



London Borough of Tower Hamlets

Affordable Housing Contributions for Small Sites Topic Paper

August, 2017

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1. Introduction

- 1.1. This topic paper provides additional evidence as to the need and deliverability of policy *S.H1: meeting housing needs* (part 2aii) of the proposed submission version of the new Local Plan, which seeks affordable housing contributions from housing schemes which deliver 2 to 10 units. In doing so, it demonstrates that the council has considered the 2014 Written Ministerial Statement and that we do not consider the policy to place a ‘disproportionate burden’ on smaller developments.
- 1.2. This policy is considered necessary and deliverable due to the local housing context. Tower Hamlets has:
 - a high housing need (an objectively assessed need (OAN) of 3,100 homes a year to 2031);
 - high housing target (London Plan target of 3,931 per year to 2025); and
 - high need for affordable housing (66.5% of OAN in the 2014 Strategic Housing Market Assessment (SHMA) and 45% of OAN in the 2017 SHMA). Affordable housing is now the issue residents are most concerned about (Annual Residents Survey Results 2017).
- 1.3. In addition whilst the borough has a good track record of delivering affordable homes, we still do not meet the strategic target of 50% delivery and further mechanisms are required to help meet this gap. The council has established a number of delivery mechanisms for affordable housing and small site affordable housing contributions can be used in these schemes to deliver further affordable homes to meet identified need.
- 1.4. Finally, the paper also provides further details on the mechanism through which contributions from small sites will be calculated and evidence outlining the viability of such an approach for small developments.

2. Policy Context

National Policy

- 2.1. In November 2014, a Secretary of State’s Written Ministerial Statement (WMS) was issued which also led to the alteration of the Planning Practice Guidance. This states that for sites of 10-units or less, and which have a maximum combined gross floor space of 1,000 square metres, affordable housing and tariff style contributions should not be sought.

- 2.2. The primary purpose of the WMS was stated as to reduce ‘disproportionate burdens’ preventing smaller developments from coming forward.

Regional Policy

- 2.3. In August 2017, the Greater London Authority (GLA) published the Affordable Housing and Viability Supplementary Planning Guidance (SPG) which it states is a ‘first step to raise the amount of affordable housing coming through the planning system ahead of the new London Plan in 2019’. The Affordable Housing and Viability SPG states: *‘The Written Ministerial Statement which introduced the Vacant Building Credit also stated that affordable housing planning obligations should not be sought on schemes providing 10 homes or fewer. It is the Mayor [of London]’s view that affordable housing provision should be required on all sites which have capacity to provide 10 homes or more, as set out in London Plan Policy 3.13. The Mayor also supports Local Planning Authorities that wish to apply requirements for affordable housing contributions on sites providing fewer than 10 homes where the Local Planning Authorities can demonstrate the role that these sites can play in supporting affordable housing delivery, and that sites would remain viable’* (paragraph 2.79).

3. Proposed Small Sites Affordable Housing Contributions Policy and Approach

- 3.1. Policy S.H1 (part 2aii) in the proposed submission version of the new Local Plan outlines the council’s preferred approach to securing affordable housing contributions from small sites. The plan’s policy wording is included in Appendix 1.
- 3.2. In developing this policy wording, the council explored a number of possible methodologies and has sought to ensure that the approached used would be an appropriate balance between limiting viability and/or bureaucratic burden on small developments and receiving a meaningful contribution towards affordable housing.
- 3.3. The impact on council resources, in particular development management and legal officers, was also considered.
- 3.4. Two methodologies were considered: A ‘Sliding-Scale’ Approach and an ‘Equivalent Value’ Approach and for each methodology the impact was compared when 1 unit schemes were exempted (due to consideration of the limited financial contribution they could deliver and the considerable resource required by developers and the council to calculate and process the contribution).

