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Boris Johnson  
Mayor of London  
Greater London Authority  
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Dear Mr Johnson,

### **Royal Mail Group - Mount Pleasant Sorting Office Planning Applications**

We are writing to express our profound concerns with your decision to grant planning permission for the planning applications for the Mount Pleasant site at the public Hearing on 3<sup>rd</sup> October 2014.

In making this decision, you have not properly considered or adequately addressed the many fundamental issues set out by the boroughs since your decision to call-in the applications, and most recently in our letters dated 2<sup>nd</sup> October 2014 (joint), 18th September (Camden), 24<sup>th</sup> September (Islington), joint Borough Written Representations dated 16<sup>th</sup> September and 2<sup>nd</sup> October, and previous correspondence, written submissions and discussions with your officers.

You have accepted that the Royal Mail's offer of 24% 'affordable' housing is the maximum reasonable level that can be provided, despite independent advice provided by the councils that 42% affordable housing could be delivered with 60% of these homes being let at social rent levels.

In taking this approach you have relied on viability information that is designed to artificially suppress the level of affordable housing in the scheme. Your acceptance of viability evidence and conclusions that have been shown to be unreliable or incorrect, calls into question the legitimacy of your decision. In making this decision you have determined that the Royal Mail should receive a huge windfall for this site at the expense of genuinely affordable homes for hundreds of ordinary Londoners.

You have expressed the view that the affordable housing will be genuinely affordable, despite evidence that rent levels will not meet your own policies on housing affordability. You have also resolved to approve the application without any commitment from Royal Mail that sufficient links between the two sites or adequate viability review mechanisms will be secured.

In making this decision you have ignored the views of locally elected representatives, local residents and Members of the London Assembly. This was covered widely by London and National press which is an indication of the controversial nature of your decision. By



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disregarding the views of local representatives your decision has, in our view, undermined the democratic process.

We therefore ask that you now take the steps required to meaningfully address these issues with the Royal Mail. This is necessary to both ensure that your decision truly reflects the evidence that is before you, and to reinstate confidence in the decision making process.

### **Borough Representations**

At the hearing you referred to the boroughs' letter sent to you on 2<sup>nd</sup> October setting out our many concerns with both the proposals and the recommendations within the GLA Officers' Hearing Report.

You indicated that our letter and representations were 'late submissions'. We were however surprised to hear that you considered this to be new material. This is not the case as the points have been raised many times previously with your officers and in the detailed representations sent to you and your officers since you called in the application.

The GLA's Hearing Report was published just a week before the Hearing and set out the GLA's position on many issues for the first time. This is despite months of meetings having taken place and comprehensive written evidence submitted to the GLA to which no substantive response was previously given. The boroughs were only alerted to the publication of the GLA's Addendum Report after 5pm the day before the Hearing.

### **Key Issues**

In making your decision to approve these applications you have chosen to disregard the following issues that we have set out previously:

1. The proposals fail to comply with national planning guidance, the adopted planning policies of Islington and Camden Councils and indeed your own planning policies as set out in the London Plan.
2. The proposals are based on incomplete, misleading and deeply flawed viability evidence which is inconsistent with Government and industry guidance and does not demonstrate that it is delivering the maximum reasonable amount of affordable housing.
3. The Royal Mail's affordable housing offer is not supported by sufficient information to enable you to have made an informed decision. It is highly likely that the proposed rent levels will fail to meet your own affordable housing policies.
4. Independent property advisors appointed by the GLA (GVA) initially appeared to agree with the Council's advisors that significantly more than 24% affordable housing could be delivered, although they subsequently, suddenly and without explanation changed their position.
5. The proposals do not properly secure essential linkages between the Camden and Islington parts of the site to ensure that it is developed as a single development and in a way that complies with both councils' planning policies. Your officer's report was misleading regarding the actual prospect of achieving agreement on those matters since Royal Mail have been vehemently opposed to committing to meaningful linkages between the sites. They have argued, although without substantiated evidence in support of their position, that this would impact on viability despite the viability assessment being predicated on the basis of the site being developed as a whole. At

the first Section 106 meeting following the Hearing, Royal Mail's consultants confirmed our fears in this respect by stating they do not intend to divert from their previous position and that there is little point in discussing the issue further.

