

Epping Forest District Council



**Epping Forest
District Council**

Stage 1 Assessment of the Viability of
Affordable Housing, Community
Infrastructure Levy and Local Plan

Executive Summary

Ref: DSP14241

Final Report

June 2015

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Executive Summary

Notes and Limitations

This executive summary should be read in conjunction with the full report.

This study has been carried out using well recognised residual valuation techniques by consultants highly experienced in the preparation of strategic viability assessments for local authority policy development including whole plan, affordable housing and CIL economic viability. However, in no way does this study provide formal valuation advice. It should not be relied on for other purposes.

In order to carry out this type of study a large quantity of data is reviewed and a range of assumptions are required. It is acknowledged that these rarely fit all eventualities - small changes in assumptions can have a significant individual or cumulative effect on the residual land value generated and / or the value of the CIL funding potential (the surplus after land value comparisons).

It should be noted that in practice every scheme is different and no study of this nature can reflect all the variances seen in site specific cases. The study is not intended to prescribe assumptions or outcomes for specific cases. If an applicant considers that it would be unviable for a specific development to meet the Local Plan's requirements/targets (e.g. affordable housing), an option would exist to submit a site-specific viability appraisal, supported by appropriate evidence, to demonstrate this and reduce the level of obligation required.

Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments and a degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and informing the Council's work on its CIL Preliminary Draft Charging Schedule preparations and Local Plan policies.

1. Project scope – the Council’s brief

Epping Forest District Council is in the process of preparing a new Local Plan whilst at the same time considering the introduction of a Community Infrastructure Levy.

As the Council has not yet identified a preferred policy approach either to the Local Plan (including affordable housing policies, spatial strategy or site allocations) or the Community Infrastructure Levy, this study has been broken down in to two distinct phases or stages.

This report represents Stage 1 of the process and reviews viability at a high level and introduces potential options for Policy development (including on the proportion of affordable housing and affordable housing thresholds) and broad parameters for viable levels of CIL for various uses across the District.

Overall the study will:

- i. Provide the viability evidence base to inform the development of the Council’s new Local Plan as well as potential options for the introduction of the Community Infrastructure Levy.
- ii. Provide recommendations on the appropriate level of affordable housing and CIL whilst maintaining viable development.
- iii. Assess viability of development site typologies (relevant to the type of development likely to come forward across Epping Forest District) as well as strategic scale development.

The second stage of this process will update the outcomes from Stage 1 and apply agreed approaches from Stage 1 to new site or location types being introduced through the Local Plan as a clearer picture on site supply and development strategy emerges following a review of Stage 1 recommendations.

2. National planning and Community Infrastructure Levy (CIL) context

The National Planning Policy Framework (NPPF) & CIL Regulations require and provide for:

- i. Local Plans to be deliverable; and identified development should not be subject to such a scale of obligations and policy burdens that viability is threatened.
- ii. Assessment of the cumulative impact of existing and proposed local and national standards; and those should not put at serious risk the implementation of the Plan.
- iii. CIL is expected to have a 'positive economic benefit' and an 'appropriate balance must be struck between additional investment to support development and the potential effect on the viability of development'.
- iv. The CIL Regulations have changed a number of times with the latest Regulations setting out the following key areas:
 - Limitation on the pooling of s. 106 obligations from April 2015
 - new mandatory exemptions for self-build housing, and for residential annexes and extensions;
 - a change to allow charging authorities to set differential rates by the size of development (i.e. floorspace, units);
 - the option for charging authorities to accept payments in kind through the provision of infrastructure either on-site or off-site for the whole or part of the levy payable on a development;
 - a new 'vacancy test' - buildings must have been in use for six continuous months out of the last three years for the levy to apply only to the net addition of floorspace (previously a building to be in continuous lawful use for at least six of the previous 12 months); vacant buildings brought back into the same use would also not be charged;
 - a requirement on the charging authority to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy on the economic viability of development across the area. Previously a charging authority had to 'aim to strike the appropriate balance';

- provisions for phasing of levy payments to all types of planning permission to deal fairly with more complex developments.