An 'Equivalent Value' Approach:

- 3.5. This option involves using a standardised calculator to calculate an affordable housing financial contribution based on the monetary value of the affordable housing requirement of the scheme in question. The basis for establishing an affordable housing payment in lieu contribution for this option involves:
1. Calculating the policy compliant affordable housing requirement for the scheme, by tenure. For example, for a 10 unit scheme, 3.5 affordable housing units (broken down by affordable housing tenures) are required;

2. Calculating the monetary value of the affordable housing provision. This is done by capitalising the estimated rental income (less an allowance for a management charge) for the rented affordable housing provision requirements, using an appropriate yield based on market evidence. For the shared ownership element of the affordable housing payment a 25% (of market value) tranche payment is assumed. This calculation yields the required contribution.

A 'Sliding Scale' Approach:

- 3.6. This option involves applying a sliding scale housing target to scheme of ten units and less. The first two steps in accordance with option 1 above (see paragraph 3.5) are required to be undertaken, followed by the following steps:

1. Assuming a sliding scale in terms of the application of the council's affordable housing target to sites of 10 units and less. The premise being that 11 units schemes should have the council's complete affordable housing target applied and with each reduction in units leads to a reduction in the affordable housing target applicable, in accordance with the following table:

Table 1: 'Sliding-Scale Contributions'

Number of Affordable Units	Floor Area (Square Metres) Lower Threshold	Floor Area (Square Metres) Upper Threshold	% Affordable Housing Contribution Required
1	0	65.7	3.2%
2	65.8	131.5	6.4%
3	131.6	197.3	9.5%
4	197.4	263.1	12.7%
5	263.2	328.9	15.9%
6	329	394.7	19.1%
7	394.8	460.5	22.3%
8	460.6	526.3	25.5%
9	526.4	592.1	28.6%

10	592.2	No upper limit as long as less than 11 units	31.8%
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2. In order to ensure a 10 unit four bedroom scheme pays proportionally more than a 10 unit one bedroom scheme, the number of units is based on the floor area of the scheme, the Council's unit mix requirements and the average sizes of units based on the sizes set out in the London Housing Design Guide.
3. This reduces the maximum amount of affordable housing required according to the sliding scale (see step 3 above), so that contributions are proportionate to the scale of the development e.g. if the scheme is only 1 unit, then the affordable housing target should only be 3.2%, not 35% and the contribution requirement should be reduced proportionally.

Assessment and Conclusion

3.7. The council assessed these two options against criteria in relation to impact on council resourcing and the viability and bureaucratic burden on small developers and considered that the 'Sliding-Scale' Approach excluding single units would be the most efficient methodology. The following sliding scale table would therefore apply:

Table 2: Sliding-scale Contributions excluding 1 unit schemes

Number of Affordable Units	Floor Area (Square Metres) Lower Threshold	Floor Area (Square Metres) Upper Threshold	% Affordable Housing Contribution Required
1	0	65.7	N/A
2	65.8	131.5	3.5%
3	131.6	197.3	7.0%
4	197.4	263.1	10.5%
5	263.2	328.9	14.0%
6	329	394.7	17.5%
7	394.8	460.5	21.0%
8	460.6	526.3	24.5%
9	526.4	592.1	28.0%
10	592.2	No upper limit as long as less than 11 units	31.5%

4. Tower Hamlets Housing Context

4.1. In light of the national and regional policy context outlined above, it is considered that local circumstances in Tower Hamlets demonstrate that:

- there is sufficient affordable housing need to justify this approach;
- there is a sufficient pipeline of small sites to demonstrate they can make a significant contribution to affordable housing delivery;
- the council has a number of established delivery mechanisms to use section 106 housing contributions to deliver affordable housing; and
- the borough's housing market is robust enough that small sites can deliver affordable housing contributions and remain viable.

4.2 These factors are explored in further detail in the subsequent sections.

5. Affordable Housing

Affordable Housing Need

- 5.1. The Greater London Authority (GLA) Strategic Housing Market Assessment (SHMA), which formed the basis of the borough's housing target, advised there was a London-wide affordable housing need of 53% of new homes to be affordable. This informed the London Plan (2016) target of 40% of new homes in London to be affordable homes.
- 5.2. As part of the evidence base development undertaken to support the new Local Plan, two Tower Hamlets SHMAs were undertaken. One in 2014 and a refresh in 2017, following the publication of revised requirements, methodology guidance and population figures. The LBTH SHMA undertaken in 2014, which used the same methodology as the GLA SHMA, indicated an affordable housing need of 66.5%.
- 5.3. The refreshed LBTH SHMA (2017) which used a revised methodology indicates a borough need of 45% of new homes to be affordable homes equivalent to an average of 1,407 dwellings per year. It is important to note that the SHMA 2017 makes clear that the change in affordable housing need is due to methodology changes, rather than a reduction in affordable housing need.
- 5.4. All three SHMAs indicate a significant London-wide and local need for affordable housing.

