

Leicester
City Council

WARDS AFFECTED

All Wards

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

**Strategic Planning and Regeneration Scrutiny Committee
Housing Scrutiny Committee
Cabinet**

**7 August 2003
21 August 2003
1 September 2003**

Research into 'Affordable Housing Moratorium'

**Joint report of the Corporate Director of Environment, Development and Regeneration
& Corporate Director of Housing**

1. Purpose of Report

This report summarises research on the 'moratorium' for affordable housing in three parts of the City area, and notes the views of Departments for whether or not this should be renewed.

2. Summary

The current 'moratorium' on affordable housing in three parts of the City area expires on 30 September 2003. Cabinet agreed in January 2003 that research should evaluate its impact and this report notes the research now undertaken by Roger Tym and Partners.

The consultants report concludes that the 'moratorium' arrangements have had some impact upon the City-centre development sector although, as the arrangement has only been in place since December 2001, they recommend a new 'moratorium' arrangement for a further five years. This report notes their conclusions but provides a variety of responses and suggestions from Council Departments and key stakeholders on what would be the most appropriate action(s) to take.

3. Recommendations

The Scrutiny Committee is recommended to:

- (a) note the conclusions of the research into the current 'moratorium' on affordable housing within parts of the City centre;
- (b) note the current 'moratorium' arrangements are only in place until 30 September 2003;

- (c) note the opinions from Departments and stakeholders (paragraphs 1.7 – 1.10) on the research conclusions and the divergent suggestions for how to address concerns about the provision of ‘affordable housing’ within the Regeneration Company area);
- (d) pass comments to Cabinet on a course of action(s) for how these concerns may be addressed.

4. Headline financial and legal Implications

4.1 [Comment on Financial Implications from the Director of Housing]:

Proposals for any ‘moratorium’ on planning obligations for the housebuilding sector do not directly affect any City Council finances, so there are no direct financial implications for the City Council arising from this report.

It is feasible that the development of some key City Centre site(s) in the future could involve a contribution from the City Council in terms of existing assets within any moratorium area. The degree of obligations for ‘affordable housing’ and other planning conditions may affect the value of land and buildings used for regenerative development.

Failure to provide sufficient affordable housing increases the likelihood of homelessness, which can lead to increased costs on the General Fund, such as for ‘Bed & Breakfast’ expenditure. There is currently a shortfall in affordable housing in Leicester. In making representations to Government about the shortage of funding to deal with this, the Council needs to be confident that it is doing all it can through the planning process for private developments to provide a contribution towards affordable housing.

The Council’s policy regarding private development will clearly influence the subsequent value attached to the Council’s own development land.

4.2 [Legal implications provided by A J Cross, Assistant Head of Legal Services]:

Where the Director of Environment, Regeneration and Development has negotiated with an applicant in relation to a planning application for residential development that on-/off-site affordable housing provision will be provided, the mechanism used will be a planning obligation under the provisions of the Town and Country Planning Act 1990. Justification for a specific affordable housing requirement requires inclusion in the Development Plan (for City Council purposes this means its Local Plan).

Current government advice with regard to planning obligations (updated guidance is expected shortly) requires that the contents of planning obligations must be necessary, relevant to planning, directly related to the proposed development, fairly and reasonably related in scale and kind to the proposed development and reasonable in all other respects. Specific guidance on planning and affordable housing – Circular 6/98 – sets out the government’s preferred approach to planning and affordable housing and requires local authorities to encourage the supply of affordable housing through negotiation with developers and also requires local planning authorities:

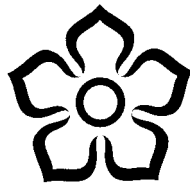
- to adopt a realistic and consistent approach in the preparation of Development Plan policies and the handling of planning applications involving affordable housing;
- to encourage a co-operative approach in the preparation of affordable housing policies to ensure that the views of all those involved in delivering affordable housing are taken into account;
- to clarify that affordable housing policies should be based on clear and up-to-date assessment of local need for affordable housing;
- to provide guidance on securing and controlling the occupancy of affordable housing;
- to ensure that affordable housing delivered through the planning system is likely to be attractive to lenders of private finance.

The Housing, Planning, Local Government and the Regions' Select Committee's report on Affordable Housing was issued in May and contained a substantial number of recommendations based on the premise that there has been a severe decline in the number of affordable homes built in the last twenty years.

In the government's response in relation to the recommendations covering affordable housing secured through the planning system the government has indicated that revised guidance is to be issued in relation to planning and affordable housing and the use of planning obligations.

5. Report Author(s) / Officers to contact:

Martin Field	Housing Development	Ext. 8713
Neal Moore	Development Plans	Ext. 7251



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SUPPORTING INFORMATION

1. Report

- 1.1. In December 2001 Cabinet considered a report that reviewed how the City Council could assist the development and regeneration of key sites in the City Centre. The Leicester Regeneration Company had proposed a pilot 'moratorium' on the requirement under existing planning guidance for private sector developments to provide for 'affordable housing' (or an alternative 'commuted sum') within site-specific planning applications and subsequent approvals. The agreement reached at that time was that there should be a 'moratorium' on obligations for affordable housing within planning applications affecting the Old Town, St.George's, and Frog Island priority investment area. This would apply to applications that receive planning permission before 31 March 2003, and would only apply to applications where site works were commenced within 18 months of planning approval.