3. Viability Assessment – Principles

- i. It is accepted that not all development may be viable either before or after the impact of CIL and other planning policies – what counts is that delivery of the Local Plan, as a whole, will not be put at undue risk through the influence of requirements that place too high a level of collective costs on developments (through the CIL levels and policies).
- ii. Charging Authorities need to show how their CIL proposals contribute positively to plan delivery; and how they will operate alongside s.106 (so as to ensure no “double-dipping” in terms of overlaps between costs and obligations used to support particular infrastructure provision).
- iii. The assessment provides appropriate, proportionate evidence. It is a high-level overview based on scenarios and site-specifics (including, in the Epping Forest context, strategic scale development).
- iv. In very basic terms, through the study we are looking at the strength of relationship between development values and costs.

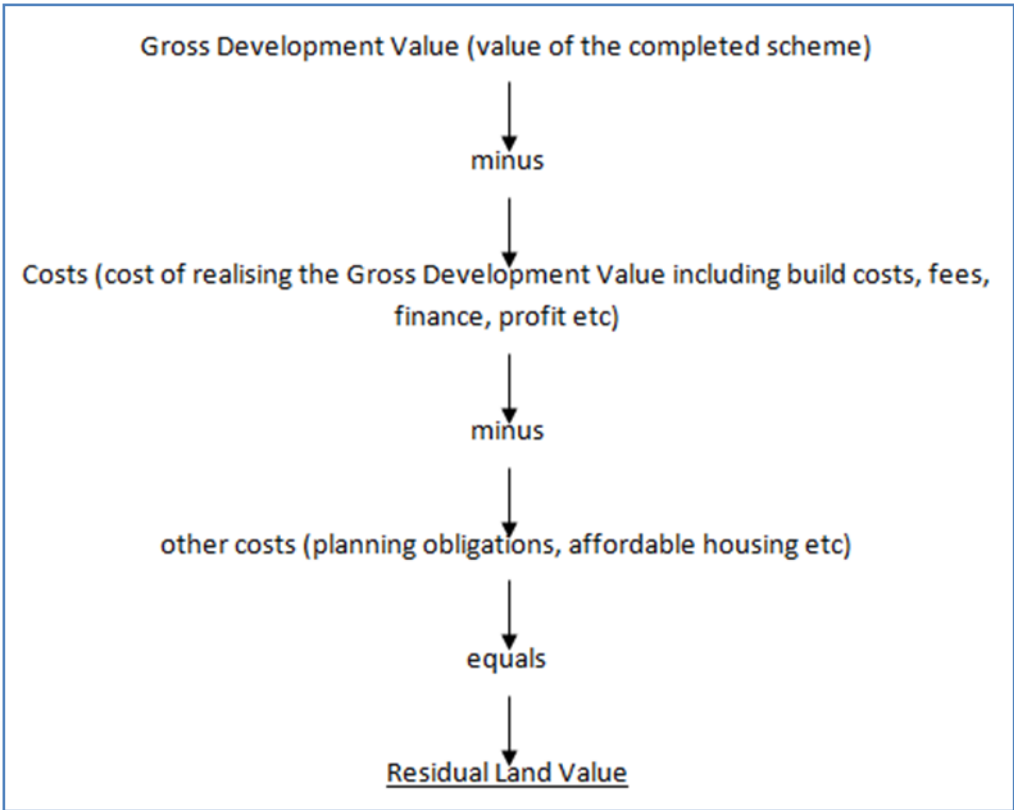
4. Study methodology – principles and brief outline

- i. The viability of a scheme is based on *‘the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project’ (RICS Guidance – ‘Financial viability in Planning’ - August 2012).*
- ii. This means that there needs to be sufficient land value and profit once all the costs of development have been met. The assumptions take into account planning obligations, CIL and affordable housing but also any policy requirements

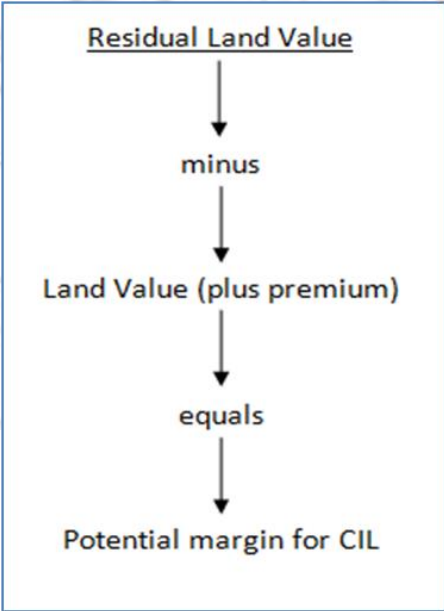
that may have a cost impact on development – e.g. sustainability, density, unit mix, affordable housing type / tenure, etc.

