

Document 2/2

**The Draft Jersey Island  
Plan Examination in  
Public**

**Written Statement in  
Response to the Housing  
Topic Session 3  
Issued 29<sup>th</sup> July 2010**

**31<sup>st</sup> August 2010**

Prepared on behalf of MS Planning Ltd

## **Topic: Housing (Days 5 & 6, 27<sup>th</sup> & 28<sup>th</sup> September 2010)**

### **1.0 Session 3 / Written Statement 3 – Affordable Housing**

#### **Question 1:**

**This comprises of various sub-questions as follows:**

- i) *“Is the policy [H3] workable?”***
- ii) *“Bearing in mind the section of the Plan on viability, will it bring housing development to a “complete stop”, as suggested?”***
- iii) *Is the policy flawed in principle, or would the use of different thresholds and proportions be acceptable? If so, what should these be?”***
- iv) *“...would a greater delay in the introduction of the policy help its introduction?”***
- v) *“Is the “viability assessment” model workable?”***

#### ***i) “Is the policy [H3] workable?”***

1.1 The ability of a policy such as H3 to work in practice is considered in detail within the representations and associated addendum report submitted by Pioneer on the 17<sup>th</sup> March 2010; the addendum report considers the issues associated with applying what is essentially an English policy approach to affordable housing contributions, and examines the functionality and impact of this approach in less than buoyant economic times. Whilst such a policy may function during prosperous times, it proves extremely problematic during recessionary cycles, further reducing viability and stifling overall housing supply. The existing land zoning system ensures that land is identified and zoned specifically for Category A housing, thus guaranteeing the availability of a set amount of affordable housing land supply, and without acting to stifle non-Category A housing delivery.

#### ***ii) “Bearing in mind the section of the Plan on viability, will it bring housing development to a “complete stop”, as suggested?”***

1.2 With regard to the impact of the proposed policy please refer to the response to Session 3 question ‘1i’ above.

- 1.3 The States 'viability model' or other viability assessment evidence has not been made available for consideration during the draft Island Plan consultation period. It is therefore not possible to comment upon it. Without a States viability assessment of proposed affordable housing targets it is not possible to be confident of the impact of the proposed policy H3 upon overall delivery. The situation in the States is further complicated by the proposed 'overlay' of the English approach on the current States system – the interaction of the two systems and viability at a strategic level does not appear to have been assessed.
- 1.4 The section in the Plan regarding viability indicates an approach that will require viability assessment on a site by site basis. As the English experience demonstrates viability assessment is often a complex and time consuming process which is fraught with disagreement and protracted appeal proceedings – this is why PPS3 includes a requirement for English local planning authorities to viability assess their proposed affordable housing targets before they are introduced i.e. in an effort to provide some certainty as to levels of delivery and ensure that overall housing delivery is not negatively impacted upon. The States has not published a strategic level viability assessment.
- 1.5 Furthermore, individual site assessments do not obviate the issue of non-delivery or ensure flexibility, as is demonstrated in recent examples in the UK<sup>1</sup> where, despite a site level viability assessments confirming aspired levels of affordable housing to be unviable, Inspector's / the Secretary of State have concluded affordable housing to be of such importance that it justifies the delay of housing delivery overall until the aspired level of affordable housing provision becomes viable.
- 1.6 It is observed that the P&E Department consider the States average building rate to be 'very healthy' and to have exceeded the housing requirements set out within the current Island Plan.<sup>2</sup> Whereas, under the English planning system, and in combination with the housing market downturn, housing starts in 2009/10 are recorded to be less than half of what they were in 2005/06, and completions (at 113,420) are approximately one third less than during the peak of 2007/08<sup>3</sup> and far below delivery targets for 240,000 homes per year by 2016 set under the previous Government.<sup>4</sup>

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<sup>1</sup> Land Off Lydney Bypass (Lydney B), APP/P1615/A08/2082407, Clay / Glebe Farm, APP/Q0505/A/09/2103599, Innsworth, APP/G1630/A/09/2097181

<sup>2</sup> page 3, Appendix A

<sup>3</sup> Communities & Local Government Live Table 253 Housebuilding: permanent dwellings started and completed, by tenure and district, 2004/05

<sup>4</sup> 'Homes for the Future More Affordable More Sustainable', July 2007

- 1.7 It is unclear to what degree the English approach to affordable housing delivery is compounding the overall housing delivery situation, but it is logical that anything that makes delivery less viable will have a negative impact. Conversely, it would appear that the States existing land zoning system is functioning effectively. The H3 policy approach will not function effectively in less economically favourable times (which are known to reoccur cyclically), and the English situation illustrates the outcome of trying to fit a 'square peg into a round hole'.
- 1.8 It is inappropriate to risk a curtailment of development activity as a result of introducing a target within Policy H3 which has not even been informed by an assessment of its viability or sustainability. A Restriction of housing supply will serve to inflate house prices and compound affordability issues.

***iii) Is the policy flawed in principle, or would the use of different thresholds and proportions be acceptable? If so, what should these be?"***

- 1.9 The question of whether this policy is flawed in principle is covered in the responses to the previous Session 3 sub-questions above, and within previous representations submitted by Pioneer Property Services Ltd. That the policy should be deleted remains the response within this Written Statement.<sup>5</sup>
- 1.10 However, if the Inspector is of a mind to recommend retention of the policy in some format then the target within it should be flexible, able to respond to changing market conditions and its impact upon housing delivery and founded upon the fundamental principle that landowners/developers retain the overwhelming majority of land value uplift. It is not as straight forward as identifying specific alternative thresholds and proportions that may be more appropriate. In any event, the existing proportion / thresholds do not themselves appear to have been informed by any overarching viability assessment.
- 1.11 Adequate evidence is required to be provided to an examining Inspector to enable them to make a judgement upon it. This is an essential stage on the 'critical path' if an English style approach to affordable housing delivery is to be applied in the States.

