for a mix of housing based on current and future demographic and market trends, as well as the needs of specific groups within the community. The size, type, tenure and range of housing required should also be identified. Where a need for affordable housing has been identified, policies should be set for meeting this need.

\(^1\) [www.gov.uk/government/consultations/national-planning-policy-consultation-on-proposed-changes](http://www.gov.uk/government/consultations/national-planning-policy-consultation-on-proposed-changes)
2.2.4 In order to have a clear understanding of the housing needs in their area, paragraph 159 states that Councils should prepare a Strategic Housing Market Assessment (SHMA) to identify the scale and mix of housing and the range of tenures that the local population is likely to need over the plan period.

2.2.5 The NPPF includes a section titled Ensuring viability and deliverability (paragraphs 173 to 177). These paragraphs stress the importance of plans being deliverable. In particular paragraph 173 states “To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.” (emphasis added)

2.2.6 Paragraph 174 of the NPPF specifies that the Local Plan should include requirements for affordable housing. It further asks local authorities to take into account the cumulative impacts on development of all types of local policies and standards in addition to nationally required standards. It further states that “In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle. Evidence supporting the assessment should be proportionate, using only appropriate available evidence.”

**DEFINITION OF AFFORDABLE HOUSING**

2.2.7 Annex 2: Glossary of the NPPF sets out the definition of affordable housing. Any planning policy relating to affordable housing can only ever require the type/tenures set out in national policy. This definition is presented below for ease of reference –

**Social rented housing** is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency.

**Affordable rented housing** is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).

**Intermediate housing** is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity...
loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.

Homes that do not meet the above definition of affordable housing, such as “low cost market” housing, may not be considered as affordable housing for planning purposes.

2.2.8 As noted above, the definition of affordable housing is anticipated to be changed to include Starter Homes following a Government consultation on proposed changes to national planning policy2 published in December 2015.

NATIONAL PLANNING PRACTICE GUIDANCE (NPPG)

2.2.9 The National Planning Practice Guidance (NPPG) provides further guidance on national policy.

Planning Obligations

2.2.10 Paragraph 3 of the NPPG on Planning Obligations states that “Policies for seeking planning obligations should be set out in a Local Plan; neighbourhood plan and where applicable in the London Plan to enable fair and open testing of the policy at examination. Supplementary planning documents should not be used to add unnecessarily to the financial burdens on development and should not be used to set rates or charges which have not been established through development plan policy.” Paragraph 4 further adds that “Planning obligations must be fully justified and evidenced. Where affordable housing contributions are being sought, planning obligations should not prevent development from going forward.”

2.2.11 Paragraph 6 clarifies that “Where local planning authorities are requiring affordable housing obligations or tariff style contributions to infrastructure, they should be flexible in their requirements. Their policy should be clear that such planning obligations will take into account specific site circumstances.”

2.2.12 Paragraph 7 states that “Policy for seeking planning obligations should be grounded in an understanding of development viability through the plan making process. On individual schemes, applicants should submit evidence on scheme viability where obligations are under consideration. Wherever possible, applicants should provide viability evidence through an open book approach to improve the review of evidence submitted and for transparency.”

Viability

2.2.13 The NPPG on Viability clarifies that there is no single approach for assessing viability and refers to sector led guidance on viability methodologies in plan making and decision taking (paragraph 2).

2.2.14 Paragraph 8 states that “Current costs and values should be considered when assessing the viability of plan policy. Policies should be deliverable and should not be based on an expectation of future rises in values at least for the first five

2 www.gov.uk/government/consultations/national-planning-policy-consultation-on-proposed-changes
years of the plan period.”

2.2.15 In terms of land values which are central in viability assessments the NPPG states in relation to plan making (paragraph 14) that “In all cases, estimated land or site value should:

- reflect emerging policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge;
- provide a competitive return to willing developers and land owners (including equity resulting from those building their own homes); and
- be informed by comparable, market-based evidence wherever possible. Where transacted bids are significantly above the market norm, they should not be used as part of this exercise.”

2.2.16 The NPPG (paragraph 15) provides further guidance on ‘Competitive return to developers and landowners’ as referred to in the NPPF (paragraph 173). It states that “A competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative use that complies with planning policy.”

2.2.17 Paragraph 17 of the NPPG provides further guidance on costs and values. It states that “Viability assessment in decision-taking should be based on current costs and values. Planning applications should be considered in today’s circumstances.

However, where a scheme requires phased delivery over the medium and longer term, changes in the value of development and changes in costs of delivery may be considered. Forecasts, based on relevant market data, should be agreed between the applicant and local planning authority wherever possible.”

Payments in Lieu

2.2.18 Paragraph 14 of the NPPG on Planning Obligations clarifies that “Some authorities seek planning obligations contributions to pooled funding ‘pots’ intended to provide common types of infrastructure for the wider area.”

2.2.19 Paragraph 10 of the NPPG states that “Local planning authorities are expected to use all of the funding received by way of planning obligations, as set out in individual agreements, in order to make development acceptable in planning terms. Agreements should normally include clauses stating when and how the funds will be used by and allow for their return, after an agreed period of time, where they are not.”

Small Sites Exception

2.2.20 The Government has set a minimum threshold below which planning obligations including affordable housing should not be sought. Paragraph 31 of the NPPG states that “There are specific circumstances where contributions for affordable
housing and tariff style planning obligations (section 106 planning obligations) should not be sought from small scale and self-build development. This follows the order of the Court of Appeal dated 13 May 2016, which give legal effect to the policy set out in the Written Ministerial Statement of 28 November 2014 and should be taken into account.

These circumstances are that;

- contributions should not be sought from developments of 10-units or less, and which have a maximum combined gross floorspace of no more than 1000sqm....”

2.2.21 Paragraph 16 further states that “For the purposes of section 106 planning obligations only the definition of 10-units or less applies. This is distinct from the definition of major development...”

Vacant Building Credit

2.2.22 Paragraph 21 of the NPPG states that “National policy provides an incentive for brownfield development on sites containing vacant buildings. Where a vacant building is brought back into any lawful use, or is demolished to be replaced by a new building, the developer should be offered a financial credit equivalent to the existing gross floorspace of relevant vacant buildings when the local planning authority calculates any affordable housing contribution which will be sought. Affordable housing contributions may be required for any increase in floorspace.”

2.2.23 Paragraph 23 further states that “The vacant building credit applies where the building has not been abandoned.

The policy is intended to incentivise brownfield development, including the reuse or redevelopment of empty and redundant buildings. In considering how the vacant building credit should apply to a particular development, local planning authorities should have regard to the intention of national policy.

In doing so, it may be appropriate for authorities to consider:

- Whether the building has been made vacant for the sole purposes of re-development.
- Whether the building is covered by an extant or recently expired planning permission for the same or substantially the same development.”

Starter Homes

2.2.24 The NPPG on Starter Homes predates the definition of Starter Homes and other related provisions in the Housing and Planning Act 2016. The key difference is that the NPPG restricts the provision of Starter Homes to exception sites. Paragraph 1 states that “The exception site policy enables applications for development for Starter Homes on under-used or unviable industrial and commercial land that has not been currently identified for housing.” Other characteristics such as a 20% discount below open market value and the
discounted price to be no more than £250,000 outside London and £450,000 in London and an age restriction of below 40 are similar to the definition in the Housing and Planning Act 2016.

REGIONAL

THE LONDON PLAN

2.2.25 The Mayor gives particular priority to the provision of new affordable homes to meet London’s pressing needs. The London SHMA demonstrates that the high cost of market housing in London makes affordable housing particularly important in meeting housing needs. The London Plan does not set an affordable housing target for Boroughs and instead sets an absolute London-wide strategic affordable housing target of 17,000pa (Policy 3.11) which all Boroughs are expected to contribute towards – this equates to approximately 40% when compared to the total London Plan housing target of 42,389pa. It does however set out the percentage targets for the proportion of affordable provision that should be social/affordable rent (60%) and intermediate rent or sale (40%).

