South Somerset Community Infrastructure Levy

Charging Schedule Examination

South Somerset District Council Hearing Statement

Issue 1 – Is the charging schedule supported by background documents containing appropriate available evidence?

July 2016

(i) Infrastructure planning evidence

(a) Is the Charging Schedule justified by the appropriate available evidence, having regard to the CIL 2010 Regulations (as amended), CIL Guidance (2014), NPPF (the Framework), national Planning Practice Guidance (PPG), the local economic context and infrastructure needs, including in relation to the South Somerset Local Plan (LP) and the Infrastructure Delivery Plan (IDP)? Is it consistent with the advice in the Harman Report?

1.1 The Council is satisfied that the Charging Scheduled is justified by appropriate evidence, which is proportionate to the range of issues that require assessment when exploring whether to put a Community Infrastructure Levy in place.

1.2 Throughout the process of preparing and refining the Charging Schedule the Council has had regard to the statutory legislation laid out in the Planning Act (2008), and the Community Infrastructure Levy Regulations (2010) (as amended).

1.3 Furthermore, the Council is confident that the Charging Schedule is in conformity with the overall policy objectives and guidance established in the National Planning Policy Framework (especially Paragraphs 173 to 177), and the Planning Practice Guidance (ID: 25, Paragraph: 001, Reference ID: 25-001-20140612 onwards).

1.4 In particular, the Council has focused carefully on the need to *"strike the appropriate balance"* and ensure that the imposition of a levy is a positive move that facilitates development, whilst also realising funds to deliver important infrastructure that will enhance South Somerset in the long term. The Council has carried out an iterative assessment of viability since 2012, responding to the growth strategy set out in the South Somerset Local Plan (2006 – 2028), the unique development characteristics of South Somerset, and the changing nature of development viability over this time.

1.5 The Council's plan for delivering strategic sites in its larger urban areas, plus a complementary level of growth in smaller market towns and rural settlements is at the heart of our consideration of development viability. South Somerset is a diverse district, where development sites are varied in size, type and character. And, whilst the majority of development sites that come forward within the district are greenfield, there are also important brownfield sites that are integral to plans for growth and regeneration. These considerations have all been factored in to the evidence on viability that inform the overall conclusions on the proposed levy charge.

1.6 The Council has tracked its infrastructure needs, linked to the overall quantum of growth set out in the Local Plan. The Infrastructure Delivery Plan (2016) [ED11, ED12] is the latest version of the Council's appraisal of needs. This work clearly sets out that there are some important infrastructural requirements to support sustainable growth; and, importantly, the work identifies a shortfall in the ability for the Council or statutory providers to fund and deliver this infrastructure.

1.7 At a basic level, the Council believes that this conclusion alone justifies proposing a levy charge within South Somerset. At a more technical level, the Infrastructure

Delivery Plan identifies some clear infrastructure priorities that will help instruct how the funds realised from the imposition of a levy will be spent.

1.8 The Council believes that each of the necessary component parts that influence and affect development viability, which are discussed in the Harman Report[1], have been considered in the evidence base. The specific circumstances in South Somerset have been properly represented in the development viability appraisals, and therefore fully account for the cumulative impact of policies, local economic context and local development context in South Somerset. As instructed by the Harman Report, the Council's assessments provide a *"demonstration of viability across time and local geography"* and accordingly the Council is confident that the Charging Schedule is justified.

1.9 At the heart of the Council's work is the recognition, as advocated in the Harman Report, that it should be recognised that development viability appraisals *"can only provide high level assurance that the policies within the plan are set in a way that is compatible with the likely economic viability. It cannot guarantee that every development in the plan period will be viable, only that the plan policies will be viable for the sufficient number of sites upon which the plan relies in order to fulfil its objectively assessed needs."*

1.10 Given this advice from the Harman Report, the Council is satisfied that the approach taken to examining viability across a range of development typologies, across a range of different sites and geographical areas provides an appropriate assessment to justify the Charging Schedule.

(b) The main infrastructure needs that the Council intends to fund through the Levy are contained in the Regulation 123 List. Should this list be lengthened in response to several requests from representations?

1.11 As identified in Section 1.6 above, the Council's Infrastructure Delivery Plan (2016) [ED11, ED12] has identified an infrastructure shortfall, and a gap in the ability to fund the infrastructure required to fully support the planned growth in South Somerset. The items set out in the Regulation 123 List provide the focus for where levy receipts will be spent in order to overcome this shortfall.

1.12 The justification for the items set out in the Regulation 123 List stems directly from the findings of the Infrastructure Delivery Plan (2016) [ED11, ED12]. The Council's evidence was prepared in conjunction with all relevant statutory organisations and relevant bodies responsible for infrastructure provision (including the Council where it is responsible for delivery).