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<sup>5</sup>please refer to Pioneer responses to Sessions 1 and 2 'Housing' and to Appendix 1

1.12 The unavailability for review of States viability evidence and the 'viability model' compromises the ability to propose 'alternative' approaches in detail, although the following observations can be made:

- a) The primary and most appropriate alternative to the proposed Affordable Housing Policy H3 is the States existing land zoning system. Evidence has not been offered by the States which suggests that this system is unable to provide adequate levels of affordable housing.
- b) The WEB alternative approach referred to in the Inspectors Session 3 topic question equates to the imposition of a tax. If, however, it is to be considered acceptable to capture an element of land value in this way outside of the States current tax system then more equitable approaches to that proposed in the WEB mechanism (which sets a commuted sum AH payment as a fixed percentage of the sales revenue) should be applied.

For example, a preferable mechanism is one which ensures that land owners benefit from not less than 80% of any uplift in unfettered land value realised as a result of obtaining residential planning permission (exclusive of obligation contributions). This will ensure certainty for land owners and developers in terms of returns. This mechanism is straightforward, and able to respond flexibly and equitably to the impact of changes in sales values and scheme costs. Thus planning obligations are possible up to the amount of funding available rather than imposed irrespective of economic conditions.

- c) Unless land owners are able to obtain what they consider to be a reasonable share in any uplift in land value<sup>6</sup> sites are unlikely to come forward – particularly if it involves a change of use.<sup>7</sup> If this share is unreasonably reduced as a result of inflexible affordable housing and / or other obligation contributions sites will not proceed. The WEB mechanism does not offer this comfort, as it does not ensure that the level of affordable housing contribution sought will be flexible in response to other influencing factors to ensure that a sufficient share in land value uplift will remain available.

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<sup>6</sup> prior to the deduction of affordable housing or other contributions

<sup>7</sup> See Appendix 2

**iv) “...would a greater delay in the introduction of the policy help its introduction?”**

- 1.13 The proposals within the Ministers Schedule of Amendments to delay the introduction of / reduce the affordable housing target within Policy H3 do not remove the need to carry out robust assessments of need and demand, viability, and how the approach will work in practice once overlaid onto the States planning system.
- 1.14 The H3 policy objectives should be deferred indefinitely unless and until appropriate viability assessment and Dynamic Viability Modelling is undertaken to assist with arriving at a realistic deliverable affordable housing target / proportion for inclusion within any such policy. In particular, it seems illogical to seek to introduce this policy ahead of the States having decided upon whether they are to alter the approach taken to affordable housing allocation (following the Whitehead report). Until a conclusion is reached in this respect it will not be possible to robustly assess the Island’s future affordable housing requirements, and this in turn impacts upon the approach to be taken within proposed Policy H3.

**v) “Is the “viability assessment” model workable?”**

- 1.15 Despite numerous requests the viability model has not been made available prior to the drafting of this Written Statement. It is therefore impossible to comment on whether it is workable or not. This is of significant concern given that this topic question invites participants to respond in Written Statements specifically on the viability model, and that the impact of the proposed policy cannot be quantified in financial cost terms to developers / land owners (and therefore quantified in terms of its overall impact upon housing delivery) until the model and its various inputs are made available for scrutiny. The model is central to any discussion as to the appropriateness of the proposed affordable housing policy, and the acceptance of the unavailability of this key evidence calls into question the validity of the examination process.<sup>8</sup>

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<sup>8</sup> Please see the letter included at appendix 3 setting out these concerns, and the response provided on behalf of the Inspectors.

## 2.0 Appendix 1 –

### Appendix B to the Housing Written Statement & Affordable Housing Need

- 2.1 The Housing Department has introduced additional evidence in Appendix B to their written statement (entitled ‘Social Housing Demand June 2010’). Appendix 1 to the Pioneer written Statement provides a response to this additional evidence.
- 2.2 Appendix B refers to States housing waiting list data, and it is acknowledged that this is unable to provide a full assessment of the need for affordable housing. It is also acknowledged that a number of households are on the transfer list to downsize their accommodation – this will release affordable dwellings for re-occupation by another household in need (as will the transfer of occupants wishing to move into larger dwellings). Therefore, such households should not be included in the assessment of need as the release of their affordable dwelling for re-occupation by another household in need effectively cancels the need out.<sup>9</sup>
- 2.3 Appendix B suggests that there will be additional applicants on waiting lists operated by other social housing landlords, but concludes that these lists are unreliable as applicants could be double counted between lists. The Whitehead report confirms that other social housing landlords hold open waiting lists, without the restrictions associated with the States waiting list<sup>10</sup> (as such these lists may include households which are not eligible for Category A housing, and therefore, unless the States is to reduce its allocation restrictions, these households should not be included within an assessment of Category A need as they will never be eligible for it).
- 2.4 It is not apparent that the States has attempted to work collaboratively with other social housing landlords to review / rationalise waiting list data to assess a combined backlog figure for Category A housing eligible households. Given the importance of providing a robust assessment of backlog need when assessing likely additional affordable housing requirements and developing policy approaches to the delivery of affordable housing, this is surprising (particularly given the lengthy time span over which the draft Island Plan has been developed).

<sup>9</sup> See Step 3.1 of the SHMAPG2, page 47

<sup>10</sup> pages 16 - 17

- 2.5 Appendix B bases its estimate of a current 1300 dwelling demand for social housing upon the waiting list total of 458 applicants plus 842 households currently housed within the private rented sector and claiming the housing component of income support. This latter figure does not appear to be based upon a robust assessment of the number of households that would actually fulfil the States strict Category A housing allocation requirements – instead it has simply been assumed that 50% would fulfil these requirements. This conclusion may therefore be wholly inaccurate and it is entirely unreasonable to base such a Policy proposal on little more than a guess.
- 2.6 Furthermore, Appendix B does not confirm that it has assessed and deducted the proportion of these private renter households (that are eligible for States housing) that have already applied for States Category A housing and are already included in the waiting list figure. This is surprising given the earlier emphasis upon avoiding double counting, and in view of the Whitehead report conclusion that:

*“..the majority of households who are eligible to apply for social housing do so, and are actually accommodated.”*

(page 16)

Thus indicating that the land zoning practices of the past have operated successfully to address Category A housing need. Furthermore, the Whitehead report suggests that whilst there is some overlap between the private rented sector and the social rented sector, the two sectors:

