

# Comments on Main Modification to Melton Borough Local Plan

## Affordable Housing Policy C4

The Council propose the following Affordable Housing policy

### Policy C4 – Affordable Housing Provision

Melton Borough Council will seek to manage the delivery of around 1300 new affordable homes between 2011 and 2036 in order to balance the housing stock and meet the community's housing needs.

It will do this by applying a minimum target for affordable homes within housing developments on all sites of 11 or more units and/or where the floor space exceeds 1000 m<sup>2</sup>, having regard to market conditions, housing needs, housing mix (in regard to tenure, type and size), demonstrable economic viability and other infrastructure requirements based on the following percentages for different value areas:

Location	Min %
Value Area 1	40%
Value Area 2	32%
Value Area 3	25%
Value Area 4	15%
Melton Mowbray Northern SUE	15%
Melton Mowbray Southern SUE	15%
Melton Mowbray	5% -10%

The Council will also manage the delivery of schemes through private registered providers and our own delivery programme of affordable housing over the whole plan period.

It is understood the following highlighted modifications are proposed

*5.8.1 Affordable Housing is housing that meets the needs of those whose needs are not met by the market. It is defined by the National Planning Policy Framework and the Housing and Planning Act 2016 and any subsequent amendments. defined as “social rented, affordable rented and intermediate housing provided to eligible households whose needs are not met by the market”. The Housing and Planning Act 2016 inserts a new Affordable Housing definition into the Town and Country Planning Act 1990 and includes Starter Homes (as defined by the Act). To seek alignment with the proposed revision of NPPF as well as the existing NPPF.*

*5.8.12 Based on an analysis of where new housing is planned and the minimum percentage of affordable housing that the viability study indicates can be sought in different parts of the Borough, the local plan includes a target of 1300 net additional affordable homes to be provided. In the first five years after adoption, an uplift in new affordable homes provision is expected, arising from delivery through Section 106 agreements on sites with planning permission, small scale Registered Provider schemes and increasing newbuild by the Council.*

*Thereafter, contributions from S106 sites, RPs and the Council are expected to be steady and sustained, underpinned by delivery at the Sustainable Neighbourhoods. The planned delivery of these is indicated in the affordable housing trajectory in Figure C4.2 below.*

We would challenge the modification (and the underlying policy) because the evidence on which it is based is seriously flawed. The true viability position would indicate that a reduction rather than increase in affordable housing is likely and that the Affordable Housing trajectory proposed by the Council is unsustainable because Affordable Housing delivery at the policy based levels proposed by the Council is economically unviable and undeliverable.

The revised NPPF introduced on 24 July 2018 states :-

*“59.To support the Government’s objective of significantly boosting the supply of homes, it is important that a sufficient amount and variety of land can come forward where it is needed, that the needs of groups with specific housing requirements are addressed and that land with permission is developed without unnecessary delay.*

*60.To determine the minimum number of homes needed, strategic policies should be informed by a local housing need assessment, conducted using the standard method in national planning guidance – unless exceptional circumstances justify an alternative approach which also reflects current and future demographic trends and market signals. In addition to the local housing need figure, any needs that cannot be met within neighbouring areas should also be taken into account in establishing the amount of housing to be planned for.*

*61.Within this context, the size, type and tenure of housing needed for different groups in the community should be assessed and reflected in planning policies (including, but not limited to, those who require affordable housing, families with children, older people, students, people with disabilities, service families, travellers<sup>25</sup>, people who rent their homes and people wishing to commission or build their own homes<sup>26</sup>).....*

*65.Strategic policy-making authorities should establish a housing requirement figure for their whole area, which shows the extent to which their identified housing need (and any needs that cannot be met within neighbouring areas) can be met over the plan period. Within this overall requirement, strategic policies should also set out a housing requirement for designated neighbourhood areas which reflects the overall strategy for the pattern and scale of development and any relevant allocations<sup>30</sup>. Once the strategic policies have been adopted, these figures should not need re- testing at the neighbourhood plan examination, unless there has been a significant change in circumstances that affects the requirement.”*

In the context of this new national policy guidance it is considered that housing trajectory for both market and affordable housing are reasonably accurate and based on sound evidence. It is submitted that, under the terms of NPPF para 65 above, the extent to which Affordable Housing need can be met over the plan period (which the main modifications to the Melton Local Plan refer to) has not been accurately assessed because the delivery levels proposed by Policy C4 are economically unviable.

