

Feedback on the draft Rochford District Council Affordable Housing Viability Report

Thank you for providing the Draft Affordable Housing Viability Assessment Report for comment. You will be aware that Icenj, on behalf of Colonnade, has been involved in the preparation process for the document having attended and contributed to the workshop session and having submitted representations to the presentation and notes that followed the workshop.

For clarity, our response to the notes included the following:

“In light of the comments below, it is clear that the methodology and assumptions used in the assessment of viability should be clearly and comprehensively explained and justified in the supporting evidence base document. Failure to provide clear and transparent justification for the methodology and assumptions used in the assessment as part of the evidence base could provide a further basis for criticism of the soundness of the Core Strategy (CS).”

Our comments are:

- 1. The use of the primary data sources listed on pg 10 of the presentation is accepted as a reasonable basis for the assessment. However, it is not reasonable to rely on BCIS build costs which do not reflect additional costs associated with Code for Sustainable Homes (CfSH) requirements. BCIS is a ‘reactive dataset’ rather than a ‘forward facing dataset’ and will need to be adjusted to take account of future requirements of the CfSH. As discussed in the workshop, it may be appropriate to base the adjustment on the advice from CLG on the costs of the Code, the link to which we can provide on request. It is important to note that the CS, which is the document to be informed by the 3D Model, should look to a period of 15 years from the date of adoption of the CS. Basing the 3D Model, which will form part of the evidence base for the CS, on data sources that do not take account of the future requirements of the CfSH is not robust and will not provide the flexibility required.*
- 2. The scenario testing of the affordable housing targets at pg 10 of the presentation proposes appropriate ‘book-ends’ to the assessment e.g. 15% to 40%, but the proposed increments of 5% are considered to be a relatively blunt approach to the various scenarios. Recognising the need to strike a balance between the need for flexibility and clarity in the assessment process and a pragmatic approach to the appropriate range, we would suggest 2.5% increments should be tested.*
- 3. The feedback from the RSLs at the workshop regarding the proposed tenure split of affordable units should translate into the scenario testing. The feedback, which reflects the experience of Colonnade in a number of other locations, was that there is little appetite amongst RSLs for intermediate units and they are not looking to provide them. As such, and as confirmed at the workshop, the scenario testing should be based on 100% social rented provision, rather than an 80/20 tenure split as this reflects the reality of provision, both now and for the foreseeable future.*
- 4. The ‘Other Development Costs’ at pg 17 of the presentation need to be clearly justified. It is our view that the assumption regarding the Developer Return is not realistic. The proposed 15% Developer Return is considerably short of the current market standard of 22-25% returns, which reflects the risks of the current market and the costs of borrowing. It is relevant that the 3D model was originally developed in a very bullish market and whilst the 15% figure could be justified then, it needs to be adjusted to take account of the current market position to retain realism.”*

It is with the above response in mind that the response to the Draft Affordable Housing Viability Assessment Report has been reviewed and our assessment of the report prepared. However, it should be noted that a more recent review of the housing market indicates that the range assessed for Developer Return should consider 20-25%, which is a greater range to that proposed previously. What hasn't changed, is the range is significantly above that proposed in the 3D model, which is unrealistic.

Overall, Colonnade recognises the difficulties associated with compiling a report and providing a set of clear recommendations on the provision of affordable housing. With this in mind, it is essential, therefore, that the report is transparent about the primary information sources used, the assumptions made and contain clear cross references between the eventual conclusions and the rationale for arriving at them. Unfortunately, as currently drafted, the recommendations of the report are considered to be too superficial and do not appear to be backed up by convincing data.

Specifically, the report:

- Fails to identify and robustly defend its data sources;
- Fails to satisfactorily address the impact of the Code for Sustainable Homes on the delivery of affordable housing;
- Provides a flawed assessment of viability by utilising a 'notional 1.0 hectare site' as a means of assessing viability;
- Retains reference to the Regional Spatial Strategy;
- Relies on the provision of affordable housing from backland sites; and
- Has not formed part of the evidence base to the Core Strategy and the recommendations made within the document have not been subject to the Strategic Environmental Assessment (SEA) process.

Accordingly, Colonnade considers the recommendations of the document will have little effect on achieving a step change in the current delivery of affordable housing in Rochford, which must be the principal consideration of the Council, and the Inspector, in the interests of the community.