Cabinet agreed this position for a fixed period of time, in order to see if this would stimulate local development activity and be an appropriate encouragement to local landowners to release assets in order to promote sustainable regeneration projects. It was acknowledged that the speculative approach of some landowners is to want property levels to rise before they release sites for re-development, and that there is a clear resistance to demands that sites contribute towards 'affordable housing'. Officers supporting the 'moratorium' believed that such a moratorium could help to promote regeneration in those areas where it has proved difficult in the past, and that a 'pilot' would provide an opportunity to test whether this happens.

- 1.2. In January 2003 Cabinet considered a report that agreed revised definitions of 'affordable housing' and noted the pending cessation of the 'moratorium' arrangements. It was agreed that the 'moratorium' be extended until September 2003 and that independent research be commissioned to investigate the impact of the 'moratorium'

upon City-based development, and to provide advice on action(s) that could be considered from September onwards.

1.3 The terms of reference for the research agreed by Council officers and the LRC were to:

- carry out an analysis of planning applications, housing starts and completions, trends in house prices and the overall strength of the housing market;
- analyse Land Registry data;
- interview a range of key players (landowners, developers/estate agents and registered social landlords) about the residential market in the city centre;
- interview a range of key employers in the City in view of the markets generated by these employers for student, key worker and private sector lettings; and
- examine policy and practice in promoting affordable housing in a regeneration context by other cities and Urban Regeneration Companies (URCs).

Roger Tym and Partners were selected to carry out this research, in tandem with Three Dragons Consultancy. The final report has now been delivered and is structured as follows:

Section 2 presents the details of statistical evidence and analysis of actual planning applications and building commencements;

Section 3 reports the views of the social housing sector (RSLs and the Housing Corporation);

Section 4 presents the findings of interviews with developers and estate agents;

Section 5 provides the findings of interviews with key worker employers;

Section 6 sets out the results of interviews with comparator local authorities and Urban Regeneration Companies; and

Section 7 summarises the consultant's conclusions and advice.

1.4 A full set of the 'conclusions' contained within **Section 7** of the research report has been attached to this report as Appendix A. A full copy of the research report has been lodged in the Members' Area in 'B' Block at New Walk Centre.

1.5 The main findings of the report can be summarised as :

- The moratorium has coincided with a relative increase in *potential* housing provision in central Leicester measured by permissions and approvals, but not yet by starts. Nonetheless, because the moratorium allows an 18-month lag between consent and construction contract, there is no reason to conclude from the survey research that the moratorium will not be conducive to actual provision. Actual starts will depend on the apparent strength of the market – i.e., the prospect that demand will be high enough for developers to sell at values that warrant the costs and the investment risk.

- Actual implementations in central Leicester are, however, concentrated in the city centre core and Bede Island, both of which lie outside the 'moratorium' area. It is felt that Bede Island benefited from a large City Challenge scheme (some £37.5 million was invested in the area, including substantial land remediation); and development in the city centre core remains limited to a small handful of buildings. St George's has yet to take off; nor have the Old Town and Frog Island markets.
- Developers consider the affordable housing requirement to be an additional cost. Additional costs add to the risk of not achieving the desired investment return and as such the additional costs are a deterrent. Other factors also discourage the development: perceived shortcomings in the way the Council deals with planning applications; problems with unsatisfactory environmental conditions; uncertainty as to the Council's/LRC's commitment/ability to achieve their aims; the costs of site assembly and remediation.
- The advice, drawing on the research evidence gathered together and the experience reported from elsewhere, would be to extend the 'moratorium' for a sufficient period to allow Leicester's central area housing market to mature..... 5 years would be a reasonable period.

- 1.6 There are a number of different views from City Council officers and key stakeholders on the conclusions listed in the consultant's report, and on its recommendation to renew a 'moratorium' arrangement.

Recent discussions at Scrutiny Committee meetings on the rate of affordable housing currently being delivered through the use of grant finance and the planning system have noted the existence of various views on affordable housing and wider regeneration, and have encouraged these views to be expressed. Sections 1.7 – 1.10 below outline a number of differing views on the conclusions of the 'moratorium' research, and a number of differing suggestions for how concerns about affordable housing could be addressed.

1.7 Comment from Corporate Director of Environment, Regeneration & Development

- 1.7.1 The research confirms that there has been an increase in the number of planning applications and approvals for residential development within the current moratorium area. This clearly indicates increased developer interest, although the level of actual housing starts is still limited. The consultants note that the moratorium has been in place too short a period to isolate its contribution to this developer interest in City centre sites.
- 1.7.2 It is clear, however, from pre-application discussions with developers that they perceive affordable housing as an additional cost and a deterrent and they are very keen to bring forward schemes before the current moratorium expires. One of the drawbacks of extending the moratorium by 6 or 12 months is that development schemes appear to be prepared in haste to meet the deadline. While a longer moratorium period would provide greater certainty for developers and allow more time to prepare high quality development schemes, it could also be counter-productive. The suggested extension for a further five years may slow down the current momentum gained in bringing forward

development schemes. Therefore I would recommend that the moratorium be extended for at least two more years.

- 1.7.3 The views of other authorities and urban regeneration companies are an important part of the research. Although other authorities do not operate a 'formal moratorium' they have not required affordable housing provision in their central regeneration areas until the private housing market has become fully established. I therefore consider that a similar approach should be adopted in Leicester.
- 1.7.4 The research concludes that the moratorium area should be revised to reflect the LRC's Masterplan and its investment intentions, but notes that the proposed new community in St. George's North will include affordable housing and that RSLs will be key partners. I consider that further consideration needs to be given to the extent of the moratorium area.
- 1.7.5 It should be noted that affordable housing is only one of a number planning obligations. In this regard the research conclusions on other actions required to encourage regeneration (environmental improvements, land remediation and site assembly) are also important considerations for the City Council and its partners.