Affordable Housing Delivery

- 5.5. In light of the affordable housing need outlined above and in relation to the affordable housing target established in the current Local Plan¹ of 50% of overall delivery and a target of 35% - 50% on individual major schemes (10 units or more), table 1 outlines affordable housing delivery over the last 5 years.

Table 3: Affordable Housing Delivery over the last 5 years

Year	2012/ 13	2013/14	2014/15	2015/ 16	2016/17
% of affordable housing delivery (London Development Database data)	34%	34%	35.6%	41.1%	23.7%

- 5.6. While Tower Hamlets has delivered significant levels of affordable housing and has achieved a greater annual average delivery rate than the London three-year (2013/14 – 2015/16) average of 24%², the 50% target has never been met and the 35% target has been missed in 3 years. Further affordable housing delivery is required to meet the need identified in the SHMAs.

6. Housing Delivery on Small Sites

- 6.1. The majority of the council's housing delivery is through large developments and strategic sites. However, as indicated in table 4, a significant number of homes are delivered on small sites.

Table 4: Number of homes delivered on small sites

Year	2011/12	2012/13	2013/14	2014/15	2015/16
Smaller sites (<10 units) (LDD)	302	226	159	187	219

- 6.2. Modelling based on the delivery data provided in table 4, suggests that if these past trends are maintained, small sites could supply over 3,200 homes during the plan period (assuming an average delivery of 215 homes a year).

¹ (Core Strategy (2010) and Managing Development Document (2013)

² GLA, Annual Monitoring Report 13 (GLA, 2017)

- 6.3. The robustness of this assumption is supported by permission data on small sites for the last three years (table 5), which shows an average of 268 permitted small sites a year over the last three years.

Table 5: Number of permitted small sites

Year	2 units	3 units	4 units	5 units	6 units	7 units	8 units	9 units	10 units	Total
2014/2015	14	8	8	6	3	3	5	6	1	257
2015/2016	25	12	10	6	6	4	5	7	0	323
2016/2017	11	12	7	4	3	3	2	6	1	225

- 6.4. Table 5 also appears to demonstrate that sites are seeking to limit the number of homes they are providing on site in order to avoid meeting the current 10 unit affordable housing threshold. A policy change which removed this cliff edge threshold and associated incentive, to restrict housing delivery on small sites, could result in greater housing delivery on small sites.

7. Use of affordable housing contributions to deliver affordable housing

- 7.1. The council has a number of programmes through which it is delivering affordable housing supported by section 106 affordable housing contributions.
- 7.2. The Mayor of Tower Hamlets has a target to deliver 1,000 council-enabled affordable homes. Whilst around half of the homes have either been delivered or are in the planning system and counted within the trajectory, the council is currently carrying out feasibility studies for around another 500 new build homes³ with a target date for planning applications in April 2018.
- 7.3. In February 2017, the council established two new housing companies, one of which is a Wholly Owned Company with a commercial purpose to provide homes for rent and sale and a charitable Community Benefit Society to provide homes for sub market rent, subsidised by grant of land and retained Right to Buy receipts, made possible by governance arrangements within which the council holds a minority position.
- 7.4. The charitable Community Benefit Society will be funded through general fund capital, prudential borrowing, Right to Buy ‘one-for-one’ receipts and section 106 affordable housing commuted sums. Whilst the initial stock of homes will be acquired through buying existing units, their main purpose is to deliver new build homes primarily on

³ Housing Capital Projects: Pipeline Schemes (July 2017)

existing council owned sites, including housing revenue account land. The new build development plans are expected to commence delivery in January 2018⁴.