2.2.26 At the local level, the policy requires Boroughs to set an overall target in the Local Plans for the amount of affordable housing provision needed together with separate targets for the different types of affordable tenures. Such targets may be expressed in absolute or percentage terms. In terms of thresholds, Policy 3.13 states that Boroughs should normally require affordable housing provision on a site with capacity to provide 10 or more units, but to seek a lower threshold where this can be locally justified. In accordance with the NPPF, the assumption is that affordable housing provision should be made on-site with off-site provision or payments in lieu accepted only in exception circumstances. Policy 3.12 is also clear that when negotiating affordable housing on individual sites, the maximum reasonable amount should be sought having regard to local requirements, affordable housing targets, the need to promote mixed communities and development viability.

2.2.27 Policy 3.10 of the London Plan sets out its definition of affordable housing. The London Plan definition broadly reflects the definition in Annex 2 of the NPPF set out above. It is however noteworthy that the supporting text to Policy 3.10 provides further guidance on intermediate housing and related household income thresholds. It sets out that “Households whose annual income is in the range £18,100–£66,000 should be eligible for new intermediate homes. For homes with more than two bedrooms, which are particularly suitable for families, the upper end of this eligibility range will be extended to £80,000.” These figures are updated annually in the London Plan Annual Monitoring Report. In the latest Annual Monitoring Report the top threshold has indeed been increased to £90,000. There is now also a single cap of £90,000 which is no longer linked to the size of homes as before. Paragraph 3.44 of the Annual Monitoring Report 12 explains that this has been done “in line with the Government’s approach to shared ownership, from April 2016 people wanting to access intermediate products will no longer be restricted in terms of the size of units they buy or rent.”

2.2.28 Policy 3.12: Negotiating Affordable Housing of the London Plan seeks to secure the maximum reasonable amount of affordable housing when negotiating on
individual private residential and mixed use schemes. The supporting text to this policy in particular paragraphs provide some general guidance on viability assessments. Paragraph 3.71 states that “Developers should provide development appraisals to demonstrate that each scheme provides the maximum reasonable amount of affordable housing output. Boroughs should evaluate these appraisals rigorously, drawing on the GLA development control toolkit (Affordable Housing Development Control Toolkit. GLA) and other independent assessments which take account of the individual circumstances of a site, the availability of public subsidy and other scheme requirements.” Policy 3.12 also states “Negotiations on sites should take account of their individual circumstances, including development viability, the availability of public subsidy, the implications of phased development including provisions for re-appraising viability of schemes prior to implementation (‘contingent obligations’) and other scheme requirements”.

2.2.29 The supporting text (paragraph 3.74) emphasises the requirement to provide affordable housing on-site. It sets outs some exceptional circumstances where it may be appropriate to provide affordable housing off-site or accept cash in lieu. However, generally these exceptions are related to securing more and better affordable housing or balanced communities.

2.2.30 Paragraph 3.75 further refers to ‘contingent obligations’ or arrangements for re-appraising the viability of schemes prior to implementation. This is to take account of economic uncertainties and in respect of schemes presently anticipated to deliver low levels of affordable housing, these provisions may be used to ensure that maximum public benefit is secured over the period of the development.

HOUSING SUPPLEMENTARY PLANNING GUIDANCE (SPG)

2.2.31 The Housing SPG is capable of being a material consideration in planning decisions and provides additional advice on the implementation of the London Plan’s policies. The Housing SPG does not provide updated guidance on affordable housing. This is because of the forthcoming changes in the Housing and Planning Act 2016 which was going through Parliament at the time the Housing SPG was developed. The Housing and Planning Act is expected to have significant implications on how affordable housing is planned in London.

2.2.32 The Housing SPG includes a section on Viability Appraisals (paragraphs 4.1.1 to 4.1.10). The Mayor supports the use of GLA’s own Development Appraisal Toolkit. Boroughs are strongly advised to use more local information reflecting local circumstances rather than defaults in the toolkit. Importantly the Housing SPG supports the use of ‘Existing Use Value plus’ approach in viability appraisals. Paragraph 4.1.4 states that “It should be noted that the NPPF’s benchmark for viability appraisal is that it should “take account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable”. In light of inference to the contrary3, either ‘Market Value’, ‘Alternative Use Value’, ‘Existing Use Value plus’ based approaches can address this requirement where correctly applied (see below); their appropriate application depends on specific

3 RICS Financial Viability in Planning 2012 ibid
circumstances. On balance, the Mayor has found that the ‘Existing Use Value plus’ approach is generally most appropriate for planning purposes, not least because of the way it can be used to address the need to ensure that development is sustainable in terms of the NPPF and Local Plan requirements, he therefore supports this approach. The ‘plus’ element will vary on a case by case basis based on the circumstances of the site and owner and policy requirements.”

2.2.33 The Housing SPG also promotes transparency of information. This is explicitly encouraged in paragraph 4.2.2 which refers to Environmental Information Regulations 2004 and the Greenwich decision. It refers to the fact that public interest will often outweigh commercial confidentiality arguments. It states “Therefore, the Mayor encourages the transparency of information to increase public trust in the planning process and asks developers to keep confidential information to a minimum.”

2.2.34 The Housing SPG encourages review mechanisms when a large scheme is built out in phases and/or is built over a long period of time (paragraph 4.3.3). Detailed guidance is provided on the issue of Contingent Obligations, Review Mechanisms and Cascades in paragraphs 4.3.1 to 4.3.10.

HOMES FOR LONDON, THE LONDON HOUSING STRATEGY

2.2.35 The Mayor’s Housing Strategy emphasises the challenge in providing increasing number of homes to cater to the growing population of London. It notes that over the last ten years the overall level of new housing supply has averaged between 20,000 and 25,000 homes per annum. As mentioned above the target adopted through the London Plan is to provide 42,000 homes per annum. It also notes that the London Plan SHMA 2013 identified a need for around 25,600 of new homes per annum to be affordable which equates to 52% of the 42,000 homes per annum target. However, the vast majority of new affordable homes in London are part funded by public subsidy and any affordable housing target must be deliverable in the light of plausible future subsidy levels. The London Plan therefore sets a target for an average of 17,000 new affordable homes a year over its plan period.

2.2.36 The overriding aims of the strategy are to increase the supply of housing of all tenures and to ensure that these homes better support London’s continued economic success. The strategy is not just about supply; policies range from improving the existing stock to tackling rough sleeping – but supply is at the heart of it, underpinning each of its five key priorities:

- increasing housing supply to levels not seen since the 1930s;
- better supporting working Londoners and helping more of them into home ownership;
- improving the private rented sector and promoting new purpose-built and well managed private rented housing;
- pushing for a new, long-term financial settlement for London Government to drive housing delivery; and
• bringing forward land for development and accelerating the pace of housing delivery through Housing Zones and the London Housing Bank.

MAYOR’S HOUSING COVENANT 2015-18 PROGRAMME

2.2.37 The Mayor has committed £1.25 billion through his Housing Covenant 2015-18 Programme, which will see at least 42,000 affordable homes built. Around 40 per cent of this funding will be for flexible home ownership and 60 per cent for affordable rent. The programme supports the aims of the Draft London Housing Strategy, building on the success of those earlier programmes associated with the document.

LOCAL

HOUSING STRATEGY 2013 – 17

2.2.38 The Council’s Housing Strategy sets out how we as a borough want to improve both the quality of accommodation and lives of people who live here by:

• Resources – Develop effective asset management and longer term business planning, taking advantage of the new regime for Council Housing finance.

• Development and regeneration – Regenerate, renew and develop new affordable housing where opportunities arise.

• Housing options – Provide a service that enables people to make informed decisions about their housing options.

• Vulnerable residents – Support people who are vulnerable with appropriate accommodation and advice services.

• Employment and training – Enable people in social housing to access employment and training opportunities.