*“...cater for fundamentally different groups of the population...”*

(page 28)

The Whitehead report identifies private renters to be younger households the majority of which are employed, have higher incomes than social housing tenants, and many of whom aspire to owner occupation. By contrast the social housing sector is occupied by those with low levels of economic activity and low incomes.<sup>11</sup>

- 2.7 The conclusion of Appendix B is not robustly founded on an assessment of the likely accommodation preference of such households, and whether they would wish to be accommodated in affordable housing as opposed to the private rented sector. Based on

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<sup>11</sup> page 28



the findings of the Whitehead report it is apparent that the private rented sector functions successfully to provide accommodation to a distinct sub-set of households who would not in any event be eligible for Category A housing, and many of whom aspire to move into owner occupation in due course. Therefore, any conclusions as to the need for additional Category A housing (by introducing an additional policy to obtain a proportion of affordable housing from windfall sites) for households currently living within the private rented sector should be based on a robust assessment, as opposed to evidentially unsupported assumptions which are likely to include households already adequately housed and not in housing need.

- 2.8 The last paragraph of Appendix B appears to suggest that an additional supply of affordable housing is required to enable the States to remedy existing deficiencies within their housing stock. This would be an inappropriate reason to seek to introduce an affordable housing windfall planning gain policy – in particular please refer back to paragraphs 3.6.9 to 3.6.10 of the representations submitted by Pioneer dated 17 March 2010, in addition to which it is pertinent to point out the advice in Circular 5/05 which states that:

*“Planning obligations should not be used solely to resolve existing deficiencies in infrastructure provision or to secure contributions to the achievement of wider planning objectives that are not necessary to allow consent to be given for a particular development.”*

(paragraph B9, page 10)

To justify the provision of additional affordable dwellings by way of planning gain (i.e. provision to meet new need which statistically will not be met within the assessed current and future supply of affordable housing), there should be robust evidence demonstrating the need for such accommodation. Households being decanted from existing States housing stock to enable refurbishment do not equate to ‘additional’ need – refurbishment / replacement such as this is necessitated as a result of existing deficiencies in the stock base (be it in terms of repair or dwelling size / need mismatch), as opposed to a statistical growth in overall housing need.

- 2.9 Similarly, the last sentence of the last paragraph of Appendix B describes what is, essentially, an existing deficiency within the States housing stock with regard to dwelling

size / need mismatch; it is not in and of itself robust evidence to justify the introduction of a new affordable housing windfall planning gain policy.

2.10 In addition to the points raised above (which caution against the reliability of the Appendix B conclusions) the overarching conclusion at the end of Appendix B that there is an requirement for 1300 additional affordable homes, fails to consider:

- i) how backlog need can be addressed over the duration of the plan period (the SHMAPHG2 advises that this approach may be of 'merit', and that, in any event the backlog should be converted into an annual flow to be addressed over a period of 5 years),
- ii) newly arising need and current and future supply – a robust assessment of affordable housing need should consider both annualised backlog and newly arising affordable housing requirements and compare this to the current and future annual affordable housing supply,
- iii) housing demand – where affordable housing contributions via planning gain are to be sought not only the affordable housing need, but also the market housing demand should be robustly assessed else it will not be possible to ensure a balanced and sustainable response to the requirements for both market and affordable housing tenures,
- iv) viability – not only should there be robust assessment of housing requirements but the viability of any proposed approach should also be taken into consideration if development as a whole is not to be stymied to the detriment of affordability across the market.

2.11 The introduction of draft Policy H3 without this evidential basis should be of significant concern given that it is not robustly demonstrated that the existing (and previously apparently successful) land zoning approach is failing to address housing demand and housing need.

### **Assessment of Current & Future Affordable Housing Need**

2.12 Unfortunately, the States has not commissioned a robust assessment of both current and future affordable housing need and supply. However, it is possible to refer to the existing evidence to provide a broad alternative estimate to that provided within Appendix B of any potential annual shortfall of affordable housing.

## Current Need

2.13 The States Housing Written Statement Appendix B suggests a current need for 1,300 dwellings. For the reasons set out above this is likely to be substantially inaccurate, and, as a result of the assumptions in respect of private renters, to inflate the backlog affordable housing requirements – the 1,300 figure purported by the Housing Department dwarfs the States waiting list figure of 458 households for May 2010<sup>12</sup> - this level of backlog for Category A housing is questionable bearing in mind that the Whitehead report suggests that if households are eligible for Category A housing then they generally apply for it<sup>13</sup>. The Whitehead report also states that:

*“Given current allocation rules unmet need is relatively limited.”*

(page 47)

Therefore, it is reasonable in the absence of a reliable States assessment of backlog housing need to apply the 458 waiting list figure for the purposes of this alternative assessment.

2.14 In terms of supply, following the SHMAPG2 approach of deducting the committed supply from the current affordable housing need, it is noted that Appendix A (Table 9) suggests there to be a committed supply of 567 Category A dwellings the majority of which are anticipated to be provided within the first 5 years of the draft Island Plan. Table 9 also suggests a deduction of 300 social rented homes as a result of the redevelopment of ‘outworn’ estates<sup>14</sup> - the SHMAPG2 suggests the removal of such dwellings from the estimated current supply of affordable housing. However, it is not clear from Table 9 whether these dwellings will be replaced, and / or if this replacement is accounted for within the 567 committed supply. If dwellings are to be replaced in addition to the 567 supply then it is inappropriate to deduct these from the overall supply figure.

2.15 For the purposes of this alternative assessment it is assumed that any replacement of the 300 dwellings is already accounted for within the 567 committed supply; however, this is by no means clear from Appendix A and therefore the level of supply included in Figure 1 below is a worst case as opposed to a best case ‘current’ supply scenario.

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<sup>12</sup> Appendix B

<sup>13</sup> page 16

<sup>14</sup> Supporting evidence for this is not provided, but the figure is taken at face value for the purposes of this exercise.