The following represents correspondence with Melton Borough Council on the validity of the Affordable Housing Policy C4.

**22 June 2018**

## **Comments on Validity of Affordable Housing Policy C4**

### **Affordable Housing Viability Assessment**

The Council commissioned Cushman & Wakefield to produce a viability assessment in to support this Affordable Housing policy. The updated report used in the Local Plan Examination is dated May 2017.

The key assumptions of the study may be summarised as follows :-

#### **1. Residential Sale Values**

Residential Sale Values	May-17	
	Sale Value	Affordable Housing
Rural Value Area 1	£2691 sqm	40%
Rural Value Area 2	£2368 sqm	32%
Rural Value Area 3	£2099 sqm	25%
Rural Value Area 4	£1884 sqm	15%
Melton Mowbray Urban Area	£ 1884 sqm	5-15%

#### **2. Land Values**

The report identifies typical residential land values ranging from £500,000 - £1 Million per Ha dependent on location.

The viability appraisal adopts the '50% split of uplift in value' approach to establish benchmark values at which the landowner would reasonably sell.

The base 'existing use values' from which the uplift in value is derived, are as follows :-

Greenfield £18,500 per Ha

Brownfield £494,000 per Ha

#### **3. Construction Cost Rates**

The following construction cost rates were applied, purporting to be up to date at the time of the study (May 2017). These are based on Leicestershire BCIS figures rather than the more

relevant Melton Mowbray district BCIS data. It is assumed the rates are based on median rates for general estate housing.

Construction Cost Rates Melton Mowbray Urban Area			
	BCIS Base rate	Plus 10% External	Plus 10% Abnormals
	£ sqm	£ sqm	£ sqm
<80 Dwellings	917	1009	1110
>80 Dwellings	861	947	1042

Construction Cost Rates Rural Areas			
	BCIS Base rate	Plus 10% External	Plus 10% Abnormals
	£ sqm	£ sqm	£ sqm
<80 Dwellings	940	1034	1137
>80 Dwellings	883	971	1068

This is where the study is **fatally flawed**. The Leicestershire BCIS data benchmarked to May 2017 is attached.

Taking the worst case i.e. most expensive rates, from the above figures (Rural construction rates for developments under 80 dwellings, highlighted above), the following table shows the level of error in the construction cost assumptions adopted in the study.

Corrected BCIS Construction Cost Rates May 2017			
	BCIS Base rate	Plus 10% External	Plus 10% Abnormals
	£ sqm	£ sqm	£ sqm
<80 Dwellings	1266	1393	1532

The highest construction cost rate adopted for May 2017 in the study is £1137per sqm. The comparable cost rate based on the correct BCIS figures for May 2017 is £1567.

**This represents an error in the construction cost rate assumptions that underpin the whole study of at least 35%!**

**This alone must call into question both the validity of the study and the viability and the Council’s proposed Affordable Housing Policy.**

#### 4. General Cost Assumptions

Melton Viability Study General Cost Assumptions	
Professional Fees	6% Construction cost
Contingencies	5% Construction cost
Marketing Sales Agent & Legals	3.5% GDV
Purchasers Costs	6.8% Land Price

Finance	6.5% Construction cost
Developer Profit	20% GDV Market Units
	6% GDV Affordable Units
S106 Allowance	£1000 per dwelling

As a comment, we would invite the Council to evidence any significant residential development that has attracted a Section 106 contribution of only £1000 per dwelling. We would submit that this is entirely realistic to actual contributions being applied and will therefore skew any Affordable Housing viability assessment.

### 5 Affordable Housing Assumptions

Residential Sale Values	May-17			
	Affordable Housing	Affordable Rent	Intermediate	Starter Home
Rural Value Area 1	40%	30%	5.6%	4.4%
Rural Value Area 2	32%	22%	5.6%	4.4%
Rural Value Area 3	25%	15%	5.6%	4.4%
Rural Value Area 4	15%	5%	5.6%	4.4%
	Transfer Value	42% MV	65% MV	80% MV

### 6. New National Guidance

Since the Local plan was examined, the draft update to the NPPF and new guidance on Viability Assessment was launched in March 2018. This provides a clear steer on the Government's future approach to viability assessment in planning.