6. You have also made your decision without any certainty as to the terms of viability review mechanisms, which are critical to meeting the policy requirement of securing the maximum reasonable amount of affordable housing that the scheme can afford to deliver. You have however accepted that the 'pre-implementation review' would not take place if substantial implementation has taken place within three years of grant of the planning consent. This makes it highly likely that half of the development will not be subject to a review at the point of delivery. This is despite the many irregularities and uncertainties identified relating to the initial viability assessment and the likelihood of significant changes in residential values at this prime Central London location, which will be just minutes away from the new Crossrail Station at Farringdon. The opportunity was not taken in the officers' report or at the Hearing to make clear that the later viability review will not be impaired by a limited scope or artificial cap that is not consistent with planning policy on the maximum level of affordable housing uplift which might be delivered. You should make very clear at this point that the later viability review will not be unnecessarily limited in its scope and effect so as to be incapable of genuinely delivering the maximum reasonable level of affordable housing that can be provided.
7. You have also disregarded a host of other issues and conflicts with the development plan including: harm to neighbouring residential amenity (through loss of daylight); harm to the setting of statutorily listed terraced properties and the Bloomsbury Conservation Area; the provision of car parking, contrary to local policy, despite being in a highly accessible location that already suffers from poor air quality; the provision of comfort cooling for the private flats which will increase the CO2 emissions of the scheme; failure to meet local policies on Sustainable Urban Drainage in this Critical Drainage Area; the scheme no longer provides a pedestrian refuge on Farringdon Road where 'The Garden' public open space, meets Farringdon Road, thereby reducing the connectivity of the site to the wider local area and reducing the 'Green Chain' benefits of the scheme.

### **Incomplete, Misleading and Deeply Flawed Viability Evidence**

The basis for the Royal Mail's offer is a viability assessment undertaken by their advisors Gerald Eve. As set out in our previous letter and representations and expressed to your officers in great detail throughout the negotiation process, this assessment has been found to be fundamentally flawed by the councils' independent advisors BPS and initially by your own advisors GVA.

In making your decision, you have disregarded a range of crucial issues which for ease of reference we set out again here:

- a) your officers and viability advisors were not given access to the financial viability model that underpins this assessment, and we therefore fail to understand how they can claim that it has been properly assessed. This, together with other actions by Royal Mail and the GLA also raises serious concerns relating to the transparency of this process;
- b) you have accepted that a fixed site value should be applied that is significantly in excess of what would typically be acceptable. This is entirely related to market sentiment and disregards National Planning Policy Guidance which states that in all cases site value should reflect planning policy;

- c) from day one the Royal Mail has contended that the site value is unchanged despite changes to the many other variables that would affect site value – this position is really not credible;
- d) you have accepted that the entirety of the cost of the Royal Mail enabling works should be met from a reduced affordable housing offer rather than a reduced site value. This amounts to additional value to the Royal Mail over and above the land value at the expense of affordable housing.
- e) you have ignored independent advice that concludes that the value of the enabling works has been significantly overstated, a point that was misrepresented to you at the Hearing.
- f) you have accepted Gerald Eve's assumption that a developer would pay the Royal Mail for the site and wait years for the Royal Mail to complete their enabling works. This has a significant impact on the outcome of the viability appraisal and directly contradicts information provided by Royal Mail's project managers M3. Your advisors also initially raised this as an issue but this aspect of their report was deleted in the later version without explanation. The matter is not addressed in your officers' report.
- g) your officers have directed your consultants to apply a 20% IRR profit level without sufficient justification or being qualified to come to this opinion. This amounts to a level of profit far in excess of levels that would typically be acceptable when calculated on a cost/ value basis. The GVA summary within the officer's Addendum Report failed to show these figures; and
- h) Gerald Eve's approach to CIL, which is that the costs associated with this are borne entirely by a reduced level of affordable housing, blatantly disregards National Planning Policy Guidance. The argument put forward in the Hearing Report that the market has not had time to adjust to this (despite being consulted on for the last two years and approved in March 2014) is wholly unconvincing.

Each of these assumptions is highly questionable and has the effect of artificially suppressing the level of affordable housing that can be delivered.