2.2.39 The Council will publish a new four year Housing Strategy in 2017.

2.2.40 Section 2: Development and regeneration of the Housing Strategy includes some details of sites which the Council was considering for estate renewal. The Silchester Garage site is already complete. The Housing Strategy acknowledges the issues of affordability in the borough given the highest property prices anywhere in the country. It states that “We want to continue to ensure access to homes on a social or target rent, to provide a springboard so that tenants have a realistic chance of making the transition from being reliant on benefits to being financially independent and in paid employment. We will continue to support the development of affordable ownership options, such as shared ownership housing. We also want to support low and middle income earners by exploring how affordable housing can be provided for this group through new housing

developments.” (page 12)

2.2.41 The Housing Strategy also comments that “We want to explore the opportunities that the new Affordable Rent tenure can bring to develop more intermediate housing options. We have developed a policy on Affordable Rent to inform planning and future housing development. The Royal Borough wants to develop new affordable housing and is committed to finding practical solutions through the new funding model to achieve this.”

EXISTING LOCAL PLAN POLICY

2.2.42 The Local Plan policies on securing affordable housing are set out in specific criteria of Policies CH1: Housing Targets and CH2: Housing Diversity. These are set out below:

**Policy CH1 Housing Targets**
The Council will ensure that sufficient housing sites are allocated in order to ensure the housing targets are met.

To deliver this the Council will:

b. make provision for the maximum amount of affordable housing with a target of a minimum of 200 units per annum from 2011-12 until 2027-28 from all sources, the exact target will be set through the London Plan process;

c. require affordable housing tenures to be provided such that they work towards a borough-wide target of 85 per cent social rented housing and 15 per cent Intermediate housing.

**Policy CH2 Housing Diversity**
The Council will ensure new housing development is provided so as to further refine the grain of the mix of housing across the borough.

To deliver this the Council will, in relation to:

Affordable Housing

a. require developments to provide affordable housing at 50 per cent by floor area on residential floorspace in excess of 800sq.m gross external area;

b. require provision to be in the form of a commuted sum in lieu of the equivalent amount of affordable housing floorspace where in excess of 800sq.m but less than 1,200sq.m of gross external residential floor space is proposed;

c. require affordable housing provision of affordable homes on site where more than 1,200sq.m of gross external residential floor space is proposed, unless exceptional circumstances exist;

d. require any off-site affordable housing to be provided in any wards except the following: Golborne, St Charles, Notting Barns, Colville, Norland, Earl’s Court and Cremorne;

e. require an application to be made for any ‘off-site’ affordable housing concurrently with the main planning application and that the two applications are linked through a s106 agreement or unilateral undertaking;
f. require that affordable housing and market housing are integrated in any development and have the same external appearance;
g. require the affordable and market housing to have equivalent amenity in relation to factors including views, daylight, noise and proximity to open space, playspace, community facilities, and shops;
h. where a scheme over 800sq.m does not provide 50 per cent of gross external residential floorspace for affordable housing, the applicant must demonstrate:
i. the maximum reasonable amount of affordable housing is provided through the provision of a viability assessment, using the GLA toolkit or an agreed alternative
ii. the exceptional site circumstances or other public benefits to justify the reduced affordable housing provision;
j. require that the provision of intermediate housing is provided at the ‘usefully affordable’ point.

PLANNING OBLIGATIONS SUPPLEMENTARY PLANNING DOCUMENT (SPD)

Section 23: Negotiating the Maximum Reasonable Proportion of Affordable Housing of the Planning Obligations SPD provides guidance on securing the maximum reasonable affordable housing on qualifying sites. The key paragraphs are reproduced below for ease of reference -

23.1 The Royal Borough will seek the maximum reasonable proportion of affordable housing on qualifying sites. In accordance with the Core Strategy the initial basis for negotiations is that 50% of all housing should be provided as affordable housing. Should an applicant propose a lower proportion of affordable housing a financial appraisal will be required in order to demonstrate the maximum reasonable proportion for the specific site. Where this is provided, the applicant will be expected to bear the Council’s costs in assessing the financial appraisal (see Part 1 of the SPD).

23.2 One method for which proposed developments may be assessed in Royal Borough of Kensington and Chelsea is through the use of the Development Control Toolkit developed for the Greater London Authority (GLA) by Three Dragon’s Consultants and Nottingham Trent University. Although it is recognised that a methodical approach to projecting costs and profits will never be perfectly accurate, in the interests of objectivity and consistency of analyses, the Development Control Toolkit is publicly available and therefore is recommended as a tool to inform the negotiation process.

23.3 The Toolkit requires a number of inputs of information regarding incurred and projected costs. A reasonable profit for the developer is projected for, as is the amount of Social Housing Grant (if any) that may be available. An outcome projecting what would be a reasonable proportion of affordable housing contribution is provided, which will be used as one basis for negotiating the
proportion of affordable housing.

23.4 It is important that the information provided for use in the Development Control Toolkit is accurate. The Royal Borough may seek detailed evidence of costs incurred, the assumptions made for those costs and sale prices that are projected. Pre-application research should be sufficient to consider all likely costs to be incurred in the development.

23.5 Applicants should not automatically assume that Social Housing Grant will be made available for private sector developments. The applicant should consult with the Royal Borough’s Housing Initiatives Team at an early stage, preferably in cooperation with an RSL partner, to establish whether Social Housing Grant or an alternative source of funding is likely to be secured.

23.6 Although the Development Control Toolkit is recommended as a financial appraisal method, the Royal Borough will not preclude information being presented through other appraisal methods. However, all figures and assumptions will need to be clearly shown in any model used, so the Royal Borough can understand how the assumptions are made.

23.7 Early engagement with the Royal Borough is critical to ensure the processes of negotiation and securing affordable housing set out above are undertaken efficiently.

### SUMMARY

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<th>Date</th>
<th>Document</th>
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2.3 EVIDENCE BASE

MONITORING REPORT 2015

2.3.1 The total net number of affordable housing completions in the financial year (2014/15) was 196 dwellings. This figure comprises 135 social rented units and 61 intermediate units. The majority of units were provided as part of the Wornington Green Estate Phase 1 redevelopment, on the Silchester Garages Site at Latimer Road and on the former Princess Louise Hospital site. Table 3 below presents the information since 2010/11.

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Table 3: Affordable housing completions 2010/11 to 2014/15

PAYMENTS IN LIEU

2.3.2 In addition to the on-site delivery of affordable housing, the Council also seeks affordable housing contributions from sites which are between the 800 sq m to 1,200 sq m threshold in accordance with Policy CH2. Affordable housing contributions are also sought from large sites where on-site delivery is not possible. Two such sites in recent years have been the Holland Park School Southern Site (PP/10/03018) and Clearings 1 & 2 (PP/13/02659). At the Holland Park School Southern Site, a commuted sum of £3.395 million was agreed with offsite provision at Ifield Road (PP/05/0697), Silchester Garages and Bard Road (PP/07/01049). The Clearings was part subsidising the provision of a new school but additional surplus was identified through viability assessment and a commuted sum of £4.6m was also agreed.

2.3.3 Table 4 presents a more comprehensive picture of payments in lieu secured for the provision of affordable housing over the years.

<table>
<thead>
<tr>
<th>Category</th>
<th>Apr-Mar 09/10</th>
<th>Apr-Mar 10/11</th>
<th>Apr-Mar 11/12</th>
<th>Apr-Mar 12/13</th>
<th>Apr-Mar 13/14</th>
<th>Apr-Mar 14/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable Housing</td>
<td>750k</td>
<td>1,455k</td>
<td>50k</td>
<td>1,048k</td>
<td>7,879k</td>
<td>10,941</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>559k</td>
<td>5,506k</td>
</tr>
</tbody>
</table>

TABLE 4: SECTION 106 PAYMENTS FOR AFFORDABLE HOUSING SPENDING COMMUTED SUMS

2.3.4 The money received for affordable housing could be spent on the Council’s own
developments. Land values in the Borough are too high for land purchases by the borough and the Council has in the past looked to build affordable housing on its own estates. The small proportion of S106 money that had been spent in the last five years had been invested in the hidden homes scheme within the Council’s existing housing estates. The Council intends to spend affordable housing payments in lieu on its estate regeneration programme, amongst other projects such as ‘Hidden Homes’, to deliver more affordable housing.