2.16 Applying this assumption, a total of 267 Category A dwellings can be deducted from the 458 backlog suggested by the States waiting list (i.e. 567 minus 300 = a 267 current dwelling supply). This leaves a residual 191 households. In line with SHMAPG2 methodology this should be annualised and for the purposes of this exercise it will be assumed that it will be addressed over a 5 year period, although it would be reasonable to address it over the 10 year plan period. Therefore, the calculation suggests an annual backlog / current affordable housing requirement of 38 dwellings i.e. backlog of 191 households divided by 5 years. Clearly, if the 300 dwellings will be replaced in addition to the 567 committed supply this shortfall will become a backlog surplus of approximately 109 dwellings (22 dwellings if turned into an annual flow over 5 years). Furthermore, if the 300 dwellings are not to be replaced it would be reasonable for the vacant plots be added to the available land supply zoned specifically for 'additional' Category A accommodation.

#### Future Need

2.17 The 2008-12 Housing Needs Assessment ("HNA08") estimates existing and concealed household housing 'demand' for a 5 year period to 2012. Whilst this assessment is flawed in terms of its ability to provide a robust assessment of affordable housing 'need' and market housing 'demand' (and as has already been referred to within the Pioneer representations submitted on the 17th of March 2009, and which are subject to different market dynamics), it represents the only available States evidence that attempts measure future existing and concealed household affordable housing requirements and supply (it should be noted that the HNA08 defines concealed households as including newly forming households<sup>15</sup>).

2.18 The assessment of supply is based on moves within Jersey, households leaving Jersey, and death and moves into care<sup>16</sup> – it does claim to include committed new dwelling supply, or potential provision through zoned provision.

2.19 Table 5 of the HNA08 suggests a 'demand' for 1,335 States rental / Housing Trust / Parish rental affordable dwellings in the qualified sector for the 5 years 2008 to 2012. For the same period a supply of 1,360 States rental / Housing Trust / Parish rental affordable

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<sup>15</sup> page 5

<sup>16</sup> page 5

dwellings is suggested in Table 4. On this basis there is a surplus of 25 dwellings over 5 years. This is an annual surplus of 5 dwellings.

2.20 The overall current and future affordable housing requirements are summarised in Figure 1 below:

<b>FIGURE 1: Alternative Assessment of Affordable Housing Need (Based on States Appendices A &amp; B and HNA08 Tables 4 &amp; 5)</b>	
<b>CURRENT AFFORDABLE HOUSING NEED</b>	
1. Gross Current Affordable Housing Need (i.e. backlog)	458
2. Committed Affordable Housing Supply (i.e. Table 9 of Appendix A)	567
3. Affordable Dwellings to be Removed From Management (i.e. Table 9 of Appendix A)	300
4. Net Current Affordable Housing Need	191
5. Net Annual Current Affordable Housing Need (annualised over 5 years)	38
<b>FUTURE AFFORDABLE HOUSING NEED</b>	
6. Gross Annual Future Affordable Housing Need (i.e. based on States Rental / Housing Trust / Parish Rental affordable 'demand' in Table 5 of the HNA08 – 1335 over 5 years = 267 annually)	267
7. Future Annual Supply of Affordable Housing Supply (i.e. based on States Rental / Housing Trust / Parish Rental affordable supply in Table 4 of the HNA08 – 1360 over 5 years = 272 annually)	272
8. Net Annual Future (Newly Arising) Affordable Housing Need	Surplus of 5
9. TOTAL ANNUAL AFFORDABLE HOUSING NEED (step 5 minus surplus at step 8)	33
SUPPLY FROM CATEGORY A ZONED SITES INCLUDED IN DRAFT POLICY H1 (*see paragraph 6.80 of the draft Island Plan which states that supply from the zoned Category A sites could range from 197 to 298) NB: This supply is not included in the above analysis, and it is noted that this level of zoned provision continues to be included at Table 9 of Appendix B and is described as being derived from either the draft Island Plan Policy H1 sites 'or equivalent'.	197 - 298*

2.21 It is not the intent of the above analysis to replace the need for the States to carry out its own detailed and robust assessment of current / future housing need and demand, the intent is to provide an alternative insight on the likely level of current / future affordable housing need based upon the appropriate modelling of housing need and supply.

- 2.22 The above alternative analysis suggests that the existing approach within the States planning system of zoning land for the provision of Category A housing is capable of resolving the annual affordable housing shortfall for approximately 6 to 9 years (i.e. beyond the five year period for which the Policy H1 zoned sites are intended<sup>17</sup>), depending upon the density at which the dwellings are provided. Furthermore, it takes no account of recycling the 300 vacant plots created if the dwellings are demolished.
- 2.23 On this basis it is not apparent that the States have robustly demonstrated that the introduction of the approach within Policy H3 is justified, or provides an appropriate alternative to the existing system.
- 2.24 Whilst it is suggested within the Whitehead report that if a less restrictive approach was to be taken towards the allocation of Category A housing there would be a greater requirement for such housing,<sup>18</sup> this is not currently the case, and it remains unclear whether any alterations will be adopted by the States. The Examination of the draft Island Plan proposed policies should refer to the existing regulatory framework under which affordable housing is being allocated and the level of affordable housing need to be addressed is that which will arise within the context of the current allocation approach.

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<sup>17</sup> paragraph 6.78, draft Island Plan

<sup>18</sup> page 47

### 3.0 Appendix 2 –

Extracts from:

- i) **‘The Housebuilding Industry Promoting Recovery in Housing Supply’, April 2010, Professor Michael Ball, and,**
- ii) **ATLAS Guide: Planning for Large Scale Development, Topic Paper 1.2.3**



The housebuilding industry  
**Promoting recovery in housing supply**

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April 2010  
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# Summary and recommendations

## Speeding up recovery

1. Housebuilding has been badly affected by the financial crisis and economic downturn. It is now showing signs of recovery. However, there are indications that increases in housing supply may be slow and hesitant. This report examines potential barriers to increasing housing supply and identifies ways in which it may be feasible to overcome as many of them as possible. Some potential actions are achievable in the short-term and others require longer term action.
2. The purpose of this study is not to replace previous reviews by Barker and Callcutt. Instead, its rationale is that time has passed since those reviews and benefits can be derived from taking a further look at what has happened since then, particularly in light of the impact of the downturn. In terms of its relation to the broader stream of on-going policy analysis, this study is informing government policy developments on housebuilding, as announced in the Pre-Budget Report 2009, and the Low Carbon Construction Innovation and Growth Team (IGT).<sup>1</sup>
3. An overriding aim is to utilise the incentives that market forces offer to expanding housing supply as much as possible. Government rightly intervenes into housing development through land-use planning, building controls and other types of regulation for a variety of reasons. Yet, it is essential that government sets an appropriate policy framework that recognises key trade-offs and enables private initiative to provide for the ever increasing demand for housing.