Data Sources

Our comments regarding the use of primary data sources relating to the use of BCIS do not appear to have been addressed and we would reiterate the previous concerns. Indeed, there has been no response on the issues highlighted at the previous stage despite real and significant concerns with the information used. As an indication of the importance of the concerns, we again consider the use of BCIS as a data source.

BCIS assumes a level acre of land with no abnormal costs, or other ground condition issues, and as such is far too simplistic in its assumptions. There is no justification for the use of BCIS in the assessment of viability in Rochford, nor any commentary on the compatibility of the assumptions used in BCIS against the local conditions typical of land in Rochford. As such, the costings are predicated on narrow assumptions that do not relate well with the local conditions. As a minimum, the report should include commentary on the limitations of the data in the local context and undertake sensitivity testing to address potential issues.

Furthermore, given that the starting point for any viability assessment is to have sound income forecasts, we can find no house price sales data cited that is both current and specific in some way to the relevant locations across Rochford District. For it to be a fully robust assessment of viability

assessment, it must recognise variations in values and therefore, the results relating to sub-areas must be considered in relative terms.

In reaching its 'conclusions/recommendations' the draft report appears to rely only on the VOA's residential land value (July 2009) data for the East of England as a benchmark - this data is far too generic to be relied on for a tailored and specific local assessment of affordable housing viability. Moreover, it is also 9 months out of date by the time it is published. It is significant that the use of VOA's was recently criticised by a number of Housing Associations for similar reasons.

Thus, in this case, the figures given at Table 3.7 will have been derived from late 2008, which does not provide a sound and credible basis for validation of a report produced in 2010, that makes recommendations for a period of at least 15 years from its production.

This is further compounded by the clarification in paragraph 3.36 that the data used relates to the South East region, not the East of England, and paragraph 3.38 that the data relates to the UK as a whole. Whilst paragraph 3.39 confirms that the trends 'need careful consideration', if the outcomes of the report are to be relied upon, it is essential that trends specific to the study area are identified.

Additionally, the report recognises that material variation in house prices exists even within Rochford District, which further underlines the need for the report to base its assessment of viability on the variation of current local values across the district to have any credible worth and relevance in the formation of planning policy. As with the Core Strategy, the document will (presumably – refer back to original comments on the presentation and notes) need to be backed up with clear and credible evidence.

Reference is made to 'Residual Values' in the draft report, but this is an umbrella reference to the resultant land value after all the costs have been pre-subtracted from the gross sales income. If the draft report makes use of up to date house price information elsewhere (in the background), then the residual valuations should be evidenced and attributed in ways that allow the information to be scrutinised.

Code for Sustainable Homes

Previous feedback highlighted the need to take account of the additional costs associated with Code for Sustainable Homes (CfSH) requirements in order to ensure the findings are robust and flexible.

Whilst the issue is considered in paragraphs 3.43 to 3.47, rather than providing comfort that the implications of the CfSH have been fully and properly considered in the assessment, it states that "...housing development could become more viable in the future despite the impacts of the Code." [3.43] despite confirmation in paragraph 3.45 that "...reaching Code Level 4 (versus Code 3 now) will reduce residual value by around 11% at the top of the market but will reduce residuals by 21% at the bottom of the market.". There appears to be no logic path to the former sentence in the context of the latter.

This is considered to represent a very significant impact on viability, either in a poor market which we are currently experiencing and anticipate facing for some years yet, or at the very top of the market.

In addition, the conclusions that it is not "...appropriate to test any additional impact of achieving higher Code Levels at this time." as there may be a future review of the cost estimates does not

provide the necessary assurances that the report is based on a robust evidence base that is capable of providing a platform for the development of policy that will be in place for at least 15 years.

Colonnade also wishes to seek clarification as to what the reasons were for not considering the impacts of higher Code levels, as referred to in paragraph 3.46. Without this information, the document is not sufficiently clear and transparent.

Finally, it should be noted that proposed minimum dwellings standards and Lifetime Homes standards should also be considered in a similar way to the effects of the Code for Sustainable Homes and in aggregate. Again, the impacts need to be subject to sensitivity testing.

Viability Assessment

Use of a 'notional 1.0 hectare site' as a means assessing viability as against smaller sites is flawed.

The majority of affordable housing in future will come off sites that are significantly larger than 1.0 hectare and which by their nature will display materially different valuation characteristics.

