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Dear Sir/Madam

Community Infrastructure Levy - Preliminary Draft Charging Schedule

Savills Planning has been instructed by Devonshire Homes to make brief representations in respect of the above.

The 2010 CIL Regulations as amended by the 2011 Amendment Regulations sets, along with Part 11 of the 2008 Planning Act, the framework within which Mid Devon's Charging Schedule will operate. The headline guidance is found in Regulation 14, which sets out a general principle guiding the setting of the CIL rates. This is set out in full below;

"14.—(1) In setting rates (including differential rates) in a charging schedule, a charging authority must aim to strike what appears to the charging authority to be an appropriate balance between—

- (a) the desirability of funding from CIL (in whole or in part) the actual and expected estimated total cost of infrastructure required to support the development of its area, taking into account other actual and expected sources of funding; and*
- (b) the potential effects (taken as a whole) of the imposition of CIL on the economic viability of development across its area."*

The concept of applying differential rates is set out in Regulation 13, which states the following.

"13.—(1) A charging authority may set differential rates—

- (a) for different zones in which development would be situated;*
- (b) by reference to different intended uses of development.*

(2) In setting differential rates, a charging authority may set supplementary charges, nil rates, increased rates or reductions.

Regulation 21 relates to the right to be heard at the CIL examination stating that "a person who makes representations about a draft charging schedule in accordance with regulation 17 must (if the person so requests) be heard by the examiner." Regulation 21(2) states that a request to be heard "must be submitted to the charging authority in writing before the end of the period the charging authority specifies for the purposes of regulation 17(2)." Regulation 21(8) specifies certain actions that the charging authority must undertake in the event of a request to be heard being submitted within the prescribed timeframe.





Part 6 of the CIL Regulations deals with exemptions and relief from the rates, including for social housing and charities for instance. Regulation 55 provides for discretionary relief for exceptional circumstances. This is set out in full below.

"55.—(1) A charging authority may grant relief ("relief for exceptional circumstances") from liability to pay CIL in respect of a chargeable development (D) if—

(a) it appears to the charging authority that there are exceptional circumstances which justify doing so; and

(b) the charging authority considers it expedient to do so.

(2) Paragraph (1) is subject to the following provisions of this regulation.

(3) A charging authority may only grant relief for exceptional circumstances if—

(a) it has made relief for exceptional circumstances available in its area;

(b) a planning obligation under section 106 of TCPA 1990(1) has been entered into in respect of the planning permission which permits D; and

(c) the charging authority—

(i) considers that the cost of complying with the planning obligation is greater than the chargeable amount payable in respect of D,

(ii) considers that to require payment of the CIL charged by it in respect of D would have an unacceptable impact on the economic viability of D, and

(iii) is satisfied that to grant relief would not constitute a State aid which is required to be notified to and approved by the European Commission."

Regulation 59 reiterates that "a charging authority must apply CIL to funding infrastructure to support the development of its area." Regulation 62 requires adequate reporting on an annual basis of the amounts of CIL collected and spent or not spent.

A number of guidance documents have been published by central Government. Of most relevance are the 'overview' document and the guidance on 'charge setting and charging schedule procedures'. Paragraph 7 of the latter document aims to clarify the meaning of the words 'appropriate balance'. It states that "it is for the charging authorities to decide on the appropriate balance for their area and 'how much' potential development they are willing to put at risk through the imposition of CIL [my emphasis]". Paragraph 10 states that the examiner should not question the charging authority's choice in terms of the appropriate balance unless the evidence shows that the development of the area will be put at serious risk. Paragraph 29 requires that "charging authorities should also seek to illustrate, using appropriate available evidence, that their proposed charging rates would be robust over time".

Policy AL/IN/1 of the adopted Allocations and Infrastructure DPD is in line with the CIL Regulations and states that;

"The Council will seek to implement the Community Infrastructure Levy by 1st April 2011 through the relevant legal processes, to support the provision of necessary infrastructure serving Mid Devon. The Council will strike an appropriate balance between the estimated costs of infrastructure needing to be funded by the Community Infrastructure Levy and the potential effects of the levy on the economic viability of development. The imposition of the levy will be based on an appropriate rate per square metre of net additional floorspace. No charge will be made for affordable housing or charitable development. Developments will be able to make in-kind payments of land under circumstances permitted by the regulations."