**STRATEGIC HOUSING MARKET ASSESSMENT (SHMA)**

2.3.5 The SHMA states at paragraph 4.11 that “There are no data sources providing an up-to-date breakdown of housing tenure since the 2011 census. According to the Census, in 2011 the private rented sector (PRS) had just overtaken owner-occupation as the largest single tenure in RBKC, with both housing 36% of households. The social rented sector tenure amounted to nearly 25%, with shared ownership only representing less than 1%. Within the owner-occupier sector, 23% of dwellings were owned outright, with 13% having a mortgage or loan. This proportion of outright ownership is higher than neighbouring authorities and the Inner London average.”

![Figure 1: Tenure Patterns (Census 2011 Table KS402EW) in SHMA](image)

2.3.6 The SHMA assesses the need for affordable housing which differs from the overall objectively assessed need for housing (OAN). The OAN is the net addition to the housing stock of all tenures required to cater for future household growth. The affordable housing requirement estimates the total amount of affordable housing required to meet the need of households which cannot afford to access market housing. It assesses the ability to afford housing across newly forming
households, not simply the net addition to household numbers, adds in any current backlog and offsets this against the supply of affordable housing likely to come available in the current stock to produce an estimate of how much additional affordable housing is required. To illustrate the difference further, it would theoretically be possible for affordable housing need to be met through a transfer of existing market housing to affordable housing without adding to the existing stock.

2.3.7 The process for calculating the Borough’s overall affordable housing need is set out in Figure 2 below. This shows an annual need figure of 1,171 affordable homes, which can be broken down by tenure as follows:

- Social rented sector: 209 (18%)
- Affordable rented sector: 523 (45%)
- Intermediate sector: 437 (37%)

2.3.8 The SHMA addresses the requirements of the NPPF to identify the full objectively assessed need for affordable housing, and to set policies for meeting that need. The Borough’s SHMA estimates that the overall net annual need for affordable housing is 1,171 units per annum. This requirement figure is around twice as large as the objectively assessed need (OAN) figure of 575 dwellings per annum. It should be noted that there is little relationship between the two figures, with the OAN based on projected net growth in households and the affordable housing requirement based on working through the backlog of existing affordable housing need as explained above.

2.3.9 Despite the distinction in methodology, a comparison of the two figures makes it clear that the need for affordable housing is the overwhelming policy requirement. The primary objective of the revised affordable housing target therefore becomes ensuring that the Council achieves the maximum reasonable level of affordable housing in all instances.

2.3.10 It is important to note that paragraph 4.7 of the NPPF references meeting such need “as far as is consistent with the policies set out in” the NPPF.

2.3.11 The updated evidence on the need for each type of tenure is also set out in the borough’s SHMA. The level of need for each tenure is determined by the affordability threshold which is calculated as the entry level monthly cost. The lowest cost market tenures start at £1,712 for a one bed which is equivalent to a gross household income of £68,480 (assuming 30% of gross income is spent on housing costs) rising to £95,320 for a two bed unit. Given that the median average wage of a borough resident is just under £40,000 this indicates that market housing will be unaffordable to a significant proportion of borough residents.

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5 www.nomisweb.co.uk/reports/Imp/La/1946157252/report.aspx
The following intermediate rent scenarios were set out as a proportion of market rent –

<table>
<thead>
<tr>
<th>Dwelling size</th>
<th>Scenario A: Intermediate threshold as % of market rent</th>
<th>Scenario B: RBKC Intermediate Rent Policy</th>
<th>Scenario C: Midpoint Intermediate Rents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 bed</td>
<td>80%</td>
<td>32%</td>
<td>67%</td>
</tr>
<tr>
<td>2 bed</td>
<td>74%</td>
<td>34%</td>
<td>54%</td>
</tr>
<tr>
<td>3 bed</td>
<td>65%</td>
<td>35%</td>
<td>50%</td>
</tr>
<tr>
<td>4+ bed</td>
<td>49%</td>
<td>35%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Using the three scenarios set out above, the net annual need for affordable housing was estimated as follows:

<table>
<thead>
<tr>
<th>Tenure</th>
<th>Scenario A</th>
<th>Scenario B</th>
<th>Scenario C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute</td>
<td>%</td>
<td>Absolute</td>
<td>%</td>
</tr>
<tr>
<td>Social and Affordable Rent</td>
<td>338</td>
<td>72%</td>
<td>196</td>
</tr>
<tr>
<td>Intermediate Sector</td>
<td>332</td>
<td>28%</td>
<td>966</td>
</tr>
</tbody>
</table>
Annex 3 of the SHMA explores the options for intermediate housing market development. It comments that given the difference in incomes and house prices, there are only limited areas within the borough where shared ownership homes would be affordable to those within the GLA maximum household limits and these would be smaller homes i.e. one or two bed units. It explores some options for low cost home ownership (LCHO). It is suggested that using RBKC regeneration schemes on its own estates continues to be considered (we are aware that this is already underway), including considering developing taller buildings.

**Establishing an Approach to Affordable Housing Payments in Lieu**

Where it is not possible to provide affordable housing on-site or off-site the Council’s existing approach in the Local Plan and Planning Obligations SPD is to
seek a Borough-wide payment in lieu which equates to £2,500 per square metre.

2.3.16 The Council commissioned BNP Paribas Real Estate to advise on various aspects of the Council’s payments in lieu approach for affordable housing as follows:

- Review the approaches to securing commuted sums from small residential sites in the Council’s emerging Policy CH2 and those adopted by other authorities (approaches adopted by Mole Valley, Elmbridge, Richmond and Wandsworth councils typify the various approaches);
- Explore the possibility of setting a payment in lieu per square metre and consider whether this should vary between different parts of the Borough;
- Consider the extent to which payments in lieu can reflect land costs;
- Develop an approach for RBKC that builds on the best aspects of the approach suggested in Policy CH2 and from other local authorities;
- Develop a simplified approach for developers and the Council to establish the viability of small sites and the ability of developers of such sites to meet the Council’s affordable housing requirements; and
- Consider how this simplified approach to testing viability might dovetail with a formula or mechanism for calculating commuted sums.

2.3.17 The study concluded that the Wandsworth and Richmond approaches (which are based on the same principle of calculating the ‘opportunity cost’ of delivering affordable housing on-site) are most suited to the Borough. Building upon the best aspects of these approaches, BNP Paribas created a ‘hybrid’ model that performs the dual functions of testing the viability of small schemes, as well as calculating their payment in lieu. It was concluded that a single charge based on a payment per square metre is unlikely to deliver the ‘optimum’ amount of funding to deliver affordable housing. The Council could adopt a set of variable rates which are linked to the six CIL zones in its approved CIL Charging Schedule. Alternatively, the Council could opt not to publish rates per square metre, but to test the total amount of payment in lieu for each specific scheme.

2.3.18 The study highlighted that the single most significant issue with a Borough-wide charge per square metre is the substantial differences in values between different parts of RBKC. Given that a single charge needs to be capable of operating in the least viable areas (with lowest values), this could mean that the Council may not be securing sufficient funds to deliver affordable housing from higher value areas. Therefore, the approach put forward is based on the principle that replacing onsite affordable housing provision with a payment in lieu should be financially neutral for the developer. To achieve this an alternative option for calculating the payment in lieu sum is proposed which is calculated by deducting the residual land value of a scheme that incorporates a viable percentage of affordable housing on-site from a scheme that assumes 100% private housing i.e. the difference in residual land value between the two schemes is the value of the payment in lieu. BNP Paribas highlight that such an approach is already in operation in other London Boroughs including Wandsworth and Richmond upon

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6 Calculating the cost to the developer, in terms of value that would have been forgone had the affordable housing been provided on site.
2.3.19 The Council commissioned BNP Paribas Real Estate to test the viability of providing an appropriate affordable housing target for the Borough. The economic viability of delivering affordable housing must be taken into account in accordance with national policy. Paragraph 173 of the NPPF requires that new developments should not be subject to such a scale of obligations and policy burdens that their ability to be viably developed is threatened. It is recognised that there have been some changes in the costs on development since the Borough’s current affordable housing policy target of 50% was adopted in 2010, particularly the reduction in public grants for affordable housing. At present, the impacts of these changes can only be addressed through site specific financial appraisals which allows developers to demonstrate that the viable level of affordable housing is below the current policy target. Retesting the viability at a strategic level enables setting a target that should be achievable on the vast majority of development sites.