- 7.5. There is therefore an important role for small site contributions in helping to secure the delivery of council-led affordable housing schemes. Using the proposed methodology outlined in section 3 and the permission figures for the last three years provided in table 4, had the requirements for small sites been in place during the last three years, the council could have secured over £19.6million (an average of over £6.5 million per year) in contributions towards affordable housing. In the context of the affordable housing delivery figures provided in section 5, there is an important role for small site contributions to contribute towards the delivery of schemes which will help meet the affordable housing delivery gap.

8. Viability

- 8.1. In seeking affordable housing contributions from small sites, the council is mindful of the potential viability impact and has sought to ensure that there is no disproportionate burden on small developments.
- 8.2. By using the ‘Sliding-Scale’ Approach, the council has foregone the ability to secure the maximum viable affordable housing contributions so as to put in place a simplified process, which will limit the bureaucratic burden on small developments.
- 8.3. In addition, the council has assessed the viability of the whole draft plan⁵ and concluded that the plan as a whole is deliverable. Specifically, in relation to the viability of small site affordable housing contributions the Tower Hamlets Local Plan Viability Assessment states: *‘The first set of tables analyses the viability of small schemes tested (i.e. less than the 11 unit affordable housing threshold suggested by the NPPG) as well as a 11 unit scheme, which according to the NPPG be required to deliver affordable housing, compared to an appropriate benchmark land value across the different value areas. The results confirm that although there is some variance in viability between schemes, values areas and dependant on benchmark land values, such developments can viably deliver the Tower Hamlets Development Local Plan policies along with contributions towards affordable housing.’*

Further, the results also demonstrate that there is no notable difference in scheme viability when comparing the viability of the 10 unit scheme versus the 11 unit scheme. In this regard we consider the threshold to be an artificial floor for the requirement for affordable housing and is not necessary to ensure the viability or

⁴ Establishing Housing Delivery Vehicles (February 2017)

⁵ London Borough of Tower Hamlets Local Plan Viability Assessment (BNP Paribas, 2017)

deliverability of smaller schemes' (page 34). This confirms that the proposed approach will not place an undue burden on small developments.

Appendix 1: Policy S.H1: Meeting housing needs

Policy S.H1: Meeting housing needs

1. We will secure the delivery of at least 58,965 new homes across the borough (equating to at least 3,931 new homes per year) between 2016 and 2031. This will be achieved through:
 - a. focusing the majority of new housing in the opportunity areas and site allocations (as shown on the Policies Map);
 - b. ensuring development does not undermine the supply of self-contained housing - in particular family homes;
 - c. resisting development that would result in a net loss of residential floorspace or family units;
 - d. housing estate regeneration schemes delivering homes which meet housing need and provide improved social facilities and environmental amenity; and
 - e. working to return vacant homes back to use.
2. Development will be expected to contribute towards the creation of mixed and balanced communities that respond to local and strategic need. This will be achieved through:
 - a. setting an overall target for affordable homes of 50% to be achieved through:
 - i) securing affordable homes from a range of council-led initiatives;
 - ii) requiring the provision of affordable housing contributions on sites providing 2 to 10 new residential units against a sliding-scale target (subject to viability);
 - iii) requiring the provision of a minimum of 35% affordable housing on sites providing 11 or more new residential units (subject to viability); and
 - iv) requiring a mix of rented and intermediate affordable tenures to meet the full range of housing needs.
 - b. requiring a mix of unit sizes and tenures to meet local need on all sites providing new housing;
 - c. supporting a variety of housing products in the market and affordable tenures which meet local need; and
 - d. complying with our duty to support local demand for self-build.
3. All housing must be well-designed, sustainable and take appropriate account of cumulative development. Developments are strongly encouraged to demonstrate this through meeting the Home Quality Mark standard.

4. Development will be supported which seeks to meet the needs of specific communities, including:
 - a. older people;
 - b. disabled and vulnerable people;
 - c. students; and
 - d. gypsies and travellers, through safeguarding the existing gypsy and traveller site at Old Willow Close and seeking to deliver additional safeguarded pitches adjacent to the site, following the completion of the Elizabeth line.
5. Residential development should encourage increased housing sales to Londoners, preferably for owner-occupation.

