Home Builders Federation
Respondent No.
Hearing Session : Matter A - Housing Need & the Housing Trajectory

EXAMINATIONS OF THE BIRMINGHAM DEVELOPMENT PLAN MATTERS & ISSUES

TUESDAY 21ST OCTOBER 2014 : MATTER A – HOUSING NEED AND THE HOUSING TRAJECTORY

Inspector's Questions in bold text.

Main issue: Does the Plan appropriately identify housing needs and does it seek to meet them in accordance with national policy?

1) Is the Plan based on an objective assessment of the full needs for market and affordable housing in the housing market area over the Plan period?

The Birmingham Development Plan is not based upon full objectively assessed housing needs (OAHN) in the housing market area (HMA) (our emphasis) as required by Paragraph 47 of the National Planning Policy Framework (NPPF).

HMA

Firstly the Birmingham City Council SMHA 2012 revised January 2013 by Roger Tym & Partners & HDH and the Peter Brett Associates Report Technical Paper 2013 are assessments for Birmingham city alone rather than a wider HMA.

Recently the Inspector examining the remitted Housing Policy for the North Somerset Local Plan concluded that "*the manner by which the housing requirement was determined was inconsistent with national policy as it was not based upon a SHMA that accounted for the wider HMA".* This same conclusion is true of the evidence on which the Birmingham Development Plan is based.

Paragraph 13.2 of 2012 SHMA confirms "*at present no joint evidence base exists. The neighbouring authorities are at different stages of plan preparation and informed by different evidence bases*". The Council's submitted evidence is a study of Birmingham City only commissioned by the Council on its own. As stated by the Examination Inspector for the Aylesbury Vale Plan, which was subsequently withdrawn, "*there is no viable SHMAA of housing needs produced jointly with other authorities. All evidence on which the plan is based was commissioned and produced solely on behalf of the Council*". Again this conclusion is true of the Birmingham Development Plan.

The Greater Birmingham & Solihull (GB&S) Housing Needs Study commissioned by the Local Enterprise Partnership (LEP) is not a SHMAA. Moreover the GB&SLEP area is not an appropriate HMA. A sub regional

Birmingham HMA would extend beyond Birmingham City alone and the nine GB&SLEP authorities of Birmingham, Solihull, Bromsgrove, Redditch, Wyre Forest, Lichfield, Cannock Chase, Tamworth and East Staffordshire. The Birmingham City Council Duty to Co-operate Statement October 2013 Table 4.1 shows that the destination of 89% of the gross intra-regional out migration flows from Birmingham between 2000/01 to 2010/11 as 41.2% GBSLEP, 37% Black Country and 10.9% Coventry & Warwickshire LEP. Indeed in the Report to the GB&SLEP Supervisory Board dated 30 July 2014 Paragraph 4.1 states "*the Interim Report stage of the Strategic Housing Needs Study sets out the OAHN for the GB&SLEP and the Black Country which the consultants (Peter Brett Associates) consider to be a HMA in accordance with Government guidance based on consideration of factors such as migration and commuting patterns".*

OAHN

Secondly the Council's evidence is based on purely demographic projections as evidenced by :-

- The Birmingham City Council SMHA 2012 revised January 2013 by Roger Tym & Partners & HDH identified a potential housing requirement ranging between 81,500 – 105,200 dwellings based on various demographic projections (Paragraph 11.50) ;
- In Paragraph 3.7 of the Peter Brett Associates Report Technical Paper 2013, 81,500 household growth derived from 2008 based official Government statistics is selected to which a 3% vacancy rate is applied to convert household growth into a housing requirement of 84,000 dwellings.

The National Planning Practice Guidance (NPPG) explains that demographic projections are just the starting point. The NPPG identifies that plan makers should also assess employment trends (ID 2a-018-20140306) and market signals such as land prices, house prices, rents, affordability, rates of development and overcrowding (ID 2a-019-20140306). A worsening trend in any of these market signals will require an upward adjustment to planned housing numbers compared to ones based solely on household projections (ID 2a-020-20140306).

The North Somerset Inspector also concluded that "*the projection modelling deployed by the Council did not meet with all of the requirements of the NPPF such as considering issues of affordability".* Again this same conclusion is true of the Birmingham Development Plan.

Moreover the Report to the GB&SLEP Supervisory Board dated 30 July 2014 Paragraph 4.1 confirms "*a significant housing shortfall across the HMA*". Paragraph 4.2 continues "*PBA's preferred estimate of objectively set needs for the GB&SLEP area over the period 2011 – 2031 is 8,000 households per annum which results in a housing shortfall of circa 2,900 dwellings per annum compared to proposals in emerging and adopted development plans*". The PBA preferred estimate is a demographic projection based upon a 2008 /

2011 blended approach to Household Representative Rates together with trend based migration between 2001 -2011.

<u>In full</u>

Thirdly as the Council has identified a range for its demographic projection based OAHN the higher figure in the range should be used as the absolute minimum housing requirement. Again the North Somerset Inspector concluded that "*the selection of the bottom end of the range was not in the spirit of positive planning and the national objective to boost significantly supply*" and the Inspector's letter on the Brighton & Hove Local Plan examination where the Council had also identified an OAHN range the Inspector emphasised "*the Frameworks requirement that a LPA should assess their <u>full</u> housing needs … my view is that the Plan should indicate that the full OAHN is at the higher end of the range*".

2) If not, what alternative objective assessment of housing needs should the Plan be based upon?

The Plan should be based upon a SHMAA for a sub-regional Birmingham HMA encompassing all neighbouring authorities and beyond as appropriate. It should also assess demographic projections, employment trends and worsening trends in market signals such as land prices, house prices, rents, affordability, rates of development and overcrowding as advised in the NPPG.

The final paragraph of the Report to the GB&SLEP Supervisory Board dated 30 July 2014 (Paragraph 6.1) concludes "*completion of the technical study will provide a reliable analysis of OAHN. This will be followed by collaborative working to agree the scale and distribution of growth which, under the current planning system, is the point at which policy considerations can be applied. This work is not only essential to enable the production of sound development plans and to facilitate the Duty to Co-operate".* However as the GB&SLEP is not a SHMAA it is not providing an OAHN.

