John Pitchford
Head of Planning, Suffolk County Council

EXAMINATION OF THE PROPOSED SUFFOLK COASTAL COMMUNITY INFRASTRUCTURE LEVY

REPRESENTATION BY SUFFOLK COUNTY COUNCIL

Introduction

Suffolk County Council is a key partner of the District Council in delivering sustainable growth. Given the increasing restrictions on the use of Section 106 obligations, the County Council supports the establishment of a CIL in principle.

However, the County Council continues to have the reservations raised in its letter dated 17th November 2014, specifically whether it will be possible to deliver the infrastructure needed to underpin the Core Strategy. The National Planning Practice Guidance, in Paragraph: 009 Reference ID: 25-009-20140612, states that, in determining an 'appropriate balance' between development viability and infrastructure delivery, the Levy must have a positive economic effect on a local plan area.

The National Planning Practice Guidance further notes (Paragraph: 016 Reference ID: 25-016-20140612) that charging authorities must consider what other sources are available. There is no documentation available to show that the District Council has identified whether adequate funding would be available through CIL or what other specific funding sources are available.

Whilst the County Council has very limited capital funding available for services such as transport (through the Local Transport Plan), in almost all cases capital funding is not available for mitigating the costs of development. As per a statement made by Nick Boles MP (then Minister for Planning) on 27th November 2012, the Government expects that new development mitigates its impacts through planning obligations.[1]

This is most striking in the case of education, for which the County Council can only access funding for demand arising from latent population growth. Compounding this issue, the amount provided by the Government is often well below what is requested. Therefore, these are no other identified sources of funding for education. In the absence of further sources of infrastructure funding, it is not clear that the CIL rate will have a long-term positive effect.

[1] See Hansard, 27th November 2012, Columns 291-293

Issue 1 – Legal and preliminary matters

> *b) Should the introduction of the Charging Schedule be delayed until the production of Suffolk Coastal District Council's Site Allocations Development Plan Document and/or a further review of the Council's Core Strategy?*

There are likely to be costs and benefits to delaying the introduction of the Charging Schedule.

Delay could lead to a loss of developer funding in the first instance, particularly in relation to smaller sites and where the local authorities might seek to pool developer contributions from more than five developments. It would also delay the certainty which the Community Infrastructure Levy offers to developers.

However, an ability to better manage the relationship between the scale and location of growth, and the provision of infrastructure, would be welcomed by the County Council.

A site allocations process, which is currently underway, would enable the Local Planning Authority to consider the specific local circumstances of the rural areas. The Core Strategy does not identify allocations, but indicates that significant new infrastructure may be necessary in the market towns. As identified in the Infrastructure Delivery Plan (**Ref: CIL/EB/H**), the most challenging issues identified at present are the potential need for new primary schools in Framlingham and Saxmundham, which could be made necessary as a result of new development.

The Government's funding mechanism for school places assumes that new development mitigates its impacts. Whilst there is funding available to make provision for school places where necessitated by background population growth, this funding is being trimmed back and it cannot be used to mitigate impacts arising from housing growth.

Whilst the distribution of growth identified in the Issues and Options consultation on the Felixstowe Area Action Plan and Site Allocations documents suggests that the District Council may bring forward growth in the market towns for which solutions can be identified without constructing new schools, it will be some time before the Site Allocations document will be adopted. Significant additional development may come forward in the intervening time.

Equally, it is known that the District Council must begin a review of its Core Strategy in 2015, which may well result in a need to make additional allocations.

The District Council, in its proposal for CIL, excludes the largest site of Adastral Park from the provisions, recognising that infrastructure associated with this is better delivered through Section 106 agreements. The County Council considers that this approach should be rolled out to the other large sites once they are identified in the Site Allocations document.

Therefore, the best course of action is likely to be a review of the CIL alongside the emerging development plan. Ideally, this would coincide with the production of the Site Allocations document to determine which sites are best excluded from CIL. However, review alongside the Core Strategy would enable consideration of wider issues.

> *c) The Charging Schedule was published prior to publication of the Ministerial Written Statement on 28th November 2014 which states that affordable housing should not be sought on sites of 10 or less units. What are the implications of the Ministerial Statement for the Charging Schedule and the accompanying evidence base, including the Viability Assessment?*

The Viability Report (**Ref: CIL/EB/I**) is based on an assumption of affordable housing provision broadly in line with policies of the Core Strategy, namely a threshold of six dwellings. Given the significant influence of affordable housing on overall viability, it is reasonable to assume that consideration of the implications of the Ministerial Statement would safely allow for higher CIL rates on small sites in Suffolk Coastal.

