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Exemption applied: None

Review date for release N/A



East Devon Local Plan – viability assessment – initial findings

Report summary:

Local plans need to be supported by viability assessment to show that the policies within can be implemented in a financially sound and robust manner. In simplified terms we need to show that in typical cases the costs that would fall to a development scheme can be borne by the financial returns the developer can be expected to secure. The assessment work, which we have commissioned consultants – Three Dragons - to undertake majors on housing development and the cost impacts that various policies have. The work undertaken has taken all policies with cost impacts as a given and then looked specifically at impacts on affordable housing percentages that we may seek to ask for or require.

Findings show that in higher value housing areas a 35% affordable housing percentage figure could typically be sustained but this figure would be lower in other parts of the district. At Cranbrook we have existing policy that sets out percentage levels which are comparatively low, but this reflects the broader financial costs of building at the new town. The same considerations may well apply at the second new town, but it will be subject to separate bespoke modelling work.

Is the proposed decision in accordance with:

Budget Yes No

Policy Framework Yes No

Recommendation:

- 1 That Strategic Planning Committee note the viability assessment work that has been undertaken and endorse the headline findings for inclusion in local plan policy.

Reason for recommendation:

To ensure the Council has percentage affordable housing figures in the local plan and to ensure that these are supported by robust evidence.

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Portfolio(s) (check which apply):

- Climate Action and Emergency Response
- Coast, Country and Environment
- Council and Corporate Co-ordination
- Democracy, Transparency and Communications
- Economy and Assets
- Finance
- Strategic Planning
- Sustainable Homes and Communities
- Tourism, Sports, Leisure and Culture

Equalities impact Low Impact

Climate change Low Impact

Risk: Low Risk; The direct risk is low, but we can expect percentage figures to be challenged by the development industry through plan examination.

Links to background information

Links to background documents are contained in the body of this report.

Link to Council Plan

Priorities (check which apply)

- Better homes and communities for all
- A greener East Devon
- A resilient economy

1. Introduction

- 1.1 The consultants - Three Dragons – that were appointed to undertake the local plan viability assessment have issued their draft findings.
- 1.2 Appendix 1, attached, forms a succinct summary on the process the consultants have followed and sets out key findings. It should be noted that a full report will be produced and this will form part of the evidence base for the Council at plan examination. Appendix 2 is a presentation that says more about the work and tasks undertaken. Both appendices are in summary form, but hopefully forms a good starting point to generate debate and outline some of the steps the work has taken. Also in this covering report we have drawn out extracts from Appendix 2.
- 1.3 It should be noted that this work inevitably majors on housing development, there are comparatively limited commercial returns on most other forms of development and therefore distinct limitations on policy asks that we can seek from them. Where developments other than housing, potentially such as supermarkets, may generate higher level returns we would envisage addressing these through bespoke assessment and review at planning application stage, rather than seeking explicit policy coverage. Though noting, for example, that applications for new

supermarkets are rare and inevitably there will be site specific concerns that are at play on any given site.

1.4 Should members wish to see higher affordable housing percentages than those produced in the work then there may be some limited scope to 'flex' other policy asks downward. For example a lowering of policy on 20% biodiversity net gain to 10% would 'free-up' some extra monies. But such money impacts, in some cases, will be marginal and have minimal or close to nil impacts on being able to seek more affordable housing. Extracted from Appendix 2 is information on key cost assumptions made in the work.

			
<p>Policy costs</p> <ul style="list-style-type: none">• Future Homes<ul style="list-style-type: none">• c£6,000 house• c£4,500 flat• Accessibility<ul style="list-style-type: none">• M4(2) - £1,400/unit• M4(3) - c£12,000/unit	<p>Affordable housing</p> <ul style="list-style-type: none">• Initial assumptions...• Scenario 1<ul style="list-style-type: none">• 35% AH• 65% social rent & 35% s/o• Scenario 2<ul style="list-style-type: none">• 35% AH• 65% affordable rent & 35% s/o	<p>CIL / s.106</p> <ul style="list-style-type: none">• Sidmouth/Budleigh<ul style="list-style-type: none">• £229/sqm• Rest of East Devon<ul style="list-style-type: none">• £172/sqm• Strategic sites<ul style="list-style-type: none">• £114/sqm• General s.106<ul style="list-style-type: none">• £4,000/unit	<p>Environment costs</p> <ul style="list-style-type: none">• BNG<ul style="list-style-type: none">• BF £321/unit or GF £1,188/unit• Exe/Pebblebeds habitats<ul style="list-style-type: none">• £400/unit• Axe Valley nutrients<ul style="list-style-type: none">• £2,500/unit (sensitivity)

