

**South Somerset Community Infrastructure Levy
Charging Schedule Examination**

South Somerset District Council Hearing Statement

**Issue 2 – Is the residential charging rate informed by and
consistent with the evidence?**

July 2016

(i) Is the rate for residential development (£40 psm outside the Yeovil SUEs and Chard Eastern Extension Area) reasonable and realistic in relation to achieving an appropriate balance between helping to fund new infrastructure and the potential impacts on economic viability?

- 2.1 This is the Council's first CIL charging schedule and there is, perhaps understandably, a degree of nervousness among the development community about the potential impact of the charge. The Land Registry Housing Price Index indicates that cumulative house price growth in the district over the period from January 2012 to April 2016 was 13%, compared to a national average increase of 26%. Over this period, build costs have also increased, which has offset the benefits of house price growth.
- 2.2 It is within this context that the Council has set its rate of £40 per square metre for sites outside the Yeovil SUEs and Chard Eastern Development Area.
- 2.3 The Council has sought to keep CIL contributions to a modest proportion of overall developments costs. The Council's calculations indicate that CIL contributions will represent between 1.02% and 1.43% of overall development costs. This is well within the view of less than 5% of costs that other examiners have considered as a broad 'test of reasonableness'.
- 2.4 In setting a rate of £40 per square metre, the Council was also mindful of its other Local Plan objectives, most notably the delivery of affordable housing. The proposed CIL rate will not result in an overall burden on development in most cases, which will maximise opportunities for sites to deliver maximum contributions towards the Council's strategic affordable housing policy of 35%.
- 2.5 At the same time, in setting a rate of £40 per square metre, the Council has identified that it could yield approximately £13 million based upon the remaining development that is set to occur in South Somerset between date of charging the levy and 2028. And this funding will close the funding gap for infrastructure identified in the Council's IDP; and provide sufficient funding to meet the identified shortfall in funding "Priority 1" infrastructure which is deemed critical to delivering planned growth set out in the Local Plan.
- 2.6 The Council will monitor the impact of CIL closely after its introduction and will review the rate if there are significant changes in market conditions. If market conditions improve significantly, the Council will consider the extent to which developments can make a higher contribution towards infrastructure through a higher rate.
- 2.7 In the short term, the Council considers that the result of the referendum on the UK's membership has generated significant uncertainty which brings significant risks to developers. While the Council considers that the proposed rate of CIL will not add to the burden on developments, a higher rate would have resulted in an increase above the amounts currently collected through Section 106. This might have adversely impacted on the ability of developers to bring schemes forward if market conditions weaken due to ongoing uncertainty around the UK's trading relations with the EU.

(ii) Is the zero charge for the two SUEs in Yeovil and the Chard Eastern Development Area justified? In particular, what is the justification for the reduction from £32 psm for the Keyford SUE in the earlier version of the draft CIL Charging Scheme when the proposal was for 2,500 dwellings, down to zero charge for the scheme in the adopted Local Plan of 800 dwellings? [It would appear from some representations that Keyford has few ownership, access or ground condition problems, with the implication that a positive CIL charge is reasonable.]

2.8 Ownership, access and ground conditions are not the only factors that the Council has considered when opining on an appropriate approach to rate setting on the SUEs. Although the number of units has reduced from the envisaged 2,500 to 800, the site still requires significant on-site infrastructure to be deliverable. This will result in either high costs of on-site provision and/or financial contributions for facilities that the Council will deliver. The costs of this infrastructure will limit the extent to which the sites can also contribute towards CIL.

2.9 It is important to note that these SUEs will be making a significant contribution towards infrastructure; they are not 'getting away with zero contributions' and it is expected that they will make a significantly higher contribution than other sites.

2.10 Securing infrastructure on these sites through Section 106 is also a matter of practicality; there will be no need to pool contributions collected through other planning obligations. Some items of infrastructure will be required on-site and it will be desirable for the Council to secure delivery of these items through a Section 106 agreement, rather than collecting CIL contributions for a period of years and then delivering the infrastructure itself.

(iii) How does the CIL rate relate to the S106 tariff based approach on affordable housing (AH)? If the CIL rate is higher than the existing Section 106 tariff, is this likely to reduce the yield of AH likely to come forward from new sites? If the answer is 'yes', how many AH units is the District likely to lose in a typical year? How does the CIL relate to the Local Plan AH provision? In view of the impending broadening of the definition of AH, is there a case for updating the VS to consider its impact?