By way of comparison, the adjacent Mid Suffolk and Babergh District Councils have recently (January/February 2015) consulted on the implications of the Ministerial Statement and are proposing higher charges for small sites. Given that Suffolk Coastal is using the same methodology as these authorities, it is reasonable to assume that Suffolk Coastal could increase the rate applied to small sites without threatening viability.

Issue 2 – Is the Charging Schedule supported by appropriate available evidence?

a) Is the Charging Schedule supported by appropriate available evidence on infrastructure requirements?

The District Council collaborated with the County Council in estimating the infrastructure needed to deliver the Local Plan, as set out in the Infrastructure Delivery Plan (**Ref: CIL/EB/H**). This document is suitable for estimating the infrastructure need based on available evidence. However, as noted above, adopted site allocations would provide a much more accurate assessment of infrastructure needs.

Whilst the Infrastructure Delivery Plan identifies that other funding sources will be necessary, it does not specifically identify what those sources are. As noted above, the County Council is not able to provide funding to mitigate the impacts of development.

c) Overall, have reasonable assumptions been made in relation to factors affecting viability of development and up to date evidence used? Including:

- *Sale prices/rental yield*
- *Building costs*
- *S.106/S.278 costs*
- *Contingencies*
- *Fees*
- *Profit levels*
- *Benchmark land values*

The County Council recognises that CIL rates should be set at a level which does not threaten development viability. However, the District Council's approach has applied caution cumulatively at each stage of the viability assessment such that, in the County Council's view, a significantly higher rate could safely be applied.

It is therefore essential that the CIL rates should not be lowered further as a result of this examination.

The County Council considers that caution has been applied to the following assumptions:

<u>Sales Prices/rental yield</u>

As noted in the Viability Study (**Ref: CIL/EB/I**, paragraph 6.3.10), the methodology for assessing viability has taken into account sales values of new and second hand housing. Whilst it is understood that this creates a larger data sample, the difference in sale prices between new and second hand homes in Suffolk Coastal is significant.

The relevant element in the calculation is the value of new houses, not the overall housing stock.

Whilst there is clearly an interrelationship between the sales prices of new and second hand housing, this relationship is expressed through real sales values.

Land Registry data shows a difference between the average sale price of all new dwellings in Suffolk Coastal, compared to the assumption made in the Viability Assessment.

	2011-2012	**2012-2013**	**2013-2014**
New Build Mean House Price	£246,302	£277,879	£353,533
Viability Assessment (i.e. average of all sales)	£242,792	£258,722	-

This demonstrates that the District Council has applied a cautious approach in assessing sales values. This is further exemplified by the sales values referred to in Section 6.4.1, which are then applied to the tested examples later on in the document.

Saxmundham is tested on the basis of sales values of between £220,000 - £240,000 for a new build, three bed house. By way of comparison, the mean sale price of a new dwelling (all types) in Saxmundham in 2013-14 was £284,523 (based on Land Registry data).

Woodbridge is tested on the basis of £250,000 for a three bedroom house. Also by way of comparison, based on Land Registry data, the mean sales price for a new dwelling (all types) in Woodbridge in 2013-14 was £322,956.

Finally, Felixstowe is tested on the basis of £180,000 - £190,000. As above, the mean sale price of a new dwelling in 2013-14 was £252,177.

Whilst it is clear that there is no definitive answer as to the most appropriate sale price to use to test viability assumptions, it appears that a great deal of caution has been applied. Were prices closer to the real 2013-14 sale prices to be used, it is likely that a higher CIL charge could be applied.

<u>Section 106/Section 278 Costs</u>

As noted above, the viability appraisals assume a policy compliant position in respect of affordable housing provision as a measure within Section 106 agreements. It appears, from Inspectors Reports elsewhere, that this methodology is appropriate in setting a CIL rate. However, it should be noted that in recent years, Suffolk Coastal has rarely achieved the Core Strategy’s target in terms of a proportion of affordable dwellings. The most recent Suffolk Coastal Authority Monitoring Report suggests that, as a proportion of total housing delivery, c.18% of new homes have been affordable.[2]

Contingencies

It is recognised that it is not appropriate to set the Levy at the absolute maximum of viability. This is explained in section 2.3 of the Viability Report. The Report further explains that the Overage per sq m is the maximum CIL which could be applied (paragraph 6.5.8 g)).

The table overleaf uses the overage information set out in Table 6.1 of the Viability Report, and sets out the buffer which is being applied. It demonstrates that the District Council is, further to the caution applied to estimating sales values, applying further caution by applying a buffer which is significantly larger than that which is applied elsewhere.

A short review of buffer rates applied to other adopted CILs suggests that other authorities have applied a much less cautious approach. The Viability Assessment reports for the following authorities suggest much smaller buffers than those proposed by Suffolk Coastal:

Bedford: 32%
Chelmsford: c.30%
Huntingdonshire: 23%+

[2] It appears that the figure quoted in the County Council's consultation response was incorrect.