1.5 In this committee report we do not seek to dissect these costs or provide further explanation around and behind them. But we would advise that they have been fully considered by the consultants, they have drawn on experience from elsewhere and information we have supplied them, and they have fed into their overall modelling work.

2 Headline findings from the assessment

2.1 The consultants work generates the following outputs in respect of policy levels for affordable housing.

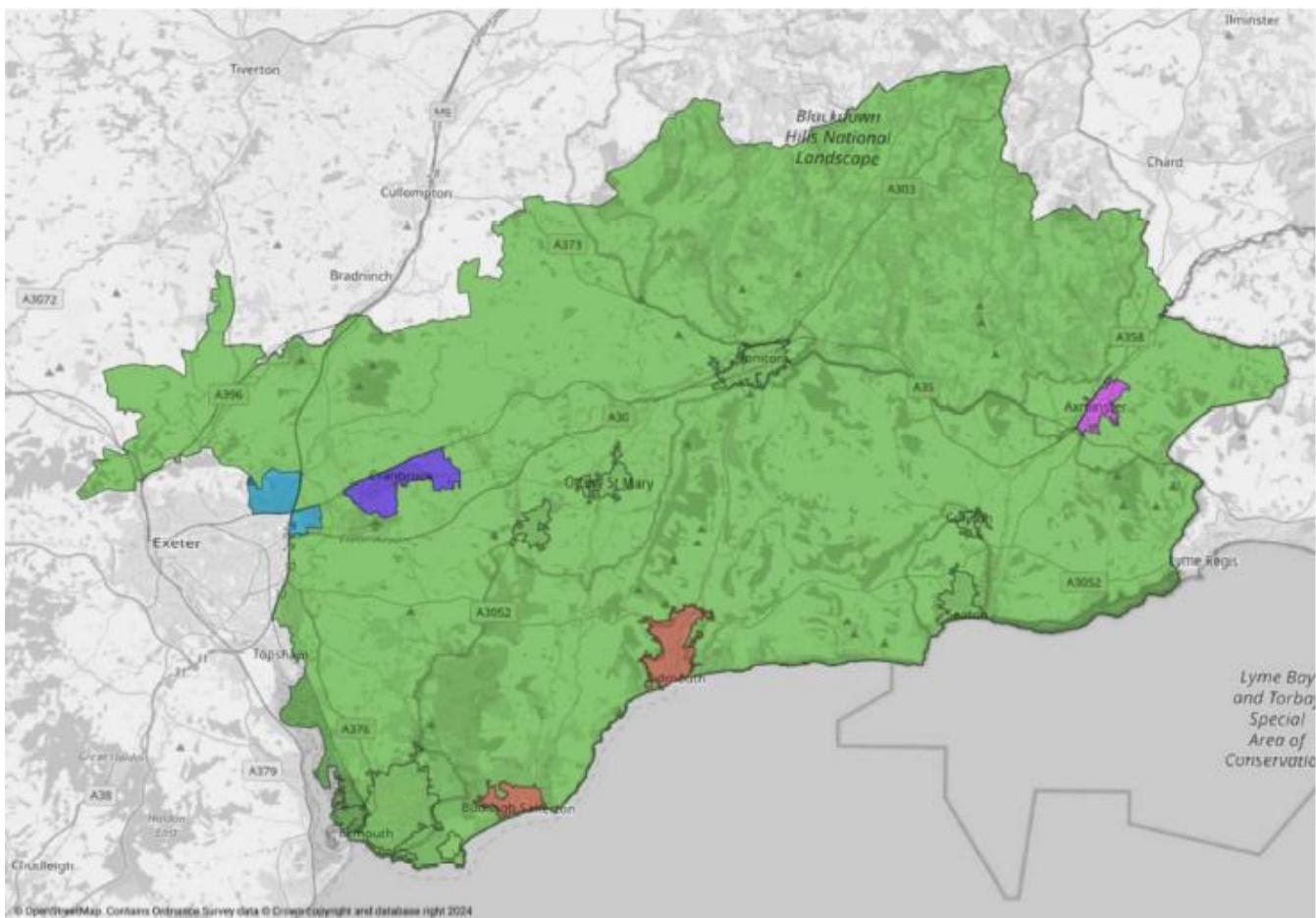
- The proposed pan East Devon rate in the draft plan of 35% is a large increase from the predominant current requirement of 25% and could be challenging on allocations with higher development costs, thus risk delivery of the plan
- Therefore, it is recommended that where allocations are proposed:
 - In edge of Exeter, Sidmouth and Budleigh the **35%** affordable housing rate is retained (65% being social rent)
 - In all other areas (apart from Axminster) the rate is **30%** affordable housing (65% social rent)