The draft NPPF states

#### *Development Contributions*

*34.Plans should set out the contributions expected in association with particular sites and types of development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, green and digital infrastructure). Such policies should not make development unviable, and should be supported by evidence to demonstrate this. Plans should also set out any circumstances in which further viability assessment may be required in determining individual applications.*

*58.Where proposals for development accord with all the relevant policies in an up-to- date development plan, no viability assessment should be required to accompany the application. Where a viability assessment is needed, it should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.*

The Draft Planning practice Guidance for Viability states :-

*Policy requirements, particularly for affordable housing, should be set at a level that allows for sites allocated in the plan to be delivered without the use of further viability assessment at the decision*

*making stage. The use of viability assessment at the decision making stage should not be necessary. Where proposals for development accord with all the relevant policies in an up-to-date development plan no viability assessment should be required to accompany the application. Plans should however set out circumstances in which viability assessment at the decision making stage may be required.....*

*Where proposals for development accord with all the relevant policies in an up-to-date development plan no viability assessment should be required to accompany the application. Where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then.*

**This makes it clear that the Government intends to fix Affordable Housing contributions at Local Plan stage and it is therefore essential that Affordable Housing policies are based on up-to-date evidence of sales values and construction costs.**

## **7. Viability Update**

In order that the Local Plan Affordable Housing Policy is based on realistic assumptions we have re-run the viability appraisals based on the methodology and assumptions adopted by the Council in May 2017 but we have used the corrected construction rates at May 29017.

For current comparisons we have asked ked HEB Chartered surveyors to produce an update on sale values in the Borough at June 2018.

The following table summarises HEB’s assessment of current sale value in the five value zones :-

<b>Residential Sale Values</b>		<b>June 2018</b>
		Sale Value
Rural Value Area 1		£2750 sqm
Rural Value Area 2		£2550 sqm
Rural Value Area 3		£2450 sqm
Rural Value Area 4		£2045 sqm
Melton Mowbray Urban Area		£ 2400 sqm

The current BCIS construction cost rate for Melton Mowbray is as follows :-

<b>Corrected BCIS Construction Cost Rates June 2018</b>			
	BCIS Base rate	Plus 10% Externals	Plus 10% Abnormals
	£ sqm	£ sqm	£ sqm
Mixed Housing	1297	1427	1569

We have undertaken a series of viability appraisals for each Value Zone based on 1 Ha site yielding 35 dwellings at approximately 3400sqm of residential development for each Value Zone based on

- Sale Values and Corrected Construction Rates at May 17
- Sales Values and Construction Rates at June 18

Where the policy based level of Affordable Housing is unviable we indicate what the viable level would be.

Note – Where Residual Values for greenfield land were so low that they generated benchmark values of less than £200,000 per Ha, a minimum land value of £200,000 per Ha was adopted in the study to reflect a minimum price at which landowners might sell. For brownfield land a minimum of £494,000 per Ha was adopted to reflect Existing Use Value.

Copies of all the Appraisals are attached separately.

### 8. Viability Update Results

Viability Assessment Results Corrected Construction Cost Rates May 17						
		Affordable Housing Tested	Greenfield Viability Result	Viable Level of Greenfield Affordable Housing	Brownfield Viability Result	Viable Level of Brownfield Affordable Housing
Rural Value Area 1		40%	-£810,667	11%	-£1,090,514	1%
Rural Value Area 2		32%	-£976,346	0%	-£1,322,403	0%
Rural Value Area 3		25%	-£1,601,200	0%	-£1,947,257	0%
Rural Value Area 4		15%	-£1746,102	0%	-£2092,159	0%
Melton Mowbray Urban		10%	-£1,821,659	0%	-£2,167,716	0%

Viability Assessment Results June 18						
		Affordable Housing Tested	Greenfield Viability Result	Viable Level of Greenfield Affordable Housing	Brownfield Viability Result	Viable Level of Brownfield Affordable Housing
Rural Value Area 1	895	40%	-£833,288	11%	-1113235	1%
Rural Value Area 2		32%	-£703,434	4%	-£1049492	0%
Rural Value Area 3		25%	-£714,000	0%	-£1,060,537	0%
Rural Value Area 4		15%	-£1491,289	0%	-£1837,346	0%
Melton Mowbray Urban		10%	-£715,614	0%	-£1,061,671	0%

### 9. Conclusions

If the Viability appraisals on which the entire Local Plan Affordable Housing Policy is based, had been undertaken properly in May 2017, with correct and realistic construction cost rates

then no Affordable Housing could have been demonstrated to be viable or deliverable other than on Greenfield sites in Rural Zone 1 – and then only at 11%,

If current sale values and Melton construction cost rates (at June 2018) are adopted, the situation does improve a little, with some affordable housing being deliverable on greenfield sites in Rural Value Area 2 as well (4%).