1.13 The Infrastructure Delivery Plan (2016) [ED11, ED12] differentiates between infrastructure requirements and sets them out as "Priority 1", "Priority 2", and "Priority 3" depending upon how fundamental the infrastructure is to ensuring the growth objectives set out in the Local Plan can be achieved. Put another way, the Council has identified what infrastructure is so critical, that without it, it would represent a

[1] Viability Testing Local Plans – Advice for planning practitioners, Local Housing Delivery Group Chaired by Sir John Harman, June 2012.

"show-stopping" issue that would undermine the prospect of delivering the homes and jobs set out in the Local Plan.

1.14 The Council advocates that it is these items which should be the focus for any funding realised through the levy, and is the justification for the form and content of Regulation 123 List. The Council's position is that for infrastructure items to feature on the Regulation 123 List, they should be clearly supported by evidence, be required to support Local Plan delivery, and be capable of being delivered in the short-to-medium term.

1.15 It is the Council's position that the requests received through consultation on the Draft Charging Schedule do not satisfy these criteria. None of the suggestions emerged through the Council's Infrastructure Delivery Plan (2016) [ED11, ED12] as critical infrastructure, which is fundamental to the delivery of the Local Plan. As such, the Council does not believe that there is currently sufficient evidence to justify their inclusion on the Regulation 123 List.

1.16 In the future, as the Infrastructure Delivery Plan (2016) and the Community Infrastructure Levy are reviewed, there will be the opportunity to look again at what critical infrastructure is required in South Somerset. Items could then be added to the Regulation 123 List if and when the evidence supports their inclusion.

(c) The funding gap for South Somerset is shown in Table 3 of the IDP Update 2015/16, which shows an indicative cumulative gap of £124.1 million, presumably over the remainder of the Local Plan period (to 2028). Would the proposed CIL charge make a significant contribution towards filling the likely funding gap? Can the Council point to other funding sources which will make good or at least significantly reduce this funding gap, for example New Homes Bonus, remaining Section 106 receipts, and any other relevant considerations?

1.17 The Council can confirm that the indicative cumulative funding gap of £124.1 million is over the remainder of the Local Plan period (to 2028).

1.18 The Council estimates that approximately £13 million will be generated in CIL receipts from housing development up to the year 2028.

1.19 This figure is based on an assumption that:

- CIL charging will begin in April 2017;
- Known delivery over the first 10 years of the plan period totals 6,252 dwellings;
- There is a reduction of 725 dwellings, which ought to be delivered in the "current year" 2016/17; and
- A residual figure of 8,973 dwellings is then built from 2017 – 2028 to meet the total dwelling figure in the adopted Local Plan (15,950 dwellings).

1.20 It is clear that CIL receipts alone will not be sufficient to fund all the identified infrastructure projects in the IDP, and there will still be a funding gap if all projects in the IDP are to be delivered. However, it is important to note that the vast majority of infrastructure projects that are deemed 'Priority 1" or "critical' to the delivery of the Local Plan already have funding committed or anticipated. Indeed the identified funding shortfall on this "Priority 1" infrastructure is only £10 million, which the receipts expected from the levy would more than cover.

1.21 The level of identified funding includes that which has already been obtained or committed via formal agreement, or anticipated from developer contributions. Therefore, it is not expected that contributions from remaining Section 106 or Section 278 receipts will make a significant contribution to the shortfall, as they have already been 'factored in'.

1.22 There are a range of other potential funding sources that can help reduce the funding gap, discussed over the following paragraphs. In many instances, it is envisaged that CIL receipts can be used to 'lever in' these other funds.

1.23 SSDC received £11.8m in New Homes Bonus (NHB) payments over the five years 2011/12 to 2015/16. A further £4.6m has been allocated in the current year (2016/17). Whilst the NHB is not currently identified specifically for infrastructure, the prospect of utilising this funding stream for capital expenditure is reviewed annually as part of the Medium Term Financial Strategy and Plan.

1.24 Elsewhere, the Council has an "Investing in Infrastructure Programme", which involves the Council seeking opportunities to bring suitable development sites forward, either alone or with other partners, through investment in land and infrastructure to create economic development opportunities. The total amount that is currently allocated to the programme is £8 million. The Council is expecting to harness receipts from the levy and use them in conjunction with this earmarked £8 million to assist in the delivery of infrastructure across the district, overcome market failure, and forward funding infrastructure on strategic development sites.