## Seizing an opportunity

4. Expanding housing supply is a priority for government. It has been recognised for some years that English housing supply responds only weakly to price rises; housebuilding rates are low compared to other countries, despite England having experienced some of the most significant price rises. Housing shortages are now intensifying and growing. The output of the housebuilding industry has shrunk by a half and it is not easy to turn it back on, as resources, capital and confidence have been lost.
5. Housebuilding is inherently risky because of the lengthy lead times from initial project conception to completion of dwellings, during which developers face the danger of short-term declines in market demand and cost-related threats to project viability. This is especially the case at present, with builders facing land shortages, increasing costs, production delays, and greater risks.

<sup>1</sup> See <http://www.berr.gov.uk/Policies/business-sectors/construction/low-carbon-construction-igt>.

- general housing market conditions
- interest rates and other finance matters, as much capital has to be invested a long time before returns from dwelling sales can be made
- regulatory hurdles, particularly in respect to building regulations and land-use planning controls
- the price paid for the land
- the size of planning obligations required by local government before permitting development
- the costs of preparing sites for housing construction
- the time taken, which may stretch out way beyond what was anticipated, delaying revenue streams and raising costs and debt.

3.41 By contrast, housebuilding itself has a lower (though non-zero) profile of risks, because:

- the technologies used in housebuilding are generally well-known and repeatedly used in thousands of other instances
- the tasks can be well specified and monitored as work goes along.

3.42 Evidence of the lower risk can be seen in the experience of letting housebuilding work out as fixed-price contracts. Detailed designs, work plans and bills of quantities are provided initially, narrowing risk profiles considerably, against which bidders can work out closely what has to be done and price accordingly. So contractors know what they are committing themselves to and can operate on typically low contracting margins.

3.43 Risk is further limited by the practice of paying contractors for work on a regular basis as it is done, so that contractors have to extend little own capital or debt. In contrast, developers put at risk substantial and growing amounts of capital from the start of schemes.

## The consequences of risk

3.44 Several observations in relation to this division of risk are important here:

3.45 **1.** Residential development functions require high gross margins in order to compensate for the risks associated with them. These are necessary to create the incentives to build by compensating for the risks incurred. The high risks make some developers wealthy when they are lucky but doom others to losses and possible failure. The risks tend to be cyclical in nature and they are often masked in boom periods when risks appear less but become more apparent in

times of crisis. Unfortunately, by their nature, it is not possible to predict with any degree of accuracy the lower risk phases of the housing market cycle from the higher risk ones. However, these risk profiles are not often recognised when estimates of land value ‘uplift’ are made, the aim of which may be to provide an easy source of funding for desirable social aims. Further comments on this are made later on in this report.

- 3.46 **2.** The standard ‘residual’ models of land values, which subtract the build costs of a typical housing development from expected sales revenues to leave a return to land, as described in the Callcutt Report, can give a misleading impression of the dynamics of housebuilding, if they do not incorporate sufficient weighting for risk. They frequently suggest that development is a passive and risk free operation by including a standard, relatively modest development profit margin, in contrast to high risk profile of development outlined above.

What is of the greatest importance is that development is where much of the entrepreneurship takes place that is so essential to housing supply. Searching out profit opportunities pushes developers to take consumer preferences on board; to hunt out sites that others may not have thought worthwhile; to innovate in design, quality, process, methods and product; to attempt to limit costs; to bring together and mould teams focused on project success; to confront and try to beat the competition; to find better and cheaper sources of finance; to bring complex projects in on time or better and, generally, to confront and overcome barriers. It is the rationale for a market-driven economy and the essence of a private housebuilding industry rather than a residual associated with it. Encouraging and supporting such entrepreneurship should a central purpose of government policy and of the housebuilding industry itself, if the aim of high quality, responsive housing supply is to be achieved.

- 3.47 **3.** When looking for potential barriers to increasing housing supply, large pay-offs are likely to be found in the development process side of housebuilding, especially if any changes can succeed in lowering risk.
- 3.48 **4.** Business models are designed in order to incorporate flexibility. The ways housebuilders organise the whole of their operations aims to incorporate approaches that facilitate speedy responses to changing circumstances. Limiting that flexibility can consequently be highly detrimental to an effective and efficient industry.

### **Box 3.2: Coping with and profiting from risk in housebuilding**

- Appreciating the risks of housebuilding and the profit opportunities they bring are keys to understanding the nature of the industry.
- The information available to developers and builders at any point in time is limited, but they have to invest large sums of capital for long periods of time before they earn a return.
- One way of managing risks is to apportion tasks between different enterprises and to use sub-contractors. Incentives can also be structured through this route to ensure task efficiency and quality.
- Flexible production techniques are more able to cope with risk and volatility than fixed capital intensive ones. This affects the nature of housebuilding innovations.
- Most risk is associated with land development and the pricing and timing of dwelling sales.
- Most actual building work can be set up as a relatively low risk, low margin activities to be undertaken by building contractors; development cannot.
- Entrepreneurs need to be rewarded for their risk-taking. Development uplift calculations need to take that fact on board.
- Land scarcity raises rewards but may also heighten risks by requiring more capital to be invested upfront.
- Public sectors bodies are poorly structured to deal with development risk and, so, would be advised to avoid undertaking development directly or getting into partnerships where they carry most of the risk burden.
- Residential development is not as easy as it seems, because loss-making projects by their nature receive little publicity.
- If housebuilding business models do not take account of risk, they fail or require substantial public subsidy.
- If housebuilding was a low risk industry, it would look very different from the way it does now.

nature of the valuation. Small errors or inaccurate estimates of any of the key variables can have a disproportionate effect on the residual answer.’ Although this is undoubtedly true, it is not clear what advice local authority negotiators should follow with respect to it. Should they reveal their calculations and accept they are open to challenge or use their own intuition? Model assumptions also matter; for example, about the riskiness of sites and the appropriate risk-weighted returns to assume.