1.8 Comment from Corporate Director of Housing

- 1.8.1 It is a concern that the research report into the impact of the current 'moratorium' on affordable housing raises a number of critical issues, but has only come down to one basic proposal – namely to extend some new 'moratorium' for a further length of time. It is also of concern that the 'research' is significantly comprised of interviews with relatively few respondents whom are quoted as providing a perspective on behalf of their employing authority or regeneration body, yet in some instances amounts to only one member of that body's personnel. The balance of such views is at risk of being one-sided, as few contributions from any 'Housing' Departments have been recorded. The presentation of how other cities have addressed the provision of affordable housing within city centre development obscures the fact that development in these areas has yet to stimulate significant change in surrounding areas that still demonstrate deprivation. This undermines the argument that city centre development targeted towards 'wealth creators' will in time percolate benefits round to other deprived communities. The summary on development in other cities has also overlooked the current debate in Derby where proposals supported by the new Urban Regeneration Company to have a form of 'affordable housing moratorium' in the centre have been turned down by the City Council.
- 1.8.2 The overall 'conclusions' of the report are critical of a number of features concerning city centre issues and facilities, but little has been offered by way of suggestion of proposal for how to address those points before the report makes the stark recommendation of a further 'moratorium'. Each individual criticism can however be addressed without needing to come to that single conclusion, as will be highlighted below.

Concern on the 'social make-up' of Central area : Under current LCC corporate targets in the Local Plan only an average of 30% of accommodation on qualifying sites would be sought as affordable housing. The rest of the overall housing provision - 70% - would be at 'market' rates, (more than likely for 'high spec' high-cost development).

There will inevitably be a substantial change in the make-up of the city centre community profile as the existing policies work a natural effect on the nature of the households coming to reside in the LRC area. The 'concern' about the 'social make up' will be addressed automatically in inevitable changes brought about by new development.

Perception of high-risk activity : The formal powers available to LCC and LRC-partners (in particular powers for compulsory purchase) can significantly reduce perceptions of risk about site assembly and site acquisition, both through the confidence instilled in others in seeing such action undertaken and through working with willing partners to purchase and develop sites acquired under such action. Housing Groups already prepared to develop across tenures.

Focus upon 'development-values' of regeneration activity : There continues to be much concern expressed of the 'ability' of actual development to realise a sufficient rise in the value of a developed site's property that it could accommodate affordable housing development and other planning applications. This is despite the recent confirmation that brownfield sites are now fetching over £1m a acre – a rise in value that would clearly have been seen as a suitable outcome from the 'moratorium' at the time it was introduced, but which is currently not securing the wider benefits. Some attempts have been made to assess the economic feasibility of sites in terms of wider planning obligations, however the previous proposals from the LRC have not resulted in any agreed and workable format. An independent financial model should be put into place that can more accurately assess the 'residual land value' of a site, taking full account of the range of planning obligations sought from its development, including affordable housing. The Greater London Assembly has been promoting a modern model to support and underpin affordable housing ambitions in London Boroughs, and a similar model should be compiled with Leicester land-values.

High cost to sites : The above point has already referred to the current position where site values have risen significantly, and contribute to high end-value of built properties, yet such increase in over 'value' is not being seen as sufficient for wider planning obligations. It is certainly arguable that the 'moratorium' arrangement has itself contributed to the increase in site values, however it has not provided any confidence that the increase in value will be distributed more evenly in the future upon facilities to meet wider community needs. Some of those interviewed by the researchers were clearly anxious that site prices should not be allowed to rise further.

Perceptions of LRC / LCC 'commitment' : The key agencies must obviously demonstrate a clear and public commitment to the development and regeneration of the city area, and to particular activity in different parts. The research report however almost suggests that this should be a commitment to 'investment needs', when it will be more durable that a full public commitment is seen to be given in context of 'regeneration' for all the wider community, not solely for the sake of 'investors'.

Poor quality of the 'public realm' : Work is already under way to focus on provision of improved 'public realm' facilities in the future, and a number of ideas are being raised for how this could be addressed and funded. The above proposal for calculating the 'residual land value' would have a bearing on how such calculation should assume site developments contribute towards 'public realm' costs.

Insufficient investment by LCC to general 'housekeeping' : A statement from LCC on future service philosophy would address concerns over the levels of future LCC investment and maintenance of services and facilities in the LRC Masterplan area.

An 'obstructive' approach to Develop Control : The City Council has received constant comment that the 'development sector' values a consistent approach to planning issues, and wishes to feel able to rely upon a clear direction of what is expected by planning authorities. Negotiations on affordable housing in Leicester have not always been able to proceed in this manner as there is a level of ambiguity in the expectation of affordable housing delivery from site developments within the Local Plan and other local planning guidance. In order to avoid repetition of such wearing negotiations, and to provide the development sector with clarity on the expectation for affordable housing delivery, the Local Plan target of 30% affordable housing from qualifying sites should be endorsed as a requirement from developers -subject to the above comments on the viability of sites assessed by a suitable model of 'residual land value'.

Deterrents to the normal function of the housing 'market' : The research report makes a reference to affordable housing not being permitted to obstruct the 'normal function' of the housing market, however the very basis of the existing 'Moratorium' has already been an intrusion into the 'natural function' of the local market. As has already been claimed above, the 'Moratorium' was always accepted to be an artificial intervention into the local 'market', and would seem to have been one contribution to the significant rise in site values – *itself an intended element of that 'moratorium'*. The research notes that no other authority area has required such a formal setting aside of this planning obligation and the contemporary position in Derby has been to reject such proposals.