In deciding to accept that 24% is the maximum reasonable level of affordable housing that can be provided you have chosen to disregard each of these issues. However you have not given sufficient reasoning for taking such an approach. For example, at the Hearing we asked you to answer why your professional advisers have ignored planning policy, the NPPG and professional guidance in reaching their views on site value. You responded that you are satisfied with the analysis your officers have presented in their reports and that you *"think that the national guidance has certainly been fully considered"*.

This however does not satisfactorily explain your significant diversion from national guidance which has a profound effect on the delivery of affordable housing in this scheme. Your own London Plan calls on boroughs to evaluate development viability appraisals rigorously, however the evidence set out above shows that you have not met your own standards.

The actions of Royal Mail in taking this approach and attempting to limit scrutiny and transparency also raises serious concerns with the reliability of this process as well as contradicting their own Corporate Responsibility Policies.

The sudden and unexplained change in approach of your advisors GVA also raises further questions relating to the process for assessing viability and determining the maximum reasonable level of affordable housing that can be provided.

### **Change of Approach of GVA**

As set out in our previous letter, your viability advisors GVA issued a report in May 2014 that appeared to agree with many of the points that BPS has made. BPS modelled GVA's

findings and concluded that an offer of 30-39% could be supported even assuming the high levels of profit accepted by the GLA.

However, Royal Mail did not amend their offer to fit these initial conclusions as might reasonably be expected. Their offer was much lower at 24% affordable housing – double their previous offer of 12%, but only marginally higher than the ‘indicative’ figure of 20% referred to in the planning applications.

GVA subsequently issued a revised report dated 5<sup>th</sup> August 2014 taking a completely different approach and agreed that the Royal Mail should receive a much higher payment for the site. GVA acknowledged that they had disregarded national planning guidance that in all cases land value should reflect Development Plan, planning obligations and CIL costs. Important parts of GVA’s report, such as the timing of land payments, were deleted without explanation. GVA reached a conclusion that directly corresponds with the Royal Mail’s affordable housing offer of 24%.

It subsequently transpired that additional information had been exchanged between Royal Mail, the GLA and GVA from which the councils were at the time excluded, contrary to agreed arrangements and transparent decision making.

The councils have still been provided with no adequate explanation as to why key parts of the GVA report were amended and who made the decision to amend the report. There remains little evidence that the GLA have themselves properly interrogated or questioned the basis of Gerald Eve’s viability assessment or the reasons for the change in approach adopted by GVA, or explored the reasons for the significantly different and evidenced conclusions of BPS.

On the contrary, the Hearing Report goes to great lengths to justify the approach taken by GVA. For example, the significant changes in approach by GVA were merely referred to with the comment that some issues have ‘fallen away’. You and your officers have also been made aware that the timing of land payments adopted by Gerald Eve in their appraisal are not only highly unlikely to occur, but the use of their IRR ‘time-weighted’ model means that this has a significant impact on viability and affordable housing provision. You have however chosen to ignore this.

This does not give confidence that a robust viability assessment process has taken place and confirms the councils’ suspicions that you are satisfied with a scheme that does not maximise affordable housing provision, which is contrary to your own policies.

The GLA’s Addendum Report includes a summary of GVA advice which updates their conclusions based on the latest affordable housing offer which preceded the Hearing. Presumably this must have been informed by further information and viability appraisals provided to GVA by Gerald Eve, but the boroughs have again been excluded from this, and request that they are provided with any information that they have not yet seen.

### **Affordability**

With such little detail provided by the applicant, and a failure on their part to engage with Registered Providers to test the deliverability of the units, there can be no certainty that the ‘affordable’ housing offer forms a realistic basis for a future agreement between a developer and a Registered Provider to deliver these homes.

Because Royal Mail has indicated only an average rent level of 44% market rent (and maximum rent level of 60% of market rent) across the affordable rent units, we have carried out our own testing to determine how this approach could result in a range of rents across

the proposed unit sizes. The market rent assessment underlying the valuation of the affordable housing units was conducted in October 2013, so it likely underestimates both present-day and future market rents. Even so, we have calculated that should all property sizes have rents equivalent to the maximum LHA rate applicable in the Central London area, this would lead to a blended average affordable rent level which is lower than that assessed by the Royal Mail.