A alternative OAHN study commissioned by house builders and land owners undertaken by Barton Wilmore consultants estimates an even higher deficit of dwellings across a sub-regional Birmingham & the Black Country HMA comprising of 14 authorities (Birmingham, Solihull, Bromsgrove, North Warwickshire, Stratford upon Avon, Lichfield, Tamworth, Redditch, Cannock Chase, South Staffordshire, Sandwell, Walsall, Dudley and Wolverhampton). This fact is highlighted in Paragraph 4.4 of the Report to the GB&SLEP Supervisory Board dated 30 July 2014 which states "…*it is important to stress that representatives of the development industry (see for example, Barton Wilmore, Birmingham Sub-Regional Housing Study 2014, submitted as a response to the Birmingham Development Plan consultation) have published their own assessments with significantly higher results. As an example, for Birmingham, the highest PBA estimate equates to circa 112,000 household growth 2011 – 31 whereas the developers estimate the household increase is in the range 135,000 – 153,000 over the same time period".*

3) Does the Plan meet the full needs for market and affordable housing, as far as is consistent with the policies set out in the National Planning Policy Framework?

The Plan does not meet the full OAHN (our emphasis) as far as is consistent with the policies of NPPF.

The Birmingham Development Plan proposes only 51,100 additional homes over the plan period 2011 – 2031, of which 45,000 homes will be provided within the existing urban area and 6,000 homes on a strategic site removed from the Green Belt. The Development Plan also proposes to deliver 10,500 affordable homes subject to viability (Peter Brett Associates Report Technical Paper 2013 Paragraph 7.7).

The Strategic Housing Land Availability Assessment (SHLAA) commissioned at the same time as the SHMA confirmed that housing need is greater than the capacity of the city to accommodate it. The Peter Brett Technical Paper identified an urban capacity of only 44,898 dwellings (Paragraph 4.2) acknowledging that the proposed target in the Birmingham Development Plan is only 61% of the minimum assessed housing needs based on the lowest demographic project (Paragraph 5.2). As it is not possible to deliver more within the city boundary, land West of Sutton Coldfield will be released from the Green Belt (Paragraph 4.8). Overall there is a potential shortfall of 30,400 – 54,100 dwellings between the housing figure in Policy PG1 and the potential housing requirement ranges identified in the 2012 SHMA.

In the Council's Response to the Inspector's Initial Questions (EXAM2C) the Council states "*the Council considers that the resulting level of new housing which is proposed in the submitted BDP is the maximum that could reasonably be delivered in Birmingham over the plan period*".

The GB&SLEP Housing Needs Study by Peter Brett Associates (presentation slides from meeting held on 31st July 2014) illustrates a demographic based household growth of between 4,317 – 5,620 per annum over 2011 – 2031 in Birmingham city against a housing provision of only 2,555 dwellings per annum in the submitted Birmingham Development Plan.

In the Council's Response to the Inspector's Initial Questions (EXAM2C) about the GB&SLEP Housing Needs Study the Council states " *… the general expectation is that this is more likely to increase than reduce the level of OAN … since it is the Council's view that it would not be feasible to deliver a higher level of new housing within the city boundary, this would not have any direct implication for the strategy and the policies contained within the BDP and would not give rise to any need for a modification to these policies. However it may well impact on the level of provision that will need to be made to help meet Birmingham's needs in neighbouring areas and the Council will continue to work closely with neighbouring Councils to ensure that this provision is made*".

However Birmingham City Council has failed to apply the stepped approach to formulating a housing strategy in a local plan as required by the NPPF set out by Mr Justice Hickinbottom in Paragraph 73 of the Gallagher Homes Limited & Lioncourt Homes Limited v Solihull Metropolitan Borough Council [2014] EWHC 1283 (Admin) judgement. "*The first vital step in the process is to assess, fully and objectively, the need for market and affordable housing in a SHMA, in accordance with the requirements of Paragraph 159 of the NPPF. Only then can the other steps be taken namely :-*

(i) considering whether there are policies in the NPPF which are consistent / inconsistent with those full needs ;
(ii) constraining the figure which represents the full objectively assessed needs where any adverse impacts of meeting those needs "would significantly and demonstrably outweigh the benefits when assessed against the policies in the NPPF taken as a whole or specific policies in the NPPF indicate development should be restricted (Paragraph 14 of the NPPF) ;
(iii) and where the result is a constrained figure (a figure which on policy grounds is less than the full objectively assessed figure for housing need in that area) co-operating with adjoining or other near-by LPAs on the strategic matter of meeting otherwise unmet need (section 33A of the 2004 Act)".

The Birmingham Development Plan should be based on a strategy to meet in full OAHN as the Plan does not meet these needs the Council should secured the accommodation of these unmet needs elsewhere which the Council has failed to do therefore the Birmingham Development Plan is unsound.

4) What proportion of the assessed housing needs should be met outside the Plan area, and by what mechanism should that proportion be distributed to other local planning authorities' areas?

The Peter Brett Associates Report Technical Paper 2013 Paragraph 3.8 assumes that the city's growth will be exported to other areas as in the past. Thereby in Paragraph 4.6 of the Development Plan the Council states "*to meet the rest of Birmingham's housing need options outside the City's boundaries will need to be explored*", Paragraph 3.27 suggests "*the wider growth strategy of the LEP area and adjoining authorities will set out how and where remaining housing will be delivered*" and Paragraph 4.7 concludes that the Council will "*seek to work collaboratively with neighbouring authorities*". The Birmingham City Council Duty to Co-operate Statement Paragraph 12 indicates in neighbouring authorities "*the possible need for higher levels of housing in their areas to address an emerging shortfall in Birmingham*".

The Peter Brett Associates Report Technical Paper 2013 Paragraph 12.9 acknowledges that the sub regional housing need and supply balance is under provided. The Draft GBSLEP Spatial Plan for Recovery & Growth also identifies a shortfall in housing provision across the nine authorities within the LEP area. This is re-emphasised in the Report to the GB&SLEP Supervisory Board dated 30 July 2014 Paragraph 4.1 confirms "*a significant housing shortfall across the HMA*". Paragraph 4.2 continues "*PBA's preferred estimate of objectively set needs for the GB&SLEP area over the period 2011 – 2031 is 8,000 households per annum which results in a housing shortfall of circa*

2,900 dwellings per annum compared to proposals in emerging and adopted development plans".