Threatening other regeneration 'objectives' : The demand for delivering affordable housing is presented as somehow threatening 'other regeneration objectives', either by the view that monies are need for other outcomes, or that investors will not bring finance and resources to Leicester. The above comments have suggested how site development could be more accurately assessed as being able to contribute real funds to the delivery of affordable housing and other planning objectives. The provision of affordable housing is not a real threat to 'regeneration objectives', but it will be perceived as a constraint on the amount of private profit that could be achieved from regeneration activity. As a number of other housing development bodies from the large social housing groups are now approaching the Housing Department stating their willingness to provide a range of sale and affordable housing, there should be less and less concern that real investors will desert Leicester to avoid demands to deliver affordable housing. It could certainly be felt that supporting the activity of such sympathetic partners is actually likely to bring other developers into local development schemes, as they will be anxious to participate before all the development opportunities escape them!

- 1.8.3 It should be noted here that reference is contained in the Government's recent 'Sustainable Communities' Plan that the performance of 'planning authorities' will be considered in the future with regard to how they are able to meet key planning targets with local planning policies. How the planning authority in Leicester is addressing housing targets and affordable housing targets should be expected to feature in such future assessments, and the bearing this will have on future resources. It should also be

noted that the changes underway in regional housing investment are likely to represent increased constraints on the amount of grant finance available for new housing association development. The consequence of this is that it will require the local authority to be increasingly imaginative in how proposals for grant funding are targeted towards addressing local housing need.

A new consultation document has just been issued by the ODPM to invite discussion on proposed changes to “Planning Policy Guidance 3 : Housing“ (PPG3) to update the existing formal guidelines on planning for housing development, and to replace the separate Circular 6/98 on ‘the provision of ‘affordable housing’. The main intention of the revisions is to promote the provision of greater numbers of affordable housing within wider housing development schemes. The consultation document notes that the inclusion of affordable housing should not jeopardise the ‘viability’ of such development (although it has not yet produced firm suggestions for how ‘viability’ could be assessed). It also notes, however, that more should be made of the anticipated receipt from scheme development-values in order to cover real provision of affordable dwellings. The current ‘moratorium’ and the proposal to renew a similar arrangement has not achieved any such distribution of raised development value to wider community benefit, nor does the research proposal include any ideas for such a mechanism. Any renewal of a ‘moratorium’ arrangement in Leicester would be to fly in the face of the clear government policies to provide for a wide range of community needs, and to secure more of this provision from private sector contributions.

1.8.4 Alternative recommendations by the Director of Housing to the continuance of a ‘moratorium’ on affordable housing:

It is not the case that the actual provision of ‘affordable housing’ stands in the way of holistic regeneration development, and it is not surprising that the research report has not shown this to be the case. It is, however, disappointing to read in the document the same generalisations about city centre development without challenging the veracity of how or why such opinions are repeated time and again. It is also disappointing not to be offered other suggestions to suggest concerns on regeneration and affordable housing development. Alternatives to any ‘moratorium’ proposal would include the following proposals:

- a. Confirm the existing targets of affordable housing sought under corporate policies to assist officers to maintain a clear and consistent position within negotiations on planning applications.
- b. Use an accepted financial model to ascertain the ‘residual site value’ (such as in use via GLA) of potential development sites, in order to establish the ability of such sites to provide affordable housing development and other planning obligations expected under the system of ‘developer contributions’.
- c. Plan the application of statutory powers available to LCC and LRC-partners to reduce risks of site possession or assembly, and acquire sites to be used by development bodies prepared to provide the sought levels of mixed-tenure accommodation.
- d. Nurture and support the use of development bodies such as the major Social Housing groups that are demonstrating a readiness to deliver the desired range of affordable and sale housing in support of LCC corporate targets.

- e. Investigate other ways to limit the cost of sites or land to developers in the LRC Masterplan areas, in order to maximise their opportunities to provide holistic development.

1.9 Comment from Leicester Regeneration Company

- 1.9.1 LRC's approach to Affordable Housing within its regeneration strategy is propelled by two fundamental points:

First, LRC's efforts to diversify the city's economy depend on attracting a wider range of higher-paid jobs in the service and scientific sectors. This requires not only the development of job opportunities but also a 'quality of life' offer in central Leicester which will provide an attractive range of housing accommodation and an atmosphere and range of services to attract these groups.

The key issue for LRC in discussing affordable housing, and the central justification for the moratorium, has been the need to develop and sustain a new market for city centre housing which will deliver this ambition. The concern is that requiring 30% Affordable Housing within all new private developments, together with all the contributions required for highways, education, public realm etc. will reduce overall development viability to the extent that the comparatively new, and still low-value, central Leicester housing market is stifled before it has had time to develop. But left to mature, as the wider vision for a reinvigorated city centre comes to fruition, housing values will eventually rise to the point where Affordable Housing becomes 'affordable' on the back of private sector developments.

Second, however, LRC feels unequivocally that new housing in its area should create a balanced community, with an optimum range of types, tenures and affordability of homes. This will create a diverse community and maximise opportunities for key workers and others to live and work in the city centre. There is no disagreement with LCC on this important aim.

These two aims – of attracting the more affluent while ensuring diversity and affordability – are not incompatible if handled properly. The problem to date, however, has been a reliance on the first aim to deliver the second, by requiring all private development to include 30% affordable housing.