Mid Devon District Council has been selected as a front runner and is in the first phase of local authorities publishing their draft charging schedules. A number of other front runner authorities have already been through the examination process. As noted on the Planning Advisory service website, "the aim of the front runners project ensures all local authorities can access useful examples of good practice". As experiences



elsewhere are part of the 'learning process', reference, where relevant, is made to the experiences of other front runner authorities.

The draft Charging Schedule sets out the evidence base informing it. Bearing in mind Regulation 14 the updated viability assessment undertaken by Fordham Research is highlighted in particular. Emphasis is given to this document although it is acknowledged that it should be read in conjunction with the 2009 study. Whilst the Infrastructure Plan forms an important baseline, it is not proposed that this is analysed in any great detail. It is accepted that there will be, in general, a need for infrastructure in Mid Devon over the plan period and that there is likely to be a funding gap between what existing forms of funding can provide and the needs identified. The draft Charging Schedule sets out that the level of development expected to be built within the plan period would fund £35m of infrastructure (or around 60% of the identified funding gap).

We note the 'basis for the study' as set out in paragraph 1.3 onwards of the updated viability study, particularly in relation to a 'target profit level' and the 'cushion' required to incentivise landowners. At first sight, this appears perfectly reasonable, but we would note that developers and landowners operating in the market might not necessarily work to the same assumptions on what would incentivise them to deliver development that the local planning authority relies on to meet its strategic housing requirement. There is a danger that academic assumptions on the drivers affecting individuals and companies will seriously affect delivery of growth and strategic requirements, especially if the assumptions are used to justify a potentially excessive charge. We consider that this could reduce the expected figure of £35m.

We note the latest Annual Monitoring report, which sets out the following in terms of the Core Strategy housing requirement for the period 2006 – 2026;

Housing Requirement 2006 – 2026	6,800
Completions (April 2006 – March 2011)	1,773
Under construction	443
With planning permission	974

Assuming all of those with permission will be built, this gives a residual requirements of 3,620 dwellings. If we assume that 30% of these will be affordable, and therefore do not pay the levy, there are 2,534 dwellings where CIL will be payable. Assuming, however unlikely this is, that no site has any abnormal development costs whatsoever and no reduction is given for exceptional circumstances, this will deliver a CIL fund of £25.34 million; a significant reduction on the expected £35 million. There is no certainty on how this shortfall will be made.

We highlight paragraph 1.9 of the updated viability study in particular, which notes that greater requirements, in terms of affordable housing, higher eco or design standards will "reduce the ability to contribute". The updated viability study states, in paragraph 2.14 states that CIL "is not designed to impede viability. In other words it is means tested like affordable housing. Like an affordable housing target for a district, which is set on a 'broad brush' principle that it will work on a majority of sites, the CIL schedule is capable of being operated selectively, to allow for variations in viability". This is a very important recognition that mimics the requirements of Regulation 55.

As a key part of the evidence base justifying the Charging Schedule, we are concerned that the likelihood of abnormal development costs has not been adequately factored in, as evidenced by 3.18. Devonshire Homes, as a Mid Devon based housebuilder are in the best place to advise on this issue and our advice is that the abnormal figure for a site in Mid Devon that they are currently involved with is around £20/sqft. This is largely due to topography, not an unusual feature in Mid Devon, but a figure of between £10/sqft and £15/sqft is not unusual. Using the average dwelling size of 88sqm (947sqft), this would give a range, per dwelling, of additional costs of between £9,470 and £14,205. These figures potentially wipe out the 'extra profit' that is referred to as offering rich pickings for CIL payments. In our view, in operating CIL and taking Regulation 55 into account it is imperative that the abnormal situation is assessed on a case by case basis so as not to stymie development required to meet overall housing targets. There is an argument that if the charge is based on no abnormal, any abnormal development cost represents exceptional circumstances



where, as highlighted in the updated viability study, it can be operated selectively. This selective operation will be essential if the flow of development is not to be cut off by imposition of CIL.

The viability study was updated partially because of the need to reflect different market and cost conditions. Paragraph 3.28 concludes that the reduction in house prices since November 2007 is no more than 5%. We would suggest that this is an underestimate. A small increase on this assumption of 3%, for example, would mean that, for a house priced at £200,000 in 2007, there is a difference in the reduction (and the ability to pay CIL without affecting viability) £6,000. This is potentially significant.