1.25 Another potential funding source is the Heart of the South West Local Enterprise Partnership (LEP). In South Somerset, the Growth Deal specifically highlights a range of town centre and gateway improvements in Yeovil as a priority where the LEP and Central Government have agreed to co-invest.[2]

1.26 Funding for local major transport schemes is now devolved from the Department for Transport to Local Transport Boards that sit alongside the LEP. South Somerset has been successful in obtaining funding from the Local Transport Board, with improvements along the Yeovil Western Corridor one of five schemes selected for initial investment by the Local Transport Board, with funding secured for £6.49m.

1.27 Various other funds have been announced by the Government over recent years to help deliver housing and economic growth, often where development has stalled. For example, the Builders Finance Fund was launched in April 2014 to help unlock 'shovel ready' sites between 15 and 250 homes, as loans which the developer will

[2] Heart of the South West LEP Growth Deal 2015/16 submitted to Government, 31st March 2014.

repay on completion and sales of homes – this could help pay for infrastructure items which are stalling development. At the time of writing, the Government announced a £60 million Sustainable Travel Access Fund[3] to encourage councils to offer sustainable transport initiatives which can improve access to jobs, skills, training and education.

1.28 The Homes and Communities Agency (HCA) seek to deliver new homes and business space, including through the allocation of funding to deliver development. The Council has successfully demonstrated its ability to obtain funding from the HCA in recent years; for example, the Wyndham Park key site development in Yeovil, where the HCA provided approximately £10 million of funding to help deliver the site. The Council is currently preparing a bid to obtain funds to help deliver Starter Homes in the District, which will also assist in the delivery of sites and help realised infrastructure requirements.

1.29 Some of the statutory infrastructure providers also have funding to deliver infrastructure, this includes:

- Water and sewerage, gas, electricity, and telecommunications companies have investment budgets which are drawn from charges to customers.
- The Environment Agency has funds from Government to provide and maintain existing flood defences to protect existing development. This does not extend to new development which is expected to fund its own flood risk mitigation.
- Education providers are funded on the basis of their pupil roll, although this is often only adequate for operational costs with little opportunity for capital development.

[3] https://www.gov.uk/government/news/dft-launches-60-million-competition-to-support-sustainable-travel

(d) Would the proposed CIL rates result in a significantly higher overall charge for each new house, once account is taken of the revised approach to S106 (and S278 highways) agreements that will apply once CIL is adopted?

1.30 The Council does not expect that the proposed levy rates will result in a significantly higher overall change for each new house.

1.31 Looking at the viability evidence, it is clear that the levy represents an average cost of 1.27% to the overall total costs of the scheme(s). As a percentage of total costs, across the various typologies used in the viability work, the range is 1.02% to 1.43% of total costs. The Council does not believe this will result in significantly higher overall charges for each new house.

1.32 In compliance with the legislation, the Council will be taking a revised approach to Section 106 Agreements to ensure that they continue to pass the three tests; and furthermore, the Council's approach to both Section 106 Agreements and the levy will comply with the legislation to ensure that there is no "double-dipping" and therefore there will be no notion of schemes being subject to such a scale of obligations, standards and policy burdens that cumulatively threatens their viability.

(e) Do the figures demonstrate the need to levy CIL?

1.33 As noted above, the fact that there is an identified funding shortfall in infrastructure provision means that the figures demonstrate the need for a levy system to help realise necessary funds for infrastructure to support growth.

1.34 The Council believes that in certain locations, it will still be possible to adequately meet infrastructure needs through the resolving of site-specific needs through Section 106 Agreements (or similar). However, for strategic and "critical" infrastructure there is a need to secure levy receipts to ensure delivery.

(ii) Economic viability evidence

- **Is the CIL Viability Study (VS) and the methodology it uses, robust and suitable for the purpose of setting an effective CIL charging rate for South Somerset? In particular:**

(a) Is the standard residual valuation approach used in the VS appropriate?

1.35 The appraisals have been prepared using a recognised, industry standard appraisal model (Argus Developer) which generates cashflow-backed residual land values. This is precisely the same approach that a developer would adopt to determine a bid price for a site and is also the same approach that a valuer would adopt to value a scheme for secured lending purposes.

1.36 The approach is consistent with other VSs undertaken by other charging authorities that have been examined and found sound. The Council is not aware of any other method having been successfully deployed in the evidence base for a CIL charging schedule.

1.37 The Local Housing Delivery Group publication 'Viability testing local plans: Advice for planning practitioners' (also known as the "Harman Report") notes that: *"Most existing models use a residual land value methodology to assess viability. Here, the difference between the value and costs of development are compared with land values to determine whether development will be viable. We recommend that the residual land value approach is taken when assessing the viability of plan-level policies"*.