- 1.9.2 Anecdotally, this has had three effects: it has deterred private development from happening at all because it renders it unviable, frustrating both objectives; or it means that developers can only offer a price for land which sellers will not accept, so development stalls; or developers are contriving to keep developments below the 25 unit threshold, which damages both objectives. These effects can only be compounded by the recent recommendation to require a £79,100 per dwelling commuted sum for affordable housing provided off-site, which is a very stringent requirement ⁽¹⁾. The Moratorium was an attempt to overcome these problems by suspending this requirement in selected areas for a limited period. The RTP study set out to test its usefulness, and its conclusions are before you.
- 1.9.3 LRC's view is that RTP's recommendations on the narrow issue of the moratorium should be accepted: the housing market is still in the early stages of building and would

be impeded by a rigorous 30% Affordable Housing requirement . Certainly, the comparisons with other cities which are ahead of us in regenerating their central areas suggest that far less onerous requirements are part of their success.

However, LRC would also suggest strongly that the debate needs to move beyond the moratorium issue, with its focus on requirements placed on private development, to look instead at how the totality of a mixed community can be achieved.

1.9.4 In this respect, the Master Plan's comprehensive housing ideas at St George's North and elsewhere offer an alternative possibility. They rely on public sector assembly of land, which will then be marketed competitively in lots of, say, 3-400 houses, with a development brief setting out requirements for the project. This gives an opportunity to specify a level of affordable and/or key worker housing in each such release, leaving developers to devise the means of delivery. They could, for example, work in partnership with a RSL or specialist affordable housing provider, or pass on part of the site to a RSL for development by them, or pre-dispose of part of the finished development to such a body. Any implications for land values resulting from these requirements would be cross-subsidised from higher-value uses and/or reflected in the price paid to LRC's funding partner, be it emda or English Partnerships. LRC cannot pre-commit either of them to this stance, but it is consistent with their role and approach elsewhere.

1.9.5 In summary, LRC suggests the following:

- Continue the moratorium, nominally for five years as RTP suggest, to avoid killing off the emerging city centre housing market.
- Review the five-year period no sooner than three years down the line to assess whether values have risen to the point where an affordable housing requirement can be reimposed (as, for example, it has in London by Mayor Livingstone, on the back of very much higher property values there)
- Apply the moratorium to all five of LRC's major project areas
- LCC should also consider the appropriateness of applying it in the Old Town area, which is an important regeneration area but not a LRC project.
- Going beyond the moratorium issue, identify target numbers for affordable and key worker housing in the LRC area, and work jointly towards achieving them.
- Tackle these targets initially through the Development Frameworks which are currently in preparation for each LRC main project, subsequently through briefs for disposal of each component housing development site, and in the longer term through revisiting the idea of a % requirement, or a commuted payment, on future private housing development once the market is stronger

1.10 Comment from Leicester Housing Association Liaison Group representative on 'LRC City Living Steering Group'

1.10.1 Serious concerns are held about the quality of the Roger Tym/Three Dragons piece of research for the following reasons:

1. It uses outdated 1991 statistics when more recent ones in the 2001 census are freely available. *The most recent statistics are unlikely to support the conclusions that Roger Tym & Ptnrs are promoting.* Moreover, the rapid change in residential patterns in the city centre over the last two years (specifically,

- numerous up-market conversions) will not themselves be reflected in the census statistics of 2001, let alone 1991. It is essential for readers to reflect on their own experiences of Leicester's housing markets over the last two years when considering this report. Things have changed extraordinarily rapidly and against the flow of the report's argument.
2. It uses the LE1 area as a substitute for the LRC area because it is easier. Unfortunately, however, *the LE1 area is a very poor substitute for proper data collection*. It does not cover the same area at all and it includes the St Matthews estate which obviously weights the statistics to show a much higher level of affordable housing "already in the LRC area" than is actually there. Any serious researcher not intent on supporting a conclusion already arrived at could easily have taken those units out of the data to provide a more accurate picture.
 3. It assumes that a mix of socio-economic groups in line with England national averages is a worthy benchmark to aim for in order to achieve a thriving local economy in the LRC area. No reasoning whatsoever is produced to support this assumption. Bearing in mind that the LRC area is not going to be separated off from the rest of the city by a huge wall it is really a bizarre notion to propose that it should by itself reflect any particular average. Its residents will obviously be working in many different parts of Leicester in many different roles and the idea that their composition should reflect a national average that includes, for example, farmers, mineworkers, fishermen, stockbrokers and tourism workers is odd in the extreme. If it is really believed that we should aim for the LRC area to match the social composition of a thriving area, why not choose a better one, like Beijing, or San Francisco, Bombay or Reykjavik – or even London?

1.10.2 Comments on the Research Conclusions

The Report's conclusion, to extend the moratorium for a further 5 years, is in no way supported by the "evidence" presented in the report. Indeed, the authors confirm that "the moratorium has been in place too short a period to isolate its contribution". In other words, what they are repeating here is the same theory they started out with two years ago and this research has been a waste of everybody's time. The recommendation to extend the moratorium responds solely to the views of private developers - who would say that, wouldn't they? No other local authority in the country has felt the need for a formal moratorium on affordable housing requirements in order to get things moving. *A less rigid strategy is more appropriate, with tactical flexibility.*

In the interests of developing balanced mixed communities in the city centre members of Leicester Housing Associations Liaison Group have expressed their opposition to the moratorium. Housing associations are the main organisations through which new affordable housing is being developed right across the country. More than social rented housing, however, associations are increasingly involved in and committed to providing a full range of housing types and tenures in a context of sustainable neighbourhood regeneration and community building.