Explanation

4.12 This policy sets out the strategic housing supply requirements for Tower Hamlets as well as our objectives of ensuring the creation of mixed and balanced communities, sustainable places and quality living environments within the borough.

4.13 The borough's housing supply target relates to total net housing supply. The strategic target is composed of the housing supply target of at least 39,310 new homes between 2015 and 2025 - established in the London Plan (GLA, 2016) - and a rolled-forward target of at least 3,931 new homes per year between 2026 and 2031. The target includes self-contained residential units and non-self-contained residential accommodation, including specialist housing for students and older people in use classes C2, C3 and C4 or sui generis, as identified in annex 4 of the London Plan (GLA, 2015).

4.14 Housing growth will be primarily delivered in the locations specified in part 1 (a)⁶ via a number of different mechanisms: the regeneration of previously developed land, intensification of the built form in opportunity areas and the delivery of site allocations. A smaller proportion of housing will be delivered through town centre intensification, estate regeneration and infill development, bringing back long term vacant properties into residential use and windfall sites. Further details can be found in sections 4 and 5⁷.

4.15 Part 1 (b) seeks to protect existing and safeguard the future supply of self-contained housing. This is to ensure we meet identified local need as well as strategic targets for housing. Development for non-self-contained units will not be supported where it utilises land identified for self-contained housing through a current planning permission, or through the borough's development plan. It is recognised that other policies in this plan identify suitable locations for other land uses. Developments of other land uses, where supported by policy and/or site allocations, are not considered to

⁶ Opportunity areas are designated in the London Plan (GLA, 2016) and are considered to be London's main opportunities for accommodating large-scale new development to provide substantial numbers of new employment and housing, due to transport connectivity, land availability and deliverability. Site allocations are sites in the borough which have been identified as able to accommodate new homes and jobs alongside necessary infrastructure such as open space, health and education facilities. Further information about opportunity areas and site allocations is provided in policy S.SG.1.

⁷ The Housing Delivery Strategy sets out our approach to managing housing delivery across the borough to 2031 and support the delivery of the housing target set out in this plan.

undermine the supply of self-contained units. Family housing requires particular protection, due to high levels of identified need⁸.

4.16 Part 1 (c and d) will be implemented through partnership working to realise local need as well as strategic targets. Estate regeneration schemes are expected to protect and enhance the estate's physical environment and community assets, as well as deliver at least like-for-like replacement of unit size and tenure mix. Linked policy D.H2 (part 5) provides further detail on delivering this requirement. The Tower Hamlets Housing Strategy (2016-2020) and the Good Practice Guide to Estate Regeneration (GLA, 2016) provide further guidance. Policy D.H2 (part 5) provides further detail on delivering this requirement.

4.17 Vacant units brought back into residential use also contribute towards meeting the housing supply figure. We undertake a range of activities to bring vacant buildings back into use, such as grants and buy-back of ex-council stock.

4.18 Part 2 sets a target of achieving 50% affordable homes through private development as well as council-led initiatives. This target is considered to best reflect local housing need⁹. On developments that yield 11 or more net additional residential units, at least 35% affordable housing is expected. Developments are expected to maximise the provision of affordable housing, having regard to availability of public subsidy, implications of phased development (including provision for re-appraising scheme viability at different stages of development) as well as financial viability which should, in particular, take account of prevailing local and regional viability guidance. Applicants are strongly encouraged to meet or exceed the delivery of 35% affordable housing. Lower levels will only be accepted in exceptional circumstances where robustly justified through viability evidence and where it is demonstrated that there are clear barriers to delivery. Applications that do not meet policy requirements will be subject to viability re-appraisals.