2.3.20 The viability evidence commissioned by the Council demonstrates that a proportion of affordable housing is viable in all residential developments, and all mixed use developments with 30% of commercial floor space. However, the level of viability varies significantly. The range for a generally viable affordable housing target appears to be 35%-40% in the lower value areas to 60% in the very high value area such as Knightsbridge. However, opportunities for significant amounts of development or added floorspace are limited in the high value area and it is therefore unlikely that the area will yield much affordable housing. The report provided the Council with the option of either adopting a single target across the Borough of between 35% and 40% or a split rate, of perhaps 50% in the highest value areas and 35% to 40% elsewhere.

2.3.21 In order to determine the most appropriate affordable target, the Council will need to balance this viability evidence with the overwhelming need for affordable housing set out above.

2.3.22 The Affordable Housing Target Viability Study 2015 included a range of typologies including a scheme comprising four houses and another with five flats. The study looked at hypothetical scenarios of the maximum affordable housing that the schemes could viably provide in the various CIL value zones in the borough using appropriate benchmark land values for each of the zones. The appraisals are structured to incrementally introduce affordable housing until the residual land value and the benchmark land value are equal. The study indicates that in these two small schemes depending on their location in the borough, it would be possible to achieve an affordable housing proportion of between 22% (zone E – Kensington West) and 61% (zone A - Knightsbridge). Even at the lower end of the range at 22% the affordable housing that can be viably achieved is significant given that there is a strong reliance in the borough on small sites due to its uniquely dense and historic character. The floorspace of these schemes ranges between 600 sq m and 629 sq m GIA. To further support scheme viability, the larger of the two figures from the Viability Study i.e. 629 sq m GIA rounded up to 650 sq m is taken as a suitable threshold. Schemes which meet or exceed this
threshold are required to provide affordable housing in-line with Policy CH2. Further information on the calculation of the floorspace threshold is presented in Appendix A.

**AFFORDABLE HOUSING VIABILITY STUDY UPDATE (2016)**

2.3.23 The Council commissioned BNP Paribas Real Estate to undertake an update of the Affordable Housing Target Viability Study to address a number of issues that emerged since the 2015 study was published. These specific issues are summarised as follows:

- Testing the viability impact of various options to vary the tenure split of affordable housing provision away from the current 85% social/affordable rent to 15% intermediate housing split;
- Comment on the suitability of review mechanisms and potential policy criteria and triggers for a range of development types;
- Consider the impact on viability of the emerging requirement for sites providing 10 dwellings or more or 0.5 ha or more to make a contribution towards the delivery of Starter Homes;
- Advise on how the impact of Vacant Building Credit on affordable housing delivery could be mitigated;
- Consider the impact (if any) of new national standards following the Housing Standards Review, including standards set out in the Minor Alterations to the London Plan;
- Consider the impact of ongoing requirements for residual Section 106 requirements at an average of £1,000 per unit; and
- Test the impact of including an element of affordable housing in specialist older persons’ housing developments.

2.3.24 The relevant conclusions are set out below –

**AFFORDABLE HOUSING TENURE SPLIT**

2.3.25 The Council consulted on three specific options for the affordable housing tenure split at the Issues and Option Stage with a fourth open ended option leaving the split to emerge from information collated from Registered Providers and developers. The report concludes that, the impact of varying the rent levels and overall tenure split compared to the base position of 85% affordable rented to 15% intermediate is modest in high value areas, due to the significant difference between market values and affordable housing in the wider sense. Adjustments to the tenure split and/or rents within the overall affordable housing provision therefore makes little difference to the overall residual land values generated by developments. Therefore, the Council could proceed with any of the three options as they all modestly improve viability; no reduction in the overall quantum of affordable housing would be required to accommodate the proposed tenure mixes.

**REVIEW MECHANISMS**

2.3.26 The report notes the static nature of viability appraisals and that they do not take account of how scheme viability will change as a result of changes in key
appraisal inputs, including sales values and build costs. It sets out three main variants of review mechanisms:

**Pre-implementation review** – The report highlights that this type of review mechanism is largely designed to encourage early implementation; if little time elapses between the two assessments, then the main inputs to the appraisal are unlikely to change significantly and no additional affordable housing would be triggered.

**Phase by phase review** – This type of review is designed for schemes that will be developed over a period of years, typically with outline planning permission followed by a series of reserved matters applications. Phase by phase reviews would continue up to and including the final phase. There might be a need to cap the level of on-site affordable housing in this phase, as improvements in viability might result in a level of affordable housing that would be unsustainably high.

**Post sales review** – On single phase developments, it is not possible for a review mechanism to deliver additional on-site affordable housing. A review of viability prior to construction of the development is therefore of limited value in terms of capturing any uplift in sales values when units are sold. This issue has been addressed by Lambeth, Southwark, Waltham Forest, Hounslow and others by adopting a post-implementation review of viability. An example is provided of the Shell Scheme, where Lambeth agreed a review that is triggered when 70% of private units have been sold. Before any additional sales can be completed, the Developer must submit a viability review. If sales values exceed a pre-agreed ‘break-even’ value (the point at which a standard developer’s profit has been achieved), then a ‘surplus’ is generated, which is split 50/50 between the Council and the Developer.

2.3.27 A key point made in the report with regard to review mechanisms is that there are a number of perceived and real risks associated with review mechanism. In order to address perceived risks, review mechanisms should adopt common starting principles, as follows:

- Reviews should not result in any additional on-site provision or payments in lieu until two conditions are satisfied:
  - firstly, the outturn residual land value of the scheme is no lower than the agreed benchmark land value for the site; and
  - secondly, the scheme should generate a ‘normal’ developer’s return and be entering ‘super-profit’ territory.
- There should be a limitation on any additional on-site provision or payment in lieu to a level equating to the provision sought by policy. If all parties are aware of the parameters of additional requirements, it should give them more comfort to proceed.
- Reviews should not expose a developer to any open-ended liability to the local authority.
- An equitable arrangement for dividing super-profit between the developer and the local authority, such that the developer is incentivised to achieve improved scheme value.
The report utilised the details of three real development sites previously used for testing the impact of CIL to test the impact of Starter Homes on viability and the delivery of other forms of affordable housing. The developments ranged from 13 to 50 residential units.

The report found that in all cases, the requirement to provide 20% of units as Starter Homes has a significant impact on the residual land values generated by the developments. This is largely due to the level of discount that would need to be offered to ensure the initial price does not exceed the £450,000 unit cap which the government has proposed. Site 1 would require a 61% discount to market value; Site 2 would require an 86% discount to market value; and Site 3 would require a 97% discount to market value.

The report recommends that the Council may wish to consider incorporating the Starter Homes requirement into its affordable housing target. The ‘traditional’ affordable housing tenures would be reduced by approximately 50% of any affordable housing target and the 20% Starter Homes could be added onto that remaining target, as part of the overall affordable housing target requirement, including Starter Homes. So, for example, the impact of a 20% Starter Homes requirement on a 40% ‘traditional’ affordable housing target would be to reduce it by 50% to 20%. If Starter Homes are brought within a new definition of affordable housing, the overall target in this example could be 40% with 20% Starter Homes and 20% ‘traditional’ affordable housing.

The results of the appraisal indicate that the requirement for 20% Starter Homes will adversely impact on viability if sought on top of existing affordable housing percentage targets, but to varying degrees depending on market values achieved in each development. The Council could therefore adopt an overall affordable housing target that incorporates the Starter Home requirement and increase the overall percentage from 30-35% to 35-40%.

The report also highlights that delivering Starter Homes carries more risk than affordable housing as all units need to be developed speculatively and sold to purchasers after the Developer has committed to building the scheme. There are two factors that adversely impact on viability. Firstly, the Developer will incur higher interest costs due to receiving income for the Starter Homes later than had the same units been provided as ‘traditional’ affordable. Secondly, the Developer will need to apply a level of profit to the Starter Homes which is commensurate with market housing, as the risk is comparable for both tenures. These factors have been built in to the appraisals.