- #### 1.10.3 Local housing associations have expressed their commitment to the LRC area by stating their willingness to act as key developers not only of social rented housing, nor only shared ownership, but also market rent and market sale housing. We will not be waiting for market values to rise to generate profits at a level that can fund some affordable housing. Indeed, waiting for values to rise merely adds to the cost of sites and actual profits do not rise in line with prices. The report says just this in S.7.2 –

increasing values merely go to landowners. This is the fundamental problem that the Report fails to address. If their argument is accepted now then it will have to be accepted again in five years time for the situation will be the same.

1.10.4 An alternative solution

Associations are ready and willing to step in to undertake housing-led regeneration in the LRC area. We believe the Housing Corporation and English Partnerships would wholeheartedly welcome such a strategy. If we move quickly we can, with LRC and English Partnerships support, acquire sites at reasonable cost in the near future.

What we would ask is that the Council (and the Housing Department) neither extend the moratorium nor attempt to apply a rigid policy on affordable housing provision by associations as developers. Working in a true partnership it will be possible to achieve an appropriate level of affordable housing in the LRC area (30% of the total output of new development, but not on a scheme by scheme basis) through a combination of grant aided work and association contributions dependent on the scale, location and house types involved.

Not only will this deliver both what the LRC and the Housing Department are aiming for it will also be delivered by organisations that are here to stay, that have the local knowledge and local commitment to investing in communities as well as in buildings.

If the Council agrees to flexibility on the level of developer contributions and the use of Social Housing Grant to support more demanding S106 requirements then a way through can be found that will achieve what we are all aiming for – a new community in the city centre that works.

[Harry Perry – Leicester Newarke H.A., LHALG-rep]

1.11 **Summary and Recommendations**

The consultant's report into the current 'moratorium' arrangements has reviewed the perceived impact of these arrangements. A number of points have been highlighted within their conclusions, although their principal concern is that there has been insufficient time for the arrangement to have a full beneficial impact upon local regeneration and development. They recommend that a further 'moratorium' be established for a period of five years, and that a revised area be included within the new arrangement (see Appendix A for detail of their suggestions).

City Council officers have reviewed the consultant's report but do not share a uniform agreement on its conclusions. Support for a 'moratorium' proposal is countered by suggestions by suggestions for alternative actions that could address concerns about affordable housing without setting planning obligations aside in this manner.

Scrutiny Committee is recommended to:

- (i) note the conclusions of the research into the current 'moratorium' on affordable housing within parts of the City centre;**
- (ii) note the current 'moratorium' arrangements are only in place until 30 September 2003;**

- (iii) note the opinions from Departments and stakeholders on the research conclusions and the divergent suggestions for how to address concerns about the provision of 'affordable housing' within the LRC-area ;
- (iv) pass comment to Cabinet on a course of action(s) for how these concerns may be addressed.

FINANCIAL, LEGAL AND OTHER IMPLICATIONS

2. Financial Implications

Proposals for any 'moratorium' on planning obligations for the housebuilding sector do not directly affect any City Council finances, so there are no direct financial implications for the City Council arising from this report.

It is feasible that the development of some key City Centre site(s) in the future could involve a contribution from the City Council in terms of existing assets within any moratorium area. The degree of obligations for 'affordable housing' and other planning conditions may affect the value of land and buildings used for regenerative development.

3. Legal Implications

As per summary of Headline Legal Implications.

4. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph References Within Supporting information
Equal Opportunities	Y	All 'supporting information'
Policy	Y	All 'supporting information'
Sustainable and Environmental	Y	All 'supporting information'
Crime and Disorder	N	
Human Rights Act	N	
Elderly/People on Low Income	Y	All 'supporting information'

5. Background Papers – Local Government Act 1972

Papers of LCC Housing Scrutiny Committee 2000 - 2003

Papers of LCC Cabinet 2000 – 2003

Papers on file within LCC 'Housing Development' and 'Development Plans' Teams

6. Consultations

A range of 'stakeholders' have been consulted on the research that forms the background to this report, and the views of 'key stakeholders' are included within points noted above.

The conclusions of the research have been discussed in detail at the LRC/ LCC Officers Liaison Group.

7. Report Author(s) / Officers to Contact

Martin Field	Housing Development, Housing Dept.	Ext. 8713
Neal Moore	Development Plans, E R & D Dept.	Ext. 7251

APPENDIX A

Conclusions from the consultant's report "Leicester City Council – Affordable Housing Moratorium Study", Roger Tym and Partners, June 2003.

A.1 The research enables us to make the following conclusions, tentative and otherwise:

- The moratorium has coincided with a relative increase in *potential* housing provision in central Leicester measured by permissions and approvals, but not yet by starts. Nonetheless, because the moratorium allows an 18-month lag between consent and construction contract, there is no reason to conclude from the survey research that the moratorium will not be conducive to actual provision. Actual starts will depend on the apparent strength of the market – i.e., the prospect that demand will be high enough for developers to sell at values that warrant the costs and the investment risk.
- Actual implementations in central Leicester are, however, concentrated in the city centre core and Bede Island, both of which are outwith the moratorium. Bede Island benefited from a large City Challenge scheme (some £37.5 million was invested in the area, including substantial land remediation); and development in the city centre core remains limited to a small handful of buildings. St George's has yet to take off; nor have the Old Town and Frog Island markets.
- What is clear, however, is that developers consider the affordable housing requirement to be an additional cost. Additional costs add to the risk of not achieving the desired investment return and as such the additional costs are a deterrent. Other factors also discourage the development: perceived shortcomings in the way the Council deals with planning applications; problems with unsatisfactory environmental conditions; uncertainty as to the Council's/LRC's commitment/ability to achieve their aims; the costs of site assembly and remediation.
- Central Leicester is an undeveloped housing market compared to Nottingham, Birmingham, Bristol, Liverpool and Sheffield. Derby's market is probably behind Leicester, although there is a policy to require affordable housing.
- Birmingham, Bristol and Nottingham each apply an affordable housing requirement in their central areas, but each has only done so once the markets were established. In practice the affordable housing requirement has little impact as most developments are under the size threshold. Whether or not the average size of scheme is a tactic to avoid the requirement is not known.
- Sheffield will not require an affordable housing element until their city centre market is established. Liverpool makes no such requirement at all; their aim is to encourage a higher SEG mix and increase their tax base.
- RSLs feel they would like to be active in the central area, and their customer base would like more opportunities to live in the central area. RSLs consider that measures, like the moratorium, that encourage private risk investment have the effect of raising the costs of land and therefore stack the odds against their ability to develop in the central area. RSLs, therefore, are generally against the moratorium.

In social balance terms, however, the data suggest that the SEG composition of Leicester's central area is already skewed in favour of the traditional market for RSLs.

- The major employers of key workers in the City – the two universities and the Leicester Royal Infirmary – consider supply for key workers to be in balance with demand. The universities have active programmes to meet student housing requirements.

A.2 In terms of the questions we set out to address, we respond as follows:

- *How viable is residential development in the central area of the City?*
Clearly, the development that is going on is viable, and prices are rising. But as sales values rise, so do land values. The risk of developing in these areas is not reducing markedly; key target areas are simply not taking off and are not doing so because the risk-reward ratio is still not conducive.
- *What has been the effect of the moratorium on affordable housing on residential development in the qualifying areas?*
The moratorium has been in place too short a period to be able to isolate its contribution. Planning applications and approvals have increased, but have not been matched by development starts and markets are not at the level that could be classed as established. Key parts of the LRC area are not yet attracting the scale of developer interest that will be needed for their regeneration. If Leicester were to follow the approach of Birmingham, Sheffield, Coventry, Liverpool and Sunderland, it would not impose an affordable housing requirement where its regeneration objectives take precedence. In every case, these cities unabashedly sought or are seeking to achieve a social balance in their city centres by increasing representation from the relatively affluent and mobile. These Councils/URCs all consider that where the housing market is immature, risk is de facto high; any additional source of costs adds to developers' risks and therefore increases the scale of return required. If values have not risen to levels that allow a sufficient return, then developers will not take the risk. The slow pace of housing development in central Leicester suggests that this applies.
- *Are there alternative policies which would encourage the types and quality of residential development in the city centre that are sought, and enable the provision of affordable housing?*
While the RSLs all feel there is no conflict between achieving regeneration aims and increasing the provision of affordable housing, the LAs and URCs interviewed would disagree. They would do so because they consider their central areas need high quality attractive market housing to attract and retain key segments of the labour market, increase the city centre spending base and redress long-standing imbalances in the social mix of their central areas. All those interviewed, however, also consider that many other actions, over and above redressing this imbalance, are needed to encourage the necessary private risk-taking investment in the central areas of cities e.g., improving the general environment and appeal of the central area, providing assistance with the costs of remediation and land assembly, conducive planning policy and development control practice etc).

An extension to the Moratorium, but for a redefined area

- A.3 Our advice, drawing on the research evidence we were able to gather and the experience reported from elsewhere, would be to extend the moratorium for a sufficient period to allow Leicester's central area housing market to mature. The short period of the moratorium is out of kilter with the length of the development cycle (and the current slow down in the economy) and with the length of a planning permission (currently five years, although the draft planning and compulsory purchase bill is proposing that this be reduce to three years).
- A.4 Discussions with those active in the development market suggest that extending the moratorium on an ad hoc basis by increments of six or 12 months is insufficient to convince the market (which is prospective house buyers as much as prospective house builders) of the Council's and LRC's commitment to the regeneration of the central area. On the experience of Liverpool, Birmingham and Sheffield, we would suggest a moratorium period of at least a further five years – partly to reflect the economic cycle (which is falling from its apex), but also to tie in with the length of a planning consent. At present, a planning consent is for a period of five years. Although the new Planning and Compulsory Purchase Bill proposes to reduce this to three years, it will take some time before this new ruling comes into effect. Thus from now, five years is a reasonable period.
- A.5 We also advise regular monitoring of the effect of the moratorium (and other factors) on the rate at which consents are sought, but most particularly on the rate at which they are implemented. Monitoring is needed to ensure the policy is having the desired effect of speeding up the rate of regeneration in the areas where it applies and to inform any changes in the policy (the period of the moratorium and the areas to which it applies).
- A.6 We emphasise that the planning policy in the second deposit draft of the Local Plan makes it clear that the Council will not apply the affordable housing requirement where the achievement of regeneration objectives may be prejudiced by doing so. The evidence suggests that it will prejudice the LRC's regeneration objectives for central Leicester, notwithstanding the aims for the new community in North St George's.
- A.7 We also suggest that the City Council and LRC work with the RSLs to explain how the moratorium is intended to work in the context of the wider proposals for the regeneration of the central area of the City. The RSLs will be key partners in the new community particularly, and it is of course important that they are fully included as partners to the City's regeneration.
- A.8 Meanwhile, as is the intention, LRC, working with its City Council and emda partners, will need actively to remove the other deterrents (sources of risk and cost) to the creation of a buoyant central area housing market: the costs and risks of assembling sites; a too often poor quality public realm; insufficient investment in basic housekeeping (street cleaning, management of the public realm etc); and an approach to development control that is often perceived as obstructive, introducing delays and other requirements that add to costs and risk. The certainty needed by both the developer and house-buying markets will only come when the private sector is confident that LRC and its City Council partners are genuinely committed to removing the deterrents to the normal function of the market – so that the private sector can play its full and necessary part in achieving the stated regeneration objectives for the City.