Based on the market rent levels determined by Royal Mail, applying the proposed blended affordable rent level of 44% market rent to all property sizes would therefore lead to rents well in excess of the maximum Local Housing Allowance rate - your own cap on the maximum affordable rent level - for family-sized units of £351 (3 bed) /£413 (4 bed) a week, and 44% of market rent would come very close to the maximum LHA rate for 2-bed properties. With over half of the affordable rent units 3-bed and larger, it simply isn't clear how these units could be passed on to a Registered Provider at the average 44% rent level stipulated in the offer, given that the maximum LHA rate acts as a ceiling on the affordable rent level.

Furthermore, even if rents of all units were set at the LHA Caps (the maximum possible rate that can be applied under the LHA), we are concerned about both the affordability of this for future occupiers, and the ability of an RP to deliver these units as part of their agreed delivery programme with the Mayor. Registered Providers have their own rent setting policies which govern the maximum rent levels which are set for new lettings based on a variety of factors including what tenants can afford and the benefit cap. While different RPs set their ceilings for affordable rents in different ways, actual rents set in practice are generally below the maximum LHA weekly rates, particularly for family-sized units, and as a result, it is highly unlikely that units at maximum possible rents would either be deliverable or provide for those in greatest housing need.

Similarly, total housing costs on a 2-bed intermediate unit have been estimated at over £2,000 per month for purchase of a 30% share of equity with a £50,000 deposit. This is over half of the take-home pay of households at the top of the eligible income range and therefore very high risk for an RP to acquire.

Going forward, if the land is purchased by a developer on this basis, their expectations about the valuation/price for the affordable element of the scheme would be based on very high risk assumptions for both the affordable rent and intermediate units. The likely result is that potential Registered Providers will either be unwilling or unable to put forward a bid to acquire the affordable housing that matches these expectations, due to the financial implications for the Registered Providers of taking on such a high risk scheme.

The Royal Mail's affordable housing offer which assumes affordable rent levels at or above the maximum LHA rate for all units and monthly housing costs for shared ownership properties at over half of eligible households take home pay, therefore, clearly stands little chance of being passed on to an RP in due course, and suggests that a developer would seek to review the affordable housing offer in the future.

Moreover, there can be no certainty that the offer actually bears any relation to the affordable housing values input to the viability appraisal. The Royal Mail has not provided sufficient justification or evidence for their valuation of the affordable housing units, nor responded to our requests to share their valuation so that the approach could be appropriately scrutinised. This total lack of transparency also brings into question GVA's ability to conclude that the values are reasonable, particularly in light of the flaws and inconsistencies we have previously identified in the minimal detail that is available. Quite simply, without such fundamental information you cannot be assured that the offer truly delivers the maximum possible number of desperately needed affordable homes.

## Conclusion

By law you must determine these planning applications in accordance with the Development Plan (the London Plan and Islington and Camden's Local Plans as appropriate) unless material considerations indicate otherwise. In order to properly determine the applications you must have sufficient accurate information and evidence before you to adequately assess the extent to which the applications accord with the Development Plan and whether material considerations indicate otherwise. It is Islington's and Camden's view that this is clearly not the case.

Furthermore the process through which you have decided to grant permission and your readiness to rely on a viability assessment which is fundamentally flawed, together with the other issues referred to, raises serious questions to relating to the legitimacy of your decision.

You have resolved to grant permission for these applications, however that has not yet taken effect, pending completion of a Section 106 agreement. We therefore ask that you would take the steps necessary to meaningfully address these issues. We request that you respond to this letter setting out whether or not you intend to do this, and how in your view this can be achieved, within 14 days of this letter.

Yours sincerely,



**Councillor James Murray**  
**Executive Member for Housing and Development**  
**London Borough of Islington**



**Councillor Phil Jones**  
**Cabinet Member for Regeneration, Transport and Planning**  
**London Borough of Camden**

c.c.

Oliver Shepherd, DP9

Edward Denison, Chair of the Mount Pleasant Association

Jeanette Arnold, London Assembly

Andrew Dismore, London Assembly

Andrew Boff, London Assembly

Emily Thornberry MP

Frank Dobson MP

Adrian Bailey, MP, Business, Skills and Innovation House of Commons Select Committee (Chair)

The Rt Hon Margaret Hodge, MP, Public Affairs House of Commons Select Committee (Chair)

Clive Betts, MP, CLG House of Commons Select Committee (Chair)