We note the various price bands as set out in Table 3.5 and highlight that the range of prices between Cullompton (lowest) and Bampton (highest) is (based on the scenarios used for the purposes of the study) £188,000 and £216,000 respectively. In comparison, despite the ability to set differential rates, the £113/sqm is intended to apply to all sites across the board. The draft Charging Schedule concludes that Mid Devon is a "fairly homogeneous market" and that there is "no basis for the charge being varied between locations in Mid Devon". Paragraph 4.17 of the updated viability study, however, states that "it is clear that there are large variations in viability within and between categories of site. On the whole, the variations are explicable: they follow what might have been expected". The following paragraph concludes that "viability varies with price level, so that Bampton consistently does best, and Cullompton worst". The evidence base contradicts the draft Charging Schedule in this regard. Paragraph 5.12 concludes that a differential rate might be considered sensible and we question why this element of the evidence base has not been carried forward.

Paragraph 4.20 highlights that, since November 2007, "build costs have risen, and prices fallen". Profitability of development, and therefore the incentive to deliver, is being squeezed without the imposition of CIL.

Whilst the updated viability study points to the detrimental effect on viability of brownfield sites so that they are unable to bear the cost of CIL, the draft Charging Schedule proposes a catch all rate. This would seem to be on the basis that brownfield sites are few and far between. This may be so, but the Charging Schedule should be clear on this issue, i.e. it is not intended to apply to brownfield sites.

We question the concept of 'additional profit' that is highlighted in the updated viability study as forming an easy target to help pay for CIL. There is no such thing as 'additional profit'; some sites deliver good margins, some less so. The additional profit forms part of the overall profit margin that drives the market; it is not necessarily 'the fat' that can be siphoned off for CIL.

The notion of additional profit is a flawed one; the only time that there is 'additional profit' is where there is house price inflation during the build. A very rare occurrence indeed in these difficult times. In the market place the landowner is the key to the process. In a competitive process the firm who offers the greatest land value will be the one who purchases the site, therefore any additional profit is unlikely to exist or be severely reduced. 'Additional profit' is only achieved when the landowner accepts values which are below market value, this is normally achieved through historical deals. There are not many of these about and many historical deals were agreed at the top of the market.

The idea that notional, hypothetical scenarios provide an adequate basis for implementation of the levy in reality is questionable. Whilst hypothetical, the scenarios have to be based on the likelihood of them occurring. A 100 unit Greenfield scheme in Bampton does not, for example, exist. The fact that it has not, does not and will exist is part of the reason as to why the values in Bampton are the highest in the district.

Table 4.2 highlights the inability of sites at Cullompton to generate sufficient 'additional profit' to contribute the full levy. Given the variable ability of sites to generate the 'additional profit' that the evidence base has targeted as the funding stream from CIL, the funding gap is likely to widen further.

The evidence base appears to ignore the functioning of the market in land. The value in development land is not set by rules defining what, in the opinion of the local planning authority or its commissioned consultants, is an acceptable level of profit or value. The value of land is influenced by factors outside the control of the local planning authority. The value is set at a level by, in effect, an agreement between a willing landowner and a willing purchaser. The identified concept of some 'additional profit' will, of course, come straight off the land value and this will, in our view affect the willingness of many landowners to sell his or her land.



The history of planning since the 1947 Act, which brought the modern planning system into being, has seen numerous attempts to capture all or part of the uplift in value associated with development. In between each attempt, the arrangements to collect this uplift in value have been rescinded. The market in land, and the planning framework that intervenes, to a greater or lesser extent, in this market, is, in short, cyclical. Landowners and their advisors will be attuned to this and it is self evident that their willingness to part with land at significantly less value than was achieved in the recent past will be affected. The evidence base partially works on the basis that 'any' development value is greater than existing use value (usually agricultural value) and that this is sufficient incentive. We would argue that an equally compelling incentive to not become a willing vendor at the levels suggested is as highlighted above. Selling land for development is a 'one off' opportunity and if there is a perception that a better opportunity to realise value may lie in the future it is self evident that the land may not become available as the evidence base suggests.