However it is impossible to know the proportion of OAHN to be met elsewhere and the mechanism of apportionment for the distribution of unmet needs because the appropriate HMA has not been defined and a SHMAA has not been undertaken. Please also refer to the HBF written Hearing Statement for Matter F – Duty to Co-operate in respect of strategic matters.

The GB&S LEP Housing Needs Study Part 3 work will investigate six distribution scenarios of intensification, peripheral urban extensions, public transport corridors of growth, enterprise option, dispersed, multi-centred growth and new towns / settlements or a combination thereof. Whilst *"the Barton Wilmore report then proposes a market driven distribution of the housing shortfall across the HMA*" (Paragraph 4.4 Report to the GB&SLEP Supervisory Board). This proposed distribution takes account of migration flows, commuting patterns, market signals and jobs growth but it does not take into account deliverability or any other restrictions on development. However before any unmet needs are distributed elsewhere the City Council should maximise opportunities to accommodate its growth within its own administrative boundaries for example in addition to 6,000 dwellings at Sutton Coldfield (Langley SUE) identifying other opportunities for Green Belt review.

5) Is there justification for the staged housing trajectory set out in policy TP28?

Policy TP28 – Housing Trajectory is asymmetrical with the majority of housing delivery back-loaded beyond 2021. The fundamental thrust of Government policy is the need to boost significantly the supply of housing. The economic downturn and past poor delivery is not peculiar to Birmingham. The Council should not be excused from making provision for their full OAHN in the early years of the plan period. The ultimate question is whether the Development Plan is sound in only requiring annual figures below a proposed capacity constrained housing requirement figure in the early years of the plan period. These figures are anticipated rates of housing because it is said that housing provision is constrained by such matters as land supply, difficult prevailing economic circumstances and the provision of new infrastructure before commencement of development (Peter Brett Associates Report Technical Paper 2013 Paragraphs 6.2 and 8.1). So in the early years housing delivery is suppressed below an annualised figure of 2,555 dwellings.

There is overwhelming evidence of an increase in confidence in the housing market with developers seeking to increase output as a direct result from the present Coalition Government's determination to tackle the current housing crisis through positive reforms to the planning system introduced in the NPPF and financial initiatives such as Help to Buy Equity Loan scheme. The latest DCLG statistics show an increase in house building activity with house building starts are 16% up on 2012 and 89% above the trough in the housing market in March 2009. The HBF's own research shows a significant increase in planning permissions granted with 26% increase year on year in planning permissions applied for and consented. These are strong forward indicators of high levels of house building in the future.

The proposed **Main Modification 71** now acknowledges *"whilst the trajectory sets out annual provision rates they are not ceilings. Housing provision over and above that set out in the trajectory will be encouraged and facilitated wherever possible"* so the purpose of **TP28** has become unclear perhaps the housing trajectory is more appropriate as supporting text rather than a policy.

7) Does policy TP30 set out a sound approach to the provision of affordable housing?

The Council's viability testing is contained within the report "*Affordable Housing Viability Study"* Final Report dated October 2010 by Entec. This report is somewhat out of date and pre-dates the whole plan viability testing requirements of the NPPF. Therefore a comprehensive assessment of the cumulative impacts on viability of all policy requirements contained within the Birmingham Development Plan has not been undertaken.

Even without appropriate whole plan viability testing, the final section of the Affordable Housing Viability Study concludes that development is not viable. Therefore the proposed 35% affordable housing provision on sites of more than 15 dwellings as set out in **Policy TP30** is not feasible. Whilst the ability to negotiate the affordable housing requirement on unviable sites is an acceptable principle, any negotiation is costly in terms of time and money and impedes efficient delivery of housing. Negotiation should be the exception rather than the rule, therefore the Council should ensure by vigorous viability assessment that policy expectations are not set too high.

The reference to Community Infrastructure Levy (CIL) Economic Viability Assessment by GVA dated October 2012 reinforces this conclusion as in Value Areas 1,2 and 3 (£220–240 per square foot) the proposed CIL charging rate of £115 per square metre plus 35% affordable housing provision is based on an assumption of a benchmark land value of Existing Use Vale (EUV) plus 20% uplift equal to £450,000 per acre and in Value Areas 4,5,6, and 7 (£150-175 per square foot) the proposed CIL of £55 per square metre plus 35% affordable housing provision with an assumed benchmark land value of EUV plus 20% uplift of £240,000 per acre. If these benchmark land values are too low the viability appraisal is unviable.

The recent publication "*CIL – Getting It Right"* by Savills sponsored by HBF dated January 2014, emphasises "*the three way trade-off between the costs of CIL, Section 106 funding for infrastructure and affordable housing policy, with the costs of local standards and the move to zero carbon being additional costs to be factored into the trade-off*". This report concluded that for large greenfield sites (500+ units) with sales values below £250 per square foot where affordable housing provision is more than 30% zero CIL is achievable. It should be borne in mind that brownfield and smaller sites are often even more expensive to develop (NPPG ID 10-025-20140306) therefore the Council's viability assessments seem overly optimistic and as a consequence the Birmingham Development Plan policies are unlikely to be deliverable.

It is understood that a CIL Draft Charging Schedule dated 1st September 2014 due for consideration at a Council Cabinet meeting during the week commencing 15th September 2014 proposes to reduce the CIL charging rates in Value Areas 1, 2 and 3 to £69 square metre, in Value Areas 4, 5, 6 and 7 to £0 and for Sustainable Urban Extensions £0 after GVA consultants were requested to conduct further analysis. However this revised viability assessment has not been subject to scrutiny by the development industry nor is the Council's final intention yet confirmed therefore at this time the Council cannot demonstrate that the proposed CIL charges combined with other Development Plan policy requirements will not discourage new development from being built.

Is policy TP30 justified in seeking affordable housing provision in specialist housing and extracare housing schemes?

