

**MATTER 3 – AFFORDABLE HOUSING
FURTHER WRITTEN STATEMENT BY
COUNTRYSIDE PROPERTIES (REF 8650)**

Policy/Paragraph/Reference from Core Strategy:

**Policy H4 - page 47
(Representation 16220)**

Inspector's Question: Is Policy H4 consistent with the requirements of PPS3, notably the requirement at paragraph 29 to reflect an assessment of the likely economic viability of land for housing within the area?

Introduction

1. In our original representations to Policy H4, Countryside Properties argued that Policy H4 was not consistent with PPS3, noting that the 35% provision threshold lacked a substantive evidence base, whilst we also raised associated concerns regarding:
 - (a) The need for flexibility in the policy, to cater for site specific circumstances and changes in circumstances; and
 - (b) The need to avoid a specific tenure mix.
2. Since our original submissions, a Viability Study has been undertaken, which identifies a more realistic target of 30% affordable housing (or possibly split targets, with lower thresholds for the less buoyant sub-markets), and which recommends that the site size threshold for affordable housing be reduced.
3. In this statement, we firstly set out our comments on the Viability Study, and its implications for Policy H4. We then turn to consider the effectiveness of the Policy having regard to the other matters raised in our original submissions in relation to flexibility and tenure mix. Finally, we set out our proposed amendments to the Policy.

Rochford District Council Viability Study – June 2010

4. Countryside Properties are of course pleased to see that this assessment has now been undertaken, since it was a matter raised in our original submissions. We attended the workshop session organised by Three Dragons to participate in the formulation of the report, and submitted comments both as part of that debate and by follow up. We have recently responded to the final document with our further comments, and these are attached (Appendix 1).
5. In short, whilst the Viability Study has already concluded that a 35% target for Rochford District is unlikely to be achievable, we remain concerned that the methodology used still under-estimates the true costs of construction, for example in relation to s106 contributions, higher sustainability/ adaptability costs, and development finance. These concerns are based on our practical experiences and research that we have undertaken to inform previous responses to Government on these matters. Appendix 1 sets out the specifics of these concerns.
6. We do not object to the recommendation in the Study for either a 30% target or for a split target, with a lower proportion for the less buoyant areas. However, because of our concerns above, we believe that it is even more essential that the Policy is not overly prescriptive, and contains a workable mechanism that allows for flexibility in the event that affordable housing cannot be delivered at the levels set by the Policy.

7. Having an unachievable target is not beneficial to the delivery of affordable housing. Having a responsive policy that can adjust to enable affordable housing at lower rates where necessary is likely to secure more affordable housing.
8. In that context, we turn to consider the detailed wording of Policy H4, its likely effectiveness, and the changes proposed in our original representations.

Effectiveness of Policy H4

9. In terms of the quantum of affordable housing provision, we accept that the current wording of Policy H4 does not preclude a lesser level being provided per se, but the wording of the policy would certainly appear to make that eventuality extremely unlikely, and introduces unnecessary barriers to flexibility. We highlight the particular wording that gives rise to these concerns in our proposed changes below.
10. Whilst we agree that it is right that the Policy should make under-provision against the affordable housing target the exception, it is not in our view appropriate or necessary for the policy to be stacked so much against a reasonable case being made for an alternative level of provision, provided that alternative is properly justified.
11. We also consider that the balance of affordable housing specified as “80% social housing and 20% intermediate” is too high (no shared ownership), but that in any case, should not be specified in this policy. Affordable housing need changes over time. Therefore we suggest that the policy should state that the make up of affordable housing should be determined at the time at which a detailed masterplan or planning application is considered for a site (certainly for larger sites), based on identified affordable housing needs at that time.
12. In our view therefore the Policy will not be Effective because it is overly prescriptive in terms of tenure, and the wording of the Policy places unreasonable obstacles to flexibility in the quantum of provision, particularly in the context of our concerns regarding the methodology of the Viability Study.