4.19 Affordable housing calculations will be made using habitable rooms. Given the extent of local need, it is considered necessary and appropriate to seek financial contributions towards the provision of affordable housing from sites of less than 10 units. Financial contributions will be calculated using our preferred methodology as set out in the Planning Obligations Supplementary Planning Document. Over the plan period, developments on small sites have the potential to contribute over 3,000 new homes and could make a significant contribution towards meeting local affordable housing need (see appendix 7). Financial contributions will be calculated using a sliding-scale target starting at 3.5% across the whole site and increasing to 3.5% for each additional home, reaching 35% for sites of 11 units of more. Further detail (including on financial viability assessments) is provided in the developer contributions policy (D.SG5) and in the latest Planning Obligations Supplementary Planning Document.

4.20 Part 2 (b) expects that all housing developments will contribute to delivering mixed and balanced communities. Private student and specialist housing will be required to deliver a mix of affordable and market units of the relevant typology on site in order to meet a wide range of needs. All other housing development will be required to deliver a mix of housing tenures and sizes on site.

4.21 Part 2 (d) seeks to support a range of innovative housing products such as 'build-to-rent' private rented housing. Housing products will be supported where they are compatible with optimising the use of land and facilitate the delivery of housing to meet needs in each tenure. All residential developments must meet the requirements outlined in policies D.H2 and D.H3, including unit size mix,

⁸ Tower Hamlets Strategic Housing Market Assessment

⁹ This need is established in the Tower Hamlets Strategic Housing Market Assessment.

affordable housing and space standards. In addressing these requirements, consideration will be given to the size of the development. We also support the delivery of residential moorings in suitable locations (further guidance is provided in policy D.OWS2).

4.22 Part 2 (e) demonstrates our commitment to supporting those who wish to build their own home. The current self-build register indicates there is interest in self-build in the borough, however high local land values and housing targets, are resulting in the predominance of flatted developments which limits opportunities for viable self-build. Group self-build has the best potential to deliver significant additional housing output in higher cost areas, like Tower Hamlets¹⁰. We would therefore encourage group self-build as a more viable model of self-build in the borough. Our housing service is working with interested local self-builders to consider a range of options to support self-builders overcome challenges to delivery in the borough.

4.23 Part 3 requires development proposals to appropriately respond to the character of the surrounding area and site-specific constraints, as well as provide a high quality living environment in line with the Home Quality Mark standards¹¹. Further guidance is provided in chapter 2.

4.24 Part 4 recognises our duty to provide specialist and supported housing for students, gypsies and travellers, the homeless, the disabled, vulnerable and older people. This will be achieved through working with partners to facilitate the appropriate quantity and quality of housing. In addition, specialist housing should be integrated into the wider area through careful design and the sharing/joint use of facilities to encourage a sense of community belonging and social interaction, where applicable.

4.25 The existing gypsy and traveller site at Old Willow Close (as shown on the Policies Map) has been safeguarded to meet the borough's gypsy and traveller accommodation need¹². We will also seek to deliver and safeguard any further pitches which may be provided adjacent to the existing site, following completion of the Elizabeth Line development.

4.26 Part 5 aims to encourage new residential developments to meet local and strategic housing market needs¹³. There is a concern at a regional level that a portion of new build homes in London are not being used in a way which meets housing need and GLA-commissioned research indicates that Tower Hamlets has the second highest percentage of overseas sales in London¹⁴. Developers are encouraged to sign up to the Mayor of London's Mayoral Concordat on Housing Development or any replacement scheme which encourages the marketing of new homes for sale to Londoners in the first instance.

¹⁰ London Strategic Housing Market Assessment (GLA, 2013)

¹¹ The Home Quality Mark is a new residential quality design and construction standard, developed by the Building Research Establishment.

¹² This need is identified in the Tower Hamlets Gypsy and Traveller Needs Assessment. The safeguarded site meets our statutory requirement to ensure adequate provision of sites to meet the needs of gypsies and travellers who meet the new government definition of gypsies, travellers and travelling showpeople (Policy for Traveller Sites, Department for Communities and Local Government, 2015). Any additional capacity on the site will contribute towards providing culturally appropriate housing for gypsies and travellers who do not meet the new planning policy definition.

¹³ This is assessed in the Tower Hamlets Strategic Housing Market Assessment and London Plan (GLA, 2015).

¹⁴ Overseas Investors in London's New Build Housing Market (University of York, 2017)