No it has not been viability tested in accordance with NPPF requirements.

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Word count excluding wording in bold : 3,166

A report from
Savills Research,
sponsored by the
Home Builders
Federation

CIL – Getting it right

January 2014

Setting Community Infrastructure Levy Rates to Support the Construction of More New Homes

■ For local planning policies to be viable, there is a three way trade-off between the costs of CIL, Section 106 funding of infrastructure and affordable housing policy, with the costs of local standards and the move to zero carbon being additional costs to be factored into the trade-off.

■ Based on generic assumptions and before local specifics, the capacity to pay CIL and Section 106 on large greenfield sites equates to between 20% and 30% of unserviced land value in many markets. However, this capacity falls away towards zero where affordable housing policies apply at higher percentages in excess of 30%, and at lower percentages in markets in which potential sales values for volume sales are below £250 per sq.ft.

■ These are important markets, in which 85% of residential development outside London takes place. At sales values of £225 per sq.ft., in order for there to be enough 'in the pot' for CIL and Section 106 combined to be paid at £10,000 per plot, affordable housing policy would need to have been set at 10%. This is the trade-off that needs to be recognised when Local Plans are tested for their viability.

■ In stronger markets, there is more capacity to fund infrastructure via CIL and Section 106. At a sales value of £300 per sq.ft., with a 30% affordable housing policy, there is enough 'in the pot' for CIL and Section 106 to be paid at £15,000 per plot. However, this falls away to around £10,000 per plot if affordable housing policy is set at 40%.

■ The capacity to pay CIL varies widely, according to local policy on Section 106 payments. Even with scaled back Section 106 policy, the cost of Section 106 infrastructure is unlikely to be less than £3,000 per plot on large greenfield sites and it can often amount to significantly more than £10,000 per plot.

■ Viability testing of CIL cannot be robust if there is no clarity on Section 106 policy. From the other end of the lens, a zero CIL rate for strategic sites offers the greatest flexibility to use Section 106 to fund infrastructure and mitigate site impact, subject to the restrictions in the revised regulations.

Consistency is key

CIL is designed to contribute towards the funding of local infrastructure, to facilitate sustainable development. This is clearly a desirable outcome, provided the levy is set at a level that does not threaten the viability of the development plan.

Our objective in this report is to seek more consistency in the rate setting process, with particular regard to viability assessment, as the majority of authorities move towards implementation of CIL charging schedules. It is written with our experience of advising and representing members of the Home Builders Federation on appropriate rate setting at a local level across England and Wales.

Within this report, we review the rates at which CIL is being set by charging authorities across the country for the residential development of **large greenfield sites**, as these are such an important part of national housing land supply. Alongside this, we present a new benchmark for the capacity to pay CIL and Section 106 on such sites, based on a broad view on development economics, local market strength and affordable housing policy.

This paints a picture of the diverse approach that charging authorities are taking to the rate setting process. The result is wide variation in how authorities are striking the balance between fund raising and economic viability, in order to facilitate the scale of development outlined in their Local Plans.

What is the benchmark?

■ The benchmark is based on the residual development appraisal of a large greenfield site, with generic assumptions relating to significant variables. It gives a starting point for review of policy viability, before examination of local specifics.

How much CIL can be paid?

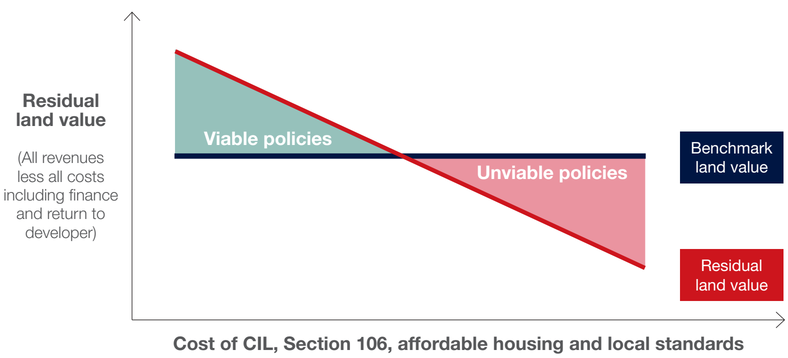
The National Planning Policy Framework requires that local planning policies should be tested for their viability, such that:

"The sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable." (para 173)

The costs of CIL and planning obligations are paid out of land value, as long as there is sufficient value remaining for the land to come forward for development (benchmark land value). If the residual value remaining (after deduction of all costs from total revenues) is too low, then the land is not economically viable to develop, as shown in Graph 1 below.

GRAPH 1

Cumulative impact of policy on financial viability



Source: Savills Research

"It is rarely, if ever, the case that the pot of money is large enough to fund all policies"

The most crucial assumption in the policy testing process is the benchmark level of land value required to provide a competitive return to land owners, across the types of site that make up the housing land supply in the charging authority (usually the local authority area). This should be set at a level which includes a 'viability cushion', as recommended in the Local Housing Delivery Group guidance on the viability testing of local plans. When testing the viability of CIL, this reflects the government guidance that CIL should not be set at the margins of viability. This is particularly important for CIL, which is a fixed charge with no flexibility for variance, should individual sites be unviable.

The viability test will establish the pot of money that is available from development, to fund policies. It is rarely, if ever, the case that the pot of money is large enough to fund all policies, as the cost of delivering infrastructure is so substantial. If viability testing of the Local Plan and CIL is carried out concurrently, then the local authority can choose which policies take precedence.

However, if introduction of a CIL charging schedule follows the Local Plan, then the policies in the Plan must be costed fully in the testing of CIL. This includes affordable housing policy, Section 106 funding for infrastructure, any local standards that go beyond national standards and the additional known policy costs of moving towards zero carbon by 2016. In this case, CIL may be 'crowded out' by the cost of other policies.

How does viability vary across markets?

To take a view on the viability of policies across the country, we have developed a model for the viability of large greenfield sites in different strength markets. The output is a benchmark amount available to pay CIL, Section 106 infrastructure funding and the cost of local policies, taking account of affordable housing policy. It gives a starting point for review of policy viability, before examination of local specifics.