Regarding land values, the assumption in paragraph 4.21 of the updated viability study is questioned. It states that "the low value of agricultural land means that Greenfield sites generate additional profit at a much lower land price (£52.5K per acre/£130K per ha) than brownfield land...". Paragraph 3.40 also states that this is the level at which a greenfield site will be viable. It is an obvious point that any Greenfield site would generate a healthy profit if the developer were able to purchase it at £52,500. It is, however entirely theoretical as no landowner would, unless driven by some altruistic urge, sell land for development at this level.

There is an additional danger that the reduction in land value, based on paying for wider infrastructure beyond the site specific will affect the willingness of landowners to dispose of their land at what they may see as deflated values. There are limited forced sales of land for development and we believe that the concept of requiring a willing landowner is missing from the consideration found in the evidence base. The identified 'cushion' is of course intended to perform this role. In our view, however, it is an arbitrary measure that has little relationship with reality, the functioning of the land market and complete ignorance of the concept of 'hope value', which often drives landowners.

The aim of the front runners project ensures all local authorities can access useful examples of good practice and learn from the experiences of other local authorities. Bearing in mind Regulation 14, we note the three Charging Schedules that have gone through the examination process and the levels that each authority has set. These are set out in the table below;

Local Planning Authority	CIL rate
Newark and Sherwood	Range between £45/sqm and £75/sqm
Shropshire	£40/sqm in urban areas, £80/sqm in rural areas
Redbridge	£70/sqm (no differential rates set)

Whilst there are bound to be individual factors that cannot be universally applied, such as local house prices for example, it is interesting to note that all of the rates that have gone through examination are significantly below that proposed in Mid Devon. This could be explained away if Mid Devon was a hot spot of high house prices, but the fact is that this is not the case. Average house prices in Devon are around 60%-70% of the average price in Redbridge, yet more CIL is expected out of the lower house prices. There are, of course, many other variables that indicate that the links is not always the same. What is apparent is that in following the guidance as set out in DCLG guidance in terms of finding the appropriate balance, Mid Devon District Council is willing to risk more potential development than other front runner authorities. In doing so, we would argue that there is a danger of the spatial strategy being seriously skewed by an overly onerous rate being set for residential development. Given the well documented need for employment floorspace to aid greater self sufficiency, will CIL undermine delivery of housing and therefore employment floorspace, the latter relying on the former in terms of cross subsidy. On the defined average house size of 88 sqm a developer will pay £9,944 in Cullompton (for instance), but £4,900 in the London Borough of Redbridge. If North Devon, East Devon and Taunton Deane all set their CIL rates at rates more akin to Shropshire, will footloose investment favour these locations, rather than Mid Devon? This has to be a real concern of the



local planning authority. In seeking to eke out every last drop of what it terms 'additional profit', the local planning authority may hinder much needed inward investment and economic growth. Not only this, imposition of CIL may mean that the housing needs of the population are not adequately met. It is telling that Exeter City Council is proposing a CIL rate of £100/sqm, when Exeter is an acknowledged economic growth area that has significantly outperformed surrounding districts and where land values and house prices are higher and therefore more able to shoulder the burden of CIL payments without unduly affecting viability.

In conclusion, we consider that;

- the identified CIL rate potentially places too many developments at risk as it is too high. We believe that this level of CIL could influence investment and development decisions to the detriment of the district and the local planning authority's spatial vision. We do not specify a particular level at which the rate should be set as there is no right or wrong answer necessarily. We highlight that there are many factors pointing towards the suggested CIL rate hindering future development. A reduction is, in our view, appropriate;
- the evidence provides a basis for differential rates to be set. This finer grain of detail should be provided within the document;
- greater clarity on how Regulation 55 will be implemented in respect of the Charging Schedule is required. Whilst the updated viability study looks at averaged scenarios, it will be essential that the issue of viability is reviewed on a case by case basis;
- the evidence base is flawed without adequate regard to the likelihood of abnormal development costs; and
- CIL should not apply to brownfield sites, as justified by the evidence base.

We have not included detailed figures on viability as such information is commercially sensitive, but we consider it worthwhile if a meeting could be held where Devonshire Homes take officers through an allocated site prior to the examination to assist. I would be grateful if you can contact me or Steve Russell at Devonshire Homes directly to set up such a meeting.

As required by Regulation 21, please accept this written response as confirmation that our clients would like to exercise their right to be heard at the eventual examination.

Yours faithfully

Neal Jillings BSc(Hons) MA MRTPI
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