Vacant Building Credit (VBC)

The report comments that vacant building credit (VBC) does not make schemes more viable, it simply reduces the amount of floorspace that the Council can seek its affordable housing provision from. Given the central-urban nature of the Borough, where the majority of sites that come forward for redevelopment are brownfield sites and could thus be eligible for VBC (where vacant), this could have a significant impact on the Council’s affordable housing supply.
Furthermore, sites are coming forward in the Borough without the assistance of VBC, as affordable housing delivery on individual sites can be adjusted if necessary to assist with site-specific viability issues.

2.3.34 The Vacant Building Credit applies ‘assistance’ to developers who do not need encouragement to bring schemes forward; it merely reduces affordable housing and results in an increase in land value that is not required to bring schemes forward. Other councils have sought to mitigate the impact of this policy by seeking the ‘maximum reasonable proportion’ of affordable housing on a development, rather than seeking a specific percentage target. This then enables the provision of a higher percentage of the part of the scheme not offset by vacant floorspace to offset the affordable housing lost on the ‘offset’ floorspace.

SUMMARY

<table>
<thead>
<tr>
<th>Date</th>
<th>Document</th>
<th>Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 2015</td>
<td>Monitoring Report</td>
<td>RBKC</td>
</tr>
<tr>
<td>Dec 2015</td>
<td>Strategic Housing Market Assessment (SHMA)</td>
<td>RBKC</td>
</tr>
<tr>
<td>Jul 2015</td>
<td>Establishing an Approach to Affordable Housing Payments in Lieu</td>
<td>RBKC</td>
</tr>
<tr>
<td>Jun 2015</td>
<td>Affordable Housing Target Viability Study</td>
<td>RBKC</td>
</tr>
<tr>
<td>Jul 2016</td>
<td>Affordable Housing Target Viability Study Update</td>
<td>RBKC</td>
</tr>
</tbody>
</table>

2.4 OPTIONS, CONSULTATION AND INTEGRATED IMPACT ASSESSMENT (IIA)

2.4.1 The Issues and Options consultation document[^7] published in December 2015 sets out the questions and options consulted on at that stage. The comments made as part of the public consultation can be found in two documents relating to this topic area:

- **Consultation Schedule** – a table setting out all of the consultation comments and the Council’s response to each comment
- **Consultation Summary** – a summary of the consultation comments

2.4.2 Further options and alternatives arising from the Issues and Options consultation have been considered in the Integrated Impact Assessment (IIA) and are all summarised below.

2.4.3 The Council has considered the options particularly in light of the ‘tests of soundness’ which are set out in the NPPF:

- **Positively prepared** – the plan should be prepared based on a strategy which seeks to meet objectively assessed development and infrastructure requirements, including unmet requirements from neighbouring authorities where it is reasonable to do so and consistent with achieving sustainable

[^7]: [https://planningconsult.rbkc.gov.uk/consult.ti/LPPR/consultationHome](https://planningconsult.rbkc.gov.uk/consult.ti/LPPR/consultationHome)
development;

- **Justified** – the plan should be the most appropriate strategy, when considered against the reasonable alternatives, based on proportionate evidence;

- **Effective** – the plan should be deliverable over its period and based on effective joint working on cross-boundary strategic priorities; and

- **Consistent with national policy** – the plan should enable the delivery of sustainable development in accordance with the policies in the Framework. (paragraph 182)
### AFFORDABLE HOUSING TARGET

#### 2.4.4 The options and alternatives considered are:

<table>
<thead>
<tr>
<th>Option</th>
<th>Status</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Preferred Options for draft policy</td>
<td>Inclusion of Starter Homes in-line with the Housing and Planning Act has indicated that it would be viable to set a strategic target of 35%-40%. Therefore setting a higher percentage requirement will help achieve the objective of securing the maximum reasonable amount of affordable housing and be in accordance with emerging national policy on Starter Homes.</td>
</tr>
<tr>
<td>2</td>
<td>Reasonable alternative</td>
<td>Inclusion of Starter Homes in-line with the Housing and Planning Act has indicated that it would be viable to set a strategic target of 35%-40%. Therefore setting a higher percentage requirement will help achieve the objective of securing the maximum reasonable amount of affordable housing and be in accordance with emerging national policy on Starter Homes.</td>
</tr>
<tr>
<td>3</td>
<td>Not a reasonable alternative</td>
<td>A target that is less than what has been shown as viable in evidence would not be positively prepared or justified. It would not conform with the London Plan or national policy and would fail the tests of soundness.</td>
</tr>
<tr>
<td>Option</td>
<td>Status</td>
<td>Reason</td>
</tr>
<tr>
<td>--------</td>
<td>----------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>4</td>
<td>Not a reasonable alternative</td>
<td>The existing policy operates in a different way in that it offers a discount for the first 800 sq m. Therefore it is in effect not 50% of the total floorspace. Monitoring indicates that the existing target is rarely achieved and the target should be based on the new evidence commissioned by the Council. Keeping the target as 50% would not be positively prepared, justified or effective.</td>
</tr>
<tr>
<td>5</td>
<td>Reasonable alternative</td>
<td>A split target would be difficult to operate and may not be the most effective way of achieving the policy objective. There would be a lack of consistency and evidence itself suggests that opportunities for significant amounts of development or added floorspace are limited in high value areas and it is therefore unlikely that the area will yield much affordable housing.</td>
</tr>
<tr>
<td>6</td>
<td>Preferred Option</td>
<td>The existing and the proposed policy allow for reduced provision based on viability assessments. The objective is to seek the maximum reasonable amount of affordable housing.</td>
</tr>
<tr>
<td>7</td>
<td>Preferred Option</td>
<td>The policy objective is to seek the maximum reasonable proportion of affordable housing.</td>
</tr>
</tbody>
</table>
The term ‘Price Accessible Housing’ should be used instead of affordable housing. "Price accessible housing" would be based on an agreed percentage of a household's income, never exceeding 40%.

**AFFordable Housing Tenure Split**

2.4.5 The options and alternatives considered are:

<table>
<thead>
<tr>
<th>Option</th>
<th>Status</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Preferred Option</td>
<td>The Royal Borough is a borough of contrasts with extreme wealth and deprivation and its housing stock caters to those on the opposite end of the spectrum. The Council considers there is a need to increase the provision of intermediate housing which caters to those in between and a 50:50 tenure split supports this. The SHMA 2015 included various scenarios for the affordable housing tenure split including one similar to the 50:50 tenure split. The viability study demonstrated that any tenure mix would have a very limited if any impact on viability. The split is close to that in the London Plan which is 60:40.</td>
</tr>
<tr>
<td>2</td>
<td>Reasonable alternative</td>
<td>This approach is not far from the existing policy of 85:15 but there is a need to increase the provision of intermediate tenure in the borough.</td>
</tr>
</tbody>
</table>
### Option 3
Set a Borough wide target of 17% social/affordable rented housing and 83% intermediate housing based on the Council’s adopted Intermediate Rent Policy.

**Status:** Reasonable alternative

**Reason:** This option would tip the balance too much in favour of intermediate housing. Whilst there is a need to increase the provision of intermediate housing in the borough, there is a significant need for social/affordable rent which needs to be reflected in the policy.

### Option 4
Set a Borough wide target of 56% social/affordable rented housing and 44% intermediate housing based on the mid-point intermediate rents set out in the SHMA.

**Status:** Reasonable alternative

**Reason:** This option would be close to the London Plan split and is in the middle of the two options immediately above. The figures have been rounded to 50:50 which is the preferred option.

### Option 5
Set a Borough wide target that takes account of the three scenarios (set out under the first three options) together with further information collated from Registered Providers and developers on the viability of delivering intermediate rent units.

**Status:** Reasonable alternative

**Reason:** All three scenarios considered in the SHMA were tested for viability. The policy should provide clarity on the tenure split that should be provided.