Table 1 shows the benchmark amount per plot, as an average across all tenures. This varies significantly, according to sales value and affordable housing policy, with little or no level of CIL being viable in lower value markets, where sales values are at £175 per sq.ft. In these markets, developers and local authorities need to work together to find ways of bringing sites forward, using policy flexibility and whatever public investment in infrastructure that can be made available.

Even in mid-priced markets there is a viability squeeze. For instance, at sales values of £225 per sq.ft., in order for there to be enough 'in the pot' for CIL and Section 106 combined to be paid at £10,000 per plot, affordable housing policy should be set at 10%.

In stronger markets, there is more capacity to fund policies. At a sales value of £300 per sq.ft., with a 30% affordable housing policy, there is enough in the pot for CIL and Section 106 to be paid at £15,000 per plot. However, this falls away to around £10,000 per plot if affordable housing policy is set at 40%. Viable amounts at lower affordable housing policies of 10% and 20% in higher value markets are greyed out in the tables, as such policies are unlikely to apply in these areas.

This is all based on generic assumptions relating to significant variables, such as the proportion of the site that is developable, the costs of site infrastructure and local land values. The specifics of the local market may differ from these generic assumptions.

If there is evidence of Section 106 payments having been agreed and paid at higher levels, then the specific circumstances of these sites should be understood, to test whether they are representative of the economics of the bulk of the land supply pipeline in the district.

TABLE 1

Amount available for CIL and S.106 (£ per plot, all tenures)

Affordable Housing %	Sales value per sq.ft.								
	350	325	300	275	250	225	200	175	150
0%	45,800	39,400	33,000	26,600	20,200	13,800	7,400	1,000	0
10%	38,300	32,700	27,100	21,500	15,900	10,200	4,600	0	0
20%	30,900	26,000	21,200	16,400	11,500	6,700	1,800	0	0
30%	23,400	19,400	15,300	11,300	7,200	3,100	0	0	0
40%	16,000	12,700	9,500	6,200	2,900	0	0	0	0
50%	8,600	6,100	3,600	1,100	0	0	0	0	0

Source: Savills Research

TABLE 2

Amount available for CIL and S.106 as % of unserviced land value

Affordable Housing %	Sales value per sq.ft.								
	350	325	300	275	250	225	200	175	150
0%	37%	37%	36%	35%	34%	31%	26%	8%	0%
10%	35%	35%	34%	33%	31%	28%	20%	0%	0%
20%	33%	32%	31%	30%	27%	22%	11%	0%	0%
30%	30%	29%	27%	25%	21%	14%	0%	0%	0%
40%	25%	23%	21%	18%	11%	0%	0%	0%	0%
50%	17%	15%	11%	5%	0%	0%	0%	0%	0%

Source: Savills Research

Land Value Capacity

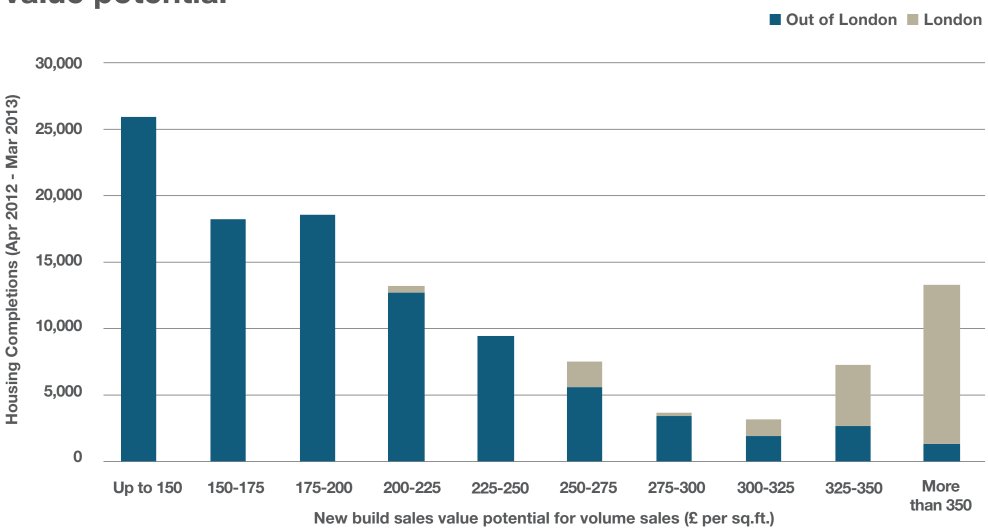
Expressing the benchmark as a proportion of land value gives a useful perspective on the capacity to pay CIL and Section 106. In higher value markets, the capacity to make the combined payment is between 20% and 30% of unserviced land value at 30% affordable housing, but this falls away towards zero at higher affordable housing policies in excess of 30%, particularly in markets where sales values are below £300 per sq.ft. (Table 2).

This is important, as more than 70% of residential development is in markets where new build sales value potential for volume sales is no more than £250 per sq.ft, as shown in Graph 2. Outside London, 85% of development is in these markets. Clearly, development does take place in these mid- to lower-value markets, generally on smaller sites that are less expensive to develop. Sales values on these smaller sites are not constrained by the competitive sales environment found on larger sites, so their viability can be supported by sales values that are higher than those achievable on the larger sites.

What is at issue here is the urgent need to bring forward large sites in areas where unmet housing need is greatest, as national housing need cannot be met without development of such sites. The analysis demonstrates there is only a limited potential to fund infrastructure from planning obligations and levies in markets where sales values are less than £250 per sq.ft. Many of the country's allocated greenfield sites are located in these markets, so other sources of infrastructure funding will be required here. It also indicates that allocation of more large greenfield sites in higher value markets would release more capacity to fund infrastructure from obligations and levies.

GRAPH 2

Housing completions in England, by volume new build sales value potential



Source: Savills Research Note: London sales values are shown for context only, as these are not relevant to the values achievable on greenfield sites

The Three Way Trade-Off

Section 106 payments are varying considerably in the emerging CIL world, depending on whether local policy is to scale back Section 106 alongside CIL, or whether significant site specific infrastructure will continue to be funded via Section 106. Some authorities have stated that Section 106 on large sites will be scaled back to amounts in the order of £3,000 per plot, to cover the amounts typically payable for smaller scale road and pedestrian connections, play parks and community buildings.