- For Axminster allocations **25%** affordable housing is required, with flexibility about tenure and how this is delivered on brownfield and smaller greenfield allocations
- **Outside any allocations** ('windfalls') across East Devon include a **35%** requirement for any sites that come forward
- Across all areas flexibility should be inbuilt into policy that allows affordable rent or a reduced affordable housing proportion for flats.

2.2 It should be noted that the consultants do not comment on rates at Cranbrook, these are set through the Cranbrook Plan nor at the second new town as these will be subject to separate bespoke modelling. **It is stressed that the assessment work undertaken does not look at each proposed allocation or other specific sites individually to arrive at conclusions, rather it applies general principles to differing site types to build up a composite picture.** The approach taken allows for policy targets to be established but there will be cases where individual sites are subject to bespoke testing at planning application stage. Amongst other matters this will include cases where there may be abnormal or non-typical development costs or challenges associated with development.

3 Commentary around the conclusions reached

3.1 A major determinant of levels of affordable housing that can be sought through plan policy are the prices/values that properties will sell for. In Appendix 2 there is a map that shows/is headed 'Market sales values'. This map shows comparatively higher and lower sale value areas for East Devon. The map is reproduced below/over the page, along with sales value data.



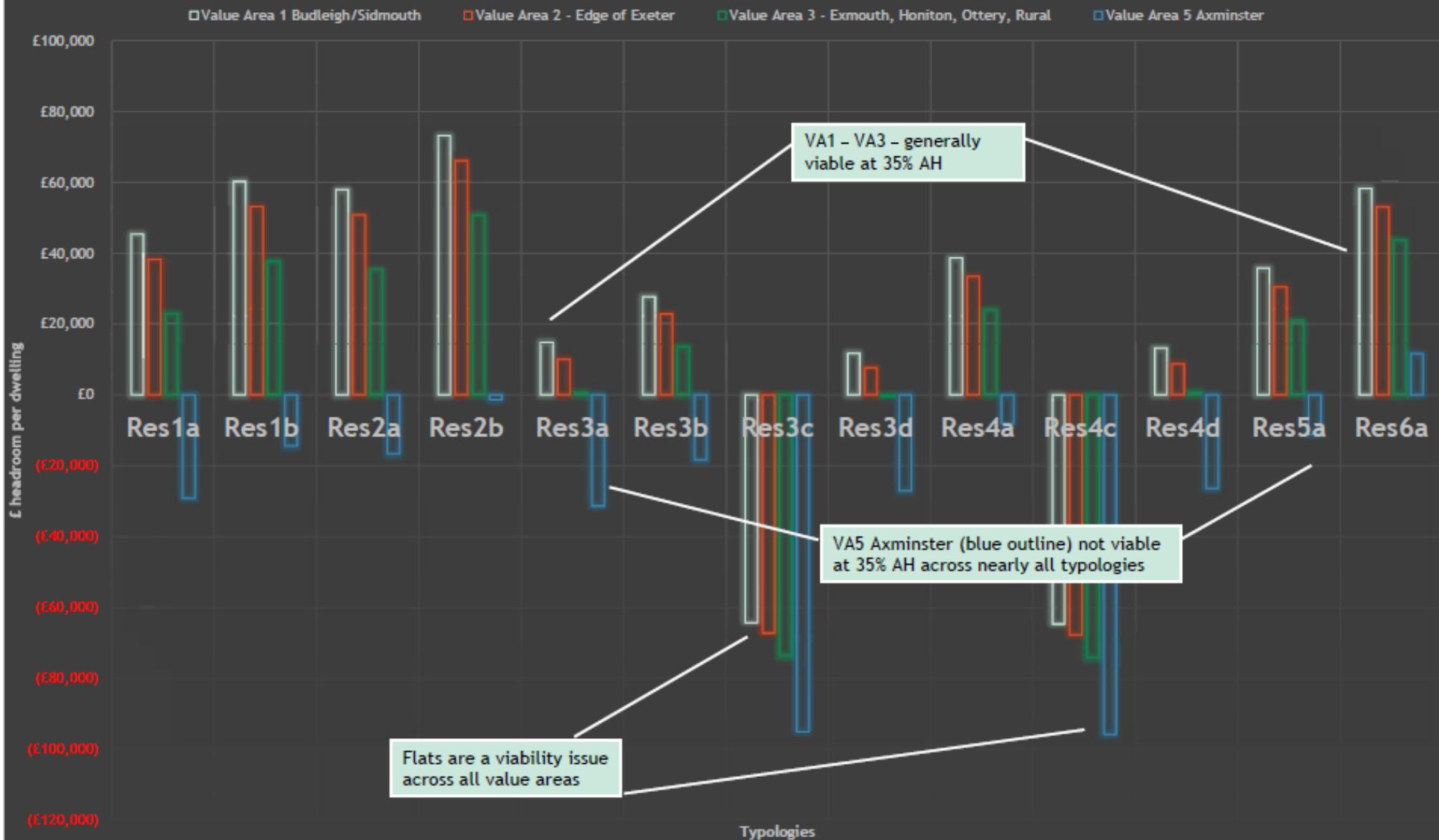
Value area	Overall £/sqm (£/semi)
VA1 Budleigh Salterton & Sidmouth/Sidford	£4,207 (£353,000)
VA2 Exeter NE & Tithebarn	£4,056 (£340,000)
VA3 Colyton, Exmouth, Honiton, Ottery, Seaton, West Hill & rural	£3,892 (£327,000)
VA4 Cranbrook (for information)	£3,706 (£311,000)
VA5 Axminster	£3,336 (£280,000)

3.2 It is stressed that for statistical accuracy there is need for a certain minimum number of data sets (property sales) to feed into the analysis and this is why a large expanse of rural East Devon is and needs to be considered as a whole. There have not been enough sales at smaller scale geographical levels of new homes to be able to sub-divide this area up (even though it would be reasonable to assume

there would, data dependent, be some comparatively higher value areas, e.g. along much of the coastal strip and some lower value areas).