The area for the Moratorium

- A.9 The area to be included within the affordable housing moratorium needs to be revised to reflect the regeneration priorities set out in LRC's Masterplan – which the City Council has adopted, as has LRC's other principal partners.
- A.10 While we have not been asked to define the area for the new moratorium, we have been asked to suggest the factors that need to be considered in making that judgement, accepting that Leicester as a whole has unmet requirements for affordable housing. We suggest that in making the decision, account needs to be taken of the following:
- The fact that the moratorium is aimed at achieving a key regeneration objective: speeding up the rate of regeneration in designated *priority* areas by deflecting to these areas demand for housing that would otherwise be realised elsewhere.
 - For all the reasons set out, the Masterplan directs virtually all new commercial and the vast proportion of additional residential development to the area of the city within the ring road, broadly the city centre. The science and technology park is an exception, but is only so because of the nature of that development and the special relationship with The Space Centre.
 - The Masterplan proposes a very substantial increase in residential development in this area because it is needed both to attract and retain key segments of the labour market *and* to help create the advantages of concentration necessary to developing competitive advantage in growth sectors of the economy.
 - Thus the Masterplan urges the LRC to place its highest priority on locating development so as to create critical mass and the advantages of concentration that follow. There is therefore a case for including within the moratorium the whole of the city centre – broadly the area within the Central Ring Road – and for excluding areas beyond the CRR.
 - However, the New Community is conceived as a comprehensively planned model community; a mix of tenures and housing types, including affordable housing, is fundamental to the concept. It would be inappropriate on these grounds to include the New Community area within the moratorium even though it is within the CRR and is a regeneration priority. Doing so, arguably, would do little to achieve the aims for the New Community, and could actively compromise them by encouraging (further) land speculation, raising the costs of site assembly.
 - The Old Town is outwith the CRR and is not a priority for the Masterplan. There is therefore a case for excluding it from the new moratorium area. Development in the Old Town still risks displacing demand that would be much more beneficial located within the central area of the city as it is defined by the CRR.
 - The Abbey Meadows area is also outwith the city centre for the purposes of the Masterplan and, therefore, on the same grounds there is also a case for excluding Abbey Meadows from the new moratorium. Although Abbey Meadows is a key intervention area, the rationale is the science and technology park – not

the housing element which is included principally because the values are needed to make the scheme as a whole viable and because the exceptional waterside setting offers opportunities to provide the quality of housing needed to help retain population within the City. However, Council policy allows for instances such as this and can relieve such schemes of the affordable housing obligation – and thus arguably there is no particular value in the moratorium for Abbey Meadows.

- Frog Island has not taken off as a housing area – but part of it is within the New Riverside, one of LRC’s key intervention areas and a regeneration priority in the central area. The New Riverside redefines, in this small section of central Leicester, the boundary of the city centre by down-grading the ring road (the practical boundary of most of the rest of the city centre) and by creating a new marina basin that brings the river’s edge up the western boundary of the extended Shires. Thus, New Riverside will become part of the city centre and there is therefore a case for including this area within the new moratorium.
- The developer of The Shires, however, is indicating its willingness to provide affordable housing as part of its scheme and appears not to be deterred by this obligation. Nonetheless, the fact is that large scale retail development is unique in the values it generates. And because it is unique, we can see no reason for excluding this part of the city centre from the new moratorium area. There will be other mechanisms available to the City Council to ensure it gets an increment of affordable housing from this development.
- The housing market in St George’s south of Humberstone Road (i.e., the Cultural Quarter) has still not taken off. Although it is not one of the LRC’s key intervention areas (for the reasons explained in the Masterplan), it is within the ring road and its success is critical to the Prime Office Core, the New Community (in St George’s to the north of Humberstone Road) and to the retail core. Thus there is a case for including Cultural Quarter within the new moratorium area.

A.11 These considerations suggest there is no ‘neat’ boundary for the new moratorium area. Restricting the moratorium to the LRC’s five key intervention areas – which has some prima facie appeal – has the disadvantage of inappropriately including both north St George’s (the New Community area which needs to have affordable housing) and the Abbey Meadows area which is well outwith the city centre and needs to link with Belgrave residential areas to the east. While development costs will be very high at Abbey Meadows, Council policy already allows for instances where achieving both regeneration and affordable housing objectives may be at odds. If Abbey Meadows is to be excluded, the City Council needs to accept that the financial profile of the LRC’s scheme is such that in practice affordable housing may be difficult to deliver.

A.12 Equally inappropriately, confining the moratorium to LRC’s five key intervention areas would exclude south St George’s (the Cultural Quarter) which still needs significant inducement because of the exceptional costs imposed by the conservation area and the listed buildings.

A.13 An alternative approach ‘neat’ approach – using one or other of the Local Plan boundaries – also has marked disadvantages. The commercial zone is simply too large – which is inconsistent with the notion of regeneration *priorities* and a time-limited moratorium – and the retail core is too small.