Suffolk Coastal	Dwellings	Overage psm	Charge psm	Charge as % of overage	Notional 'Buffer' or 'Cushion'	Difference from proposed charge
Low Value	1	206	70	33.98%	66.02%	£63.90
	5	172	70	40.70%	59.30%	£41.80
	10	128	50	39.06%	60.94%	£33.20
	25	136	50	36.76%	63.24%	£38.40
	50	123	50	40.65%	59.35%	£29.95
	3 (Flats)	-82	70	-85.37%	185.37%	-£123.30
	25 (Flats)	-361	50	-13.85%	113.85%	-£284.65
	50 (Flats)	-446	50	-11.21%	111.21%	-£339.90
Mid Value	1	279	115	41.22%	58.78%	£66.35
	5	236	115	48.73%	51.27%	£38.40
	10	180	90	50.00%	50.00%	£27.00
	25	194	90	46.39%	53.61%	£36.10
	50	171	90	52.63%	47.37%	£21.15
	3 (Flats)	9	115	1277.78%	-1177.78%	-£109.15
	25 (Flats)	-266	90	-33.83%	133.83%	-£262.90
	50 (Flats)	-370	90	-24.32%	124.32%	-£330.50
High Value	1	312	150	48.08%	51.92%	£52.80
	5	263	150	57.03%	42.97%	£20.95
	10	303	150	49.50%	50.50%	£46.95
	25	321	150	46.73%	53.27%	£58.65
	50	291	150	51.55%	48.45%	£39.15
	3 (Flats)	117	150	128.21%	-28.21%	-£73.95
	25 (Flats)	-137	150	-109.49%	209.49%	-£239.05
	50 (Flats)	-258	150	-58.14%	158.14%	-£317.70

Benchmark land values

In their advice to Suffolk Coastal District Council (**Ref: CIL/EB/I**), Peter Brett Associates uses a benchmark land value as a key part in the calculations for deriving the rate for the levy. In establishing this figure, they state that they use land currently being marketed, consultations with local property agents and developers and values reported in other viability studies (para 5.2.1). Effectively they are using the current values being achieved in the market.

The section on CIL in Planning Practice Guidance cross refers to a separate section on viability testing. In respect of land values, this is dealt with at ID 10-023-20140306. This states that value should reflect policy requirements, provide a competitive return to willing developers and land owners and be informed by comparable market based evidence. In defining a competitive return, it says that for the land owner, this "is the price at which a reasonable land owner would be willing to sell their land for development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available."

The question of what this value should be has been the subject of different proposed methodologies. In the report on Viability Testing for Local Plans produced for the Local Housing Delivery Group for LGA/HBF/NHBC (2012) it was said that:

> "Consideration of an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy. Reference to market values can still provide a useful 'sense check' on the threshold values that are being used in the model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model."[3]

The Royal Institute of Chartered Surveyors' Guidance Note on Financial Viability in Planning (2012) has been cited as giving a contrary view to the above report in terms of its basis for establishing land values.[4] In para 3.3.3 it says that site value should equate to market value, having had regard to development plan policies. However it goes on in para 3.3.6 to countenance change to the value of land as a consequence of "the burden of the CIL charge", though it says that this should not go below providing a competitive return to a willing land owner.

Accordingly, the PBA approach of treating existing land values as a "fixity" does not necessarily seem to be an explicit requirement of policy, guidance or advice. It could

[3] http://www.nhbc.co.uk/NewsandComment/Documents/filedownload,47339,en.pdf
[4] https://www.scambs.gov.uk/sites/www.scambs.gov.uk/files/documents/RICS%20Financial%20viability%20in%20planning.pdf

be said to be one further element of a cautious approach to the calculation of the CIL rate.

Conclusion

In conclusion, the County Council supports the District Council in seeking to establish a CIL at this stage. However, it is clear that a cautious approach has been applied by the District in setting the CIL rates (on the advice of its consultants). This relates to the sales price, to the contingencies and to the benchmark land value described above. Because of the fact that the CIL charge is calculated from a residual methodology, the in-combination effect of each of these cautious approaches squeezes the possible charge significantly.

In their Viability Study at para 2.2.5, PBA recognises that there is a balance to be drawn between CIL being too high and making too many potential developments unviable against rates being too low and compromising development because it will be constrained by insufficient infrastructure. In the view of the County Council, it is considered that the balance has perhaps swung too much to the former. It is important to see the introduction of the CIL in Suffolk Coastal in the current form at this time but the pressing need to deliver the infrastructure identified in the Core Strategy means that there should be an early review of the CIL Charging Schedule, possibly once the Council's Site Allocations Document is completed. Certainly it should not be lowered at this time.