In other cases, major items of transport and education infrastructure will be funded via Section 106 on the large greenfield sites. At the East Cambridgeshire examination, a higher figure of £10,000 per plot was used as an assumption, but funding of such items of major infrastructure can exceed £15,000 per plot.

Whether Section 106 payments are nearer £3,000 or £15,000 per plot has a dramatic impact on the amount of CIL that is payable within our benchmark amount, as shown in

TABLE 3

Amount available for CIL – assuming £3,000 S.106 per plot (all tenures)

Affordable Housing %	Sales value per sq.ft.									
	350	325	300	275	250	225	200	175	150	
0%	420	360	300	230	170	110	40	0	0	£ per sq.m. of market housing
10%	390	330	270	200	140	80	20	0	0	
20%	350	280	230	170	110	50	0	0	0	
30%	290	230	170	120	60	0	0	0	0	
40%	210	160	110	50	0	0	0	0	0	
50%	110	60	10	0	0	0	0	0	0	
0%	11%	10%	9%	8%	6%	5%	2%	0%	0%	% of sales value
10%	10%	9%	8%	7%	5%	3%	1%	0%	0%	
20%	9%	8%	7%	6%	4%	2%	0%	0%	0%	
30%	8%	7%	5%	4%	2%	0%	0%	0%	0%	
40%	6%	5%	3%	2%	0%	0%	0%	0%	0%	
50%	3%	2%	0%	0%	0%	0%	0%	0%	0%	

Source: Savills Research

TABLE 4

Amount available for CIL – assuming £15,000 S.106 per plot (all tenures)

Affordable Housing %	Sales value per sq.ft.									
	350	325	300	275	250	225	200	175	150	
0%	300	240	180	110	50	0	0	0	0	£ per sq.m. of market housing
10%	260	190	130	70	10	0	0	0	0	
20%	200	140	80	20	0	0	0	0	0	
30%	120	60	0	0	0	0	0	0	0	
40%	20	0	0	0	0	0	0	0	0	
50%	0	0	0	0	0	0	0	0	0	
0%	8%	7%	6%	4%	2%	0%	0%	0%	0%	% of sales value
10%	7%	5%	4%	2%	0%	0%	0%	0%	0%	
20%	5%	4%	2%	1%	0%	0%	0%	0%	0%	
30%	3%	2%	0%	0%	0%	0%	0%	0%	0%	
40%	1%	0%	0%	0%	0%	0%	0%	0%	0%	
50%	0%	0%	0%	0%	0%	0%	0%	0%	0%	

Source: Savills Research

Tables 3 and 4. At the scaled back level of Section 106 of £3,000 per plot (Table 3), the viable level of CIL reaches £170 per sq.m. (around 5% of sales value) in higher value sales markets of £300 per sq.ft., at an affordable housing policy of 30%.

However, at the 40% affordable housing policy that often applies in such markets, this is squeezed to £110 per sq.m.

At higher levels of Section 106 of £15,000 per plot (Table 4), the capacity to pay CIL in addition is much lower, falling away to zero in most markets, other than the higher value markets in which sales values exceed £300 per sq.ft.

The revised CIL Guidance recognises the need for clarity on the interaction between CIL and Section 106, by formalising the need to be explicit on what is funded via each mechanism during the rate setting process.

As such, the so-called ‘Regulation 123 list’ of infrastructure is now part of the evidence base required during the rate setting process, although it is regrettable that the proposed requirements for formal consultation on any subsequent changes to this list have not been introduced.

Appraisal assumptions

The benchmark is the result of a residual development appraisal, adopting a standard set of assumptions which are shown in Table 5. Amongst these, the appraisal should allow for a competitive return to the developer. We use 20% margin on gross development value across all tenures, in line with evidence that this is a minimum requirement across the cycle.

The allowance for on-site infrastructure, at £20,000 per plot, is in the middle of the range of £17,000 to £23,000 per plot outlined in the Local Housing Delivery Group guidance.

The proportion of the site that is developable varies widely. We have assumed 50% of the site is developable for residential use, but this is often lower and can be as low as 30%, in which case the amount available to pay CIL and Section 106 will be lower than the CIL benchmark presented here.

TABLE 5

Assumptions summary

Net Dev Area (% gross area)	50%
Interest rate	6.5%
Marketing (% of sales)	3%
Professional fees (% of build costs)	12%
Additional build cost to 2013 Building Regulations (£ per dwelling)	1,000
Infrastructure (£ per dwelling)	20,000

Density (dwellings per acre)	14.2		
Dwelling size (sq.ft.)	1,030		
Coverage (sq.ft. per net dev acre)	14,600		
Developer profit on all GDV (excluding marketing and finance, to cover overheads)	20%		
Sales value (£ per sq.ft)	300	250	200
Affordable value as % of market value	43%	48%	55%
Build cost (£ per sq.ft)	97	91	86
Land value benchmark inc. buffer (£000 per gross acre)	290	190	95

These are generic assumptions for larger sites with a capacity of more than 500 homes. Local specifics will vary. On smaller sites, costs of infrastructure may be lower but benchmark land values are likely to be higher.

Land Value and Viability Buffer

It is crucial to set a benchmark land value to represent a competitive return to land owners, such that the local land supply will continue to come forward for development.

Our benchmark appraisal uses a benchmark land value that includes a viability cushion. This has regard to both minimum land value and market land value, as shown in Graph 3.

Minimum land value represents the lower end of land owners' expectations of realisable value. It is a feature of option agreements between land owners and developers, representing the minimum value at which land will be released by the land owner to the developer.