1.38 The residual land value approach was also adopted by other authorities close to South Somerset, including Bristol, Bath & North East Somerset, South Gloucestershire and North Somerset, all of which have been examined and found sound. The characteristics of development in South Somerset do not differ from other neighbouring authorities to such a degree that an alternative approach would be required.

(b) Are the assumptions used for the range of factors included in the VS, such as benchmark land values, building costs, Code for Sustainable Homes (or Building Regulations equivalent) and profit levels, in addition to the percentage of affordable housing (AH) provision, reasonable?

1.39 The VS [ED7 – ED10] adopts benchmark land values based on land transactions in the South Somerset area and across the wider region. This information was sourced by the District Valuer and covers sites ranging in size from 2 acres to 15 acres. This data indicates that land values of smaller sites, not burdened by abnormal costs, are in the region of £0.5 m to £0.55 m per acre; while larger or complex sites have achieved £0.1 m to £0.28 m per acre.

1.40 Building costs have been sourced from the RICS 'Building Cost Information Service' ('BCIS'). This is a standard approach for viability studies for planning policy testing

and is an approach identified by the PPG (Paragraph 013 Reference ID 10-013-20140306).

1.41 The appraisals incorporate an allowance of 6% to cover energy requirements now incorporated into Part L of the building regulations. The 6% allowance was sufficient to achieve Code for Sustainable Homes, many parts of which no longer apply, so this allowance is likely to exceed the cost of the Part L energy requirements.

1.42 Profit levels are an adequate reflection of the risk of development in the area, with 20% of GDV applied to the private housing and 6% applied to the affordable housing. These rates are widely adopted in local plan and CIL viability testing and have been supported in numerous planning appeals.

1.43 The appraisals reflect the Council's full affordable housing target, where relevant (i.e. where sites meet or exceed the minimum threshold above which affordable housing is required).

1.44 The Council held a number of informal consultations with locally based developers to discuss draft inputs to the appraisals and these discussions have helped to inform the final inputs.

(c) How effectively has the VS methodology adapted itself to 'real world' conditions in South Somerset? [For example, how effectively does it pick up on relevant local data on existing land values; likely sales prices based on a range of sites across the area; housing densities; and gross to net ratios?]

1.45 As noted above, the study relies entirely on locally based inputs in terms of land values. The same applies to likely sales prices of units, which have been sourced from sales of residential properties within the District, as set out Section 4 of the VS from May 2013 [ED7] as updated in Section 2 of the Viability Assessment update [ED9].

1.46 Housing densities range from 25 units per hectare to 50 units per hectare, and gross to net ratios are informed by schemes identified by the plan and by live schemes that have come forward through the development management process.

(d) Is the sampling, both in its size and range, sufficient to ensure a robust VS? Does the VS reflect the advice of the PPG (ID 25-019-20140612) to sample on an appropriate range of sites reflecting a selection of the different types of site included in the Local Plan?

1.47 The VS tests sites providing a range of unit sizes, as follows:

	Number of units	Housing type	Development density units per ha	Site area (ha)
1	2500	Houses & Flats	40	76.88
2	1440	Houses & Flats	40	36.42
3	300	Houses & Flats	40	7.69
4	85	Houses & Flats	42.5	2.02
5	60	Houses & Flats	42.5	1.74
6	30	Houses & Flats	50	0.607
7	20	Houses	31	0.607
8	9	Houses	44	0.202
9	8	Houses	33	0.243
10	4	Houses	25	0.162
11	1	House	25	0.0405

1.48 The South Somerset Local Plan (2006 – 2028) identifies 14 locations for residential growth, and the development typologies are representative of eight out of the 14 settlements. Furthermore, the development typologies respond to the Local Plan's strategy to allow a range of different sized sites to come forward – including larger urban extensions in the existing major urban areas; as well as smaller sites (including single plots) in the smaller settlements across the district.

1.49 Following consultation on the Draft Charging Schedule, the Council has prepared an additional viability assessment of 800 dwellings in order to reflect the latest Local Plan position with regards to the Yeovil Sustainable Urban Extensions [ED10].

1.50 Therefore, the Council is confident that the typologies reflect an appropriate range of sites reflective of the types and scale of housing expected to come forward.

(e) How realistic is the sensitivity testing in the VS, for example in relation to alternative AH targets and tenure splits, and higher and lower sales values and build costs?