Proposed Amendments to achieve Soundness

13. The specific alternations that we consider necessary to achieve an Effective policy (and therefore soundness) are as follows:
 - In clause 1, the words “At least” in the first sentence should be deleted – this wording implies that it will normally be the Council’s starting point to negotiate more than the policy percentage of affordable housing, which is neither the case, nor realistic in the light of the Viability Report. It provides an expectation that sites will regularly deliver more than the policy target, and therefore by implication an even greater expectation that development will not deliver less than the target;
 - In clause 1, the percentage should be reduced to 30%, in line with the Viability Report (or else a split approach, with a lower level for the less buoyant areas);

- In clause 1, the site size threshold should be reduced, to facilitate affordable housing delivery;
- In clause 2, delete the first sentence regarding tenure;
- In clause 3, delete the word “highly” in the first sentence – it is enough to state that exceptional circumstances will be necessary for deviation to the policy, without this addition;
- In clause 3, delete the word “definitely” in the first sentence – there are few ‘definites’ in viability assessment, and the inclusion of this word implies a test that in the ordinary sense would never be possible to be passed;
- In clause 3, delete the wording “rendering the site undeliverable” – it should be enough to demonstrate that a site is economically unviable. It may be possible to deliver a site at a loss, but that is not a realistic position for the Policy to take.

Appendix 1

Representations regarding Rochford District Council's Affordable Housing Viability Study (Three Dragons Final Report, June 2010).

Introduction

Countryside Properties are appreciative of the work that the Council and Three Dragons have undertaken in respect of affordable housing viability in the district, and we feel that this Study has been a valuable exercise.

We remain concerned however that in a number of areas the methodology under-estimates the true costs of construction, for example in relation to s106 contributions, higher sustainability/adaptability costs, and development finance. These concerns are based on our practical experiences and research that we have undertaken to inform previous responses to Government on these matters.

I would stress that we are not seeking to challenge the recommendations of the Study in respect of the targets for affordable housing, but we are concerned that any affordable housing policy emanating from this work should have scope for flexibility. Ultimately, the aim is delivery of affordable housing, and if our concerns are correct, it is important that the policy does not act to prevent the deliverability of affordable housing by rendering development unviable.

Our specific comments are as follows:

1. Development Mixes

Table 3.2: Comment: If these mixes are the basis for the subsequent analysis it is likely that at the lower densities shown the majority if not all the smaller houses would be affordable resulting in no market mix.

2. Affordable Housing Tenure Split

Paragraph 3.7/3.8: Comment: We are pleased to see that the (base) testing assumptions looked at a tenure split of 80% social rented and 20% New Build HomeBuy. However, there is nothing in the document to suggest that there is an acceptance of a cascade mechanism to Low Cost for Sale if no RSL is interested or able to take this on.

Notwithstanding this, in our representations to the Submission Core Strategy, we suggested that Policy H4 should state that the make up of affordable housing should be determined at the time at which a detailed masterplan or planning application is considered for a site (certainly for larger sites), based on identified affordable housing needs at that time. In other words the tenure split should not be specified within the policy. This ensures flexibility, in that the tenure split can reflect changes in the market, affordable housing needs, Council priorities, and the RSLs ability to deliver tenure types etc over time.

3. Development Costs

(a) Section 106 Contributions

Paragraphs 3.9 and 3.48 to 3.50: Comment: As per our e-mail to Rochford District Council and Andrew Golland (Three Dragons) of 25 May 2010 giving comments on the presentation given at the workshop of 30 April, and as stated at that workshop, we consider that the base testing assumptions should be £10,000 per unit (or more) rather than £5,000, which we consider from our experience is far too low.

In our previous e-mail, whilst we recognised that each local authority will have different levels of infrastructure requirements and level of housing growth to help contribute towards the delivery of such infrastructure (so it is never easy to directly compare between different local authorities and sites), we demonstrated that other sites we were dealing with would all be expected to raise contributions in excess of £5,000 per unit. Policy examples ranged from £8,900 per unit to £23,000 per unit, and on-site examples ranged from £11,614 per unit (SW Bicester) to circa £22,000 per dwelling (Greater Beaulieu Park, Chelmsford).