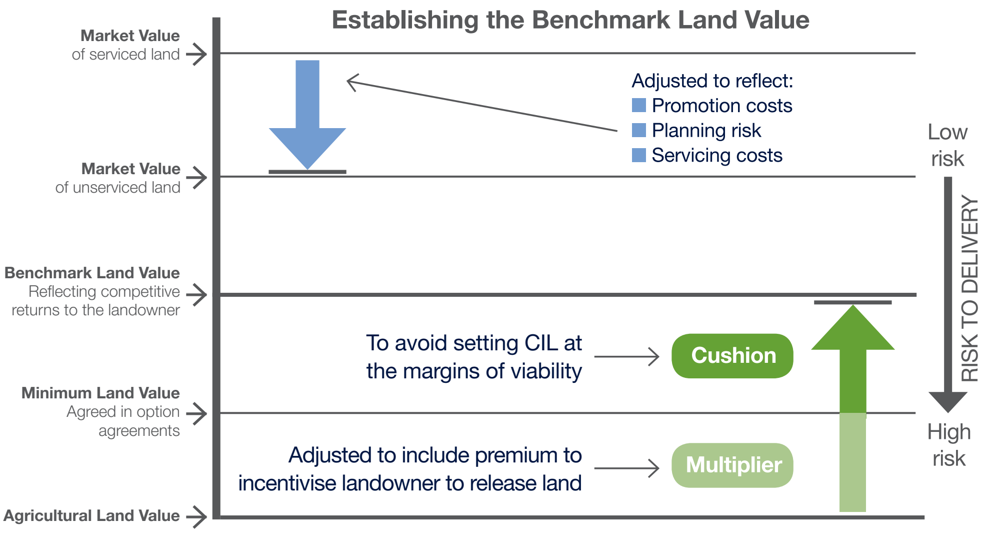
The Local Housing Delivery Group guidance recommends that evidence of minimum land values in option agreements is used as a reference point for setting a benchmark land value, subject to addition of a viability cushion, to include consideration of the costs and risks involved in promoting land through the planning system.

Market land value is, by definition, the value at which land will trade freely in the current system. If benchmark land value is set at the lowest end of the range between minimum and market land values, then high risks of non-delivery will be introduced into the development market.

Accordingly, we set the viability cushion at 50% of the gap between minimum land value and the market value of unserviced land (before considering deductions for CIL and Section 106).

GRAPH 3

Land value benchmarks and risks to delivery



Source: Savills Research

> "It is crucial to set a benchmark land value to represent a competitive return to landowners"

Variation in approach to rate setting at local level

We have compared adopted and emerging CILs with our benchmark, in charging authorities where large greenfield sites form part of the housing land supply.

It can be seen in Graph 4 that many implemented CILs have been set at a level in excess of our benchmark, indicating a threat to delivery of the authority's development plan.

If this is the case, having taken account of local specifics, then the charging authority will have failed to demonstrate that they have struck an appropriate balance between the desirability of funding from CIL and its effects on the economic viability of development across the whole area, as now required by the latest amendments to the regulations.

Some of these early adopters did not appraise affordable housing policy at the full requirement that is shown in the chart. Following current practice at examination, an authority would now have to formally adopt a lower affordable housing requirement in order to set CIL at these levels. Graph 4 shows the increased headroom for CIL and Section 106 that is created by adopting a lower affordable housing requirement of either 10% or 20%.

In the one case where the benchmark sits above CIL in the chart, there is headroom for Section 106 in addition to CIL. In the case of Oxford, there is likely to be headroom for Section 106 to be paid at around £6,000 per plot in addition to CIL, according to the benchmark.

Charging authorities should be explicit about their policy intention on additional Section 106 when setting CIL rates. As noted above, such payments can be substantial on a large greenfield site, to mitigate the impact of development of that site. The need for clarity on this point has been emphasised by the forthcoming changes to the CIL Regulations.

The charging schedules that are at the examination stage (including those examined but not implemented) include fewer authorities where little or no CIL is viable at the adopted affordable housing policy (Graph 5). This is partly because there are fewer authorities within this group with relatively low sales values, which continue to hold back the viability of larger sites.

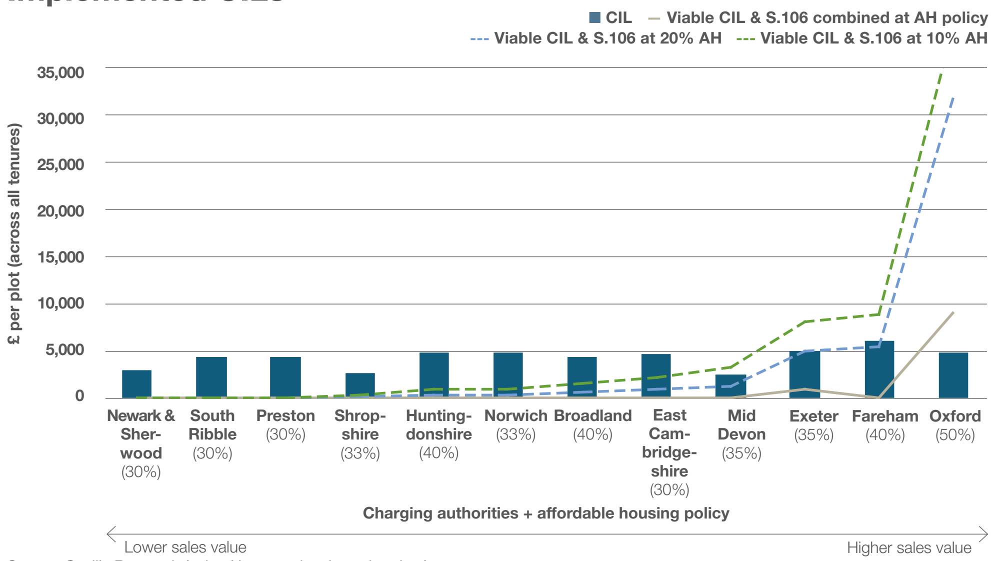
However, of these areas with CIL at examination, few have the headroom to pay a substantial amount of Section 106 in addition to CIL. Winchester is the exception, where there is likely to be headroom for Section 106 to be paid at around £10,000 per plot.

The Winchester headroom is a consequence of a zero rating of large greenfield sites for CIL, mindful of the benefits of creating flexibility for the Section 106 payment.

The contrast with the unviably high level of CIL proposed in Mid Sussex is stark. The same patterns have emerged amongst CILs at the draft (see Graph 6 overleaf) and preliminary draft charging schedule stages.