2.11 The Council's analysis of recent approved planning applications where development has subsequently taken place indicates that, on average, Section 106 payments amount to £4,450 per unit alongside 35% affordable housing.

2.12 After adoption of CIL, the Council's analysis shows that developments will pay a combined CIL and residual Section 106 contribution amounting to £4,361 on sites (excluding those urban extensions that will not pay a levy charge).

2.13 When an average is taken of all developments, including those identified as urban extensions (who will pay Section 106 but not CIL) then the analysis shows that there will be average contribution of £5,386 per unit. This is owing to the fact that the urban

extensions are expected to be accommodating larger Section 106 payments linked to the need to deliver substantial on-site infrastructure.

- 2.14 So, in summary, after the proposed levy at a rate of £40 per square metre is applied, there would be no net increase in total requirements on most sites. Where higher amounts of Section 106 are sought (i.e. on the urban extensions), no CIL is proposed.
- 2.15 Even if there were a net increase in liability, it is important to note that the land values could adjust to take account of the increase in planning requirements with no net reduction in affordable housing required. This has been acknowledged in other examinations; CIL may have a modest impact on land values, but this recognises that those who benefit from significant uplifts in land values arising from developments should contribute towards the cost of mitigating the infrastructure requirements of those schemes.
- 2.16 The CIL is set at a sufficiently modest level that there is unlikely to be any impact on the delivery of affordable housing. There is unlikely to be an increase in overall financial contributions from most schemes. The proposed residential rate is £40 per square metre, which is significantly lower than the cost of delivering affordable housing, which is typically around £670 per square metre (i.e. the difference between private value and the value that a registered provider would pay the developer). The presence or absence of a CIL contribution therefore has relatively little impact on the ability of a development to viably meet the affordable housing target.
- 2.17 We assume that the Examiner's last point alludes to the introduction of Starter Homes. The government's consultation on this matter is clear that Starter Homes will take priority over other forms of affordable housing. Other tenures will be permitted where local authorities have demonstrated a need and that the requirement would not prevent schemes from being viably developed. However, at this stage, the consultation on the regulations is insufficiently detailed to enable the Council to undertake any testing of the impact of Starter Homes. It is evident, however, that the 'traditional' affordable housing tenures will be required to be scaled back, with Starter Homes taking priority over rented and shared ownership housing delivery. CIL has no impact on this relationship; there will be a direct trade-off between Starter Homes and other affordable housing tenures.

(iv) Is there a case for a CIL rate for certain forms of older peoples' housing (e.g. Use Class C2) bearing in mind the growing importance of this sector and some evidence that viability considerations are not significantly different from mainstream housing?

- 2.18 The Council's evidence base and appraisal of development viability shows that a levy rate cannot be supported by developments within Use Class C2 [ED6]. This conclusion on Use Class C2 has been reiterated through the consultation process by a number of agents and developers acting on behalf of those who build older persons' residential schemes.

- 2.19 The Council is also mindful that older persons' housing has particular characteristics, such as higher amounts of communal space in comparison to an unrestricted block of residential flats, longer sales periods and empty property costs which influence the overall viability of such schemes.
- 2.20 Whilst the Council recognises that over time this form of development may become more prevalent, especially given the change in demographic profile within the district, there is little or no evidence to justify a levy at this point in time.
- 2.21 In addition, the Council points to the fact that within South Somerset, there have been four planning applications that have been approved for Use Class C2 schemes over the past three years, listed below:
- Application 15/00825/FUL – Business park, Wincanton (commenced but ceased construction);
 - Application 14/04195/FUL – Wessex House, Somerton (not commenced);
 - Application 12/02483/FUL – Plot 1, Chard Business Park (not commenced); and
 - Application 13/02023/FUL – Westbourne, Yeovil (complete).
- 2.22 Of these four, only one has been completed. The development of another scheme did commence over a year ago but work has ceased. The remaining two schemes have planning permission, but have not been implemented at the time of writing.
- 2.23 These examples demonstrate that, whilst there is clearly a perceived demand for such accommodation, there are issues with financing such schemes, which results in a lack of delivery. The key reasons appear to be:
- General uncertainty in the market;
 - Changes in funding (predominantly County Council social services) towards specialised housing; and
 - Continued increase in construction costs.
- 2.24 It is therefore considered that there is insufficient evidence available to justify imposing a levy charge on Use Class C2 schemes that are intended to meet a particular housing need.