- iii. The methodology basis is the same for all parts of the study – it uses residual land valuation techniques.
- iv. There is a significant overlap between Local Plan and CIL viability and some circularity – i.e. policies in the Local Plan will affect the level of CIL, and vice-versa.
- v. The assessment process involves calculating the residual land value (RLV) produced by a range of scheme types and sizes (including non-residential for CIL) and comparing the results to benchmark or threshold land values. For CIL this includes trialling a range of potential CIL charging rates – an iterative approach following the initial assessment of the viability of key policies, allowing a review of the general viability picture and, from there, any in-principle surplus available to support CIL funding.
- vi. The process outlined above may be visualised in simplified form as follows (see the following diagrams – steps 1 and 2):

Step 1: Appraisal produces a 'RLV':



Step 2: Considering the RLV and whether it is sufficient to provide a surplus for CIL:



5. Stage 1 Findings in Epping Forest District

- i. Affordable housing is the primary viability consideration and in our view the setting of CIL rate(s) can only be fully considered once the affordable housing policy impacts have also been reviewed; the two need to be considered together.
- ii. For Stage 1 of this study the results indicate that an affordable housing headline target of 40% applicable to sites of 11 or more dwellings would appear more appropriate than a continued 50% target (as applied to the rural areas / smaller settlements through adopted policy). At this level, we consider that there would be meaningfully greater scope to achieve a reasonable combination of both affordable housing and CIL, bearing in mind that the CIL rates ultimately set will need to be “buffered” and well within the apparent maximum rates
- iii. Suggested approach to CIL for residential uses envisages three tier charging schedule as a potential option.
- iv. For non-strategic (smaller scale) development we are of the opinion that (assuming a 40% affordable housing policy as a target), a CIL rate of between £150 - £225/m² is likely to be appropriate across much of the district.
- v. Some limited level of differentiation within the overall residential approach seems likely to be warranted. In Waltham Abbey for example, residential values are typically such that it is likely that a lower CIL rate and / or lower affordable housing target may be required there or in areas / scenarios with similar values to Waltham Abbey to ensure the viability of delivery in these areas. At this stage the rate suggested is around half of the rate above -£80/m² to £100/m².
- vi. Stage 1 results indicate that strategic scale sites with significant on-site / site specific infrastructure and mitigation costs (through s.106) are unlikely to support the same level of CIL as the smaller non-strategic sites in the rest of the district. Consideration will need to be given in those instances to a £0/sq. m CIL rate or very low rate relative to the provisional rates for the rest of the district – especially if a fixed affordable housing proportion is maintained across the district.

- vii. Options exist for potential further variation by scale of development in response to affordable housing thresholds (i.e. higher rates where affordable housing is not required and vice versa). Affordable housing either via a financial contribution or through on-site provision for sites of 10 units or less but that provide for more than 1,000m² of development may also be considered and again, the CIL rate adjusted if necessary.
- viii. There is potential for CIL charging scope for some forms of retail development – currently at a relatively modest rate not exceeding the residential parameters headline rates provisionally put forward (range £150-225/sq. m) and more likely within or beneath those (i.e. closer to the provisional lower residential rates scope of say £80-100/sq. m);
- ix. All other development uses are currently expected to produce, with more certainty, nil CIL charging scope (£0/sq. m) but as with all other aspects, subject to further consideration.
- x. In terms of the CIL for non-residential development, we do not consider that there will be a need to differentiate geographically.

6. CIL and the Council's approach – Delivery considerations

- i. Whichever approach to CIL is progressed, the Council will need to continue to operate its overall approach to parallel obligations (s.106 and other policy requirements) in an adaptable way; reacting to and discussing particular site circumstances as needed (and supported by shared viability information for review). CIL will be fixed, but will need to be viewed as part of a wider package of costs and obligations that will need to be balanced and workable across a range of circumstances.
- ii. This again is not just a local Epping Forest District factor, but is a widely applicable principle.
- iii. Under the CIL guidance, prospective charging authorities will need to make clear how CIL and s.106 will operate together in their area, including setting-out what

each will be used for so as to ensure no “double-dipping” (as it has been referred to) for funds towards meeting the infrastructure costs or for the provision of works in-lieu of financial contributions.

Executive Summary ends.

June 2015.