- 3.3 Comparatively small looking variations in overall sale values, e.g. comparing Axminster to Budleigh Salterton/Sidmouth, lead to some quite marked variations in the affordable housing percentages that can be reasonably asked.
- 3.4 The consultants advise that the percentages advised on are erring to the higher end of reasonable levels. Modelling shows they are most readily achievable on smaller sites, though noting that smaller sites can fall below thresholds at which affordable housing can be sought, and they are also achieved on larger sites. On larger sites economies of scale can typically be expected.
- 3.5 At Axminster a 25% affordable housing percentage is recommended. This reflects the lower market values that have been achieved in the town in the past. The recommendation also proposes greater flexibility on the mix of social rent versus other forms of affordable housing – the former may be seen as more desirable, but the latter has less financial draw on development monies (it costs less to provide). With a number of larger sites at Axminster the 25% figure is robust, on these, though on smaller sites and brownfield sites there will need to be some flexibility in policy for final outcomes that may be achieved.
- 3.6 Although a lower proportion of affordable housing being required through planning policy in Axminster compared to elsewhere is unfortunate, the 25% proposed requirement is the same level as required in the current local plan. It is also worth noting that through grant funding there has been significant uplift in affordable housing provision in Axminster beyond policy requirements with providers keen to deliver affordable units in the town. Grant funding is only available where betterment above policy requirements can be secured. If this trend were to continue and grant continues to be available then the actual proportions of affordable housing being delivered in the town may still mirror that of the rest of the district over the plan period.
- 3.7 It should be noted that for flats (and for higher density housing more generally) there is typically less development value and as such percentages or the final mix that can be achieved may need to vary. Of course there will be exceptions, for example new flats on the Sidmouth seafront could, for example, be expected to attract a significant price premium.
- 3.8 In arriving at their conclusions, the consultants tested a range of differing new build property sizes/types and whether built on Greenfield or Brownfield. A slide in Appendix 2 tabulates those tested. An output from the testing generated the graph shown below/over the page.