- 6.55 The point is not so much to offer criticism of the details of residual site value appraisal models but to highlight potential problems with their appropriate use. They are indicative rather than accurate, so outcomes are better specified as a range than as a single final figure but a single figure is likely to be what local authority negotiators want and use. They can only clarify parameters in negotiations rather than close down debate, so that uncertainty over the scale of obligations still remains when developers are estimating the viability of projects, prior to their submission to local planning authorities.
- 6.56 What is more, there is a danger that such models are justification for a near de facto 100 per cent tax on land value uplift in s106 negotiations. If they are to be used, guidance should be offered on maximum estimated land value uptakes and they should fall well below 50 per cent of a model’s estimated development gain for reasons of limited accuracy, developer risk, and to enable realistic returns to landowners and to developer entrepreneurship and innovation (Box 6.2). Moves towards common starting points for s106 negotiations should reflect such guidelines as well.<sup>43</sup>
- 6.57 CIL is being introduced as a fixed charge per square metre across local authority areas.<sup>44</sup> Justification for this is simplicity and transparency. Although its level will be set by local authorities, that will be subject to external adjudication of reasonableness. Once CIL is introduced, it would seem sensible to fix s106 levels in the same way and preferably simultaneously; rather than to have two divergent approaches, one of which is subject to length and costly negotiation and contentious requirements. **It is therefore recommended that government considers the merits of such a fixed-charge approach to s106.**

<sup>43</sup> *Common Starting Points for Section 106 Affordable Housing Negotiations*, CLG, 2008.

<sup>44</sup> Community Infrastructure Levy, Final Impact Assessment 2010.  
<http://www.communities.gov.uk/documents/planningandbuilding/pdf/infrastructurelevyfinal.pdf>

## T1.2.3 Financial Appraisal and Viability in the Planning Process

The issue of viability is a material consideration in decision making. The weighting attached to it needs to be balanced with the circumstances of any specific project, the underlying policy basis and all other relevant material planning considerations. In the current economic climate, when project viability is often a key barrier preventing development from proceeding and potentially hindering its ability to meet all established policy objectives, it is critical that Local Authorities and key stakeholders have a good understanding of the use of financial appraisals to test viability.

## Land off Lydney Bypass and Highfield Road, Forest of Dean DC

- Outline application for up to 750 dwellings, infrastructure, ancillary facilities, open space and landscaping. Appealed against non-determination. Planning Inquiry February – June 2009. Decision published October 2009 – The Secretary of State agreed with Inspector's recommendation to dismiss the appeal.
- Key issues were viability, amount of affordable housing to be provided, housing land availability, and infrastructure provision.
- Whilst the scheme was seen as contributing to securing housing for the district, the Inspector's view was that the failure of the proposal to make adequate provision for affordable housing meant that it would not contribute adequately to the creation of sustainable, inclusive mixed communities under the terms of PPS3 or in accordance with the development plan, and so should be dismissed. The compromise was considered to be too high.
- In terms of viability it was the view of the Inspector that due to the scale of the site and its likely timescale for implementation, the current market conditions should be considered as a short term issue and not outweigh the need to deliver a sustainable, inclusive mixed community.

[Click here for appeal decision](#)

The concept of 'viability' refers to the property of something that is considered to be 'viable', feasible or capable to be done. When used in economic terms, financial viability is assessed via a calculation (usually by a financial appraisal) of the gross development values that a development proposal is expected to generate, less gross development costs, including elements such as planning obligations, professional fees, finance charges and contingencies. The calculation also needs to take account of the necessary level of 'return' that would be required to enable development to proceed, comprising return to land owner to enable the release of land for development, and return to developer (profit) that reflects their specific business model, the level of project risk and any specific investor expectations. When end value exceeds the costs and required returns, a scheme can be considered to be viable in economic terms.

*This Practice Note sets out some general principles for using financial appraisals when addressing stalled schemes.*

## The Role of Appraisal and Viability in the Planning System

A collaborative and transparent approach to financial appraisal is the most robust way of achieving workable solutions to viability issues. Ideally, partners will agree to use a single shared model of financial appraisal, as this will help partners accept the results and accuracy. A commonly agreed and commissioned financial appraisal model will assist partnership working in the delivery of large scale long term developments as it will enable financial inputs and evidence to be contributed and agreed by stakeholders. It can also incorporate built-in flexibility and enable the impact of changes in key variables or assumptions to be tested. Where necessary, independent verification can be sought to provide professional opinion on the reasonableness of assumptions going in to any model.

Financial appraisals can be used at different stages of the development process. By their nature they provide information on viability at a point in time. With large scale developments that will be built out over a long timescale, they can be designed to take account of long term projections, or used to retest viability over the course of the project as different factors change.

#### 4.0 Appendix 3 –

- i) Letter dated 23<sup>rd</sup> August 2010 from Pioneer Property Services Ltd to the EiP Programme Officer.
  
- ii) Letter dated 25<sup>th</sup> August 2010 from the EiP Programme Officer to Pioneer Property Services Ltd.



Attn Mrs H Wilson  
EiP Programme Officer  
c/o Planning and Environment  
South Hill  
St Helier  
JE2 4US  
JERSEY

23<sup>rd</sup> August 2010

Dear Mrs Wilson

### **Draft Island Plan EiP - Supporting Evidence**

Further to the email dated the 11<sup>th</sup> June 2010 (please see the enclosed attachments) sent to you by my colleague, Zoë Stiles, I would like to bring to the attention of the Examining Inspector my continuing significant concerns in respect of the non-availability of viability evidence prepared by the States in support of the draft Island Plan proposed Affordable Housing policy.