### AFFORDABLE HOUSING THRESHOLD

**2.4.6** The options and alternatives considered are:

<table>
<thead>
<tr>
<th>Option</th>
<th>Status</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Maintain the existing approach with affordable housing (contributions or floorspace) sought on schemes with in excess of 800sqm of residential floorspace, with payments in lieu of affordable housing floorspace for schemes only between a minimum of 800sqm and 1,200sqm.</td>
<td>The existing policy with a discount for the first 800 sq m is not the most effective in securing the maximum reasonable amount of affordable housing. New evidence commissioned by the Council demonstrates that it is viable to seek a proportion of affordable housing without this discount.</td>
</tr>
<tr>
<td>Option</td>
<td>Status</td>
<td>Reason</td>
</tr>
<tr>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>2</td>
<td>Reasonable alternative</td>
<td>New evidence commissioned by the Council has shown that development will be viable without discounting the first 800 sq m. However, the evidence shows that the viable proportion of affordable housing across the borough would be 35%-40% not 50%. The Council has to base any new policy on appropriate and proportionate evidence so that it is positively prepared, effective and justified.</td>
</tr>
<tr>
<td>3</td>
<td>Preferred Option for Draft Policies</td>
<td>The evidence commissioned by the Council demonstrates that it is viable to seek a proportion of affordable housing on schemes comprising 4 to 5 new homes. As a result the threshold has been reduced to 600 sq m GIA in the policy. This approach is positively prepared and justified and will help achieve maximum reasonable amount of affordable housing.</td>
</tr>
<tr>
<td>4</td>
<td>Preferred Option for Draft Policies</td>
<td>The suggested approach provides flexibility to tailor the requirement as necessary in each case to achieve the maximum reasonable amount of affordable housing.</td>
</tr>
<tr>
<td>Option</td>
<td>Status</td>
<td>Reason</td>
</tr>
<tr>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>5</td>
<td>Consider thresholds for on-site / off-site provision of affordable housing.</td>
<td>Reasonable alternative.</td>
</tr>
<tr>
<td>6</td>
<td>Include exceptions for taking payments in lieu / off-site provision where appropriate such as where it could assist the Council's aims for estate regeneration.</td>
<td>Preferred option for draft policies.</td>
</tr>
</tbody>
</table>

**CALCULATING PAYMENTS IN LIEU**

2.4.7 The options and alternatives considered are:

<table>
<thead>
<tr>
<th>Option</th>
<th>Status</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Calculate all payments in lieu for affordable housing by comparing residual land values on a site-by-site basis by requesting two viability assessments – one reflecting policy compliant affordable housing provision on-site and the second with 100% private housing.</td>
<td>Preferred option for draft policies.</td>
</tr>
<tr>
<td>Option</td>
<td>Status</td>
<td>Reason</td>
</tr>
<tr>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>2</td>
<td>Reasonable alternative</td>
<td>Adopting a zonal approach, whilst more accurately reflecting values, is more complex to implement and would need to be reviewed on a regular basis to take account of any changes in values across the different areas. This would not be the most effective or flexible approach.</td>
</tr>
<tr>
<td>3</td>
<td>Reasonable alternative</td>
<td>The Council’s existing policy sets out a borough-wide standardised charge. However, given the difference in values across the borough, the standardised charge was not the most effective approach in securing the maximum reasonable amount of affordable housing.</td>
</tr>
<tr>
<td>4</td>
<td>Not a reasonable alternative</td>
<td>Provision of affordable housing is a national requirement. Paragraph 50 of the NPPF requires Councils to plan for a mix of housing based on current and future demographic and market trends, as well as the needs of specific groups within the community. The size, type, tenure and range of housing required should also be identified. Where a need for affordable housing has been identified, policies should be set for meeting this need. The suggested approach would not be compliant with the national policy or be in conformity with the London Plan.</td>
</tr>
</tbody>
</table>
The options and alternatives considered are:

<table>
<thead>
<tr>
<th>Option</th>
<th>Status</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>There should be flexibility to agree payments depending on site circumstances.</td>
<td>Preferred option for draft policies.</td>
</tr>
</tbody>
</table>

**SECURING THE MAXIMUM REASONABLE AMOUNT OF AFFORDABLE HOUSING**

2.4.8

<table>
<thead>
<tr>
<th>Option</th>
<th>Status</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Require an open book financial viability assessment and any supporting evidence to demonstrate the maximum provision of onsite affordable housing is being proposed on sites which are above the policy threshold and do not meet the revised target for affordable housing.</td>
<td>Preferred option for Draft Policies</td>
</tr>
</tbody>
</table>

<p>| 2      | Introduce policy support for the use of review mechanisms when financial viability assessments demonstrate that current market conditions will only support levels of affordable housing below the policy target. | Preferred option for Draft Policies | Use of review mechanism is based on the Council’s evidence Affordable Housing Target Viability Study Update, July 2016. It is also in-line with guidance in the NPPG (paragraph 17) |</p>
<table>
<thead>
<tr>
<th>Option</th>
<th>Status</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Provide additional guidance on the information required in financial appraisals to avoid delays in determining planning applications. This could include the creation of the Council’s own model for assessing development viability as proposed in the evidence on payments in lieu of affordable housing prepared for the Council by consultants, BNP Paribas.</td>
<td>Reasonable alternative</td>
</tr>
<tr>
<td>4</td>
<td>Review mechanisms should only be used prior to implementation.</td>
<td>Reasonable alternative</td>
</tr>
<tr>
<td>5</td>
<td>Review mechanism should only be used in large multi-phased schemes. Where a scheme is relatively simple and will be implemented in the short-term over a single phase, a review mechanism is not appropriate.</td>
<td>Reasonable alternative</td>
</tr>
</tbody>
</table>

### 2.5 DRAFT POLICY

#### 2.5.1

Following consideration of the above options and reasonable alternatives, the existing Local Plan policy is proposed to be amended as follows.
Policy CH2 Housing Diversity

The Council will ensure new housing development is provided so as to further refine the grain of the mix of housing across the borough.

To deliver this the Council will, in relation to:

Housing Mix and Type

a. require new residential developments to include a mix of types, tenures and sizes of homes to reflect the varying needs of the borough, taking into account the characteristics of the site, and current evidence in relation to housing need;

b. require new residential developments, including conversions, amalgamations and changes of use, to be designed to at a minimum achieve all the following standards:
   i. lifetime homes;
   ii. floorspace and floor to ceiling heights;
   iii. wheelchair accessibility for a minimum of 10 per cent of dwellings; where compliance with the above standards is not possible because of other policy requirements, to require new residential developments to demonstrate that all reasonable measures to meet them have been taken;

c. encourage extra care housing, particularly in the south of the borough;

d. protect houses in multiple occupation except where a proposal concerns conversion into self-contained studio flats, and require any such proposal to be subject to a s106 agreement to ensure the flats remain as studios in perpetuity;

e. resist the loss of residential hostels except where the site will be utilised as a different form of affordable housing;

f. resist development which results in the net loss of five or more residential units;

g. require development that results in the amalgamation of residential units to be subject to a s106 agreement to ensure the resultant units are not further amalgamated in the future;

h. require housing schemes to include outdoor amenity space;

Affordable Housing

i. require developments to provide affordable housing at 50 per cent by floor area on residential floorspace in excess of 800sq.m gross external area;

j. require provision to be in the form of a commuted sum in lieu of the equivalent amount of affordable housing floorspace where in excess of 800sq.m but less than 1,200sq.m of gross external residential floor space is proposed;

k. require affordable housing provision of affordable homes on site where more than 1,200sq.m of gross external residential floor space is proposed, unless exceptional circumstances exist;

l. require any off-site affordable housing to be provided in any wards except the following: Golborne, St Charles, Notting Barns, Colville, Norland, Earl’s Court and Cremorne;
m. require an application to be made for any ‘off-site’ affordable housing concurrently with the main planning application and that the two applications are linked through a s106 agreement or unilateral undertaking;

n. require that affordable housing and market housing are integrated in any development and have the same external appearance;

o. require the affordable and market housing to have equivalent amenity in relation to factors including views, daylight, noise and proximity to open space, playspace, community facilities, and shops;

p. where a scheme over 800sq.m does not provide 50 per cent of gross external residential floorspace for affordable housing, the applicant must demonstrate:
   i. the maximum reasonable amount of affordable housing is provided through the provision of a viability assessment, using the GLA toolkit or an agreed alternative
   ii. the exceptional site circumstances or other public benefits to justify the reduced affordable housing provision;

q. require that affordable housing includes a minimum of 15 per cent intermediate housing in Golborne, St.Charles, Notting Barns, Norland, Colville, Earl’s Court and Cremorne wards. In all other wards a minimum of 85 per cent social rented housing should be provided;

r. require that the provision of intermediate housing is provided at the ‘usefully affordable’ point.