GRAPH 4

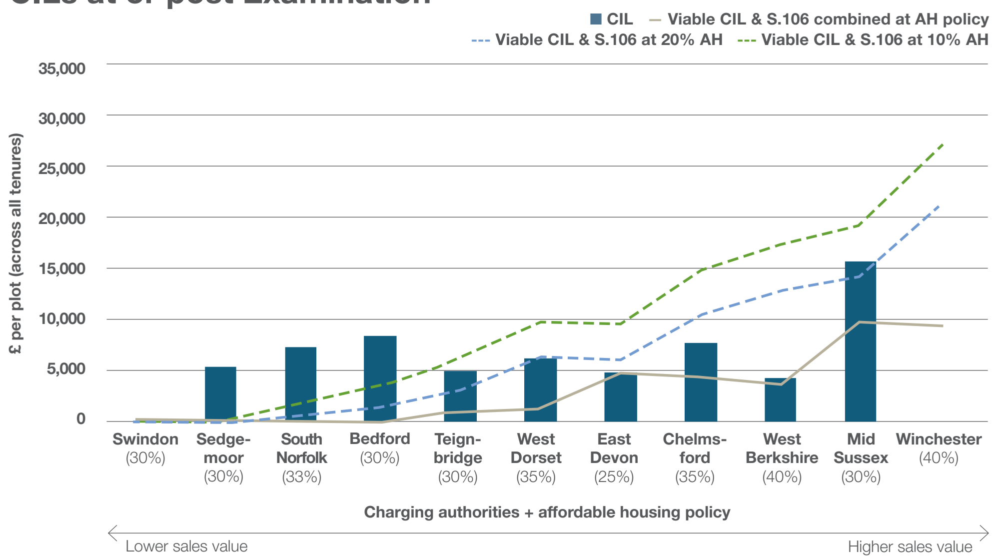
CIL and S.106 benchmark for large greenfield sites: Implemented CILs



Source: Savills Research (using Hometrack sales value data)

GRAPH 5

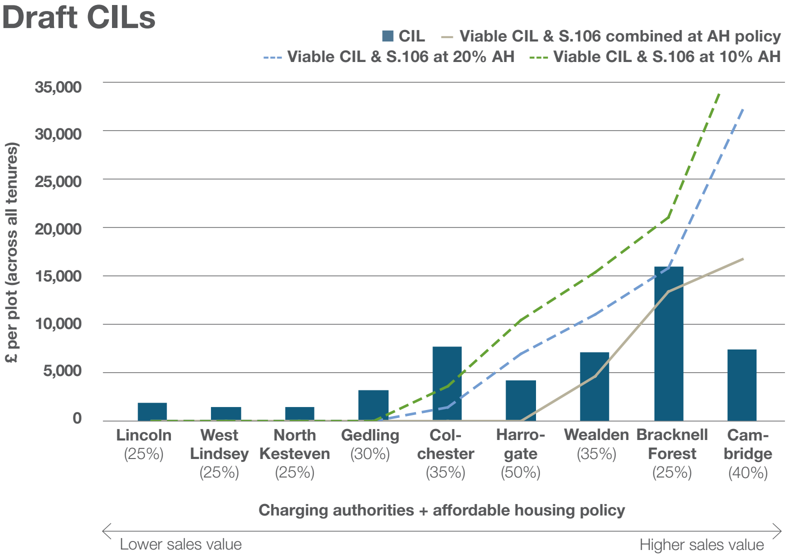
CIL and S.106 benchmark for large greenfield sites: CILs at or post Examination



Source: Savills Research (using Hometrack sales value data)

GRAPH 6

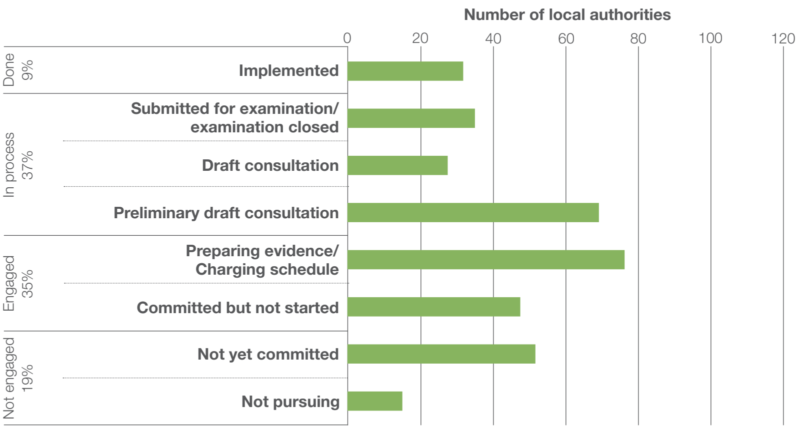
CIL and S.106 benchmark for large greenfield sites: Draft CILs



Source: Savills Research (using Hometrack sales value data)

GRAPH 7

Progress on CIL implementation (England & Wales)



Source: Savills Research (as at 20 January 2014)

"This exercise has revealed inconsistencies in the way in which setting of CIL viability is being approached across the country"

In these areas, affordable housing policy has been set at too high a level in mid- to lower-value markets for there to be any headroom for either CIL or Section 106. Whilst some authorities with draft schedules, such as Cambridge, have headroom for Section 106, others have proposed unviably high level of CIL. In the case of Bracknell Forest, the 25% affordable housing policy gives some room for CIL, compared with other authorities at 40% affordable housing. However, the proposed rate is unviably high, given the substanstial items of infrastructure that will be funded by Section 106, in addition to CIL.

More consistency needed

This benchmarking exercise has revealed inconsistencies in the way in which setting of CIL viability is being approached across the country. So far, only 31 CILs have been implemented, with a further 34 at examination (Graph 7). A large proportion (27%) of authorities are either at draft or preliminary draft consultation and a further 35% are engaged in the process at an earlier stage, so there remains scope for greater consistency in rate setting. Our intention is to seek such consistency in the rate setting process, as the majority of authorities move towards implementation of CIL charging schedules. ■

Please contact us for further information

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