1.51 The VS adopts a base position which reflects the Council's strategic target of 35% affordable housing with a tenure mix of 67% rented and 33% intermediate housing. Policy HG3 of the adopted Local Plan contains specific reference to site-specific viability: "Where the above level of affordable housing provision renders a site unviable a reduction of provision will be accepted on the basis of an 'open book' submission in accordance with Policy SS6 and the Planning Obligations Protocol 2006".

1.52 Sensitivity analyses have been run with lower overall proportions of 25% and 15% affordable housing, which may arise where scheme-specific viability justify a lower proportion than the strategic target.

1.53 Initial testing of the urban extensions in Yeovil and Chard included sensitivity testing at 15% affordable housing to reflect the likely higher on-site infrastructure costs, on which higher contributions would be sought through Section 106. This would limit the amount of affordable housing that could be delivered.

1.54 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. Furthermore, Section 106 contributions will be scaled back which would offset some, if not all, of the burden of CIL on developments. Previously developed sites would often benefit from a reduction in liability arising from the reduction in net additional floorspace after the existing floorspace has been deducted. The Council is therefore satisfied that the CIL rate has been set at an appropriate level to enable developments to continue to meet the important Local Plan objective of contributing towards the District's affordable housing needs.

(f) In the changed economic circumstances since the latest Viability Study was published in July 2015, is there now a case for extending the categories of development which are subject to CIL in South Somerset, for example in employment areas, hotels, and leisure?

1.55 The Council monitors the health of the local economy carefully and while existing businesses are fairy reasonably well, there is no evidence that this has fed through into demand for additional premises and increasing rents.

1.56 The outcome of the referendum on the UK's membership of the European Union has resulted in considerable uncertainty with regards to both commercial and residential markets. Many businesses across the country are delaying investment decisions until more is known about the UK's status and future relationship with the EU. This

could take several years to establish and in the interim, the Council does not consider that commercial development can viably absorb a CIL charge in the short term.

(g) Is the CIL zoning map appropriate, or does it result in anomalies and a perception of unfairness?

1.57 In setting rates of CIL and zonal boundaries, the Council has had regard to the evidence contained within the VS. The Council does not consider that this has resulted in any anomalies. When setting boundaries of any kind, there may be arguments that some properties or sites close to zone boundaries are perceived to be unfairly treated.

1.58 However, the Council's approach has been to only "zone out" the Yeovil and Chard Urban Extensions from the overall £40 per square metre 'zone', and this has been done on the basis that the viability evidence shows that a levy charge cannot be accommodate in these locations. The main reason why the levy charge cannot be justified in the urban extensions is because they are expected to deliver significant on-site infrastructure. Whereas, for example, a site immediately the other side of the urban extension 'zone' would not be expected to deliver such on-site infrastructure and therefore, in theory, would be capable of accommodating the levy charge.

1.59 Any potential anomalies which may have arisen because of the original approach for retail zones across the district have now been removed by the proposed modification M2 [ED4].

(iii) Conclusion

- **Is the draft charging schedule supported by detailed evidence of community infrastructure needs? Is the evidence which has been used to inform the charging schedule robust, proportionate and appropriate?**

1.60 The Council is confident that the process followed from the Preliminary Draft Charging Schedule stage through to the submission of the Draft Charging Schedule has been supported by robust, proportionate and appropriate evidence.

1.61 The Council has followed an iterative process, taking account of feedback and consultation responses received from the development industry, the public and other statutory stakeholders.

1.62 The Council's approach to appraising development viability follows best practice and aligns with the methodology set out in the Community Infrastructure Levy Regulations (2010) (as amended), the NPPF, and the PPG. Using the residual land value methodology a range of development typologies across different geographies in the district have been assessed through the viability study. These development typologies align with the growth strategy set out in the Local Plan and therefore the viability study responds to and accounts for the policy requirements and local specific circumstances found within South Somerset. In utilising local data on, for example: land values, build costs, and sales values, the appraisals are appropriate to the context in the district.

1.63 Other supporting evidence on infrastructure requirements has been prepared through the Council's latest Infrastructure Delivery Plan (2016). This in-depth work has been prepared in conjunction with the Council's Duty to Co-operate partners, and all statutory providers. The conclusions are robust in that they have been endorsed and signed off by the relevant responsible authority. The Infrastructure Delivery Plan (2016) clearly identifies a shortfall in infrastructure provision and funding, and it is this deficit which provides the justification for looking to set a levy within South Somerset.

1.64 The Council has adopted a transparent, collaborative, and iterative process supported by best practice technical assessments of viability and infrastructure requirements. Having considered all of this information together and consulted upon it with all relevant statutory and non-statutory stakeholders, incorporating their comments where appropriate, the Council is confident that the Draft Charging Schedule is supported by robust evidence of need.