Robust viability assessment is patently a crucial facet of the draft Island Plan evidence base, and yet despite this it is unclear that any such assessment has informed the formulation of the draft Island Plan Affordable Housing policy proportion and site size threshold targets. Clearly, the Examining Inspector is similarly concerned with the issue of viability given that it is a central subject of discussion for Session 3 of the EiP.

Despite this being the position, and despite that EiP Session 3 attendees are being directed to comment on whether:

- the proposed Affordable Housing policy is workable / viable,
- alternative affordable housing proportions / thresholds would be acceptable, and what should these be,
- a delay in the introduction of the policy would assist given the current economic climate, and,
- the "viability assessment" model is workable,

the 'Viability Assessment Model' referred to, and any other supporting viability evidence is yet to be made available for consideration. I have reviewed the website today and it is not obviously available, or included as a key document.

It is pertinent to point out that the lack of availability of this information has been commented upon in the representations to the draft Island Plan prepared by Pioneer Property Services Ltd and dated the 17<sup>th</sup> of March 2010, and in the response to the Minister's Proposed Changes (also prepared by Pioneer Property Services Ltd, and dated the 15<sup>th</sup> of July 2010).

In addition to this, Pioneer have sent various email requests for viability and related information to the States (please see the enclosed copies of emails sent to and received from Mr Ralph Buchholz and Mr Peter Thorne). To date this information has not been provided to me.

This is unreasonable in the light of the deadline for the Written Responses to the Topic questions being in five working days time, and given that the Hearing Sessions themselves take place in approximately just one month's time.


Even if the viability information were to be made available tomorrow (and there is no clear indication of exactly when it will be published) there will only be an extremely limited length of time to digest and comment on the contents, particularly given that it may be necessary to clarify points arising with the States.

I therefore formally request that the deadline for the Written Statements be extended to allow an appropriate review of this evidence (the extension being dependent upon when the information is to be made available).

I further consider that the suitability of the date of Hearing Session 3 itself is now jeopardised by the lack of availability of this information – the opportunity to consider and propose appropriate alternative options / approaches is seriously diminished without access (over a sufficient period of time) to this information.

I look forward to hearing from you on this matter, which, in view of the timescales attached to the EiP is now of great urgency.

Yours sincerely



**David Parker** MSc BA (Hons) DMS FCIH  
Managing Director

T: 0844 9798001  
M: 07788 140240  
E: dparker@pioneerps.co.uk

**Zoe Stiles**

---

**From:** Zoe Stiles  
**Sent:** 11 June 2010 16:19  
**To:** 'Progofficer@aol.com'  
**Cc:** David Parker; 'Michael Stein'; 'Anthony Farman'  
**Subject:** RE: Draft Jersey Island Plan - Revised List of Topics and Participants

Dear Helen

I note that the Session 3 'Affordable Housing' Topic (page 12 of the Revised Draft List of Topics and Participants) includes a question as to whether the 'viability assessment' model is workable.

This model was referred to within the draft Island Plan as being 'developed' by Ministers, but it was not available for consideration alongside the draft Plan (this was commented upon in the representations submitted by MS Planning and prepared by Pioneer Property Services).

Having looked at the Jersey.Gov website and the published Ministerial response I have been unable to locate any further details with regards this model. It will prove difficult to provide a robust response to the Inspector on its effectiveness unless it is made available for consideration as soon as possible prior to the Written Statement deadline of 1st September.

Kind regards  
Zoe

---

**From:** Progofficer@aol.com [mailto:Progofficer@aol.com]  
**Sent:** 11 June 2010 13:08  
**To:** progofficer@aol.com  
**Subject:** Draft Jersey Island Plan - Revised List of Topics and Participants

Please find attached a letter and accompanying documents. If you require a hard copy of the attachments please let me know.

Regards

Helen Wilson

**Zoe Stiles**

**From:** Ralph Buchholz [R.Buchholz@gov.je]  
**Sent:** 05 August 2010 13:58  
**To:** Zoe Stiles  
**Subject:** RE: Draft Island Plan Viability Model Query

Zoe,

We are working on this at the moment and hopefully will be able to publish in the very near future, subject to approval from Peter on his return.

Kind Regards,


**Ralph Buchholz | Island Plan Review - Principal Planner**

*The consultation on the draft Island plan is now closed: click [HERE](#) to view the comments received .*

Planning & Environment Department | South hill | St Helier | Jersey | JE2 4US

 : 01534 448443 |  : 07797 826684 |  : 01534 448451 |  : [r.buchholz@gov.je](mailto:r.buchholz@gov.je) |  : <http://consult.gov.je/portal>

The content of this email is without prejudice to a future decision made by the Minister for Planning and Environment.

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**From:** Zoe Stiles [mailto:zstiles@pioneerps.co.uk]  
**Sent:** 05 August 2010 12:29  
**To:** Ralph Buchholz  
**Subject:** FW: Draft Island Plan Viability Model Query

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 \*\*\*\*\*

Dear Ralph

Further to my email sent yesterday to Peter, I note from the email response that Peter is currently out of the office. In his absence I wonder if you are able to update me with regards the position of the viability modelling and when this is likely to be made available?

Kind regards  
 Zoe

<p><b>Zoe Stiles</b>                  Development Research Manager</p> <p><b>t:</b> 0844 979 8009  <b>f:</b> 0844 979 8030  <b>m:</b> 07766 834511  <b>e:</b> zstiles@pioneerps.co.uk</p>	
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**From:** Zoe Stiles  
**Sent:** 04 August 2010 14:55  
**To:** 'Peter Thorne'  
**Subject:** RE: Draft Island Plan Viability Model Query

Dear Peter

I wonder if you can up date me on whether the viability model is now available for consideration? I have double checked the web site but have been unable to spot it - apologies if it is there and I have missed it.

Many thanks and kind regards  
Zoe

---

**From:** Peter Thorne [mailto:P.Thorne@gov.je]  
**Sent:** 20 July 2010 15:10  
**To:** Zoe Stiles  
**Subject:** RE: Draft Island Plan Viability Model Query

That's correct.