Gypsies and Travellers

s. protect the existing Westway travellers’ site which the Council jointly manages with the London Borough of Hammersmith and Fulham. Additional sites for temporary or permanent use will be identified in the forthcoming Gypsy and Traveller DPD and should meet the following criteria:
   i. the site can provide for a satisfactory arrangement of pitches, permanent buildings and open space;
   ii. use of the site would have no significant detrimental effect on the amenity of occupiers of adjoining land;
   iii. use of the site would be acceptable in terms of the visual amenity;
   iv. the use could be supported by adequate physical and social infrastructure in the locality.

Policy CH2: Housing Diversity Affordable Housing

The Council will seek the maximum reasonable amount of affordable housing.

To deliver this the Council will require:

a. a proportion of starter homes on qualifying sites as defined in the Regulations;

b. developments to provide 40% of all residential floorspace as affordable on sites that provide 650 sq m of gross residential floorspace (gross internal area), once the threshold is met all gross residential floorspace is liable for an affordable housing contribution;

c. separate to any starter homes provision, 50% of the remaining affordable housing provision to be social rent / affordable rent and 50% to be intermediate;
d. provision of affordable housing to be on-site unless exceptional circumstances justified by robust evidence exist which support provision off-site or providing a payment in lieu;

me. require an application to be made for any ‘off site’ affordable housing concurrently with the main planning application and that the two applications are linked through a s106 agreement or unilateral undertaking;

pf. where a qualifying scheme over 800650 sq.m does not provide 540 per cent of gross external residential floorspace, (gross internal area) for affordable housing the applicant must demonstrate:

i. the maximum reasonable amount of affordable housing is provided through the provision of a an open book financial viability assessment, using the GLA toolkit or an agreed alternative;

ii. supporting evidence for the exceptional site circumstances or other public benefits to justify the reduced affordable housing provision;

iii to calculate payments in lieu for affordable housing, two viability assessments comparing residual land values on a site-by-site basis – one reflecting policy compliant affordable housing provision on-site and the second with 100% private housing;

ng. require that affordable housing and market housing are to be integrated in any development and have the same external appearance;

oh. require the affordable and market housing to have equivalent amenity in relation to factors including views, daylight, noise and proximity to open space, playspace, community facilities and shops;

KEY DIAGRAM AND PROPOSALS MAP

2.5.2 No changes are required to be made to the Key Diagram or the Proposals Map.

2.6 DUTY TO COOPERATE AND STRATEGIC ISSUES

2.6.1 The legal obligation of the ‘duty to cooperate’ requires the Council to “engage constructively, actively and on an ongoing basis” and have “regard to activities” (i.e. strategies, plans, policies) of other bodies in the preparation of Local Plans “so far as relating to a strategic matter”. This includes “considering whether to consult on and prepare… agreements or joint approaches”8.

2.6.2 A “strategic matter” relates to “sustainable development or use of land that has or would have a significant impact on at least two planning areas, including (in particular)... in connection with infrastructure that is strategic”9. Strategic matters are further defined in paragraph 156 of the NPPF10 and paragraph 013 of the NPPG on the duty to cooperate11.

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8 Section 33A of the Planning and Compulsory Purchase Act 2004, as inserted by Section 110 of the Localism Act 2010
9 Section 33A(4) of the Planning and Compulsory Purchase Act 2004, as inserted by Section 110 of the Localism Act 2010
10 http://planningguidance.communities.gov.uk/blog/policy/
11 http://planningguidance.communities.gov.uk/blog/guidance/duty-to-cooperate/
2.6.3 Figure 3 shows the strategic issues relevant to this topic area, the relevant prescribed bodies, the actions the Council has taken with regard to the duty and the strategies, plans and policies of those prescribed bodies which the Council has had regard to.

<table>
<thead>
<tr>
<th>Strategic issue</th>
<th>Relevant prescribed bodies</th>
<th>Council actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable Housing</td>
<td>Environment Agency</td>
<td>All prescribed bodies were consulted as part of the Issues and Options consultation.</td>
</tr>
<tr>
<td></td>
<td>Historic England</td>
<td></td>
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<tr>
<td></td>
<td>Natural England</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mayor of London/HCA</td>
<td>The Mayor of London responded to issues related to affordable housing alongside other issues and emphasized that any fixed targets as well as policies on tenure split and payments in lieu for affordable housing should be established in line with London Plan policy 3.11 in order to maximise affordable housing provision across the borough.</td>
</tr>
<tr>
<td></td>
<td>Transport for London</td>
<td></td>
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<tr>
<td></td>
<td>City of Westminster</td>
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<td></td>
<td>London Borough of Hammersmith and Fulham</td>
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<td></td>
<td>London Borough of Wandsworth</td>
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<td></td>
<td>London Borough of Brent</td>
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<tr>
<td></td>
<td>Other London Boroughs</td>
<td></td>
</tr>
</tbody>
</table>

Figure 3: Duty to cooperate strategic issues, prescribed bodies and Council actions

12 Regulation 4 of The Town and Country Planning (Local Planning) (England) Regulations 2012
APPENDIX A: AFFORDABLE HOUSING THRESHOLD FIGURE

1. The Council’s Affordable Housing Target: Viability Study, June 2015 includes a number of housing typologies to test the level of affordable housing that would be viable. The typologies include two small schemes of 4 houses and 5 flats respectively. The appraisals are structured to incrementally introduce affordable housing until the residual land value and the benchmark land value are equal. The study indicates that in these two small schemes depending on their location in the borough, it would be possible to achieve an affordable housing proportion of between 22% (zone E – Kensington West) and 61% (zone A - Knightsbridge).

2. Even at the lower end of the range at 22% the affordable housing that can be viably achieved is significant given that there is a strong reliance in the Borough on small sites due to its uniquely dense and historic character.

3. Table 4.1.2 of the Affordable Housing Target: Viability Study, June 2015 sets out the size mix of the schemes that were tested. The floor areas in Table 4.1.2 are net internal areas, rather than gross. The gross to net ratios applied are set out in Section 4.4 of the Viability Study (i.e. 100% for site type 1 and 85% for site type 2).

4. The split between private and affordable homes is assumed to be 80% and 20% (rounded from 22%) as that is the lower figure shown to be viable for these schemes in the relatively lower value areas.

Floorspace of the scheme with 4 houses (Site Type 1)

5. For the scheme with 4 houses, Table 4.1.2 assumes a 50:50 split between 3 bed and 4 bed houses.

No. of Private Houses (80% of 4) = 3

Assuming two houses are 3 bed and one is 4 bed, the floorspace would be –

\[2 \times (150 \text{ sq m}) + 200 \text{ sq m} = 500 \text{ sq m}\]

No. of affordable houses (20% of 4) = 1

Assuming the affordable house was a 3 bedroom unit, the size would be 100 sq m

Total net internal Area (A+B) = 600 sq m

Gross to net ratio – 100%

Total Gross Internal Area (GIA) – 600 sq m
Floorspace of the scheme with 5 flats (Site Type 2)

6. For the scheme with 5 flats, Table 4.1.2 assumes 20% 2 bed flats, 40% 3 bed flats and 40% 4 bed flats.

No. of Private Houses (80% of 5) = 4

Assuming one flat is two bed, two flats are 3 bed and one flat is 4 bed (based on the size mix split above), the floorspace would be –

\[ 90 \text{ sq m} + 2 \times (110 \text{ sq m}) + 150 \text{ sq m} = 460 \text{ sq m} \]

No. of affordable houses (20% of 5) = 1

Assuming the affordable flat was a 2 bedroom unit, the floorspace would be 75 sq m

Total Net Internal Area (A+B) = 535 sq m

Gross to net ratio – 85%

Total Gross Internal Area (GIA) – 535/0.85 = 629 sq m