The range of infrastructure requirements and extent of Section 106 contributions sought is increasing year by year, as is the costs of supporting/funding such infrastructure. Whilst we were pleased to see that £10,000 per unit was tested, we suggest that £10,000 should be the base figure used in the assessment of impact/residual values, rather than £5,000.

(b) Code for Sustainable Homes

Paragraphs 3.43 to 3.47: The report states that it uses the current BICS build cost data and DCLG research (Cost Analysis of The Code for Sustainable Homes: Final report July 2008) as a basis for considering the cost implications of achieving certain Code levels.

Further DCLG work (and work by others) has been undertaken since the July 2008 report on assessing the cost implications of achieving higher Code levels, some of which is referred to in paragraph 3.46, but also in our e-mail of 25 May. Work is obviously ongoing in this regard.

It is important to remember that the costs given in such documents are estimates and are not definitive. The Industry's view is that the extra/over costs (%'s) identified in DCLG work are light in many areas (by thousands of pounds), and Countryside Properties has stated this in our recent CSH consultation responses.

These costs need to be reviewed in light of the Zero Carbon Hubs "defining a Fabric Energy Efficiency standard for zero carbon homes" (Nov 2009) where the medium costs of achieving the "Energy Efficiency" (EE) parts of the standard at CSH level 3 alone increase build costs by between 9 and 11 %. CSH covers a much broader base of requirements than EE, and accordingly the actual extra/over costs of applying the CSH in its entirety will be significantly more than those noted in the Zero Carbon Hubs findings. Zero Carbon Hubs numbers are from Industry sources, and we feel are more representative of actual cost implications.

We appreciate that it is difficult to define the real cost implications of future Building Regulations and CSH until the regulations and various codes are set/known and further build examples are available. Particularly, at the current time it is clear that the highly innovative principles required for the delivery of such innovative standards and CSH levels 4, 5 and 6 are fraught with unknown risks/costs. Accordingly it is difficult to quantify the actual commercial risks until there is national policy, and regulatory certainty; and significant volume of built examples, rather than the limited examples of demonstrator projects.

Such is the Governments concern about such impacts on viability; we have been invited by the respective Ministers to fully engage to help Government deliver on its commitments "to reducing regulation, including a one-in-one-out approach to managing costs. I want to ensure, therefore, that Building Regulations are proportionate and remain fit-for-purpose, responding appropriately to changes in technology, science, build practices and construction techniques". The Minister Andrew Stunnell goes on to say in his correspondence 'Your Ideas on Future Changes to the Building Regulations' of 19th July, "As I've already touched upon, our work, now more than ever, needs to be underpinned by robust evidence so that we can make the right choices and understand clearly the costs and benefits. So I also want to ask you for evidence to support your ideas".

Furthermore, Davis Langdon and Element Energy have been appointed by CLG to consult with housebuilders on costs and measures implemented to achieve credits against the Code for Sustainable Homes legislation. This consultation is an update to the previous CLG report issued in March of this year. "CLG wants to understand how much it costs developers to reach the different levels of the Code".

We consider that achieving higher Code levels can have a significant impact upon viability. The cost implications of achieving higher Code levels (and therefore affect upon viability) needs to be reviewed over time, and must therefore be considered on a site by site basis where viability is threatened. We emphasise therefore that notwithstanding the findings of the Three Dragons report, it is essential that flexibility is retained within Policy H4 of the Core Strategy such as to enable developers to have the ability to obtain a relaxation of the proposed minimum percentage requirements for affordable housing on individual sites where a viability review or economic viability calculations justifies this, whether due to the increased costs of achieving certain Code levels or due to other cost issues.

(c) Lifetime Homes

Paragraph 3.5.1: The nominal £500 is taken from the C. Sweett work. In our opinion this figure is a bit light. We consider that this figure could be 5 times more.