**Peter Thorne**  
Director of Planning and Building Services  
Planning and Environment Department  
direct dial: +44 (0) 1534 448416

-----Original Message-----

**From:** Zoe Stiles [mailto:zstiles@pioneerps.co.uk]  
**Sent:** 20 July 2010 15:09  
**To:** Peter Thorne  
**Subject:** RE: Draft Island Plan Viability Model Query

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\*\*\*\*\*

Dear Peter

Thank you for getting back to me on this. I assume that the draft guidance will be circulated / published on the website for consideration?

Kind regards

Zoe

---

**Zoe Stiles**

Development Research Manager



**t:** 0844 979 8009

**f:** 0844 979 8030

**m:** 07766 834511

**e:** [zstiles@pioneerps.co.uk](mailto:zstiles@pioneerps.co.uk)

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**From:** Peter Thorne [<mailto:P.Thorne@gov.je>]  
**Sent:** 20 July 2010 15:05  
**To:** Zoe Stiles  
**Subject:** RE: Draft Island Plan Viability Model Query

Dear Zoe,

Apologies for the delayed reply. I have a meeting with our valuer tomorrow regarding commuted payments and the viability model. I hope to finish the draft guidance this week.

Kind regards,

**Peter Thorne**

Director of Planning and Building Services

Planning and Environment Department

direct dial: +44 (0) 1534 448416

-----Original Message-----

**From:** Zoe Stiles [<mailto:zstiles@pioneerps.co.uk>]

23/08/2010

**Sent:** 09 July 2010 12:16  
**To:** Peter Thorne  
**Cc:** Ralph Buchholz; David Parker  
**Subject:** RE: Draft Island Plan Viability Model Query

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Dear Mr Thorne

Further to Mr Buchholz's email of July 8th, please could you advise the date on which it is expected that the viability guidance will become available.

This is of importance as the viability guidance / model is referred to as a topic for discussion within the draft Island Plan Inspector's questions, and participants will need sufficient time to be able to review the model prior to the submission of written statements on September 1st, and prior to the Examination sessions themselves.

Please can you also clarify whether the guidance will include:

- a viability study which looks in detail at the economic viability of land in the States and the impact of the proposed affordable housing targets and thresholds as referred to in the draft Island Plan Affordable Housing Policy (and as amended in the Minister's Amendment Schedule) upon viability and housing delivery, and,
- a description of any proposed commuted sum calculation formula, and how commuted sum payments will impact upon viability and housing supply overall.

Your assistance on this matter would be greatly appreciated.

Kind regards  
 Zoe

<p><b>Zoe Stiles</b>                  Development Research Manager</p> <p><b>t:</b> 0844 979 8009  <b>f:</b> 0844 979 8030  <b>m:</b> 07766 834511  <b>e:</b> <a href="mailto:zstiles@pioneerps.co.uk">zstiles@pioneerps.co.uk</a></p>	
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**From:** Ralph Buchholz [mailto:R.Buchholz@gov.je]  
**Sent:** 08 July 2010 08:50  
**To:** Zoe Stiles  
**Cc:** David Parker; Peter Thorne  
**Subject:** RE: Draft Island Plan Viability Model Query

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Zoe,  
 This guidance is currently being drafted and will be available prior to the EiP. Please contact Peter Thorne if you require any more information.

Kind Regards,  
**Ralph Buchholz | Island Plan Review - Principal Planner**  
*The consultation on the draft Island plan is now closed: click [HERE](#) to view the comments received .*

Planning & Environment Department | South hill | St Helier | Jersey | JE2 4US

 : 01534 448443 |  : 07797 826684 |  : 01534 448451 |  : [r.buchholz@gov.je](mailto:r.buchholz@gov.je) |  :

<http://consult.gov.je/portal>

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**From:** Zoe Stiles [mailto:zstiles@pioneerps.co.uk]  
**Sent:** 07 July 2010 17:13  
**To:** Ralph Buchholz  
**Cc:** David Parker  
**Subject:** Draft Island Plan Viability Model Query

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Dear Ralph  
 I note that the Draft Island Plan and the Inspectors draft List of Topics and Participants dated 2nd July 2010 refers to a 'viability assessment model'. However, to date I have been unable to find on the States website any further information on this model, or on whether any viability assessment has been undertaken by the States with regard to affordable housing provision.  
 Are you able to provide me with further information in respect of the 'viability model' referred to, or advise if there is a viability study that is available in an electronic format as part of the evidence base informing the draft Island Plan?  
 As the Inspector's questions relate directly to this model it will be helpful (and make for a more productive Examination session) if participants are able to refer to it prior to attending the Examination.  
 Also it is unclear how the States will calculate commuted sum payments should the proposed Affordable Housing Policy proceed to adoption, I wonder therefore if there is any further information in this regard which may assist with our understanding?  
 Any assistance that you can provide me on this matter would be greatly appreciated.  
 Kind regards



# THE DRAFT JERSEY ISLAND PLAN EXAMINATION IN PUBLIC

**Programme Officer:**  
**Mrs Helen Wilson BA (Hons)**  
**32 Pennyford Close, Brockhill, Redditch B97 6TW**

**TEL/FAX: 01527 65741**  
**MOBILE: 07879 443035**  
**EMAIL: progofficer@aol.com**

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25 August 2010

Dear Mr Parker,

Thank you for your letter dated 23 August, which has been forwarded to the Inspectors.

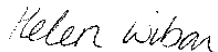
The Inspectors will not be extending the deadlines for statements, or further delaying the hearings. They will deal with this and indeed all the other issues to be debated at the Examination in Public on the basis of the evidence available at the time.

There has been very lengthy debate, discussion and analysis on this topic and the Inspectors do not feel at this point that a further delay is justified.

The Inspectors have been made aware of ongoing work regarding Supplementary Planning Guidance, but see no reason why this should defer debate on the Island Plan Policy.

Of course, if they find in due course that there is insufficient evidence on any topic for them to reach a conclusion, they will make this clear.

Yours sincerely



Helen Wilson  
**Programme Officer**