Also, the removal of garden areas from the previous presumption in favour of backland (residential development on areas of 'residential amenity' land, otherwise referred to as 'garden grabbing' – see para. 5.5) development will serve to further reduce the number of smaller sites (see para. 4.6) off which affordable housing will be provided in future.

Paragraphs 3.25 and 3.30 confirm the preference expressed by the RSLs present at the workshop has been assessed. However, the report ultimately dismisses these preferences in favour of a return to the 'status quo' provision of 80/20 rented/intermediate provision. The justification for this is not provided in the report and is considered to represent a further area of concern. If providers are not willing or able to provide the level of intermediate provision sought by the policy, this will have a further impact on viability.

Indeed, the conclusion at paragraph 6.11 that Rochford Council "...will need to monitor the local requirements for Social Rented and Intermediate affordable housing..." confirms that further evidence is required to support the formation of policy and this assertion requires testing for the report to be considered sufficiently robust.

Revocation of the East of England Plan

Whilst we are aware of a potential challenge from within the housing industry to the legality of the revocation of the Regional Spatial Strategies (RSSs), based on the fundamental premise that the requirement for a Regional Spatial Strategy is not expressed in discretionary terms in the Local Democracy, Economic Development and Construction Act 2009 and the provision of the act cited as the basis for proposed revocation is clearly not intended as a route to permit the abolition of RSSs altogether. Furthermore, other provisions of the act put in place statutory requirements to produce a replacement RSS where an individual RSS is revoked.

The implications of the potential challenge could be a material factor in the assessment of viability as the draft report is currently predicated by an assessment of the regional planning context. This is clearly expressed in the document, for example at paragraph 1.7 and in the various references to the targets set down by the East of England Plan.

It is not considered appropriate for the draft report to be published in its final form ahead of clarification of the final position regarding the proposed revocation of the RSS.

Backland Reliance

The removal of the presumption in favour of residential development on land within the residential curtilage, known as backland development, or 'Garden Grabbing', will mean fewer sites will be available for residential development.

It is in this context that the report helpfully clarifies the reliance of Rochford Council on the delivery of new residential development on backland areas. Therefore, the recent revisions to PPS3 that clarify that windfall sites cannot be used in the calculation of housing land supply and confirm that backland development is no longer classed as development of previously developed land will place a greater pressure on delivery from greenfield sites.

In the context of the draft report, the scope for delivery of affordable housing from backland development must be viewed as a dwindling resource. As such, the Council must rely on the provision of the vast majority of affordable housing from large development sites and place correspondingly less reliance on small sites.

Strategic Environmental Assessment

The preparation of the viability assessment report at this very late stage in the preparation of the Core Strategy means that it has not been subject to SEA as part of the evidence base to the submission Core Strategy. As such, it must be subject to SEA individually for its recommendations to be incorporated into the Core Strategy.

The observations of Colonnade on the data sources, content and assumptions used in the report should form part of the SEA process.

Conclusions

In the context of the above issues, Colonnade considers that the draft report contains a number of material failings and deficiencies that need to be addressed before its findings can be given the necessary weight as evidence base.

The report identifies a number of weaknesses in the current policy position adopted by Rochford, for example, by confirming that backland development is one of the principal sources of housing provision in the District, a source that will rapidly diminish in the face of the policies of Rochford District Council and the coalition Government.

Until the identified issues have been addressed, it also confirms that affordable housing policy contained within the Core Strategy must be sufficiently flexible to deal with a range of circumstances associated with changes in the housing market. Furthermore, it confirms implicitly that significant weight can be afforded to planning applications that are capable of delivering a significant proportion of affordable housing. The ability to deliver affordable housing at above the levels identified in scenarios 2 and 3 for Rochford should be considered to be a 'very special circumstance' in support of development.

However, for the principal reasons identified above, Colonnade considers the report:

- Contains insufficient scenario testing;
- Is too narrowly defined;
- Lacks the capability of assessing flexibility of policy and future conditions that may prevail; and
- Provides insufficient focus on the local market circumstances – the wide assumptions used are not appropriate to a local assessment where a robustly justified intra-analytical approach is required.

As noted previously, we would be grateful if you were to provide us with copies of all the feedback received from the other parties at the workshop for our records. Furthermore, we also formally request that the comments provided to this consultation be provided to the Core Strategy Inspector for reference.