Proposed draft policy - 1-9 dwellings 0% AH, 10+ 35% AH (65% SR & 35% S/O)



3.9 In this covering report we do not seek to explain the assessment process that has been undertaken to generate the bars in the graph. Details will be set out in the final consultant's report. But what the graphs show is the headroom monies ('positive surplus' or 'negative surplus') that are generated by differing types/sizes of development in differing locations when taking into account application of 35% affordable housing and the other costs sought through application of local plan policy. It is stressed and reiterated that these are modelled outputs based on typical development costs and values with standardised assumptions built in. On real sites there may be many variables that would come into play and these may be reflected in site specific bespoke modelling.

3.10 Where a bar in the graph is above the £0 horizontal line there is 'positive surplus' money in the development. A developer would be expected to need to have a surplus in order to warrant going ahead with a scheme. Where the bar is below the £0 horizontal line there is a deficit and as such this would cause developer concerns – frequently they would not predict sufficient returns from development to warrant going ahead with development and as bars increase in length going downward the development would get into increasing loss-making territory.

3.11 The Resi1a through to Resi6a categories on the graph set out site sizes, from 3 units up to 150 units, with the a) category being Greenfield and the b) category being Brownfield. The different graph colours represent the differing values areas – see the key at the top of the graph. What the graph indicates is that at 35% affordable housing there are positive outcomes for all developments types on all site sizes and for all locations except for at Axminster and for all development types except for flats and apartments. The flats and apartments outputs for all locations are significantly below the £0 line when applying 35% affordable housing, they are modelled as showing value deficits. This highlights an important concern that whilst there maybe policy aspirations to build at higher densities, and this will often mean building flats, the expectation is that in doing so lower percentage levels of affordable housing will be achieved (and/or the mix will need to move away from social rented to other tenures).

3.12 The graph illustrates that the white bars, representing Budleigh Salterton and Sidmouth generate the greatest positive headroom outputs. Some way below these are the red bars for Edge of Exeter and below these, but for most development types still positive, though very close to zero, are the green bars for Exmouth, Honiton, Ottery St Mary and rural areas. The White bars establish where the 35% affordable housing percentage is most robustly justified. The red and green bar areas show more fragility in seeking this scale of affordable housing, though clearly this fragility is more pronounced for medium size developments (testing for 15 to 30 dwellings). For these red and green areas the assessment leads to a 30% figure recommended. Taken overall there is not seen to be sufficient value in development to seek more.

3.13 The blue bars show Axminster as the outlier with negative value outputs when tested at 35% affordable housing. It is because of this that a lower affordable

housing percentage is recommended for Axminster, a figure of 25%. A later graph in Appendix 2, not shown in this actual committee report, but following the same logic as the above graph, tests Axminster developments at 25% affordable housing. What the graph shows is that at this percentage smaller sites may well struggle to secure 25% affordable housing but for larger sites, 30 dwellings and over, positive viability outcomes are achieved, though levels of positive value are dependent on the mix and nature of affordable housing that is modelled. For Axminster most houses are allocated on larger Greenfield sites and as such most market houses built can be expected to provide, through application of plan policy, for affordable housing delivery at a 25% level.

Financial implications:

The work undertaken and highlighted in this report has been completed within existing budgets. There are no other specific financial implications impacting the council in this report.

Legal implications:

There are no specific legal implications requiring comment within this report (002533/22 November 2024/DH).