It is considered that the Local Authority has a duty to ensure that the Policies in its Local Plan are based on realistic and up-to-date assumptions, particularly where developer contributions are being established. This has not happened and the current levels of Affordable Housing proposed by the Local Plan are neither viable or deliverable.

We note that the Policy as currently drafted refers to ‘minimum’ levels of Affordable Housing rather than targets. As such it is even more important to ensure the levels are deliverable or to amend the policy to be a target with it being made clear that further assessment at planning application stage may be required if viability issues emerge.

## **10 July 2018**

### **Response From Melton Borough Housing Policy Officer On Above Comments**

Dear Mr Kerrison

Thank you for taking the time to raise your concerns with us in relation to the Revised Local Plan and CIL Viability Study, May 2017 undertaken by Cushman and Wakefield.

We referred the issues you raised to Cushman and Wakefield to look into and comment. They have replied with the following:

“The viability evidence was carried out at a point in time and the appraisal assumptions that were used were carefully researched and consulted on at that time including consultation with agents, developers and research of actual development schemes.

The representation has incorrectly assumed that the date of the report (May 2017) is the date that the evidence was collected. In fact, the evidence relating to costs and values was collected in August 2016. Whilst the representation may be correct in stating that build cost rates had increased by the publication date of the report, it is also likely that sales values had also increased from the base position in August 2016, therefore it is not possible to conclude whether and what impact the change in costs may have had on viability since viability is a function of sales values **and** costs.

Whereas it is a matter for the Council to consider ongoing and periodic review of the evidence to base to keep track of how costs and values are changing, it is incorrect to assert that the evidence base is any way flawed just because costs have increased. A viability evidence base represents a snap shot which reflects the circumstances at the time of its



production – the Council cannot be expected to have to continually review and update the evidence base and Local Plan policies due to the costly requirements of technical work, consultation and the related need for Local Plan policies to be submitted and subject to independent examination. However, the impacts of changes in circumstances can be mitigated via the pragmatic implementation of policies such that where it can be demonstrated that site specific circumstances are different to those of the Local Plan evidence there is the potential for development management decisions to be made on a subject to viability basis”.

We hope you agree that this clarifies the position.

Kind regards,

Celia Bown  
Housing Policy Officer  
Regulatory Services  
Melton Borough Council

## **10 July 2018**

### **Further Response From AMK Planning/Hofton Homes to Councils’ Comments**

Celia

Thank you for consulting with Cushman & Wakefield. You will not be surprised however that I can’t agree it clarifies the position.

Whilst I understand what they are saying it does rather miss the point, and I have to say, deliberately so. What I have pointed out is that at the time the report is dated in May 2017 and at the time of Examination at the beginning of this year the costs that informed the conclusions of the study were so inaccurate that it undermines the whole basis of the Affordable Housing policy that has been adopted. Whilst I accept there may have been some change in values between August 2016 and May 2017 it was certainly nothing like the 35% change in costs from the evidence used by Cushman and Wakefield.

I’m afraid neither can I agree that the rates adopted by Cushman and Wakefield at the declared evidence datum of August 2016 were correct.

These are the C&W declared BCIS rates in the May 2017 study (alleged to be dated at August 2016)

C&W Declared BCIS Construction Rates August 2016			
	BCIS Base rate	Plus 10% Externals	Plus 10% Abnormals
	£ sqm	£ sqm	£ sqm
<80 Dwellings	917	1009	1110

These are the actual BCIS rates at August 2016 (BCIS table attached)

Actual BCIS Construction Rates August 2016			
	BCIS Base rate	Plus 10% Externals	Plus 10% Abnormals
	£ sqm	£ sqm	£ sqm
<80 Dwellings	£1094	1203	1323

The resulting rate adopted of £1110 is therefore 21% inaccurate to the correct figure of £1323 even at August 2016. I am sure the Council has access to BCIS data and can check this for themselves. The evidence is therefore fatally flawed even if it is based on a 'snapshot in time'.

It would perhaps have been more useful for C&W to comment on the validity of the appraisals I have sent based on the current market position.