When responding to the recent CLG Lifetime Homes (LTH) document consultation in March 2010 the company stated that standard requirements should not be rolled-out across every site, but that requirements should be subject to the market. For example, we stated that the:

"The mix of tenures and future-proofed building typologies must reflect the needs and aspirations of the marketplace and the local community. Dwelling mix must be flexible with regard to a dynamic and changing demographics, marketplace and 'Development Economics'. We believe the application (through Planning & Building Regulations) of the principles of Lifetime Homes is best served in response to SHMAA and SHLAA's rather than requiring all developments to meet a notional standard".

We also noted that the LTH consultation document missed opportunities, for example "the paper broadly covers some of the revisions needed, but unfortunately it does not go far enough, in its objective, and governance structures. Indeed, the omission of its "overlaps" with other regulations, for example Planning Policy and Approved Document Part M of the Building Regulations is a missed opportunity".

(d) Effect of the timing of the provision of infrastructure

As stated in our e-mail of 25 May 2010, a key area that doesn't seem to have been addressed (and does not appear to have been considered in the report) is the relationship between when the Section 106 (S106) costs are to be paid, which changes the capital locked up in the project, which changes the finance cost. We don't believe that the Three Dragons model calculates finance costs based on the actual capital locked up in the project, it simply assumes a straight percentage of turnover. If there are large up-front S106 or off-site costs associated with the project they can significantly affect the profitability of the project. We consider that this needs to be referred to in the report, and that the Council needs to be aware of the impact that the timing of infrastructure provision has on a sites viability and developers ability to deliver affordable housing.

(e) Developer returns

The worked example at Appendix 4 identifies a Developers Return of 15%. As stated in our e-mail of 25 May, we would suggest that it will be a long time, if ever, before the conditions return such that the Banks who are funding developers consider the risks have reduced such to return

to a 15% margin. The proposed 15% Developer Return is considerably short of the current market standard and we consider that a level of 22-25% should be given much more weight/used as a basis for calculating residual values etc.

4. Small Sites size analysis/minimum site thresholds:

Section 4 of the report & paragraphs 6.14 to 6.22 and 6.30 to 6.36: As stated in the report, the proposed Council Policy (Submission Core Strategy) states that affordable housing would be sought on sites of 15 units or more, or greater than 0.5 ha.

We had suggested at the workshop and in our follow up e-mail that smaller sites should take a share of affordable housing and that lower the thresholds be used. A lower threshold than that currently proposed by the Council in the Core Strategy should be justifiable in Rochford as viable and practical. Rochford has a history of low deliverability of affordable housing. It has relied heavily on brownfield small or medium sized sites to deliver its housing, with little affordable housing coming from such sites.

Even with a lesser reliance on brownfield sites in the future (less sites available), perhaps even more so since the recent revisions to PPS3 re the use of back gardens/backland development no longer being classed as development of previously developed land, we consider that the Council can't afford to ignore the development of smaller sites as a key source of affordable housing provision.

We are therefore pleased to see that the report states that smaller sites do not present a viability challenge and that it is argued that a threshold of less than 15 dwellings be considered. We agree with the recommendations put forward and hope that Policy H4 of the Core Strategy will be amended to reflect this.

5. Conclusions and Policy options

Paragraphs 6.23 to 6.27: We are pleased to see the recommendation that a target of 35% affordable is considered too ambitious for the District and that an overall target of 30% is proposed. We agree that this revised overall target is more realistic.

We have no particular issues with the recommendation that the District adopt a split policy target reflecting local market circumstances. However, we are concerned that the assumptions used in the report/viability assessment are not sufficiently based on local market evidence or circumstances.

Therefore, even if the Council were to drop the target of 35% to 30% (or chose the different percentage targets for different sub market areas suggested), Policy (H4) of the Core Strategy should continue to include the ability for the possible relaxation of the proposed minimum percentage requirements for affordable housing on individual sites where a viability review or economic viability calculations justifies this.

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04 August 2010